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

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**FORM 10-K**

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(Mark One)  
 **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the year ended December 31, 2003

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

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**RAYONIER INC.**

Incorporated in the State of North Carolina

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I.R.S. Employer Identification No. 13-2607329

50 NORTH LAURA STREET,  
JACKSONVILLE, FL 32202  
(Principal Executive Office)

Telephone Number: (904) 357-9100

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**Securities registered pursuant to Section 12(b) of the Act,  
all of which are registered on the New York Stock Exchange:**

Common Shares

Medium-Term Notes, due 2004

**Securities registered pursuant to Section 12(g) of the Act: None**

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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 and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). YES  NO

The aggregate market value of the Common Shares of the registrant held by non-affiliates of the Registrant at the close of business on June 30, 2003 was \$1,337,228,607.

As of March 3, 2004, there were outstanding 49,403,539 Common Shares of the Registrant.

The registrant's definitive proxy statement filed or to be filed with the Securities and Exchange Commission pursuant to Regulation 14A involving the election of directors at the annual meeting of the shareholders of the registrant scheduled to be held May 20, 2004, is incorporated by reference in Part III of the Form 10-K.

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All other financial statement schedules have been omitted because they are not applicable, the required matter is not present, or the required information has been otherwise supplied in the financial statements or the notes thereto.

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**PART I**

**Item 1. BUSINESS**

**General**

Rayonier Inc. (Rayonier or the Company), including its subsidiaries, is a leading international forest products company primarily engaged in activities associated with timberland management, including the sale of timber and timberlands and in the production and sale of high value-added performance cellulose fibers. Rayonier owns or leases approximately 2.1 million acres of timberland located primarily in the United States and New Zealand and owns and operates two performance fibers mills in the United States. The Company also manufactures wood products through its lumber manufacturing facilities in the United States and a medium-density fiberboard (MDF) plant in New Zealand. In addition, the Company engages in the trading of logs and wood products. The Company's corporate strategy is focused primarily on its two core reportable segments—Timber and Land and Performance Fibers.

Rayonier traces its origins to the Rainier Pulp & Paper Company founded in Shelton, WA, in 1926. In 1937, it became "Rayonier Incorporated," a public company traded on the New York Stock Exchange (NYSE), until 1968, when it became a wholly owned subsidiary of ITT Corporation. On February 28, 1994, Rayonier again became an independent public company when ITT distributed all of Rayonier's Common Shares to ITT stockholders. Rayonier shares are publicly traded on the NYSE under the symbol **RYN**. Rayonier is a North Carolina corporation with its executive offices located at 50 North Laura Street, Jacksonville, FL, 32202. Its telephone number is (904) 357-9100.

On August 18, 2003, the Company's Board of Directors approved a plan to convert the Company into a REIT, effective January 1, 2004. The Company's U.S. timber harvest operations qualify for REIT tax treatment and will not be required to pay federal income taxes if applicable distribution, income, asset and shareholder tests are met. However, the Company is subject to corporate taxes on built-in gains (the excess of fair market value over tax basis at January 1, 2004) on taxable sales of property within the REIT during the first ten years following the election to be taxed as a REIT. These operations are conducted by the Company's wholly-owned subsidiary, Rayonier Forest Resources, L.P. (RFR), formerly known as Rayonier Timberlands Operating Company. Other non-REIT qualifying and foreign operations, which will continue to pay corporate-level tax on earnings, were transferred to TRS Holdings Inc., a wholly-owned taxable REIT subsidiary of Rayonier Inc. These operations include the Company's Performance Fibers, New Zealand timber, and Wood Products businesses, as well as the Company's marketing of high value timberland (known as higher and better use, "HBU").

Rayonier operates in three reportable business segments as defined by Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures About Segments of an Enterprise and Related Information*: Timber and Land, Performance Fibers, and Wood Products. The Timber and Land segment's strategies include buying, selling and managing timberlands, selling timber, and selling HBU timberland to be used for conservation, real estate development and large tract preservation. For presentation purposes, the Company classifies its sales activities into Timber sales and Land sales. Timber sales include all activities that relate to the harvesting of timber, while Land sales include the sale of all timberland tracts, including those designated as HBU. The Performance Fibers segment includes two major product lines, Cellulose Specialties and Absorbent Materials. The Wood Products segment includes lumber and MDF. The Company's remaining operations are combined and reported in an "Other" category as permitted by SFAS No. 131 and include purchasing, harvesting and selling timber acquired from third parties (log trading) and trading wood products. For information on sales, operating income and identifiable assets by reportable segment, see *Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 3—Segment and Geographical Information*.

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**Sales**

Rayonier's sales (as reclassified for discontinued operations) for the three years ended December 31, 2003, were as follows (in millions):

	Year Ended December 31		
	2003	2002	2001
<b>Timber and Land</b>			
Timber	\$ 153	\$ 172	\$ 189
Land	106	75	84
<b>Total Timber and Land</b>	<b>259</b>	<b>247</b>	<b>273</b>
<b>Performance Fibers</b>			
Cellulose Specialties	378	375	369
Absorbent Materials	156	151	178
<b>Total Performance Fibers</b>	<b>534</b>	<b>526</b>	<b>547</b>
<b>Wood Products</b>			
Lumber	97	99	89
MDF	41	38	36
<b>Total Wood Products</b>	<b>138</b>	<b>137</b>	<b>125</b>
Other	172	216	192
Intersegment Eliminations	(2)	(9)	(13)
<b>Total Sales</b>	<b>\$1,101</b>	<b>\$1,117</b>	<b>\$1,124</b>

Rayonier has customers in more than 50 countries and approximately 40 percent of the Company's 2003 sales of \$1.1 billion were made to customers outside the United States.

**Timber and Land**

Rayonier buys and manages timberlands, sells standing timber at auction to third parties, sells delivered logs, and also sells its timberland for large tract conservation and real estate development. The segment executes its strategies in two ways: Timber and Land sales.

*Timber*—Rayonier owned or leased approximately 2.1 million acres of timberlands as of December 31, 2003, as follows (in thousands of acres):

Region	Total Acres*	%	Fee-Owned Acres	Long-Term Leased Acres
Southeast U.S.	1,619	77	1,361	258
Northwest U.S.	370	17	370	—
New Zealand	118	6	76	42
<b>Total</b>	<b>2,107</b>	<b>100</b>	<b>1,807</b>	<b>300</b>

\* Excluded are approximately 112,000 acres managed by Rayonier in Australia, 1,000 acres managed in New Zealand and 32,000 acres of non-harvestable or native vegetation land in New Zealand.

The Company's Southeastern U.S. timberlands consist of approximately 1.6 million acres located primarily in Georgia, Florida and Alabama. These timberlands' proximity to pulp, paper and lumber mills results in significant competition for the purchase of the timber. Approximately 50 percent of timber harvest represents high-value wood sold primarily to lumber mills. The balance is pulpwood used for making pulp and paper. Softwoods are the predominant species on the Southeastern U.S. timberlands and include loblolly and slash pine, while hardwoods, the minor species, include red oak, sweet gum, black gum, red maple, cypress and green ash.

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Through advanced silvicultural practices, the Company has increased volume per acre of timber available for harvest from its Southeastern U.S. timberlands by approximately 2 percent per year. This is a primary factor behind an increasing pine harvest trend over the past 15 years.

Northwestern U.S. timberlands consist of approximately 370,000 acres primarily on the Olympic Peninsula in Western Washington State. All are owned in fee and consist almost entirely of second growth trees. These timberlands are primarily softwood stands, with approximately 65 percent hemlock and the remainder Douglas fir, Western red cedar and spruce. Hardwood timber stands consist principally of alder and maple.

The Company's New Zealand forest assets consist of 76,000 acres of fee-owned timberland, plus Crown Forest Licenses that provide the right to grow and harvest timber on approximately 42,000 acres of government owned timberland for a minimum period of 35 years. Approximately 87 percent of these timberlands consist of radiata pine, well suited for high-quality lumber and panel products. The balance is Douglas fir and other species. Timber is grown and sold for both domestic New Zealand uses and for export, primarily to the Pacific Rim markets. In addition, the Company manages timberlands for other parties in New Zealand and Australia.

Rayonier manages timberlands to scientifically develop forests to their maximum economic value. The average rotation age for timber from the Southeastern U.S. (primarily Southern pine) is 21 years. The average rotation age for timber destined for domestic and export markets from the Northwestern U.S. (primarily hemlock and Douglas fir) is 45 to 50 years. The average rotation age for timber grown in New Zealand (primarily radiata pine) is 25 to 28 years. Timber in the Southeast U.S. is saw-timber and pulpwood, while timber in the Northwest U.S. and New Zealand is primarily saw-timber.

Rayonier sells timber through a public auction process, predominantly to third parties, and also sells delivered logs. By requiring the Company's other operating units to competitively bid for their timber and wood requirements, the Company believes it can maximize the true economic return on its investments. In 2003, approximately 98 percent of the Company's standing timber sales were made to third parties. These sales were primarily made on either a lump-sum or pay-as-cut basis. On a lump-sum basis, a minimum of 20 percent initial payment is required, title and risk of loss are transferred and installment payments are made in advance for the volume to be cut. On a pay-as-cut basis, a minimum 10 percent deposit and a performance bond are required. Payments are made and title and risk of loss are transferred as the timber is cut.

During the fourth quarter of 2003, in anticipation of converting to a REIT, the Company discontinued offering lump-sum contracts in the Northwest U.S. and began utilizing pay-as-cut contracts which qualify for capital gains treatment under Section 631(b) of the Internal Revenue Code (IRC). These contracts require a minimum 15 percent initial payment and title and risk of loss are transferred when the timber is cut.

The Company manages its timberlands in conformity with best forest industry practices. A key to success is the extensive application of Rayonier's silvicultural expertise to species selection for plantations, soil preparation, thinning of timber stands, pruning of selected species, fertilization and careful timing of the harvest, all of which are designed to maximize value while complying with environmental requirements. The following table sets forth timberland acres (in thousands) as of December 31, 2003, by region and by timber classification:

<u>Region*</u>	<u>Softwood Plantation</u>	<u>Hardwood Lands</u>	<u>Non-Forest</u>	<u>Total</u>
Southeast U.S.	1,089	507	23	1,619
Northwest U.S.	311	11	48	370
New Zealand	101	17	—	118
Total	1,501	535	71	2,107

\* Includes only fee and leased timberlands and excludes management only agreements in New Zealand and Australia.

Softwood merchantable timber inventory is an estimate of the amount of standing timber at the earliest age that it could be economically harvested. Hardwood inventory is an estimate of the amount of standing timber available for harvest. Estimates are based on an inventory system that continually involves periodic statistical sampling of the timberlands. Adjustments are made on the basis of growth estimates, harvest information and market conditions which may impact the economical harvesting of timber located in wetlands, or other marginal geographic areas.

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The following table sets forth the estimated volumes of merchantable timber by location and type, as of December 31, 2003:

Region	Softwood	Hardwood	Total	Equivalent total, in thousands of short green tons	%
Southeast U.S., in thousands of short green tons	30,482	16,045*	46,527	46,527	70
Northwest U.S., in millions of board feet	1,579	153	1,732	12,470	19
New Zealand, in thousands of metric tons	5,943	505	6,448	7,108	11
				66,105	100

\* Excludes approximately 3.6 million tons of seed trees and trees located in swamplands.

*Land*—Rayonier invests in timberlands seeking to maximize its total return from a full cycle of ownership. The end cycle includes selling portions of its timberland base to capture the appreciated value of its overall asset base. This program includes selling timberland for others to manage and harvest, as well as selling HBU timberlands.

In November 2000, the Company announced that it would routinely sell 2 percent to 4 percent of its timberland base each year to capture the appreciated value of its overall holdings on a more routine basis. The Company plans on periodically replenishing its timberland base through large scale, strategic acquisitions, although smaller acquisitions may be made from time to time on an opportunistic basis.

Timberland sales for the three years ended December 31, 2003, are summarized in the following table (thousands of dollars, except acres sold):

	2003	2002	2001
Timberland Sales	\$106,145	\$75,279	\$83,857
Operating Income	\$87,259	\$47,321	\$51,517
Acres Sold	40,595	44,256	67,417

## Performance Fibers

Rayonier is a leading manufacturer of high performance cellulose fibers with production facilities in Jesup, GA and Fernandina Beach, FL, that have a combined annual capacity of approximately 720,000 metric tons. To meet customers' needs these facilities are capable of manufacturing more than 25 different grades of performance fibers. The Jesup facility can produce approximately 570,000 metric tons, or 79 percent of Rayonier's total capacity. The Fernandina Beach facility can produce approximately 150,000 metric tons, or 21 percent of the Company's total capacity.

Rayonier produces and sells these performance fibers primarily to meet specific customer orders and specifications throughout the world. The customers use these products to produce a wide variety of consumer and industrial products. Approximately two-thirds of Rayonier's Performance Fibers sales are exported primarily to customers in Asia, Europe and Latin America. Approximately 85 percent of Performance Fibers sales are made directly by Rayonier personnel, with the remainder made through independent sales agents primarily to export locations.

This segment includes two major product lines – Cellulose Specialties and Absorbent Materials.

*Cellulose Specialties*—Rayonier is one of the world's leading producers of specialty cellulose products, most of which are used in dissolving chemical applications that require a highly purified form of cellulose. Cellulose Specialties products are used in a wide variety of end uses such as: acetate textile fibers, rigid packaging, photographic film, impact-resistant plastics, cigarette filters, high-tenacity rayon yarn for tires and industrial hoses, pharmaceuticals, cosmetics, detergents, sausage casings, food products, thickeners for oil well drilling muds, lacquers, paints, printing inks, explosives and LCD screens. In addition, Cellulose Specialties include high value specialty paper applications used for decorative laminates for counter tops, automotive air and oil filters, shoe innersoles, battery separators, circuit boards and filter media for the food industry. Rayonier concentrates on and is a leading producer of the most highly valued, technologically demanding forms of Cellulose Specialty products, such as cellulose acetate and high-purity cellulose ethers.

*Absorbent Materials*—Rayonier is a supplier of performance fibers for absorbent hygiene products. These fibers are typically referred to as fluff fibers and are used as an absorbent medium in products such as disposable baby diapers, feminine hygiene products, incontinence pads, convalescent bed pads, industrial towels and wipes and non-woven fabrics.

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The Absorbent Materials product line also includes paper applications that are made as a secondary product to fluff fibers to help match inconsistencies in demand to capacity. These paper applications usually represent less than 5 percent of total Performance Fibers production and are used in the manufacture of bond, book and printing paper.

Rayonier also produces and markets an ultra-thin engineered absorbent core material that goes into super-absorbent sanitary napkins and diaper products as well as other applications. A 12,000 ton per-year manufacturing facility in Jesup, GA was completed in 2001 to bring manufacturing in-house and aid in the continued development of these products. This is a developing business that represented approximately 8 percent of the 2003 absorbent materials product line total sales.

### Wood Products

The Wood Products business segment manufactures and sells dimension and specialty lumber and MDF.

Rayonier operates three lumber manufacturing facilities in the U.S. that produce Southern pine and specialty lumber for residential construction and industrial uses. The mills located at Baxley, Eatonton, and Swainsboro, GA, have a combined annual capacity of approximately 365 million board feet of lumber, while also producing approximately 750,000 tons of wood chips for pulp and paper manufacturing. Lumber sales are primarily to customers in the Southeastern U.S. Rayonier personnel sell most of the lumber; however sales to certain export locations are made through independent agents. Substantially all of the wood chip production is sold (at market prices) to Rayonier's Jesup, GA, performance fibers facility, accounting for approximately 18 percent of that facility's 2003 total wood consumption.

The Company operates a premium grade MDF facility in New Zealand with an annual capacity of 170,000 cubic meters. The Company's MDF is marketed worldwide by Rayonier personnel, independent sales agents and a New Zealand distributor.

### Other

Rayonier operates a log trading business in the Northwest U.S., New Zealand and Chile. It also exports logs from New Zealand and Russia. The Company purchases and harvests timber for sale in domestic and export markets. Timber is purchased from both internal and external sources. In 2003, no timber was sourced internally in the Northwest U.S. and approximately 26 percent of New Zealand log trading sales volume was sourced from Company timberlands. Logs were also purchased from independent dealers who in some cases had purchased cutting rights to Company timberlands. Additionally, Rayonier purchases lumber and wood panel products for sale in both domestic and export markets.

### Discontinued Operations and Dispositions

Prior years' dispositions and discontinued operations include Rayonier's New Zealand East Coast timberland operations and associated assets sold for \$64 million in 2002; its Port Angeles, WA performance fibers mill that was closed on February 28, 1997; its interest in the Grays Harbor, WA, performance fibers and paper complex, which was closed in 1992; its wholly-owned subsidiary, Southern Wood Piedmont Company (SWP), which ceased operations in 1989; its Eastern Research Division, which ceased operations in 1981; and other miscellaneous assets held for disposition. *See also Note 14—Reserves for Dispositions and Discontinued Operations.*

### Foreign Sales and Operations

Rayonier's sales for the three years ended December 31, 2003, by geographical destination are as follows (in millions):

	Sales by Destination					
	2003	%	2002	%	2001	%
United States	\$ 684	62	\$ 674	61	\$ 656	58
Europe	128	12	122	11	125	11
Japan	79	7	79	7	111	10
China	72	6	69	6	66	6
Other Asia	78	7	93	8	76	7
Latin America	30	3	34	3	45	4
Canada	22	2	36	3	34	3
All other	8	1	10	1	11	1
	<u>\$ 1,101</u>	<u>100</u>	<u>\$ 1,117</u>	<u>100</u>	<u>\$ 1,124</u>	<u>100</u>

The majority of sales to foreign countries are denominated in U.S. dollars.

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Overseas assets, primarily in New Zealand, were approximately 14 percent of total assets at the end of 2003, and Rayonier's sales from non-U.S. operations were approximately 9 percent of total sales. *See also Note 3—Segment and Geographical Information.*

### **Patents**

Rayonier has a number of patents and pending patent applications that relate to its proprietary products and processes. The Company intends to take such steps as are necessary to protect its patents and file applications for future inventions that are deemed important to its business operations.

### **Competition and Customers**

The Company's U.S. timberlands are located in two major timber-growing regions (the Northwest and the Southeast), where timber markets are fragmented and competitive. In the Northwest U.S., The Campbell Group, John Hancock Mutual Life Insurance Co., Simpson Timber Company, Weyerhaeuser, and Washington State (Department of Natural Resources) are significant competitors. Other competition in the Northwest U.S. arises from log imports from Canada by Timberwest, Interfor and Canfor. In the Southeast U.S., the Company competes with Plum Creek and International Paper, among others. Price is the principal method of competition. In the Northwest U.S., the majority of the Company's customers are large, financially stable businesses, while in the Southeastern U.S., the majority of customers are smaller, family-owned businesses.

Performance Fibers are marketed worldwide against strong competition from domestic and foreign producers. Rayonier's major competitors include International Paper, Weyerhaeuser, Georgia-Pacific and Buckeye Technologies. In June of 2003, International Paper closed its Natchez, Mississippi mill, which was a major competitor in the cellulose acetate market. It is believed that Rayonier, the leading supplier in this market, and its cellulose specialties competitors, together have sufficient capacity to assure continued adequate supply of cellulose acetate products to the market. The final impact of this closure may take a year to fully develop, but subsequent to the closure price increases of 6 to 8 percent have been announced. In the fluff pulp market, Koch Industries recently announced that it was purchasing two fluff pulp mills, in Brunswick, Georgia and Leaf River, Mississippi, from Georgia-Pacific. It is still too early to assess what impact, if any, this sale, which is scheduled to close in the second quarter of 2004, will have on the fluff market.

Rayonier continues to work towards development of new products and processes that could add additional value to the Performance Fibers business. Pricing, product performance and technical service are principal methods of competition.

Rayonier's lumber and MDF wood products compete with construction and furniture materials manufactured by other companies. Incremental productivity improvements at the company's MDF plant and improving demand in key U.S., Japanese and Chinese markets have been negatively impacted by the recent strength of the New Zealand currency.

Export log markets are highly competitive. Logs are available from several countries and numerous suppliers. In New Zealand, major competitors include Carter Holt Harvey and Fletcher Challenge. Price and customer relationships are important methods of competition.

The Company has no single customer that purchased an amount greater than or equal to 10 percent of its consolidated revenues during the years ended December 31, 2003, 2002 or 2001. On a segment basis, Performance Fibers 2003 sales included one customer that purchased an amount equal to 12 percent of the segment's sales and four other customers that each purchased approximately 6 to 7 percent of the segment's sales. The loss of any one of these customers could have a material adverse effect on this segment's results of operations. In February 2004, a private equity firm made a tender offer to purchase a customer expected to account for approximately 12 percent of our 2004 cellulose specialties sales. It is too early to determine what impact, if any, this transaction will have on our Performance Fibers business.

### **Seasonality**

The Company's Timber and Land segment normally experiences lower timber harvest volumes in the third quarter of each year due to the greater seasonal availability of non-Rayonier timber during the drier summer harvesting period, particularly in the Northwestern U.S. The Wood Products segment may experience higher seasonal demand in the volume of lumber sold in the second quarter of each year primarily due to the relative strength of housing starts. The Performance Fibers segment results are normally not impacted by seasonal changes, although most contracts are renewed on January 1 each year.

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### **Environmental Matters**

See “*Environmental Regulation*” in *Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations* and *Note 16—Contingencies*.

### **Raw Materials**

In the U.S., timber harvesting continues to be restricted by legislation, litigation and pressure from various preservationist groups. The market supply of timber is also subject to cyclical price swings in wood products and in pulp and paper markets, as well as wet weather conditions which restrict the ability to harvest timber. In 2003, Performance Fibers results were negatively impacted by a shortage and resulting higher cost of hardwood, timber and chips for the Cellulose Specialties product line. Separately, Rayonier has pursued, and is continuing to pursue, reductions in usage and costs of other key raw materials, supplies and contract services at its Performance Fibers, MDF and lumber mills. Management foresees no material constraints from pricing or availability of its key raw materials.

### **Research and Development**

Rayonier believes it maintains one of the preeminent Performance Fibers research facilities and staff in the forest products industry. Research and development efforts are directed primarily at developing new and improved cellulose fiber grades, absorbent materials and related products, improving manufacturing efficiency, reducing energy needs, improving product quality and developing improved environmental controls. In 2003, to better align itself with its customers’ priorities, the Company began focusing its efforts more on the development of existing core products and technologies versus new product research. As a result, the headcount at the research center was reduced by approximately 40 percent. The research center is adjacent to the Performance Fibers mill in Jesup, GA.

Research activities related to timber operations include genetic tree improvement programs as well as applied silvicultural programs to identify management practices that improve financial returns from timber assets.

Research and development annual expenditures were approximately \$9 million in 2003, 2002 and 2001.

### **Employee Relations**

Rayonier currently employs approximately 2,200 people. Of this number, approximately 2,000 are employees in the United States, of whom 43 percent are covered by labor contracts. Most hourly employees are represented by one of several labor unions. Labor relations are maintained in a normal and satisfactory manner.

In August 2001 and December 2001, Jesup’s labor agreements, covering approximately 700 employees, were extended through June 30, 2008. In April 2001, Fernandina’s labor contracts, covering approximately 250 employees, were extended through April 30, 2006. There were no changes to the Jesup and Fernandina labor contracts in 2003.

Rayonier has in effect various benefit plans for its employees and retirees, providing certain group medical, dental and life insurance coverage, pension and other benefits. The cost of these plans is borne primarily by Rayonier.

### **Item 2. PROPERTIES**

Rayonier owns or leases approximately 2.0 million acres of timberlands in the United States. The Company manages these properties and sells timber to other Company operating units, as well as unaffiliated parties. Rayonier’s New Zealand subsidiary owns or manages the forest assets on approximately 0.2 million acres of plantation forests in New Zealand and Australia. Rayonier and its wholly owned subsidiaries own or lease various other properties used in their operations. These include two Performance Fibers mills, an Engineered Absorbent Materials (EAM) facility, three lumber manufacturing facilities, an MDF plant, a research facility and Rayonier’s corporate headquarters. These facilities are located in the Southeastern and Northwestern portions of the U.S. and in New Zealand. Additional information on mill volumes is disclosed in *Item 6—Selected Financial Data*.

### **Item 3. LEGAL PROCEEDINGS**

Rayonier is engaged in various legal actions, including certain environmental proceedings that are discussed more fully in *Note 14—Reserves for Dispositions and Discontinued Operations* and *Note 16—Contingencies*.

On February 22, 2001, the Company received a notice of proposed disallowance from the Internal Revenue Service (IRS), arising from an issue in dispute regarding the Company’s 1996 and 1997 federal tax returns, which could have resulted in an additional tax liability of \$28.3 million. The Company had been discussing this issue with the IRS since 1999 and in the first

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quarter of 2003 it accepted a proposal from the IRS (the "Settlement Initiative") in order to expedite resolution of the matter. Under the Settlement Initiative the maximum disallowance was set at a 90 percent level. Accordingly, the Company adjusted its estimated first quarter 2003 tax provision to recognize a tax benefit of \$2.3 million at a 10 percent minimum allowance threshold, to reflect the maximum 90 percent disallowance set forth in the Settlement Initiative. In April 2003, the Company deposited \$6.4 million with the IRS, representing \$3.7 million in tax and \$2.7 million in interest, in anticipation of audit settlements pertaining to this issue. Final resolution of this matter is likely to occur in the next 12 to 24 months.

Between 1985 and 1995, Southern Wood Piedmont (SWP), a subsidiary of the Company, sent contaminated soil excavated in connection with the cleanup of various closed wood processing sites to a third-party processor for recycling. The processing facility closed in 1995 and is the subject of a variety of environmental related charges and a lawsuit brought by the U.S. Environmental Protection Agency (EPA) and the Louisiana Department of Environmental Quality (LDEQ) in June 1990, in United States District Court for the Western District of Louisiana against the owner of the processing facility. Also in dispute is disposal liability for approximately 150,000 tons of recycled material from sites operated by SWP that are still owned and retained by the processor. Currently there are no claims pending against the Company or SWP by the EPA or the LDEQ. However, both have indicated that they believe SWP may be liable for some portion of the costs of clean-up and disposal of the recycled material sent to the processing site by SWP. If no settlement is reached in this matter, trial is scheduled to begin in September, 2004. There are numerous possible outcomes that could determine the Company's ultimate liability, if any. The Company believes that reserves at December 31, 2003 adequately reflect the probable costs to be incurred upon the ultimate resolution of the dispute. See also *Note 14-Reserves for Dispositions and Discontinued Operations*.

In December 2001, the United States commenced a lawsuit against the Company in the United States District Court for the Western District of Washington to recover approximately \$3.2 million in costs allegedly incurred by the EPA in 1997 to conduct an Expanded Site Investigation at the Company's Port Angeles mill site. Rayonier challenged the EPA's authority to recover this type of cost, as well as the validity of the amount spent. Trial in this matter commenced February 2, 2004 and concluded on February 24. On February 25, the court ruled that the United States was entitled only to approximately \$0.7 million of the approximately \$3.2 million claimed, and denied a request by the United States for an order permitting it to recover future costs relating to the Port Angeles site. While the court's ruling is favorable, the Company is evaluating its options as it is unclear whether the United States will appeal the decision. The Company believes that the ultimate outcome will not have a material adverse impact on the Company's financial position, liquidity or results of operations and that its reserves at December 31, 2003 adequately include the probable costs to be incurred upon the ultimate resolution of the dispute.

#### **Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matter was submitted to a vote of security holders of Rayonier during the fourth quarter of 2003.

## EXECUTIVE OFFICERS OF RAYONIER

**W. Lee Nutter**, 60, Chairman, President and Chief Executive Officer—Mr. Nutter joined Rayonier in 1967 in the Northwest Forest Operations and was named Vice President, Timber and Wood in 1984, Vice President, Forest Products in 1985, Senior Vice President, Operations in 1986 and Executive Vice President in 1987. He was elected President and Chief Operating Officer and a director of Rayonier in 1996 and to his current position effective January 1999. Mr. Nutter serves on the Board of Directors of Republic Services, Inc. and on the Board of Directors of the National Council for Air and Stream Improvement. He is also a member of the North Florida Regional Board of SunTrust Bank. Mr. Nutter holds a B.A. degree in Business Administration from the University of Washington and graduated from the Harvard University Graduate School of Business Advanced Management Program.

**Paul G. Boynton**, 39, Senior Vice President, Performance Fibers—Mr. Boynton joined Rayonier in 1999 as Director, Specialty Pulp Marketing and Sales. He was elected Vice President, Performance Fibers Marketing and Sales in October 1999, Vice President, Performance Fibers in January 2002, and to his current position effective July 2002. Prior to joining Rayonier, he held positions with 3M Corporation from 1990 to 1999, most recently as Global Brand Manager, 3M Home Care Division (global manufacturer and marketer of cleaning tool products). He holds a B.S. degree in mechanical engineering from Iowa State University, an M.B.A. degree from the University of Iowa, and graduated from the Harvard University Graduate School of Business Advanced Management Program.

**Timothy H. Brannon**, 56, Senior Vice President, Forest Resources and Wood Products—Mr. Brannon joined Rayonier in 1972 at its Southern Wood Piedmont subsidiary (SWP). He was named Vice President and Chief Operating Officer of SWP in 1983 and President in 1992. Mr. Brannon was elected Rayonier's Vice President and Director, Performance Fibers Marketing and Sales in 1994, Vice President, Asia Pacific and Managing Director, Rayonier New Zealand in 1998 and to his current position effective March 2002. He holds a B.A. degree in psychology from Tulane University and graduated from the Harvard University Graduate School of Business Advanced Management Program.

**Michael R. Herman**, 41, Vice President and General Counsel and Assistant Secretary —Mr. Herman joined Rayonier in 2003 as Vice President and General Counsel and was elected to his current position in October 2003. Prior to joining Rayonier, he served as Vice President and General Counsel of GenTek Inc. (a publicly-traded global manufacturing conglomerate) and in other positions in GenTek's legal department from 1992 to August 2003. GenTek Inc. filed a voluntary petition for protection under Chapter 11 of the federal Bankruptcy Code in the Bankruptcy Court for the District of Delaware in October of 2002, and the Bankruptcy Court approved a plan of reorganization for GenTek in November 2003 which resulted in GenTek's emergence from bankruptcy. Mr. Herman was previously counsel to IBM's Integrated Systems Solutions Corporation and an Associate with the law firm of Shearman & Sterling. He holds a B.A. degree in Economics and English from Binghamton University and a J.D. degree from St. John's University School of Law.

**John P. O'Grady**, 58, Senior Vice President, Administration—Mr. O'Grady joined Rayonier in 1991 as Vice President, Administration. He was elected Senior Vice President, Human Resources in 1994 and to his current position effective January 1996. Mr. O'Grady serves on the American Forest and Paper Association's employee and labor relations committee and from 1993 to 2003 served as a Management Trustee for the Paper, Allied-Industrial, Chemical and Energy Workers International Union Health and Welfare Trust. Mr. O'Grady also served on the Board of Advisors of the Michael F. Price College of Business of the University of Oklahoma from 1997 through 1999. He holds a B.S. degree in Labor Economics from the University of Akron, an M.S. degree in Industrial Relations from Rutgers University and a Ph.D. in Management from California Western University.

**Gerald J. Pollack**, 62, Senior Vice President and Chief Financial Officer—Mr. Pollack joined Rayonier in 1982 as Vice President and Controller. He was elected to the position of Vice President and Chief Financial Officer in 1986 and to his current position in May 1992. He is a member of the Board of Directors and Chairman of the Finance Committee of the Jacksonville Symphony Association, and President of the Northern Florida Chapter of Financial Executives International. Mr. Pollack has a B.S. degree in Physics from Rensselaer Polytechnic Institute and an M.B.A. degree in Accounting and Finance from the Amos Tuck School at Dartmouth.

**Hans E. Vanden Noort**, 45, Vice President and Corporate Controller—Mr. Vanden Noort joined Rayonier as Corporate Controller in 2001, and was elected to his current position in December 2001. Prior to coming to Rayonier, he held a number of senior management positions with Baker Process, a division of Baker Hughes, Inc. (manufacturer of petroleum-related equipment and supplies), most recently as Vice President of Finance and Administration. Mr. Vanden Noort holds a B.B.A. in accounting from the University of Cincinnati, an M.B.A. from the University of Michigan and is a Certified Public Accountant.

**PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS****Rayonier Common Shares—Market Prices, Volume and Dividends**

The table below reflects the range of market prices of Rayonier Common Shares as reported in the consolidated transaction reporting system of the New York Stock Exchange, the only exchange on which this security is listed, under the trading symbol **RYN**.

On May 21, 2003 the Company's Board of Directors approved a three-for-two stock split and a 12.5 percent increase in the post-split quarterly cash dividend from 24 cents to 27 cents per share. The stock split was effected in the form of a stock dividend and on June 12, 2003, the Company issued one additional share of common stock for every two shares held to shareholders of record on June 2, 2003. Amounts shown below prior to the stock split have been restated.

On November 3, 2003 the Company's Board of Directors declared a special dividend payable on December 19, 2003 to shareholders of record on November 14, 2003. The dividend was designed to satisfy the requirement that the Company pay to shareholders its undistributed taxable earnings and profits through year-end 2003 as part of its previously announced intention to convert to a REIT effective January 1, 2004. On December 19, 2003 the Company issued 6.4 million common shares and distributed \$61 million reflecting the special dividend of \$314 million. Price and volume data shown below prior to the special dividend have been restated.

	<u>High</u>	<u>Low</u>	<u>Composite Volume</u>	<u>Regular Dividends</u>
<b>2003</b>				
Fourth Quarter	\$41.75	\$33.95	19,070,266	\$ 0.27
Third Quarter	34.84	27.35	32,512,020	0.27
Second Quarter	30.32	24.35	13,920,332	0.27
First Quarter	26.35	22.55	11,989,143	0.24
<b>2002</b>				
Fourth Quarter	\$26.20	\$20.61	15,061,393	\$ 0.24
Third Quarter	28.87	22.84	19,047,756	0.24
Second Quarter	32.95	26.77	18,302,615	0.24
First Quarter	30.47	26.40	10,348,057	0.24

On February 20, 2004, Rayonier announced a first quarter dividend of 56 cents per share payable March 31, 2004, to shareholders of record on March 11, 2004.

There were approximately 13,280 shareholders of record of Rayonier Common Shares on March 1, 2004.

**ITEM 6. SELECTED FINANCIAL DATA**

The following profitability, financial condition and cash flow summary of historical financial data for each of the five years in the period ended December 31, 2003, is derived from the Consolidated Financial Statements of the Company. The data should be read in conjunction with the Consolidated Financial Statements.

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## Year Ended December 31

	2003	2002	2001	2000	1999
(dollar amounts in millions, except per share data)					
<b>Profitability:</b>					
Sales	\$ 1,101	\$ 1,117	\$ 1,124	\$ 1,196	\$ 1,080
Operating income	103	130	149	189	137
Provision for dispositions (1)	—	(3)	—	(15)	—
Income from continuing operations	50	55	57	78	69
Net income (9)	50	54	58	78	69
Income from continuing operations:					
Per share - Diluted (2)	1.16	1.30	1.37	1.87	1.63
Per share - Basic (2)	1.18	1.32	1.39	1.90	1.65
Net income:					
Per share - Diluted (2)	1.16	1.28	1.39	1.88	1.63
Per share - Basic (2)	1.18	1.30	1.41	1.91	1.65
<b>Financial Condition:</b>					
Total assets	\$ 1,839	\$ 1,887	\$ 2,040	\$ 2,181	\$ 2,302
Total debt	618	653	865	991	1,158
Book value	711	710	709	680	656
Book value - per share (3)	14.51	17.07	17.28	16.73	15.96
<b>Cash Flow:</b>					
Cash flow provided by operating activities	\$ 208	\$ 253	\$ 231	\$ 287	\$ 218
Cash used for investing activities	(91)	(77)	(74)	(71)	(321)
Cash (used for) provided by financing activities	(115)	(242)	(158)	(221)	104
Capital expenditures	86	77	75	87	92
Depreciation, depletion and amortization	158	166	174	174	103
Cash dividends paid (4)	105	40	39	39	36
Share repurchases	—	3	2	18	24
<b>Non-GAAP Financial Measures:</b>					
EBITDA (5)	\$ 262	\$ 298	\$ 325	\$ 369	\$ 245
Free Cash Flow (6)	78	62	103	179	92
Custodial Capital Spending (7)	76	66	61	66	64
Debt to EBITDA (5)	2.4 to 1	2.2 to 1	2.7 to 1	2.7 to 1	4.7 to 1
<b>Performance Ratios (%):</b>					
Operating income to sales	9	12	13	16	13
Return on equity (8)	7	8	8	12	11
Return on capital (8)	7	6	6	8	7
Debt to capital	47	48	55	59	64

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Year Ended December 31

	2003	2002	2001	2000	1999
<b>Selected Operating Data:</b>					
<b>Timber and Land</b>					
Timber sales volume					
Northwest U.S. – in millions of board feet	225	252	251	239	204
Southeast U.S. – in thousands of short green tons	4,524	4,881	5,395	4,920	2,557
New Zealand – in thousands of metric tons	632	805	793	901	866
Intercompany Timber sales volume					
Northwest U.S. – in millions of board feet	—	38	48	59	24
Southeast U.S. – in thousands of short green tons	48	37	43	41	40
New Zealand – in thousands of metric tons	128	60	46	178	234
Land – acres sold	40,595	44,256	67,417	63,221	7,130
<b>Performance Fibers</b>					
Sales volume					
Cellulose Specialties – in thousands of metric tons	435	435	423	396	364
Absorbent Materials – in thousands of metric tons	273	271	284	329	297
Production as a percent of capacity	97%	99%	97%	101%	95%
<b>Wood Products</b>					
Lumber sales volume – in millions of board feet					
	310	325	279	235	255
Medium-density fiberboard sales volume - in thousands of cubic meters					
	177	163	161	157	129
<b>Geographical Data (Non-U.S.)</b>					
Sales					
New Zealand	\$ 86	\$ 87	\$ 72	\$ 84	\$ 77
Other	12	41	40	49	56
Total	\$ 98	\$ 128	\$ 112	\$ 133	\$ 133
Operating Income (Loss)					
New Zealand	\$ 4	\$ 9	\$ 3	\$ (3)	\$ (8)
Other	(1)	2	—	2	(1)
Total	\$ 3	\$ 11	\$ 3	\$ (1)	\$ (9)

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	Year Ended December 31				
	2003	2002	2001	2000	1999
<b>Timber and Land Sales</b>					
Northwest U.S.	\$ 68	\$ 70	\$ 68	\$ 82	\$ 73
Southeast U.S.	171	148	181	173	79
New Zealand	20	29	24	18	17
<b>Total</b>	<b>\$ 259</b>	<b>\$ 247</b>	<b>\$ 273</b>	<b>\$ 273</b>	<b>\$ 169</b>
<b>Operating Income</b>					
Northwest U.S.	\$ 35	\$ 48	\$ 49	\$ 65	\$ 52
Southeast U.S.	99	71	89	81	58
New Zealand	5	5	7	6	5
<b>Total</b>	<b>\$ 139</b>	<b>\$ 124</b>	<b>\$ 145</b>	<b>\$ 152</b>	<b>\$ 115</b>
<b>EBITDA (10)</b>					
Timber and Land	\$ 204.5	\$ 198.5	\$ 227.7	\$ 242.5	\$ 138.2
Performance Fibers	76.1	114.1	115.8	163.7	111.3
Wood Products	8.6	4.1	4.3	(5.0)	9.1
Other Operations	0.1	(2.4)	(4.1)	(0.3)	(1.7)
Corporate and other	(26.9)	(16.4)	(19.2)	(32.3)	(12.3)
<b>Total</b>	<b>\$ 262.4</b>	<b>\$ 297.9</b>	<b>\$ 324.5</b>	<b>\$ 368.6</b>	<b>\$ 244.6</b>

- (1) Primarily related to closure reserves for the Port Angeles Performance Fibers mill.
- (2) First quarter 2003 and full years 2002, 2001, 2000 and 1999 have been restated to reflect the June 12, 2003 three-for-two stock split.
- (3) 2002, 2001, 2000 and 1999 have been restated to reflect the June 12, 2003 three-for-two stock split.
- (4) 2003 includes regular dividends of \$44 million, and a special dividend of \$61 million that was distributed as part of a required dividend in connection with the Company's conversion to a REIT on January 1, 2004.
- (5) EBITDA is defined as earnings from continuing operations before interest expense, income taxes, depreciation, depletion and amortization. EBITDA is a non-GAAP measure of operating cash generating capacity of the Company. See table in *Item 7—Management's Discussion and Analysis*, for reconciliation of Cash Provided by Operating Activities to EBITDA.
- (6) Free Cash Flow is defined as cash provided by operating activities less Custodial Capital Spending, dividends at prior year level, required debt repayments and the tax benefit on the exercise of stock options. Free cash flow is a non-GAAP measure of cash generated during a period that is available for discretionary capital expenditures, increasing dividends above the prior year level, repurchasing the Company's common shares and/or reducing debt within the period. See table in *Item 7 – Management's Discussion and Analysis*, for reconciliation of Cash Provided by Operating Activities to Free Cash Flow.
- (7) Custodial Capital Spending, a non-GAAP measure, is defined as capital expenditures, net of proceeds received from retirements, to maintain current earnings level over the cycle and to keep facilities and equipment in safe and reliable condition, and in compliance with regulatory requirements. See table in *Item 7 - Management's Discussion and Analysis*, for reconciliation of Capital Expenditures to Custodial Capital Spending.
- (8) Based on income from continuing operations.

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- (9) Included in the calculation of net income are certain items that are infrequent in either occurrence or size and are, in the eyes of management, important to understand the financial performance or liquidity of the Company in the comparative annual periods being reported on. These “items of interest” and their effect on net income for the periods indicated were as follows:

Items of Interest	Increase/(decrease) to Net Income for the Year Ended December 31				
	2003	2002	2001	2000	1999
REIT expense (a)	\$ (5.1)	\$ —	\$ —	\$ —	\$ —
Tax audit adjustment (b)	2.3	—	—	—	—
Disposition reserve (c)	—	(1.7)	—	(9.4)	—
Southeast land sale (d)	—	—	—	—	3.2
Restructuring/relocation (e)	—	—	—	—	(2.6)
Contract dispute (f)	—	—	—	—	(2.9)
Asset sale (g)	—	—	—	—	5.8
New Zealand Joint Venture sale (h)	—	—	—	4.5	—
Northwest US harvest delay (i)	(2.7)	—	—	—	—
Tax benefit on loan settlements (j)	3.6	2.0	—	—	—

- (a) Expenses to convert to a REIT.
- (b) Favorable tax audit interim partial settlement.
- (c) Primarily related to a closure reserve for the Port Angeles, WA Performance Fiber mill.
- (d) Genesis Point – Southeast U.S. land sale.
- (e) Primarily costs associated with the Company’s headquarters relocation from Stamford, CT to Jacksonville, FL.
- (f) Southern Wood Piedmont Company (SWP) insurance receivable adjustment.
- (g) Sale of a marine terminal and related assets in the Northwest U.S. (Grays Harbor Dock, WA).
- (h) Sale of Rayonier’s 25 percent interest in a New Zealand timberland joint venture.
- (i) Delayed harvest and revenue recognition in the Northwest U.S. resulting from change from lump-sum to pay-as-cut contracts in anticipation of converting to a REIT.
- (j) Tax benefit on foreign exchange loss related to settlement of New Zealand dollar denominated intercompany loans.
- (10) EBITDA, defined as Earnings from Continuing Operations before Interest, Taxes, Depreciation, Depletion and Amortization, is also used for evaluating segment cash return on investment, allocating resources and for valuation purposes. EBITDA by segment is a critical valuation measure used by the Chief Operating Decision Maker, existing shareholders and potential shareholders to measure how management is performing relative to the assets with which they have been entrusted. The tables on the following page reconcile Cash Provided by Operating Activities of Continuing Operations by segment to EBITDA by segment for the five years ended December 31, 2003.

**Reconciliation of Cash Provided by Operating Activities of Continuing Operations by Segment to EBITDA by Segment**

(Dollars in Millions)	Timber and Land	Performance Fibers	Wood Products	Other	Corporate and Eliminations	Total
<b>2003</b>						
Cash provided by operating activities	\$ 230.7	\$ 73.3	\$ 8.7	\$ —	\$ (104.5)	\$ 208.2
Less: Non-cash cost basis of land sold	(5.5)	—	—	(0.4)	—	(5.9)
Add: Income tax expense	—	—	—	—	5.8	5.8
Interest expense	—	—	—	—	48.7	48.7
Working capital increases (decreases)	(16.9)	3.4	0.2	1.9	29.3	17.9
Other balance sheet increases (decreases)	(3.8)	(0.6)	(0.3)	(1.4)	(6.2)	(12.3)
<b>EBITDA</b>	<b>\$ 204.5</b>	<b>\$ 76.1</b>	<b>\$ 8.6</b>	<b>\$ 0.1</b>	<b>\$ (26.9)</b>	<b>\$ 262.4</b>
<b>2002</b>						
Cash provided by operating activities	\$ 210.2	\$ 118.0	\$ 1.4	\$ 11.1	\$ (87.8)	\$ 252.9
Less: Non-cash cost basis of land sold	(11.1)	—	—	(2.6)	—	(13.7)
Add: Income tax expense	—	—	—	—	14.9	14.9
Interest expense	—	—	—	—	62.4	62.4
Working capital increases (decreases)	3.0	(12.7)	3.2	(7.8)	8.4	(5.9)
Other balance sheet increases (decreases)	(3.6)	8.8	(0.5)	(3.1)	(14.3)	(12.7)
<b>EBITDA</b>	<b>\$ 198.5</b>	<b>\$ 114.1</b>	<b>\$ 4.1</b>	<b>\$ (2.4)</b>	<b>\$ (16.4)</b>	<b>\$ 297.9</b>
<b>2001</b>						
Cash provided by operating activities	\$ 231.5	\$ 136.6	\$ 4.6	\$ (3.0)	\$ (138.7)	\$ 231.0
Less: Non-cash cost basis of land sold	(9.1)	—	—	(0.9)	—	(10.0)
Add: Income tax expense	—	—	—	—	23.7	23.7
Interest expense	—	—	—	—	70.3	70.3
Working capital increases (decreases)	6.7	(19.0)	0.5	2.6	14.8	5.6
Other balance sheet increases (decreases)	(1.4)	(1.8)	(0.8)	(2.8)	10.7	3.9
<b>EBITDA</b>	<b>\$ 227.7</b>	<b>\$ 115.8</b>	<b>\$ 4.3</b>	<b>\$ (4.1)</b>	<b>\$ (19.2)</b>	<b>\$ 324.5</b>
<b>2000</b>						
Cash provided by operating activities	\$ 244.2	\$ 150.6	\$ 2.8	\$ 27.4	\$ (138.4)	\$ 286.6
Less: Non-cash cost basis of land sold	(10.3)	—	—	(4.0)	—	(14.3)
Add: Income tax expense	—	—	—	—	29.4	29.4
Interest expense	—	—	—	—	87.2	87.2
Working capital increases (decreases)	6.1	15.0	(6.7)	(15.8)	4.5	3.1
Other balance sheet increases (decreases)	2.5	(1.9)	(1.1)	(7.9)	(15.0)	(23.4)
<b>EBITDA</b>	<b>\$ 242.5</b>	<b>\$ 163.7</b>	<b>\$ (5.0)</b>	<b>\$ (0.3)</b>	<b>\$ (32.3)</b>	<b>\$ 368.6</b>
<b>1999</b>						
Cash provided by operating activities	\$ 131.1	\$ 116.4	\$ 11.0	\$ 21.3	\$ (62.1)	\$ 217.7
Less: Non-cash cost basis of land sold	(3.4)	—	—	(3.9)	—	(7.3)
Add: Income tax expense	—	—	—	—	29.1	29.1
Interest expense	—	—	—	—	43.7	43.7
Working capital increases (decreases)	(9.8)	(5.1)	3.1	(10.4)	(15.3)	(37.5)
Other balance sheet increases (decreases)	20.3	—	(5.0)	(8.7)	(7.7)	(1.1)
<b>EBITDA</b>	<b>\$ 138.2</b>	<b>\$ 111.3</b>	<b>\$ 9.1</b>	<b>\$ (1.7)</b>	<b>\$ (12.3)</b>	<b>\$ 244.6</b>

## **Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Executive Summary**

Rayonier's revenues, operating income and cash flows are primarily derived from its two core business segments; Timber and Land and Performance Fibers. The Company owns or leases under long-term agreements approximately 2.1 million acres in Florida, Georgia, Alabama, Washington and New Zealand. It is the 8<sup>th</sup> largest private landowner in the United States. The Company also has been a premier supplier of cellulose specialty grades of pulp for over seventy-five years.

Rayonier has consistently produced strong cash flows and generated operating results, averaging above many forest products industry indices, by focusing on the following critical financial measures: operating income, adjusted EBITDA, operating funds flow, free cash flow, debt to capital ratio, return on equity, return on capital employed (Performance Fibers) and return on fair market value (Timber and Land). Key non-financial measures include safety performance, quality, production as a percent of capacity and various yield statistics.

The Company's focus on maximizing returns for its shareholders and generating consistent cash flows from its businesses provided the foundation to convert to a REIT, effective January 1, 2004. As a REIT, Rayonier will have an opportunity to be more competitive on timberland acquisitions to further grow the Company and distribute more of its earnings to its shareholders in a tax efficient manner. The Company's regular annual dividend is expected to increase to \$111 million in 2004 from \$44 million in 2003. In addition to the financial measures noted above, the Company will also focus on cash available for distribution, in total and on a per-share basis, in order to meet its targets for delivery of above average market returns.

Since 1999, the Company has used its cash flows to reduce debt by over \$500 million, resulting in a current debt-to-capital ratio of 47 percent. The Company believes that a debt-to-capital range of 45 to 50 percent is appropriate to keep its weighted average cost of capital low while maintaining its investment grade debt rating and retaining the flexibility to actively pursue growth opportunities. The Company had \$50 million of medium term notes maturing in February 2004 which were repaid from the Company's undrawn revolving credit facility. The Company does not expect to use cash flows from existing operations to materially further reduce its current debt level in the near term.

### *Operational Strategies*

The Company sells standing timber primarily through an auction process, although in the Northwest U.S. it also markets timber through log supply agreements. The Company treats Timber and Land as a stand-alone business, requiring its mills and its trading group to compete with other third party bidders for the timber at auction. This discipline ensures the highest value is received, generating a truer market picture of fair value returns in Timber and Land, while eliminating the possibility of the Company's manufacturing facilities being subsidized with below-market cost wood. The Company also focuses on optimizing returns by continually improving productivity and yields through advanced silvicultural practices which take into account soil, climate and biological considerations.

The Company instituted a formal timberland sales program in 2000 designed to realize, on a current basis, a portion of the appreciated value of the underlying timber asset. Pursuant to such program, the Company has been identifying for sale, on an annual basis, approximately 2 to 4 percent of its timberland holdings, primarily properties with values that are greater for development or conservation use than for growing timber. The Company expects to periodically replenish its timberlands through large scale, strategic acquisitions and smaller opportunistic transactions. The last such acquisition occurred in 1999 when the Company acquired 968,000 acres from Jefferson Smurfit Corporation.

In Performance Fibers, the Company's market focus has been to increase its position as a premier supplier of cellulose specialties while reducing its participation in the more commodity-oriented absorbent materials (primarily fluff pulp) market. In the cellulose specialties market, where the Company is a market leader, its considerable technical applications expertise is used in solving customer problems and in customizing product to exacting specifications, which allows differentiation from most other competitors. Conversely, fluff pulp is a commodity with very little opportunity for differentiation other than by price. There are a number of much larger companies in this market and as a result, the Company is not a market leader. The Company has been successful in executing this strategy of shifting sales from absorbent materials to cellulose specialties production. In 2003, 61 percent of its volume was cellulose specialties, versus 55 percent in 1999. However, while a further shift of volume to the cellulose specialties product line will be challenging, the Company will continue to focus on improving product mix toward higher value products within the cellulose specialty product line.

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Cost control is also a key element to remaining competitive in the Performance Fibers markets. The Company's focus is on keeping the mills operating continuously, safely, and efficiently while closely managing raw materials and conversion costs. The Company's capital expenditures typically are directed toward cost reduction and efficiency projects.

### *Industry and Market Conditions*

Market conditions over the past three years have been mixed. Industry conditions for timber have been weak, but have been improving recently, while the Company's land sales program has consistently generated strong interest. In Performance Fibers, demand for cellulose specialties has been relatively stable, but the absorbent materials market has been weak, following cyclical commodity trends.

In U.S. timber markets, prices since 2000 have steadily declined through the middle of 2003. The price declines resulted from an oversupply of manufacturing capacity caused by the worldwide recession and a resulting decrease in demand for wood products, increased timber and wood products availability worldwide and, until recently, a relatively strong U.S. dollar driving imports up. In mid-2002, tariffs were imposed on Canadian imports, with very little effect until well into 2003. In late 2003, timber prices improved reflecting a more balanced supply/demand equation resulting from a gradual recovery in commercial construction and industrial markets, a continuing strong residential construction market and a reduction in supply due to weather conditions and lower imports.

In Performance Fibers, cellulose specialties' market demand has been relatively stable. The Company's sales are typically made using one to two year contracts which establish prices and target volumes at the beginning of the year and buffer some of the changes in supply and demand. The Company's recognized technical and market leadership have allowed it to maintain relatively stable pricing across its cellulose specialties product lines. While the Company was adversely affected by rising costs in 2003 and reported a loss in Performance Fibers for the first time in ten years, its competitors suffered significantly as well. For example, International Paper closed its Natchez Mississippi mill, which was a major cellulose specialties competitor, taking approximately two hundred sixty thousand tons of capacity out of the market. The final impact of this closure may take a year to fully develop but subsequent to the closure, 2004 price increases of 6 to 8 percent have been announced.

In the fluff pulp market, Koch Industries announced it was purchasing two fluff pulp mills, in Brunswick, Georgia and Leaf River, Mississippi, from Georgia-Pacific. It is still too early to assess how this sale, which is scheduled to close in the second quarter of 2004, will impact the fluff market.

Over the past three years, absorbent materials industry capacity has exceeded demand resulting in price movement within a relatively low cyclical range. Absorbent materials are primarily a commodity product, but with some product differentiation and enhancement. Sales are typically made with an annual volume agreement that allows price to move with the market during the year.

### **Critical Accounting Policies and Use of Estimates**

The preparation of Rayonier's financial statements requires the Company to make estimates, assumptions and judgments that affect the assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities, reported in this Annual Report on Form 10-K. The Company bases these estimates and assumptions on historical data and trends, current fact patterns, expectations and other sources of information it believes are reasonable. Actual results may differ from these estimates under different conditions.

#### *Merchantable inventory and depletion costs as determined by forestry timber harvest models*

Significant assumptions and estimates are used in the recording of timberland inventory cost and depletion. Rayonier employs a forestry technical services group at each of its timberland management locations. Merchantable standing timber inventory is estimated annually, using industry-standard computer software. The inventory calculation takes into account growth, in-growth (annual transfer of oldest pre-merchantable age class into the merchantable inventory), timberland sales and the annual harvest specific to each business unit. The age at which timber is considered merchantable is reviewed periodically and updated for changing harvest practices, future harvest age profiles and biological growth factors. An annual business unit depletion rate is established by dividing merchantable inventory book cost by standing merchantable inventory. Pre-merchantable records are maintained for each planted year age class, recording acres planted, stems per acre, and costs of planting and tending. Changes in the assumptions and/or estimations used in these calculations may affect the Company's results, in particular, timber inventory and depletion costs. Factors that can impact timber volume include weather changes, losses due to natural causes, differences in actual versus estimated growth rates and changes in the age when timber is considered merchantable. A 3% Company-wide change in estimated standing merchantable inventory would cause depletion expense to change by approximately \$1.6 million.

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In 2003, the Southeast pine merchantable age was reduced from nineteen years to sixteen years. This change, which reduced the depletion rate by 2% in that region, decreased depletion expense by \$0.7 million in 2003.

### *Depreciation of long-lived assets as specifically affected by economic obsolescence*

The Company computes depreciation expense using the units of production method on its Performance Fibers and MDF production plant and equipment and the straight-line method on all other property, plant and equipment over the useful economic lives of the assets involved. Management believes these depreciation methods are the most appropriate under the circumstances as they more closely match revenues with expenses versus other generally accepted accounting methods. Long-lived assets are periodically reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Cash flows used in such impairment analyses are based on budgeted results, which take into account recent sales and cost data as well as macro economic drivers including customer demand, industry capacity and foreign exchange rates. The physical life of equipment, however, may be shortened by economic obsolescence caused by environmental regulation, competition and other causes.

### *Environmental costs associated with dispositions and discontinued operations*

Rayonier has \$152 million of liabilities accrued for environmental costs relating to past dispositions and discontinued operations that will be spent over the next 25 to 30 years. Significant estimates are used in determining the proper value of these obligations at a given point in time, especially due to the long-term nature of the obligations. Typically these cost estimates do not vary significantly on a quarter to quarter basis. Factors affecting these estimates include, but are not limited to, technological and regulatory changes, results from on-going work and management's judgment. Management periodically reviews the Company's environmental liabilities for technological and regulatory changes and also engages consultants to assess the extent of additional work required. A material change in an estimate in any given period could have a favorable or unfavorable effect on the results of the Company's operations. The most recent material change in estimate occurred in 2002, when reserves were increased by \$2.7 million for revised estimates of remediation costs required at the Company's closed Washington sites, including its Port Angeles mill site. The recent favorable ruling in the EPA litigation in connection with remediation of the Port Angeles site (see *Item 3. Legal Proceedings*), after a more detailed review, may result in a reduction to required reserves.

Expenditures for all such environmental costs totaled \$10 million in 2003 and are expected to increase to \$12 million in 2004 primarily as a result of the increased spending required at the Company's Washington State and Southern Wood Piedmont sites. The Company expects annual expenditures in 2005 and 2006 to remain in the \$10 million to \$12 million range.

### *Determining the adequacy of pension assets and liabilities*

The Company maintains four qualified benefit plans which cover substantially all of the Company's U.S. workforce and an unfunded plan to provide benefits in excess of amounts allowable under current tax law to participants in the qualified plans. Pension expense for all plans was \$7.9 million in 2003. Numerous estimates and assumptions are required to determine the proper amount of pension and postretirement liabilities and annual expense to record in the Company's financial statements. The key assumptions include discount rate, return on assets, salary increases, health care cost trends, mortality rates, longevity and service lives of employees. Although there is authoritative guidance on how to select most of these assumptions, the Company's management and its actuary exercise some degree of judgment when selecting these assumptions. Selecting different assumptions, as well as actual versus expected results, would change the net periodic benefit cost and funded status of the benefit plans recognized in the financial statements.

In determining pension expense in 2003, a \$12.7 million return on pension assets was assumed based on an expected long-term rate of return of 8.5 percent, versus an actual return of \$27.2 million. This long term return assumption (calculated using geometric/compound averaging) was established based on historical long-term rates of return on broad equity and bond indices, discussions with the Company's actuary and investment advisors and consideration of the actual annualized rate of return of 8.4 percent through 2002 (since the 1994 spin-off from ITT Corporation). For 2004, the expected long-term rate of return will remain at 8.5 percent. Management reviews this assumption periodically to ensure that it remains reasonable. At December 31, 2003 the Company's asset mix consisted of 66 percent equities and 34 percent bonds and cash equivalents. The Company does not expect this mix to change materially in the future.

Effective December 31, 2003 the Company adopted, based on its actuary's recommendation, different mortality tables and revised termination and retirement assumptions to better match recent experience. These changes increased the December 31, 2003 Projected Benefit Obligation (PBO) by \$10.2 million. During 2003 the Company also reduced the benefit formula used to calculate retirement benefits from 2 percent to 1.5 percent of final average compensation for the first 25 years of service, effective for all years of service after January 1, 2004. This change did not affect the December 31, 2003 PBO, but is expected to reduce the December 31, 2004 PBO by \$0.9 million.

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In determining its future pension obligations, the Company selects a discount rate based on rates supplied by its actuary who incorporate high quality (AAA and AA rated), long-term corporate bond rates into their models. The discount rate at December 31, 2003 of 6.25 percent declined from the December 31, 2002 rate of 6.5 percent. This 25 basis point (bp) decline in the discount rate increased the December 31, 2003 PBO by \$6.8 million.

The Company expects its 2004 pension expense to increase \$4 million to \$5 million from the \$7.9 million recorded in 2003 due to the net impact of the changed mortality and retirement assumptions, lower discount rate, amortization of unrecognized actuarial losses of \$66.1 million (compared to \$61.2 million at December 31, 2002) and decreased benefit formula. Future pension expense will be impacted by many factors including actual investment performance, changes in discount rates, timing of contributions and other employee related matters. The sensitivity of pension expense and obligations to changes in economic assumptions is highlighted below:

Change in Assumption	Impact on:	
	Pension Expense	PBO
25 bp decrease in discount rate	+ 0.8 million	+ 6.8 million
25 bp increase in discount rate	- 0.8 million	- 5.8 million
25 bp decrease in long-term return on assets	+ 0.4 million	
25 bp increase in long-term return on assets	- 0.4 million	

The Company's pension plans were underfunded by \$64.4 million at December 31, 2003, approximately the same position as at December 31, 2002. The Company contributed \$11.1 million to its plans during 2003. Although only \$0.4 million of contributions are required by September 2004 to meet minimum funding requirements for the 2003 plan year, and an additional \$0.3 million may be required to meet 2004 quarterly contribution requirements, the Company expects to contribute between \$6 and \$10 million to its plans in 2004 to reduce the underfunded amount. Future funding requirements will vary depending on actual investment performance, changes in valuation assumptions, current liability interest rates, other employee related matters and changes in legislation.

On December 8, 2003, President Bush signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003. Following the guidance of the Financial Accounting Standards Board, the Company has elected to defer recognition of this Act at this time since specific authoritative guidance on the accounting for the federal subsidy is pending and guidance, when issued, could require a change to previously reported information. As a result, at December 31, 2003, the accumulated projected benefit obligation and net benefit cost do not reflect the effect of the Act on the Company's postretirement plans.

### *Realizability of both recorded and unrecorded tax assets and liabilities*

The Company has recorded certain deferred tax assets that management believes will be realized in future periods. These assets are reviewed periodically in order to assess their realizability. This review requires management to make assumptions and estimates about future profitability affecting the realization of these tax benefits. If the review indicated that the realizability may be less than likely, a valuation allowance would be made at that time.

As a REIT, if certain requirements are met, only the taxable REIT subsidiaries will be subject to corporate income taxes. However, the Company is subject to corporate taxes on built-in gains (the excess of fair market value over tax basis at January 1, 2004) on taxable sales of property within the REIT during the first ten years following the election to be taxed as a REIT. In accordance with SFAS No. 109, *Accounting for Income Taxes* the Company must estimate the amount of timberland that will be sold within the next ten years and retain a deferred tax liability for the expected income tax on these dispositions. The remaining deferred tax liability resulting from U.S. timberland temporary differences will be reversed in first quarter 2004 and recorded as an income tax benefit. The Company estimates this benefit at \$70 million to \$80 million. An estimate of taxable dispositions within the ten-year post REIT conversion period will be updated periodically and may fluctuate significantly based on market conditions and other factors related to meeting the REIT qualifying tests. The built-in gains tax can typically be eliminated if sales proceeds are reinvested in similar property within required time periods (like-kind exchanges). The Company expects to actively pursue like-kind exchange opportunities but it is impossible to predict the outcome of such efforts at this time.

In addition, the Company has not provided for taxes on approximately \$132 million of undistributed foreign earnings as the Company has intended to reinvest such earnings overseas in the future. This assumption is reviewed periodically to ensure that any changes in the Company's ability and intent to reinvest these earnings will be properly disclosed and accounted for. With the conversion to a REIT effective January 1, 2004, the Company's strategy and preference is changing more toward investing in timberlands domestically. The effect of this strategic change will be evaluated in the first quarter 2004. Such amount would be charged to expense when management affirms a change in overseas investment strategy. As a result, it is probable that a substantial part of these undistributed foreign earnings will become subject to additional cash taxes when remitted, or deemed remitted, as a dividend. The additional amount of taxes payable if remitted, could approximate \$33 million.

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Financial Information (in millions)	Year Ended December 31,		
	2003	2002	2001
<b>Sales</b>			
Timber and Land			
Timber	\$ 153	\$ 172	\$ 189
Land	106	75	84
Total Timber and Land	259	247	273
Performance Fibers			
Cellulose Specialties	378	375	369
Absorbent Materials	156	151	178
Total Performance Fibers	534	526	547
Wood Products			
Lumber	97	99	89
MDF	41	38	36
Total Wood Products	138	137	125
Other operations	172	216	192
Intersegment Eliminations	(2)	(9)	(13)
<b>Total Sales</b>	<b>\$ 1,101</b>	<b>\$ 1,117</b>	<b>\$ 1,124</b>
<b>Operating Income (Loss)</b>			
Timber and Land			
Timber	\$ 52	\$ 77	\$ 94
Land	87	47	51
Total Timber and Land	139	124	145
Performance Fibers	(3)	36	36
Wood Products	(5)	(9)	(9)
Other operations	—	(3)	(5)
Provision for dispositions	—	(3)	—
Corporate and other expenses / eliminations	(28)	(15)	(18)
<b>Total Operating Income</b>	<b>\$ 103</b>	<b>\$ 130</b>	<b>\$ 149</b>
Interest Expense	(49)	(62)	(70)
Interest/Other Income	2	2	2
Provision for Income Taxes	(6)	(15)	(24)
<b>Income from Continuing Operations</b>	<b>\$ 50</b>	<b>\$ 55</b>	<b>\$ 57</b>
Income (Loss) from Discontinued Operations	—	(1)	1
<b>Net Income</b>	<b>\$ 50</b>	<b>\$ 54</b>	<b>\$ 58</b>

**Analysis of the Company's results of operations for three years ended December 31, 2003.**

**Results of Operations, 2003 versus 2002**

**Timber and Land**

In the Northwest U.S., sales and operating income in 2003 were impacted by lower demand for hemlock and Douglas fir resulting in lower overall timber sales prices of 14 percent and a total volume decrease of 11 percent in 2003 compared to prior year. In general, the demand for timber in that region has been trending down over time due to an increase in Canadian and South American supply as well as increased saw mill closures throughout the west coast. In addition, Northwest timber volume made available for sale in the fourth quarter of 2003 was delayed due to sales contract form revisions in order to utilize the Company's new REIT status in 2004. Conversely, this shift should create an increase in the first nine months of 2004 volumes offered for sale compared to the same period ended in 2003. See *Item 1. Business* for additional information on the REIT conversion.

In the Southeast U.S., sales and operating income in 2003 declined as pine pulpwood continued to be plentiful resulting in an 8 percent decrease in average prices, despite an upturn in price during the fourth quarter. Pine and hardwood volumes decreased 7 and 13 percent, respectively, mainly attributable to wet weather conditions which made harvesting of pine and hardwood difficult. The Company anticipates sustaining fourth quarter 2003 prices into the early part of 2004.

In New Zealand, volume declined 22 percent contributing to lower timber sales and operating income. However, radiata pine timber prices, converted to U.S. dollars, increased 22 percent in New Zealand due to the strong local currency as well as increased demand from domestic customers in Southland.

Changes Attributable to:

Sales (in millions)	2002	Changes Attributable to:				2003
		Price	Volume	Mix/Other	Foreign Exchange	
Timber	\$172	\$(12)	\$ (9)	\$ (2)	\$ 4	\$153
Land	75	37	(6)	—	—	106
<b>Total Sales</b>	<b>\$247</b>	<b>\$ 25</b>	<b>\$ (15)</b>	<b>\$ (2)</b>	<b>\$ 4</b>	<b>\$259</b>

Land sales and operating income increased primarily due to the June 2003 Matanzas Marsh sale, which contributed \$42 million and \$39 million in sales and operating income, respectively.

Changes Attributable to:

Operating Income (in millions)	2002	Changes Attributable to:				2003
		Price	Volume	Mix/Costs	Foreign Exchange	
Timber	\$ 77	\$(12)	\$ (9)	\$ (7)	\$ 3	\$ 52
Land	47	37	(4)	7	—	87
<b>Total Operating Income</b>	<b>\$124</b>	<b>\$ 25</b>	<b>\$ (13)</b>	<b>\$ —</b>	<b>\$ 3</b>	<b>\$139</b>

The nature of land sales is such that year over year fluctuations may be material due to the timing of closing real estate transactions as well as uncertainty in the timing of conservation and development land sale opportunities.

**Performance Fibers**

Cellulose specialties sales increased due to higher acetate grade volume and prices from improved market demand in 2003 and customers' concern over the continued viability of a competitor's mill. This was partially offset by lower demand for ethers grades due to inventory and operational constraints at a major customer. Competition in the specialty high value paper grade market continued to be active creating some volatility in volumes and prices in 2003. In addition, price increases in most cellulose specialties grades are expected in 2004 due to increased economic activity and tighter overall supply.

Fluff pulp pricing fell at the end of 2002, and remained depressed during the first quarter of 2003. Prices increased somewhat in April 2003 then held relatively constant throughout the rest of 2003. There was virtually no change in average fluff prices from 2002 to 2003. The increase in absorbent materials prices primarily reflects the relative growth in our high value EAM product line.

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Sales (in millions)	2002	Changes Attributable to:		2003
		Price	Volume	
Cellulose Specialties	\$375	\$3	\$ —	\$378
Absorbent Materials	151	1	4	156
<b>Total Sales</b>	<b>\$526</b>	<b>\$4</b>	<b>\$ 4</b>	<b>\$534</b>

Performance Fibers operating loss for 2003 was the segment's first loss in ten years due primarily to weather-related hardwood material shortages and resulting increased cost, as well as higher caustic, ammonia, natural gas, fuel oil and maintenance costs. In 2004, the Company anticipates cost improvements, primarily in wood due in part to the 2003 acquisition of the Jarratt, Virginia mill as it expands its reach to supply the Jesup, Georgia mill with reasonably priced hardwood chips.

Operating Income (in millions)	2002	Changes Attributable to:		2003
		Price	Costs	
<b>Total Operating Income</b>	<b>\$36</b>	<b>\$4</b>	<b>\$(43)</b>	<b>\$(3)</b>

**Wood Products**

Lumber sales declined due to a 5 percent reduction in volume partially offset by an average price increase of 2 percent. Domestic lumber markets weakened in 2003 due to an oversupply of product from U.S. mills and Canadian imports, despite Canadian import tariffs. The trend of weak lumber prices reversed in the fourth quarter of 2003 due to low inventories and continued strong housing starts.

MDF sales were higher in 2003 primarily due to a volume increase of 9 percent, while prices were virtually unchanged.

Sales (in millions)	2002	Changes Attributable to:			2003
		Price	Volume	Foreign Exchange	
Lumber	\$ 99	\$ 2	\$ (4)	\$ —	\$ 97
MDF	38	(1)	3	1	41
<b>Total Sales</b>	<b>\$137</b>	<b>\$ 1</b>	<b>\$ (1)</b>	<b>\$ 1</b>	<b>\$138</b>

Lumber results improved to breakeven due to the higher sales prices and a decrease in raw material and production costs.

MDF's operating loss increased in 2003 over the prior year primarily due to higher manufacturing costs resulting from the impact of the strong New Zealand dollar on raw material prices and export pricing. On a New Zealand dollar basis, costs were actually favorable in 2003 when compared to 2002.

Operating Income (in millions)	2002	Changes Attributable to:				2003
		Price	Volume	Costs	Foreign Exchange*	
Lumber	\$(8)	\$ 2	\$ 1	\$ 5	\$ —	\$—
MDF	(1)	(1)	—	1	(4)	(5)
<b>Total Operating Income</b>	<b>\$(9)</b>	<b>\$ 1</b>	<b>\$ 1</b>	<b>6</b>	<b>\$ (4)</b>	<b>\$ (5)</b>

\* Includes \$1 million of income due to balance sheet translation and \$6 million of expense from operations.

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### **Other Operations**

Trading sales of \$172 million were \$44 million below 2002 while break-even operating income improved \$3 million. Trading margins declined due to lower sales and from \$3 million of unfavorable foreign exchange, compared to 2002 which were more than offset by higher coal royalty income. The Company has consolidated certain operations in its non-core businesses in order to improve operating margins, but does not have immediate plans to exit these businesses.

### **Provision for Dispositions**

There was no provision for dispositions in 2003. In 2002, the disposition reserve for the closure of Washington facilities including the Port Angeles, WA performance fiber mill site was increased by \$2.7 million due to revised cost estimates to complete required remediation procedures.

### **Corporate and Other Expenses/Eliminations**

Corporate and other expenses were \$13 million above 2002 principally due to \$6 million in REIT conversion costs and \$7 million in higher stock price-based compensation.

Other operating income includes a pre-tax gain of \$2.4 million and \$1.2 million from New Zealand dollar foreign currency contracts that matured in 2003 and 2002, respectively. See *Note 5-Financial Instruments*, for additional information relating to the Company's New Zealand forward contracts.

### **Interest Expense**

Interest expense of \$49 million was \$13 million below the prior year principally due to lower debt levels and less deficiency interest than was accrued in 2002 for recent IRS settlement proposals relating to outstanding tax audit issues. During 2003, Rayonier reduced debt by \$34 million.

### **Interest/Other Income**

Interest and other income of \$2 million related primarily to interest income earned on cash and cash equivalents. This was consistent with the amount in 2002.

### **Provision for Income Taxes**

The effective tax rate for 2003 was 10 percent compared to 21 percent in 2002. The Company's effective tax rates are generally below U.S. statutory levels primarily due to lower rates in effect for foreign subsidiaries, export sales tax benefits and research and development credits. In 2003, the appreciation of the New Zealand dollar versus the U.S. dollar and the recognition of tax benefits associated with the settlement of a foreign currency-denominated intercompany loan and an IRS audit interim partial settlement resulted in an even lower effective tax rate. In 2002, the appreciation of the New Zealand dollar versus the U.S. dollar and the realization of previously unrecognized foreign tax benefits also resulted in a low effective tax rate. The following table reconciles the Company's income tax provision at the U.S. statutory rate to the reported provision and effective tax rate for 2003, 2002 and 2001 (in millions):

	2003	%	2002	%	2001	%
Income tax provision from continuing operations at U.S. statutory rate	\$ 19.5	35.0	\$ 24.4	35.0	\$ 28.2	35.0
State and local taxes, net of federal benefit	0.2	0.4	0.3	0.4	0.7	0.9
Foreign operations *	(11.4)	(20.5)	(5.5)	(7.9)	(1.2)	(1.4)
Tax benefit on foreign sales	(1.4)	(2.5)	(2.2)	(3.3)	(2.1)	(2.7)
Permanent differences	(0.1)	(0.2)	(0.4)	(0.5)	0.6	0.6
Tax benefit from favorable audit interim partial settlement	(2.3)	(4.2)	—	—	—	—
Tax credits and other, net	1.3	2.4	(1.7)	(2.4)	(2.5)	(3.0)
Income tax provision from continuing operations as reported	\$ 5.8	10.4	\$ 14.9	21.3	\$ 23.7	29.4

\* Primarily from foreign exchange and rate differentials

## **Results of Operations, 2002 versus 2001**

### ***Sales and Operating Income***

Sales of \$1.117 billion and operating income of \$130 million in 2002 were \$7 million and \$19 million below 2001 sales and operating income, respectively. Lower sales and operating income in 2002 were a result of unfavorable absorbent materials prices and mix, lower land sales, weaker U.S. timber prices and higher incentive compensation. These items were partially offset by lower manufacturing costs in performance fibers, lumber and MDF.

### ***Timber and Land***

Timber and Land sales of \$247 million were \$26 million below prior year and operating income of \$124 million was \$21 million below the prior year.

#### ***Timber***

Timber sales of \$172 million and operating income of \$77 million were each \$17 million below 2001 principally due to lower U.S. timber prices. In the Southeast U.S., average pine timber prices declined 6 percent due to an increasing supply of pine logs in the market. In the Northwest U.S., timber prices declined 6 percent, as market demand for hemlock and Douglas fir remained low compared to prior year levels. These unfavorable variances were partially offset by a 13 percent increase in radiata pine timber prices in New Zealand due to the strong export lumber manufacturing customer base in the Southland and West regions that the Company supplies. Delivered log sales did not significantly impact 2002 operations.

#### ***Land***

Land sales of \$75 million were \$9 million below prior year with operating income of \$47 million decreasing \$4 million. The operating income decline resulted from lower volume, as only 44,256 acres were sold in 2002 versus 67,417 acres in 2001, which included a significant margin contribution from a major timberland sale (56,118 acres) in the second quarter.

### ***Performance Fibers***

Performance Fibers sales of \$526 million were \$21 million below the prior year primarily due to lower absorbent materials prices, (mainly fluff pulp) and unfavorable cellulose specialties prices and mix, partially offset by higher cellulose specialties volume. Fluff pulp pricing is commodity in nature and generally moves in tandem with paper pulp market prices. During 2001, paper pulp and fluff pulp pricing declined significantly throughout the year. These markets continued to decline during 2002, although not as severely. As a result, the Company's average fluff pulp prices declined 10 percent in 2002 compared to 2001, while its average absorbent materials prices declined 11 percent. Offsetting these price declines was a favorable mix change in the Company's cellulose specialties volume, which increased 3 percent. This included a 2 percent increase in acetate pulp volumes, an 11 percent increase in ethers pulp volumes and a 15 percent increase in high-value specialty filter papers pulp volume. Despite the increase in volumes, average cellulose specialties prices declined 1 percent in 2002. Since 1999, the Company has improved its mix of cellulose specialties/absorbent materials from a 55/45 percent ratio to a 62/38 percent ratio in 2002. Operating income of \$36 million for the segment was essentially at the 2001 level as a result of unfavorable prices, offset by lower manufacturing costs and higher cellulose specialties volume.

### ***Wood Products***

Sales of \$137 million for this segment were \$12 million above prior year, while the operating loss of \$9 million was at the 2001 level. Lumber results were essentially at the prior year level with lower manufacturing costs offset by a 4 percent decrease in average prices. The usual cyclical improvement in lumber prices due to strong housing starts was not evident due to a surge in Canadian lumber supply ahead of tariff increases and increased imports driven by the strong U.S. dollar. MDF results were also essentially at the prior year level, with a 5 percent price appreciation due to mix offset by higher manufacturing costs. In order to improve operating margins in these non-core businesses, the Company closed a lumber finishing operation resulting in a \$0.5 million impairment charge to reflect the estimated net realizable value of this asset now held for sale. Impairment testing on the remaining assets in this segment indicates that the net book value is recoverable from estimated future undiscounted cash flows.

### ***Other***

Sales of all other operations of \$216 million were \$24 million above prior year, while the operating loss of \$3 million was \$2 million below the prior year loss. In 2002, trading margins improved based on higher sales compared to 2001. The Company has consolidated certain operations in its non-core businesses in order to improve operating margins.

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### ***Provision for Dispositions***

In 2002, the disposition reserve for the closure of Washington facilities including the Port Angeles, WA performance fiber mill site was increased by \$2.7 million due to revised cost estimates to complete required remediation procedures. No such adjustments were recorded in 2001.

### ***Corporate and Other Expenses/Eliminations***

Corporate and other costs of \$15 million for 2002 were \$3 million lower than 2001 principally due to the favorable impact of balance sheet foreign exchange translation and lower reorganization costs, partially offset by higher incentive compensation.

### ***Interest Expense***

Interest expense of \$62 million was \$8 million below the prior year principally due to lower debt, partially offset by higher tax deficiency interest accrued resulting from recent IRS settlement proposals relating to outstanding tax audit issues. During 2002, Rayonier reduced debt by \$213 million utilizing its strong operating cash flow and \$64 million in proceeds from the sale of its New Zealand East Coast operations.

### ***Interest/Other Income***

Interest and miscellaneous income of \$2 million was primarily interest income. This was consistent with the amount in 2001, as lower interest income in our Performance Fibers segment in 2002 was offset by interest income resulting from the New Zealand East Coast sale.

## **Liquidity and Capital Resources**

### ***Cash Flow***

On a historical basis, the Company's operations have generally produced consistent cash flow and required limited capital resources. Stable pricing in its cellulose specialty business, coupled with cash generated from the sale of timber, timberland and HBU properties, has enabled the Company to fund capital expenditures and dividends and provided for debt repayments, absent major acquisitions. The Company uses short-term debt borrowings in its cash management activities to help fund cyclical and seasonality in working capital needs. Long-term debt has historically been used to fund major acquisitions.

Cash provided by operating activities of \$208 million in 2003 decreased \$45 million from 2002. This decrease was due to a \$16 million tax and interest deposit, an \$11 million pension fund contribution and lower operating income. The operating cash flow generated in 2003 was used to finance capital expenditures of \$91 million, including the purchase of \$5 million of assets previously leased, pay dividends of \$105 million, and reduce debt by \$34 million. The dividends paid in 2003 include \$61 million related to the special dividend paid in connection with the REIT conversion. The year-end debt-to-capital ratio of 47 percent improved from 48 percent in 2002. The percentage of debt with fixed interest rates was 74 percent as of December 31, 2003 and 78 percent as of December 31, 2002. On December 31, 2003, the Company had cash investments of \$17 million, an increase of \$3 million from year-end 2002. The cash investments consist of marketable securities with maturities at the date of acquisition of 90 days or less.

The severe decline in the U.S. equity markets during 2002 reduced the value of the Company's pension plan assets and lower interest rates have increased the net present value of projected benefit obligations. Although the equity markets began to improve in 2003, the Company's pension plans were underfunded (projected benefit obligation in excess of the fair market value of the plan assets) by approximately \$64 million at December 31, 2003. During 2003, the Company contributed \$11 million to its plans and anticipates contributing mostly on a discretionary basis, between \$6 and \$10 million in 2004 in order to reduce the underfunded amount.

The Company also anticipates pre-tax expenditures of \$12 million for environmental costs (See *Environmental Regulation* for further information) and \$5 million for final stage REIT conversion costs. Capital expenditures in 2004 are expected to be at the 2003 level of \$90 million, while dividend payments are expected to increase to \$111 million from \$44 million as a result of the REIT conversion. A tax refund of \$9.5 million is expected in 2004 from 2003 tax losses, while tax payments of approximately \$20 million are expected primarily due to land sale transactions between the REIT and Rayonier Taxable REIT Subsidiary. In February 2004, the Company refinanced \$50 million of 6.15% Medium-term Notes utilizing its unsecured credit facility described below.

Cash provided by operating activities of \$253 million in 2002 increased \$22 million from 2001. This increase was primarily a result of lower tax and interest payments of \$28 million and lower pension contributions of \$20 million, partly offset by lower operating income of \$19 million. During 2002 the operating cash flow was used to reduce debt by \$213 million, finance capital

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expenditures of \$77 million, pay dividends of \$40 million, and repurchase \$3 million of Rayonier common shares. The year-end debt-to-capital ratio of 48 percent was 7 percentage points below 2001. The percentage of debt with fixed interest rates was 78 percent as of December 31, 2002, and 77 percent as of December 31, 2001. On December 31, 2002, the Company had cash investments of \$14 million, an increase of \$7 million from year-end 2001. The cash investments consisted of marketable securities with maturities at date of acquisition of 90 days or less. Cash provided by discontinued operations in 2002 of \$71 million included the cash flows from operations of the Company's New Zealand East Coast timberland operations prior to its sale and proceeds from the sale of \$64 million.

### **Liquidity Performance Indicators**

The discussion below is presented to enhance the reader's understanding of Rayonier's ability to generate cash, its liquidity and its ability to satisfy rating agency and creditor requirements. This information includes two measures of financial results: Earnings from Continuing Operations before Interest, Taxes, Depreciation, Depletion and Amortization (EBITDA), and Free Cash Flow. These measures are not defined by Generally Accepted Accounting Principles (GAAP) and the discussion of EBITDA and Free Cash Flow 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 the financial condition and cash generating ability of the Company. EBITDA is defined by the Securities and Exchange Commission; however, Free Cash Flow as defined may not be comparable to similarly titled measures reported by other companies.

EBITDA is a non-GAAP measure of operating cash generating capacity of the Company. In 2003, EBITDA was \$262 million, a decrease of \$36 million from 2002. The decrease was primarily due to lower operating results, higher pension contributions and a \$16 million tax and interest deposit. In 2002, EBITDA was \$298 million, a decrease of \$27 million from 2001. This decrease was primarily due to lower sales in the Timber and Land segment.

Below is a reconciliation of Cash Provided by Operating Activities to EBITDA for the five-year period ended December 31, 2003 (in millions of dollars):

	2003	2002	2001	2000	1999
Cash provided by operating activities	\$ 208.2	\$ 252.9	\$ 231.0	\$ 286.6	\$ 217.7
Less: Non-cash cost basis of land sold	(5.9)	(13.7)	(10.0)	(14.3)	(7.3)
Add: Income tax expense	5.8	14.9	23.7	29.4	29.1
Interest expense	48.7	62.4	70.3	87.2	43.7
Working capital increases (decreases)	17.9	(5.9)	5.6	3.1	(37.5)
Other balance sheet increases (decreases)	(12.3)	(12.7)	3.9	(23.4)	(1.1)
<b>EBITDA</b>	<b>\$ 262.4</b>	<b>\$ 297.9</b>	<b>\$ 324.5</b>	<b>\$ 368.6</b>	<b>\$ 244.6</b>

There is one other non-cash expense critical to the economics of our Timber and Land core business: the non-cash cost basis of land sold. EBITDA plus the non-cash cost basis of land sold for the five years ended December 31, 2003, 2002, 2001, 2000, and 1999, totaled \$268 million, \$312 million, \$335 million, \$383 million and \$252 million, respectively.

Free Cash Flow is a non-GAAP measure of cash generated during a period that is available for discretionary capital expenditures, increasing dividends above the prior year level, repurchasing the Company's common shares and/or reducing debt within the period. The Company defines Free Cash Flow as cash provided by operating activities of continuing operations less Custodial Capital Spending, dividends at the prior year level, required debt repayments and the tax benefit on the exercise of stock options.

Rayonier defines Custodial Capital Spending, a non-GAAP measure, as capital expenditures, net of proceeds from retirements, required to maintain its current earnings level over the cycle and to keep facilities and equipment in safe and reliable condition as well as in compliance with regulatory requirements. The measure is important to properly evaluate the Company's cash requirements, to forecast potential uses of cash and for use in valuation models. The Company has a system in place to classify capital spending projects as either custodial or discretionary prior to approval and to track expenditures accordingly; however, the determination of discretionary versus custodial spending still requires some level of management judgment and such limitation should be considered when using this measure. In 2003, net capital expenditures of \$85 million included \$76 million of Custodial Capital Spending, of which \$10 million was for environmental requirements. Discretionary spending of \$9 million was primarily for the replacement of equipment at the Baxley sawmill and for the purchase of the Jarratt, Virginia chip facility. Rayonier expects to invest approximately \$90 million in capital projects for each of the two years ending 2004 and 2005. Capital projects include profit improvement, custodial capital, timberlands reforestation and various projects to comply with new environmental laws and requirements. As new environmental regulations are promulgated, additional capital spending may be required. For additional information concerning environmental expenditures, see *Environmental Regulation*.

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Below is a reconciliation of Capital Expenditures, net of sales and retirements to Custodial Capital Spending, for the five-year period ended December 31, 2003 (in millions):

	2003	2002	2001	2000	1999
Capital Expenditures, net of sales and retirements	\$85.2	\$ 76.7	\$ 74.3	\$ 85.8	\$ 89.9
Less: Discretionary spending	(9.3)	(11.1)	(13.4)	(19.9)	(25.8)
Custodial Capital Spending	\$75.9	\$ 65.6	\$ 60.9	\$ 65.9	\$ 64.1

Free Cash Flow of \$78 million in 2003 increased \$16 million from 2002. The increase primarily results from \$80 million of higher mandatory debt repayments in 2002 partly offset by \$45 million of lower cash from operations and \$15 million of higher custodial capital spending in 2003. The Free Cash Flow generated in 2003 is not necessarily indicative of the Free Cash Flow that may be generated in future periods. Below is a reconciliation of Cash Provided by Operating Activities to Free Cash Flow for the five-year period ended December 31, 2003 (in millions):

	2003	2002	2001	2000	1999
Cash provided by operating activities	\$208.2	\$252.9	\$231.0	\$286.6	\$217.7
Custodial Capital Spending	(75.9)	(65.6)	(60.9)	(65.9)	(64.1)
Purchase of assets previously leased	(5.4)	—	—	—	—
Dividends at prior year level	(40.4)	(39.9)	(39.2)	(35.1)	(34.3)
Required debt repayments*	(3.5)	(83.2)	(26.8)	(6.3)	(27.2)
Tax benefit on exercise of stock options	(4.8)	(2.5)	(1.5)	—	—
Free Cash Flow	\$ 78.2	\$ 61.7	\$102.6	\$179.3	\$ 92.1

\* The required repayments represent debt that matured and was paid during the period. In addition to the required payments, the Company made discretionary debt repayments of \$30.0 million, \$130.0 million, \$99.5 million, \$160.0 million and \$102.5 million in 2003, 2002, 2001, 2000 and 1999, respectively.

### Liquidity Facilities

In November 2003, the Company negotiated a new \$250 million unsecured revolving credit facility with a group of banks that replaced both the Company's previous \$170 million facility and RFR's \$75 million facility. The new facility allows the parent company, Rayonier Inc. and its subsidiaries, Rayonier TRS Holdings Inc. and RFR, to borrow up to a combined total of \$250 million. The new facility expires in November 2006, and there were no borrowings outstanding as of December 31, 2003. Standard & Poor's Ratings Services assigned the facility its 'BBB-' rating, while re-affirming its 'BBB-' investment grade rating on the Company's long-term debt and its 'Stable' outlook. Moody's Investors Service assigned the facility its 'Baa3' rating, re-affirmed its 'Baa3' investment grade rating on the Company's long-term debt, but changed its outlook from 'Stable' to 'Negative' reflecting an expectation of the Company's dependence on land sales to cover increased dividend payments and capital expenditures.

In conjunction with the Company's \$250 million revolving credit facility, certain covenants must be met, including ratios based on the facility's definition of EBITDA (Covenant EBITDA). Covenant EBITDA as defined by the bank financing agreement consists of earnings from continuing operations before the cumulative effect of accounting changes and any provision for dispositions, income taxes, interest expense, depreciation, depletion, amortization and the non-cash cost basis of timberland and real estate sold. In addition, there are covenant requirements in effect for RFR on the ratio of consolidated cash flow available for fixed charges to consolidated fixed charges.

The Company's dividend restriction covenant limits the sum of dividends in any period of four fiscal quarters to 90 percent of Covenant Funds From Operations (Covenant FFO) plus the aggregate amount of dividends permitted under this Covenant FFO limitation in excess of the amount of dividends paid during such period. Covenant FFO is defined as Consolidated Net Income of the Company excluding gains or losses from debt restructuring and investments in marketable securities plus depletion, depreciation and amortization and the non-cash cost basis of timberland sold.

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The covenants listed below are calculated on a trailing 12-month basis. The most restrictive long-term debt covenants in effect for Rayonier as of December 31, 2003, were as follows:

	<u>Covenant Requirement</u>	<u>Actual Covenant December 31, 2003</u>	<u>Favorable (Unfavorable)</u>
Covenant EBITDA to consolidated interest expense should not be less than	2.50 to 1	5.50 to 1	3.00
Total debt to Covenant EBITDA should not exceed	4.00 to 1	2.31 to 1	1.69
Consolidated RFR cash flow available for fixed charges to consolidated RFR fixed charges should not be less than	2.50 to 1	3.73 to 1	1.23
Dividends paid should not exceed 90 percent of FFO	90%	49%	41%

The Company is currently in compliance with all of its financial covenants. In addition to the financial covenants listed above, the credit agreements 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 Company's RFR installment note-related agreements requires the Company, subject to certain exceptions, to either reinvest cumulative timberland sales proceeds in excess of approximately \$100 million (the "excess proceeds") in timberland-related investments and activities, or, once the amount of excess proceeds not reinvested exceeds \$50 million, to make an offer to the note holders to prepay the notes ratably in the amount of the excess proceeds. At December 31, 2003 the amount of excess proceeds was approximately \$16 million.

### **Equity Resources**

The Company is authorized to issue 60,000,000 shares of its common stock. At December 31, 2003 and 2002, the Company had 49,018,316 and 41,575,794 common shares issued and outstanding, respectively. The Company's Board of Directors subsequently approved an increase in its authorized shares to 120,000,000, and the Company anticipates obtaining shareholder approval of this increase at its Annual Shareholders Meeting in May 2004.

In 1996, Rayonier began a Common Share repurchase program to minimize the dilutive effect on earnings per share of its employee incentive stock plans. This program limits the number of shares that may be repurchased each year to the greater of 1.5 percent of outstanding shares or the number of incentive shares actually issued to employees during the year. In October 2000, the Company's Board of Directors authorized an additional 1.5 million shares. These shares were authorized separately from the 1.5 percent of outstanding shares anti-dilutive program.

On May 21, 2003, the Company's Board of Directors approved a three-for-two stock split. The stock split was effected in the form of a stock dividend and on June 12, 2003, the Company issued an additional share of common stock for every two shares held to shareholders of record on June 2, 2003. Information relating to the repurchase programs is outlined below, the amounts of which have been restated for the stock split.

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Shares authorized for repurchase*	1,939,287	2,035,872	2,109,801
Shares repurchased	—	105,000	79,350
Cost of repurchased shares (in thousands)	\$ —	\$ 3,144	\$ 2,031
Average cost per share	\$ —	\$ 29.94	\$ 25.59

\* Amounts do not rollforward as shares authorized for repurchase are calculated based on shares outstanding at the beginning of each year.

### **Contractual Financial Obligations and Off-Balance Sheet Arrangements**

In addition to using cash flow from operations, the Company finances its operations through the issuance of debt, and by entering into leases. These financial obligations are recorded in accordance with accounting rules applicable to the underlying transaction, with the result that some are recorded as liabilities on the Balance Sheet, while others are required to be disclosed in the Notes to Consolidated Financial Statements and Management's Discussion and Analysis.

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The following table aggregates the Company's contractual financial obligations as of December 31, 2003 and anticipated cash spending by period:

Contractual Financial Obligations (000's)	Total	Payments Due by Period			Thereafter
		2004	2005-2006	2007-2008	
Current maturities of long-term debt	\$ 3,545	\$ 3,545	\$ —	\$ —	\$ —
Long-term debt	614,655	—	56,885	141,890	415,880
Operating leases - timberland	106,870	4,770	9,384	8,961	83,755
Operating leases - PP&E, offices	12,368	3,213	4,555	1,281	3,319
Capital leases	435	—	—	—	435
Purchase obligations	917	909	8	—	—
<b>Total contractual cash obligations</b>	<b>\$ 738,790</b>	<b>\$ 12,437</b>	<b>\$ 70,832</b>	<b>\$ 152,132</b>	<b>\$ 503,389</b>

The nature and purpose of the Company's off-balance sheet arrangements are to provide credit support for certain creditors in case of default and collateral for certain self-insurance programs that the Company maintains. These arrangements consist of standby letters of credit and surety bonds. As part of its ongoing operations, the Company may also periodically issue guarantees to third parties. The Company's off-balance sheet arrangements are not considered to be a source of liquidity or capital resource and do not expose Rayonier to material risks or material unfavorable financial impacts.

The following table aggregates the Company's financial commitments as of December 31, 2003:

Financial Commitments (000's)	Maximum Potential Payment	Carrying Amount of Liability
Standby letters of credit (1)	\$ 76,596	\$ 61,410
Crown Forest guarantee (2)	7,569	—
Surety bonds (3)	13,726	665
<b>Total financial commitments</b>	<b>\$ 97,891</b>	<b>\$ 62,075</b>

- Approximately \$62 million of the standby letters of credit serve as credit support for industrial revenue bonds. The remaining letters of credit support various insurance coverages, primarily workers' compensation and pollution requirements. These letters of credit expire at various dates during 2004 and 2005 and are typically rolled over as required.
- In conjunction with the sale of the New Zealand East Coast timber operations in 2002, the Company guaranteed five years of Crown Forest license obligations, currently estimated at \$1.9 million per year over the next four years. The buyer of the property is the primary obligor and has posted a bank performance bond with the New Zealand government. If the buyer fails to pay the obligations, the New Zealand government will demand payment from the buyer's bankers pursuant to the bond. The Company would have to perform under the guarantee and seek legal redress from the buyer if the bankers defaulted on the bond. The 2003 obligation was paid by the buyer. However, in late 2003, the buyer defaulted on its loan payments to its creditors and went into receivership. The Company expects the buyer's bond to be sufficient to cover the license obligations. This guarantee expires in 2007.
- Rayonier has issued surety bonds primarily to secure timber in the State of Washington as well as providing collateral for the Company's workers' compensation self-insurance program in that state. These surety bonds expire at various dates during 2004 and 2005 and are renewed as required.

In September 2003, Rayonier filed with the Securities and Exchange Commission a Form S-3 shelf registration statement to offer \$500 million of new public debt and/or equity securities. This registration statement replaced the Company's previous \$150 million shelf registration which was subsequently deregistered. On December 19, 2003, Rayonier issued 6.4 million common shares as part of a special stock dividend paid in conjunction with its conversion to a REIT. The fair market value of the shares at the day of issuance was \$253 million, leaving \$247 million available under the \$500 million shelf registration. In addition, the Company's Board of Directors has authorized filing of a \$300 million acquisition Form S-4 shelf registration, which the Company expects to complete in the second quarter of 2004.

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During 2003, the Company also analyzed programs that will increase the efficiency of cash flow from the sale of its timberlands. These programs include installment note programs and like-kind exchanges.

### **New Accounting Standards**

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities*. The Interpretation requires consolidation of entities with certain equity characteristics that are controlled through interests other than a majority of voting rights. The Company adopted the original FIN 46 on July 1, 2003. This initial adoption did not impact Rayonier's financial condition, results of operations or cash flows in 2003. In December 2003, the FASB issued a revision to FIN 46 (FIN 46R) to clarify and expand on accounting guidance for variable interest entities. The application of FIN 46R for companies with interests in a special purpose entity (SPE) is required for fiscal years ending after December 15, 2003. The Company does not have any unconsolidated variable interests that require consolidation under FIN 46R as of December 31, 2003, and as a result, there was no impact on the Company's financial condition, results of operations or cash flows upon adoption on January 1, 2004.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. This statement amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, to primarily clarify the meaning of an *initial net investment* and the meaning of *underlying* which are criteria used to identify derivatives. The Statement also describes characteristics of a derivative that contains financing components. SFAS No. 149 is effective for contracts modified or entered into after June 30, 2003 and hedging relationships designated after June 30, 2003. The Company adopted the standard on July 1, 2003. There was no impact on the Company's financial condition, results of operations or cash flows resulting from adoption.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. This statement establishes standards for classifying and measuring certain financial instruments with characteristics of both liabilities and equity. The statement is effective for financial instruments entered into or modified after May 31, 2003, but if none, is effective at the beginning of the first interim period beginning after June 15, 2003. The Company has not entered into or modified any financial instruments with characteristics outlined in the statement. The Company adopted the standard on July 1, 2003. There has been no impact on the Company's financial condition, results of operations or cash flows upon adoption.

In December 2003, the FASB issued a revision of SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*, which amends SFAS No. 87, *Employers' Accounting for Pensions*, SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, and SFAS No. 106 *Employers' Accounting for Postretirement Benefits Other Than Pensions*. This Statement retains original disclosure requirements contained in SFAS No. 132 but requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. The Company adopted the revised provisions of SFAS No. 132 as of December 31, 2003.

### **Environmental Regulation**

Rayonier is subject to stringent environmental laws and regulations concerning air emissions, water discharges and waste disposal. Such environmental laws and regulations include the Federal Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, and the Comprehensive Environmental Response, Compensation and Liability Act. Management closely monitors all of its environmental responsibilities, together with trends in environmental laws and believes that the Company is in substantial compliance with current environmental requirements. It is the opinion of management that substantial expenditures over the next 10 years will be required in the area of environmental compliance. During 2003, 2002 and 2001, Rayonier spent approximately \$10 million, \$7 million and \$4 million, respectively, for capital projects related to environmental compliance for ongoing operations. During 2004 and 2005, Rayonier expects to increase spending to approximately \$25 million on such capital projects, primarily related to Cluster Rule compliance as discussed below.

The Environmental Protection Agency (EPA) finalized its Cluster Rules governing air emissions in 1998 but, due to the specialty nature of Rayonier's Performance Fibers products and operations, the agency postponed finalizing water discharge rules and certain air emissions rules governing the Company's Performance Fibers mills and two other dissolving pulp mills. In late 2003, EPA informed the Company that it was delegating its Cluster Rule rulemaking authority for the mills of the Company and the other two dissolving pulp mills to the environmental agencies of the respective states. Rayonier will continue to work with the EPA and the applicable state environmental authorities to establish such rules for its mills, but the timing and costs associated with such rulemaking are uncertain. In the opinion of management, capital costs to be incurred over the next five years (2004-2008) associated with Cluster Rule compliance and other environmental regulations are not expected to exceed \$65 million at the Performance Fibers mills. Such capital expenditures are not expected to cause the Company in total to exceed an annual average of \$90 million to \$100 million.

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Federal, state and local laws and regulations intended to protect threatened and endangered species, as well as wetlands and waterways, limit and may prevent timber harvesting, road building and other activities on private lands, including a portion of the Company's timberlands. Over the past several years, the harvest of timber from the Company's timberlands in the State of Washington has been restricted as a result of the listing of the northern spotted owl, the marbled murrelet and several species of salmon and trout as threatened species under the Endangered Species Act. In 1999, the timber industry and federal, state, local and tribal governments, entered into an agreement, known as the Forests and Fish Report. The Washington Forest Practices Board has adopted rules implementing the Forests and Fish Report that further restrict timber harvesting within buffers along streams with fish habitat. All of these restrictions have caused Rayonier to restructure and reschedule some harvest plans and have reduced the total acreage and volume of timber available for harvest. However, these restrictions have not had a material impact on Rayonier's annual harvest volumes, and Rayonier has made changes to its long-term harvest plan to account for these restrictions.

Rayonier currently estimates that expenditures during 2004-2005 for environmental remediation and monitoring costs for all dispositions and discontinued operations will total approximately \$22 million to \$24 million. Such costs, including monitoring and remediation costs, will be charged against its reserves for estimated environmental obligations which the Company believes are sufficient for costs expected to be incurred over the next 25 to 30 years with respect to dispositions and discontinued operations. At December 31, 2003, these reserves totaled approximately \$152 million. The actual future environmental costs will be dependent on the outcome of site evaluations and negotiations with federal and state agencies and may also be affected by new laws, regulations and administrative interpretations, and changes in environmental remediation technology. Based on information currently available, management does not believe that any future changes in estimates would materially affect Rayonier's consolidated financial position or results of operations.

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

#### **Market and Other Economic Risks**

Rayonier is exposed to various market risks, including changes in commodity prices, interest rates and foreign currency exchange rates. The Company's intent is to minimize the economic impact of these market risks. Derivatives are used, as noted below, in accordance with policies and procedures approved by the Board of Directors and are managed by a senior executive committee whose responsibilities include initiating, managing and monitoring resulting exposures. Rayonier does not enter into financial instruments for trading or speculative purposes.

Cyclical pricing of commodity market paper pulp ultimately influences Performance Fibers prices, particularly in the Company's Absorbent Materials product line. However, since Rayonier is a non-integrated producer of specialized Performance Fibers for non-papermaking end uses, its high-value product mix tends to lag (on both the upturn and downturn) commodity paper pulp prices and its peaks and valleys are less severe.

Most of Rayonier's revenues and expenses are U.S. dollar-denominated. However, the Company does have some risk within its New Zealand operation related to foreign currency pricing and costs and periodically enters into foreign currency forward contracts to hedge the risks of foreign currency fluctuations. At December 31, 2003, the Company held foreign currency contracts maturing through November 2004 totaling \$8.1 million. The fair value of outstanding foreign currency contracts at year-end was an asset of approximately \$1.3 million. Market risk resulting from a hypothetical 7-cent change in the New Zealand dollar/U.S. dollar exchange rate amounts to an approximate change of \$1.0 million in pre-tax income/loss.

Rayonier periodically enters into interest rate swap agreements to manage its exposure to interest rate changes. These swaps involve the exchange of fixed and variable interest rate payments without exchanging principal amounts. At December 31, 2003, the Company held two interest rate swap agreements. One agreement with a notional amount of \$50 million swaps a fixed 6.15 percent interest rate for six-month LIBOR rate plus 2.265 percent. The second agreement with a notional amount of \$40 million swaps a fixed 8.288 percent interest rate for six-month LIBOR rate plus 4.99 percent. The fair value of these interest rate swaps at year-end, which mature in 2004 and 2007, was an asset of \$0.3 million. Market risk resulting from a one percentage point (100 basis points) change in the six-month LIBOR rate amounts to an approximate change of \$0.9 million in pre-tax income/loss.

The fair market value of long-term fixed interest rate debt is also subject to interest rate risk; however, Rayonier intends to hold most of its debt until maturity. Occasionally, callable bonds will be refinanced at the Company's option if favorable economic conditions exist. Generally, the fair market value of fixed-rate debt will increase as interest rates fall and decrease as interest rates rise. The estimated fair value of our fixed-rate debt at December 31, 2003, was \$561 million compared to \$498 million in carrying value. A hypothetical one-percentage point increase/decrease in prevailing interest rates at December 31, 2003, would result in a corresponding decrease/increase in the fair value of our fixed-rate debt of approximately \$31 million.

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The Company periodically enters into commodity forward contracts to fix certain energy costs. The forward contracts partially eliminate the risk of a change in Performance Fibers margins resulting from an increase or decrease in fuel oil costs. The Company does not enter into commodity forwards for trading or speculative purposes. The net amounts paid or received under the contracts are recognized as an adjustment to fuel oil expense. At December 31, 2003 the Company held contracts that fixed 45,000 barrels at \$22.22 for the first quarter of 2004 and 50,000 barrels at \$21.60 for the second quarter of 2004.

### **Website Access to Reports**

The following reports are available, free of charge through the Company's website, [www.rayonier.com](http://www.rayonier.com): the Company's annual report on Form 10-K, its press releases, quarterly reports on Form 10-Q and current reports on Form 8-K, and all amendments to those reports. These are available as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC.

### **Safe Harbor**

*Comments about market trends; anticipated demand, pricing levels, sales, expenses, capital spending levels (including the expected costs of compliance with environmental regulations), earnings and dividend levels; the Company's ability to meet future capital needs; the sufficiency of reserves; the availability of tax deductions; future activities, such as land sales, timberland purchases, timber harvests and manufacturing production levels; and the expected benefits from the Company's REIT conversion, are forward-looking and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The following important factors, among others, could cause actual results to differ materially from those expressed in the forward-looking statements: changes in global market trends and world events; interest rate and currency movements; fluctuations in demand for cellulose specialties, absorbent materials, timber, wood products or real estate; adverse weather conditions; changes in production costs for wood products or performance fibers, particularly for raw materials such as wood, energy and chemicals; unexpected delays in the closing of land sale transactions; the Company's ability to satisfy complex rules in order to remain qualified as a REIT; and implementation or revision of governmental policies and regulations affecting the environment, import and export controls or taxes, including changes in tax laws that could reduce the benefits associated with REIT status.*

### **Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

See *Index to Financial Statements* on page iii.

### **Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

On March 15, 2002, the Company's Board of Directors, upon the recommendation of its Audit Committee, rescinded the appointment of Arthur Andersen LLP (Andersen) as independent auditor for 2002. On May 17, 2002, the Board of Directors, upon the recommendation of its Audit Committee, appointed Deloitte & Touche LLP as the Company's new independent auditor.

Andersen's audit reports on the Company's consolidated financial statements for each of the years ended 2001 and 2000 did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles.

During the years ended December 31, 2001 and 2000 and through May 17, 2002, there were no disagreements with Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement(s), if not resolved to the satisfaction of Andersen, would have caused them to make reference to the subject matter of the disagreement(s) in connection with their report.

None of the reportable events described under Item 304(a)(1)(v) of Regulation S-K occurred within Rayonier's two most recent fiscal years. The Company provided Andersen with a copy of the above disclosures. A copy of Andersen's letter dated March 20, 2002, stating its agreement with such statements was filed as Exhibit 16 with the Company's 2001 Form 10-K. In addition, a copy of the Company's letter to the Securities and Exchange Commission detailing certain quality assurances that Andersen provided to the Company in a letter dated March 15, 2002, was filed as Exhibit 99 with the 2001 Form 10-K.

### **Item 9A. CONTROLS AND PROCEDURES**

On February 24, 2004, the Company's disclosure committee met with the Chief Executive Officer and the Chief Financial Officer (the "certifying officers") to evaluate the Company's disclosure controls and procedures. Based on such evaluation, the certifying officers concluded that as of December 31, 2003, the Company's disclosure controls and procedures were well designed and effective in seeing that material information regarding the Company's financial statement and disclosure obligations are promptly made available to senior management, including the certifying officers, in order to allow the Company to meet its reporting requirements under the Securities Exchange Act of 1934 in a timely manner. The Company's disclosure committee met with the certifying officers again on March 8, 2004 to finalize the disclosures in this Form 10-K.

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There were no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of their most recent evaluation.

### **PART III**

#### **Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The information called for by Item 10 with respect to directors, including the results of the directors' evaluation of whether or not the Company has at least one "audit committee financial expert", is incorporated herein by reference to the definitive proxy statement involving the election of directors to be filed by Rayonier with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the end of the fiscal year covered by this Form 10-K.

The information called for by Item 10 with respect to executive officers is either set forth above in Part I under the caption *Executive Officers of Rayonier* or incorporated herein by reference to the definitive proxy statement referred to above.

The Company's Standard of Ethics and Code of Corporate Conduct, which is applicable to its principal executive, financial and accounting officers, is available on the Company's website, [www.rayonier.com](http://www.rayonier.com). Any amendments to or waivers of the Standard of Ethics and Code of Corporate Conduct will be disclosed on such website. There were no amendments or waivers in fiscal 2003.

#### **Item 11. EXECUTIVE COMPENSATION**

The information called for by Item 11 is incorporated herein by reference to the definitive proxy statement referred to above in Item 10.

#### **Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The information called for by Item 12 is incorporated herein by reference to the definitive proxy statement referred to above in Item 10.

#### **Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The information called for by Item 13 is incorporated herein by reference to the definitive proxy statement referred to above in Item 10.

#### **Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information called for by Item 14 is incorporated herein by reference to the definitive proxy statement referred to above in Item 10.

### **PART IV**

#### **Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K**

- (a) Documents filed as a part of this report:
  - (1) See *Index to Financial Statements* on page ii for a list of the financial statements filed as part of this report.
  - (2) See *Schedule II—Valuation and Qualifying Accounts*. All other financial statement schedules have been omitted because they are not applicable, the required matter is not present or the required information has been otherwise supplied in the financial statements or the notes thereto.
  - (3) See *Exhibit Index* on pages B through E for a list of the exhibits filed or incorporated herein as part of this report.
- (b) Reports on Form 8-K:
  - (1) Rayonier filed a report on Form 8-K dated October 22, 2003 to report third quarter 2003 earnings.
  - (2) Rayonier filed a report on Form 8-K dated November 3, 2003 to announce a special \$275 million undistributed earnings and profit dividend as part of the Company's REIT conversion.

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- (3) Rayonier filed a report on Form 8-K dated November 21, 2003 to announce the declaration of the special REIT dividend to shareholders of record on November 14, 2003 to be paid on December 19, 2003.
- (4) Rayonier filed a report on Form 8-K dated December 16, 2003 to announce the results of shareholders elections relating to the special REIT dividend.
- (5) Rayonier filed a report on Form 8-K dated December 17, 2003 to announce that the common shares in the special dividend are registered under the effective shelf registration statement on Form S-3 (Registration No. 333-107213), as amended and supplemented by the prospectus supplement dated November 21, 2003.

**REPORT OF MANAGEMENT**

To Our Shareholders:

Rayonier management is responsible for the preparation and integrity of the information contained in the accompanying financial statements. The statements were prepared in accordance with accounting principles generally accepted in the United States and, where necessary, include information that is based on management's best judgments. Rayonier's system of internal controls includes accounting controls and an internal audit program. This system is designed to provide reasonable assurance that Rayonier's assets are safeguarded, transactions are properly recorded and executed in accordance with management's authorization, and fraudulent financial reporting is prevented or detected.

Rayonier's internal controls provide for the careful selection and training of personnel and for appropriate divisions of responsibility. The controls are documented in policies, procedures and a written code of conduct that are communicated to Rayonier's employees. Management continually monitors the system of internal controls for compliance. Rayonier's independent auditors, Deloitte & Touche LLP, consider internal controls in planning and performing their annual audit and make recommendations. Management takes appropriate action in response to each recommendation. The Board of Directors and the officers of Rayonier monitor the administration of Rayonier's policies and procedures and the preparation of financial reports.



W. L. Nutter  
Chairman, President and  
Chief Executive Officer



Gerald J. Pollack  
Senior Vice President and  
Chief Financial Officer

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors and Stockholders of  
Rayonier Inc.  
Jacksonville, Florida

We have audited the accompanying consolidated balance sheets of Rayonier Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of income and comprehensive income and of cash flows for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedules listed in the Index to Financial Statement Schedules. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Rayonier Inc. and subsidiaries as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.



Certified Public Accountants

Jacksonville, Florida  
March 2, 2004

**RAYONIER INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
**For the Years Ended December 31,**  
**(Thousands of dollars, except per share data)**

	2003	2002	2001
<b>SALES</b>	<b>\$1,100,852</b>	<b>\$ 1,117,431</b>	<b>\$ 1,123,758</b>
<b>Costs and Expenses</b>			
Cost of sales	950,557	948,399	942,306
Selling and general expenses	56,017	42,443	36,298
Other operating income, net	(8,305)	(6,303)	(3,946)
Provision for dispositions	—	2,734	—
	<u>998,269</u>	<u>987,273</u>	<u>974,658</u>
<b>OPERATING INCOME</b>	<b>102,583</b>	<b>130,158</b>	<b>149,100</b>
Interest expense	(48,742)	(62,433)	(70,314)
Interest and miscellaneous income, net	1,937	2,072	1,871
	<u>55,778</u>	<u>69,797</u>	<u>80,657</u>
<b>INCOME FROM CONTINUING OPERATIONS, BEFORE INCOME TAXES</b>	<b>55,778</b>	<b>69,797</b>	<b>80,657</b>
Provision for income taxes	(5,806)	(14,880)	(23,747)
	<u>49,972</u>	<u>54,917</u>	<u>56,910</u>
<b>DISCONTINUED OPERATIONS (Note 15)</b>			
Loss on sale of discontinued operations, net of income tax expense of \$3,307	—	(1,649)	—
Income from discontinued operations, net of income tax expense of \$780 and \$1,218	—	904	688
	<u>—</u>	<u>(745)</u>	<u>688</u>
<b>INCOME (LOSS) FROM DISCONTINUED OPERATIONS</b>	<b>—</b>	<b>(745)</b>	<b>688</b>
<b>NET INCOME</b>	<b>49,972</b>	<b>54,172</b>	<b>57,598</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Unrealized gain on hedged transactions, net of income tax expense of \$25, \$392 and \$4	44	697	7
Foreign currency translation adjustment (Note 6)	22,159	—	—
Minimum pension liability adjustments, net of income tax benefit of \$520, \$17,383 and \$416	(925)	(30,933)	(709)
	<u>22,278</u>	<u>(29,236)</u>	<u>(702)</u>
<b>COMPREHENSIVE INCOME</b>	<b>\$ 71,250</b>	<b>\$ 23,936</b>	<b>\$ 56,896</b>
<b>EARNINGS PER COMMON SHARE</b>			
<b>BASIC EARNINGS (LOSS) PER SHARE</b>			
Continuing operations	\$ 1.18	\$ 1.32	\$ 1.39
Discontinued operations	—	(0.02)	0.02
	<u>1.18</u>	<u>1.30</u>	<u>1.41</u>
<b>Net income</b>	<b>\$ 1.18</b>	<b>\$ 1.30</b>	<b>\$ 1.41</b>
<b>DILUTED EARNINGS (LOSS) PER SHARE</b>			
Continuing operations	\$ 1.16	\$ 1.30	\$ 1.37
Discontinued operations	—	(0.02)	0.02
	<u>1.16</u>	<u>1.28</u>	<u>1.39</u>
<b>Net income</b>	<b>\$ 1.16</b>	<b>\$ 1.28</b>	<b>\$ 1.39</b>

See Notes to Consolidated Financial Statements.

**RAYONIER INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**As of December 31,**  
**(Thousands of dollars)**

**ASSETS**

	<u>2003</u>	<u>2002</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 21,397	\$ 18,924
Accounts receivable, less allowance for doubtful accounts of \$2,225 and \$2,665	91,412	97,927
Inventory	94,861	85,071
Timber purchase agreements	9,038	10,784
Other current assets	27,856	16,139
	<u>244,564</u>	<u>228,845</u>
<b>TIMBER PURCHASE AGREEMENTS</b>	2,944	2,813
<b>TIMBER, TIMBERLANDS AND LOGGING ROADS, NET OF DEPLETION AND AMORTIZATION</b>	994,811	1,023,243
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land	22,966	19,847
Buildings	119,570	112,074
Machinery and equipment	1,271,988	1,255,406
	<u>1,414,524</u>	<u>1,387,327</u>
Total property, plant and equipment	1,414,524	1,387,327
Less - accumulated depreciation	912,292	846,289
	<u>502,232</u>	<u>541,038</u>
<b>OTHER ASSETS</b>	94,129	91,257
	<u>\$ 1,838,680</u>	<u>\$ 1,887,196</u>

See Notes to Consolidated Financial Statements.

**RAYONIER INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**As of December 31,**  
**(Thousands of dollars)**

**LIABILITIES AND SHAREHOLDERS' EQUITY**

	<u>2003</u>	<u>2002</u>
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 65,312	\$ 66,770
Bank loans and current maturities	3,545	3,520
Accrued taxes	10,543	29,994
Accrued payroll and benefits	19,105	18,399
Accrued interest	4,539	8,314
Accrued customer incentives	10,191	11,121
Other current liabilities	21,916	18,882
Current reserves for dispositions and discontinued operations	12,135	15,902
	<u>147,286</u>	<u>172,902</u>
<b>DEFERRED INCOME TAXES</b>	121,814	110,160
<b>LONG-TERM DEBT</b>	614,935	649,628
<b>NON-CURRENT RESERVES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS</b>	140,177	146,295
<b>OTHER NON-CURRENT LIABILITIES</b>	103,362	98,499
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Common Shares, 60,000,000 shares authorized, 49,018,316 and 41,575,794 shares issued and outstanding	364,810	76,613
Retained earnings	355,956	664,037
Accumulated other comprehensive income (loss)	(9,660)	(30,938)
	<u>711,106</u>	<u>709,712</u>
	<u>\$ 1,838,680</u>	<u>\$ 1,887,196</u>

See Notes to Consolidated Financial Statements.

**RAYONIER INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31,**  
**(Thousands of dollars)**

	2003	2002	2001
<b>OPERATING ACTIVITIES</b>			
Income from continuing operations	\$ 49,972	\$ 54,917	\$ 56,910
Non-cash items included in income from continuing operations:			
Depreciation, depletion and amortization	157,909	165,715	173,509
Non-cash cost basis of land sold	5,853	13,692	10,013
Deferred income tax provision	2,144	5,005	3,655
Reserves for dispositions	—	2,734	—
Decrease (increase) in accounts receivable	6,967	(203)	17,096
(Increase) decrease in inventory	(460)	(8,711)	5,044
(Decrease) increase in accounts payable	(1,479)	1,523	(22,154)
Decrease in current timber purchase agreements and other current assets	1,502	7,656	17,993
(Decrease) increase in accrued liabilities	(20,669)	5,568	(23,554)
Increase in other non-current liabilities	11,699	8,820	8,024
Decrease (increase) in long-term timber purchase agreements and other assets	4,658	5,437	(7,386)
Pre-tax expenditures for dispositions and discontinued operations	(9,885)	(9,241)	(8,195)
	<u>208,211</u>	<u>252,912</u>	<u>230,955</u>
<b>INVESTING ACTIVITIES</b>			
Capital expenditures, net of sales and retirements of \$979, \$773 and \$491	(85,269)	(76,674)	(74,271)
Purchase of assets previously leased	(5,363)	—	—
	<u>(90,632)</u>	<u>(76,674)</u>	<u>(74,271)</u>
<b>FINANCING ACTIVITIES</b>			
Issuance of debt	137,500	68,610	159,000
Repayment of debt	(171,020)	(281,850)	(285,265)
Dividends paid	(105,350)	(39,910)	(39,207)
Cash paid in lieu of fractional shares	(173)	—	—
Repurchase of common shares	—	(3,144)	(2,031)
Issuance of common shares	23,699	14,312	9,276
	<u>(115,344)</u>	<u>(241,982)</u>	<u>(158,227)</u>
<b>CASH PROVIDED BY DISCONTINUED OPERATIONS</b>			
	<u>—</u>	<u>70,545</u>	<u>5,842</u>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>			
	<u>238</u>	<u>—</u>	<u>—</u>
<b>CASH AND CASH EQUIVALENTS</b>			
Increase in cash and cash equivalents	2,473	4,801	4,299
Balance, beginning of year	18,924	14,123	9,824
	<u>21,397</u>	<u>18,924</u>	<u>14,123</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>			
Cash paid during the year:			
Interest	\$ 50,777	\$ 57,789	\$ 73,868
Income taxes	\$ 18,420	\$ 7,090	\$ 19,299

See Notes to Consolidated Financial Statements.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(Dollar amounts in thousands unless otherwise stated)**

**1. NATURE OF BUSINESS OPERATIONS**

Rayonier Inc. and subsidiaries (Rayonier or the Company) operates in three reportable segments as defined by Statement of Financial Accounting Standards (SFAS) No. 131, *Disclosures about Segments of an Enterprise and Related Information*, Timber and Land, Performance Fibers and Wood Products. The Timber and Land segment executes its strategies in two ways: Timber sales and Land sales. The Performance Fibers segment includes two major product lines: Cellulose Specialties and Absorbent Materials.

***Timber and Land***

*Timber*—Rayonier owns or leases approximately 2.1 million acres of timberlands in the U.S. and New Zealand. The Company manages timberlands and sells standing timber and logs to third parties.

*Land*—Rayonier invests in timberlands seeking to maximize its total return from a full cycle of ownership. The end cycle includes selling portions of its timberland base to capture the appreciated value of the underlying asset. This program includes selling timberland for others to manage and harvest, and selling higher and better use (HBU) timberland properties more valuable for commercial and residential development or conservation purposes.

***Performance Fibers***

Rayonier is a manufacturer of high-performance cellulose fibers. The Company owns and operates fiber production facilities at Jesup, GA and Fernandina Beach, FL, with a combined annual capacity of approximately 720,000 metric tons. These fiber products are sold throughout the world to industrial companies that produce a wide variety of products. Approximately two-thirds of Rayonier's performance fiber sales are to export customers, primarily in Asia, Europe and Latin America.

*Cellulose Specialties*—Rayonier is a producer of specialty cellulose products, most of which are used in dissolving chemical applications that require a highly purified form of cellulose fiber. Rayonier concentrates on producing the most high-value, technologically-demanding forms of cellulose specialty products, such as cellulose acetate and high-purity cellulose ethers, and is a leading supplier of these products.

*Absorbent Materials*—Rayonier is a supplier of performance fibers for absorbent hygiene products. These fibers are typically referred to as fluff fibers and are used as an absorbent medium in products such as disposable baby diapers, feminine hygiene products, incontinence pads, convalescent bed pads, industrial towels and wipes and non-woven fabrics.

***Wood Products***

The Company manufactures and sells dimension and specialty lumber and medium-density-fiberboard (MDF) products. Rayonier operates three lumber manufacturing facilities in the U.S. and an MDF facility in New Zealand.

***Other***

Rayonier is also a trader and exporter of softwood logs, lumber and wood products. The Company purchases and harvests timber, sells logs and purchases wood products for resale.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Principles of Consolidation***

The consolidated financial statements include the accounts of Rayonier and its subsidiaries. All intercompany balances and transactions are eliminated. All subsidiaries are consolidated for financial reporting purposes. For income tax purposes, several foreign subsidiaries are taxed in foreign jurisdictions and are not included in the consolidated tax return filed in the U. S.

***Use of Estimates***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. There are risks inherent in estimating and therefore actual results could differ from those estimates.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(Dollar amounts in thousands unless otherwise stated)

*New Accounting Standards*

In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities*. The Interpretation requires consolidation of entities with certain equity characteristics that are controlled through interests other than a majority of voting rights. The Company adopted the original FIN 46 on July 1, 2003. The initial adoption of FIN 46 on July 1, 2003 did not impact the Company's financial condition, results of operations or cash flows in 2003. In December 2003, the FASB issued a revision to FIN 46 (FIN 46R) to clarify and expand on accounting guidance for variable interest entities. The application of FIN 46R for companies with interests in a special purpose entity (SPE) is required for fiscal years ending after December 15, 2003. The Company does not have any unconsolidated variable interests that require consolidation under FIN 46R as of December 31, 2003, and as a result, there was no impact on the Company's financial condition, results of operations or cash flows upon adoption on January 1, 2004.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. This statement amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, to primarily clarify the meaning of an *initial net investment* and the meaning of *underlying* which are criteria used to identify derivatives. The Statement also describes characteristics of a derivative that contains financing components. SFAS No. 149 is effective for contracts modified or entered into after June 30, 2003 and hedging relationships designated after June 30, 2003. The Company adopted the standard on July 1, 2003. There has been no impact on the Company's financial condition, results of operations or cash flows upon adoption.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. This statement establishes standards for classifying and measuring certain financial instruments with characteristics of both liabilities and equity. The statement is effective for financial instruments entered into or modified after May 31, 2003, but, if none, is effective at the beginning of the first interim period beginning after June 15, 2003. The Company has not entered into or modified any financial instruments with characteristics outlined in the statement. The Company adopted the standard on July 1, 2003. There has been no impact on the Company's financial condition, results of operations or cash flows upon adoption.

In December 2003, the FASB issued a revision of SFAS No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits*, which amends SFAS No. 87, *Employers' Accounting for Pensions*, SFAS No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, and SFAS No. 106 *Employers' Accounting for Postretirement Benefits Other Than Pensions*. This Statement retains original disclosure requirements contained in SFAS No. 132 but requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. The Company adopted the revised provisions of SFAS No. 132 as of December 31, 2003.

*Cash and Cash Equivalents*

Cash and cash equivalents include time deposits and readily marketable debt securities with maturities at date of acquisition of three months or less.

*Inventory*

Inventories are valued at the lower of cost or market. The costs of manufactured performance fibers and MDF products are determined on the first-in, first-out (FIFO) basis. Other products are valued on an average cost basis. Inventory costs include material, labor and manufacturing overhead. Physical counts of inventories are taken at least annually. The provision for potential losses from obsolete, excess or slow-moving inventories is reviewed periodically.

HBU real estate properties that are expected to be sold within one year are included in inventory, while properties that are expected to be sold after one year are included in "Other Assets."

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(Dollar amounts in thousands unless otherwise stated)

*Timber Purchase Agreements and Timber-Cutting Contracts*

Rayonier purchases timber for use in its Performance Fibers, Wood Products and trading operations. Timber that will be harvested within one year of the balance sheet date is classified as a current asset with the remainder classified as a non-current asset. Generally, the Company does not have sale contracts that are matched to specific timber purchase agreements; therefore Rayonier evaluates the realizability of timber purchases and timber-cutting contracts based on the estimated aggregate purchase price and harvesting cost of such timber and the sales values to be realized. Losses are recorded in the period that a determination is made that the aggregate costs in a major operating area will not be fully recoverable.

*Timber and Land*

Costs relating to acquiring, planting and growing of timber including real estate taxes, lease rental payments and site preparation are capitalized. Such accumulated costs attributed to merchantable timber are charged to cost of goods sold at the time the timber is harvested or land is sold, based on the relationship of harvested timber to the estimated volume of currently merchantable timber. Timber and land are stated at the lower of cost or market value.

*Property, Plant, Equipment and Depreciation*

Property, plant and equipment additions are recorded at cost, including applicable freight, taxes, interest, construction and installation costs. No interest was capitalized in connection with major construction projects during the three years ended December 31, 2003. Pulp mill assets are accounted for using the composite method. Upon ordinary retirement or sale of property, accumulated depreciation is charged with the cost of the property removed and credited with the proceeds of salvage value, with no gain or loss recognized. Gains and losses with respect to any significant or unusual retirements of assets and all other assets not accounted for under the composite method are included in operating income.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by net undiscounted cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying value exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less cost to sell.

The Company depreciates its assets using units of production and straight-line depreciation methods. At its Performance Fibers and MDF manufacturing facilities, the units of production method is used for all assets except office, lab, and transportation equipment. These assets are depreciated using the straight-line method over 10 to 15 years. In addition, all of the assets at the Company's sawmills are depreciated using the straight-line method over 3 to 15 years. Buildings and land improvements are depreciated using the straight-line method over 25 to 35 years and 15 to 25 years, respectively. Rayonier normally claims the maximum depreciation deduction allowable for tax purposes.

The Company utilizes the accrue-in-advance method to record reserves for planned annual major maintenance during shut down at its two pulp mills and for lagoon dredging. Routine repair and maintenance costs are expensed as incurred. The major types of maintenance costs accrued as required by EITF Topic D-88, *Planned Major Maintenance Activities*, include, but are not limited to, repair and operating labor, supplies and purchased services. At December 31, 2003, the Company had \$1.5 million accrued for lagoon dredging.

*Foreign Currency Translation*

The Company's New Zealand MDF operation uses the U.S. dollar as the functional currency. As such, its monetary assets and liabilities are translated into U.S. dollars at current exchange rates. Non-monetary assets, such as inventory and property, plant and equipment are translated at historical exchange rates. Income and expense items are translated at average exchange rates prevailing during the year, except that inventories and depreciation charged to operations are translated at historical rates. Exchange gains and losses arising from translation are recognized currently in "Other operating income, net."

Effective August 1, 2003 the Company changed the functional currency of its New Zealand-based timber and log trading operations from the U.S. dollar to the New Zealand dollar. All assets and liabilities are translated into U.S. dollars at the exchange rate in effect at the respective balance sheet dates with the resulting translation gain or loss recorded as a separate component of accumulated other comprehensive income/(loss), (AOCI), within shareholders' equity.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(Dollar amounts in thousands unless otherwise stated)

*Financial Instruments*

The Company is exposed to various market risks, including changes in foreign exchange rates, interest rates and commodity prices. The Company's objective is to partially mitigate the economic impact of these market risks. Derivatives are used, as noted below, in accordance with policies and procedures approved by the Finance Committee of the Board of Directors and are managed by a senior executive committee, whose responsibilities include initiating, managing and monitoring resulting exposures. The Company does not enter into such financial instruments for trading or speculative purposes.

The Company adopted SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, on January 1, 2001. SFAS No. 133 requires that all derivative financial instruments such as interest rate swap agreements and foreign exchange contracts be recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. Transactions that provide for the forward purchase or sale of raw materials are not included in the financial statements until physical delivery of the product, as these transactions are done in the normal course of business and qualify for treatment as normal purchases and sales under SFAS No. 133.

*Foreign Currency Forward Contracts*

In the Company's New Zealand timber operations and medium density fiberboard (MDF) manufacturing facility, certain normal operating expenses, including salaries and wages, wood purchases, contractor and license fees, care and maintenance of timberlands and other production costs are denominated in New Zealand dollars.

Rayonier partially hedges its U.S./New Zealand dollar currency rate risk with respect to these operating expenditures by entering into foreign currency forward contracts. Upon the purchase of such contracts, the Company prepares and accumulates the required formal documentation in accordance with SFAS No. 133, and designates each New Zealand dollar forward contract as a cash flow hedge of certain forecasted New Zealand dollar-denominated cash outflows. At each reporting date thereafter, the contracts are marked-to-market and changes in the fair value of the forward contracts are deferred and recorded as part of AOCI. When the forecasted transaction comes to fruition and is recorded in earnings, the gains or losses on the contracts are reclassified to the Consolidated Statements of Income and Comprehensive Income on the line entitled "Other operating income, net." The change in the forward instruments' overall fair value attributable to time value is excluded from the measurement of the derivatives' effectiveness, and those changes are recognized in earnings throughout the life of the contract.

*Interest Rate Swap Agreements*

Rayonier periodically uses swap agreements to manage exposure to interest rate fluctuations. Such agreements involve the exchange of fixed rate interest payments for floating rate payments over the life of the agreement without the exchange of any underlying principal amounts. Rayonier's credit exposure is limited to the fair value of the agreements, and the Company enters into agreements only with counterparties having a long-term bond rating of "A" or higher. The Company does not enter into interest rate swap agreements for trading or speculative purposes and matches the terms and contract amounts to existing debt or debt expected to be refinanced.

*Commodity Swap Agreements*

The Company periodically enters into commodity forward contracts to fix some of its fuel oil costs at its Performance Fibers mills. The forward contracts partially mitigate the risk of a change in Performance Fibers margins resulting from an increase or decrease in fuel oil prices. The Company does not enter into commodity forwards for trading or speculative purposes.

*Fair Value*

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.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(Dollar amounts in thousands unless otherwise stated)

*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 these or similar issues or rates currently available to the Company for debt with similar terms and maturities.

*Foreign currency forward contracts* — The fair value of foreign currency forward contracts is based on dealer-quoted market prices of comparable instruments.

*Interest rate swap agreements* — The fair value of interest rate swap agreements is based upon the estimated cost to terminate the agreements, taking into account current interest rates. The Company obtains a market valuation to determine the fair value of the swap.

*Commodity swap agreements* — The fair value of fuel oil swap agreements is based upon the estimated cost to terminate the agreements, taking into account current fuel oil prices. The Company obtains a market valuation to determine the fair value of the swap.

*Revenue Recognition*

The Company recognizes revenues when the following criteria are met: (i) persuasive evidence of an agreement exists, (ii) delivery has occurred, (iii) the Company's price to the buyer is fixed and determinable, and (iv) collectibility is reasonably assured.

Revenue from domestic sales of Performance Fibers products is recorded when goods are shipped and title passes. Foreign sales of Performance Fibers products are recorded when the customer or agent receives the goods and title passes. Sale of timber is recorded when title passes to the buyer. In 2003, timber sales were made on either a lump-sum or pay-as-cut basis. Title and risk of loss pass immediately with lump-sum contracts, while title passes when the timber is cut with pay-as cut contracts. Revenues from pay-as-cut sales are based on actual harvest volumes multiplied by contractually agreed upon prices. Log sales are recorded when the goods are shipped and title passes.

During the fourth quarter of 2003, in anticipation of converting to a REIT, the Company discontinued offering lump-sum contracts in the Northwest U.S. and began utilizing pay-as-cut contracts which qualify for capital gains treatment under Section 631(b) of the Internal Revenue Code (IRC). These contracts require a minimum 15 percent initial payment and title and risk of loss are transferred when the timber is cut.

Land sales are recorded when title passes and when full payment or a minimum down payment of 25 percent is received and full collectibility is assured. If a down payment of less than 25 percent is received at closing, the Company records revenue based on the installment method.

Lumber and MDF sales are recorded when the goods are shipped and title passes. Wood products trading sales are recorded when the customer receives the product and title passes.

*Environmental Costs*

Rayonier expenses environmental costs related to on-going businesses resulting from current operations. Expenditures that meaningfully extend the life or increase the efficiency of operating assets are capitalized. The Company accrues environmental obligations related to past activities or discontinued operations from which no current or future benefit is discernible. These obligations span 25 to 30 years into the future and require significant estimates to determine the proper value at any given point in time. Management periodically reviews and adjusts these estimates based on technological, regulatory or other changes that may affect them. This accrual is reflected in current and non-current "Reserves for Dispositions and Discontinued Operations" in the Consolidated Balance Sheet.

*Research and Development*

Research and development efforts are directed primarily at developing new and improved cellulose fiber grades and related products, improving manufacturing efficiency, reducing energy needs, improving product quality and development, and improving environmental controls. Research activities related to timberland operations include genetic tree improvement programs as well as applied silviculture programs to identify management practices that improve financial returns from timberland assets. Research and development costs are expensed as incurred and aggregated \$9.2 million, \$8.6 million and \$9.3 million in 2003, 2002 and 2001 respectively.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(Dollar amounts in thousands unless otherwise stated)

*Income Taxes*

Deferred income taxes are provided using the liability method under the provisions of SFAS No. 109, *Accounting for Income Taxes*. Income taxes on foreign operations are provided based upon the statutory tax rates of the applicable foreign country. U.S. income taxes have not been provided on earnings that the Company has intended to permanently reinvest overseas.

*Stock-Based Employee Compensation*

The Company accounts for stock based compensation utilizing the intrinsic value based method under Accounting Principles Board Opinion No. 25 (APB No. 25), *Accounting for Stock Issued to Employees*. The 1994 Rayonier Incentive Stock Plan (the 1994 Plan) which expired as to new grants on December 31, 2003, provided for the grant of up to 4.5 million common shares of incentive stock options, non-qualified stock options, stock appreciation rights, performance shares and restricted stock, subject to certain limitations. Outstanding awards under the 1994 Plan were adjusted for the June 2003 stock split and the December 2003 stock dividend. The exercise price of each non-qualified stock option equaled the market price of the Company's stock on the date of grant. A non-qualified stock option's maximum term was 10 years and two days. Effective January 1, 2004, the Company adopted the 2004 Rayonier Incentive Stock Plan and Management Bonus Plan (the 2004 Plan). The 2004 Plan provides for 2.5 million shares to be granted for incentive stock options, non-qualified stock options, stock appreciation rights, performance shares and restricted stock, subject to certain limitations.

Pursuant to the disclosure requirements of SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*, the following table provides an expanded reconciliation for all periods presented that adds back to reported net income the recorded expense under APB No. 25, net of related income tax effects, deducts the total fair value expense under SFAS No. 123, *Accounting for Stock-Based Compensation*, net of related income tax effects and shows the reported and pro forma earnings per share amounts. See *Note 19-Incentive Stock Plans* for additional information regarding the Company's stock options.

	2003	2002	2001
Net income, as reported	\$49,972	\$54,172	\$57,598
Total stock-based employee compensation cost included in the determination of net income, net of related tax effects	7,007	2,555	2,000
Total stock-based employee compensation cost determined under fair value method for all awards, net of related tax effects	(6,258)	(6,083)	(4,284)
Pro forma net income	\$50,721	\$50,644	\$55,314
<b>* Earnings per share:</b>			
Basic, as reported	\$ 1.18	\$ 1.30	\$ 1.41
Basic, pro forma	\$ 1.20	\$ 1.22	\$ 1.36
Diluted, as reported	\$ 1.16	\$ 1.28	\$ 1.39
Diluted, pro forma	\$ 1.18	\$ 1.20	\$ 1.34

\* Earnings per share amounts for 2002 and 2001 have been restated to reflect the three-for-two stock split on June 12, 2003.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(Dollar amounts in thousands unless otherwise stated)

*Pension and Postretirement Benefits*

Rayonier records pension and postretirement costs and liabilities, including an additional minimum liability in accordance with SFAS No. 87, *Employers' Accounting for Pensions*, and SFAS No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. Several estimates and assumptions are required to record these costs and liabilities, including discount rate, return on assets, salary increases, health care cost trends, longevity and service lives of employees. Management reviews and updates these assumptions periodically. See *Note 20—Employee Benefit Plans*, for the disclosures required by SFAS No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*.

*Reclassifications*

Certain 2002 and 2001 amounts have been reclassified to agree with the current year presentation.

**3. SEGMENT AND GEOGRAPHICAL INFORMATION**

Rayonier operates in three reportable business segments as defined by SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*: Timber and Land, Performance Fibers, and Wood Products. The Timber and Land segment's strategies include buying, managing and selling timberlands, selling timber, and selling HBU timberland to be used for conservation, real estate development and large tract preservation. For presentation purposes, the Company classifies its sales activities into Timber sales and Land sales. Timber sales include all activities that relate to the growing and harvesting of timber, while Land sales include the sale of all timberland tracts, including those designated for HBU. The Performance Fibers segment includes two major product lines, Cellulose Specialties and Absorbent Materials. The Wood Products segment includes lumber and MDF. The Company's remaining operations include purchasing, harvesting and selling timber acquired from third parties (log trading) and trading wood products. As permitted by SFAS No. 131, these operations are combined and reported in an "Other" category. The accounting policies of all operating segments are the same as those described in *Note 2—Summary of Significant Accounting Policies*. Sales between operating segments are made based on fair market value and intercompany profit or loss is eliminated in consolidation. The Company evaluates financial performance based on the operating income of the segments.

Operating income (loss) as stated in the following table and as presented in the Consolidated Statements of Income and Comprehensive Income is equal to segment income (loss). The income (loss) items below "Operating income" in the Consolidated Statements of Income and Comprehensive Income are not allocated to segments. These items, which include interest, miscellaneous income (expense) and income tax (expense) benefit, are not considered by Company management to be part of segment operations.

Segment information for each of the three years ended December 31, 2003, follows (in millions of dollars):

	Sales			Operating Income/(Loss)		
	2003	2002	2001	2003	2002	2001
Timber and Land	\$ 259	\$ 247	\$ 273	\$ 139	\$ 124	\$ 145
Performance Fibers	534	526	547	(3)	36	36
Wood Products	138	137	125	(5)	(9)	(9)
Other	172	216	192	—	(3)	(5)
Corporate and eliminations (a)	(2)	(9)	(13)	(28)	(18)	(18)
<b>Total</b>	<b>\$ 1,101</b>	<b>\$ 1,117</b>	<b>\$ 1,124</b>	<b>\$ 103</b>	<b>\$ 130</b>	<b>\$ 149</b>

(a) Includes unallocated corporate expenses and intersegment eliminations.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(Dollar amounts in thousands unless otherwise stated)

	Gross Plant Additions			Depreciation, Depletion and Amortization			Identifiable Assets		
	2003	2002	2001	2003	2002	2001	2003	2002	2001
Timber and Land	\$ 34	\$ 35	\$ 34	\$ 66	\$ 74	\$ 82	\$ 1,063	\$ 1,108	\$ 1,211
Performance Fibers	44	35	38	78	78	78	518	548	591
Wood Products	6	5	2	13	13	13	129	130	143
Other	2	—	1	1	—	1	41	46	63
Corporate Dispositions	—	2	—	—	1	—	83	42	22
	—	—	—	—	—	—	5	13	10
<b>Total</b>	<b>\$ 86</b>	<b>\$ 77</b>	<b>\$ 75</b>	<b>\$ 158</b>	<b>\$ 166</b>	<b>\$ 174</b>	<b>\$ 1,839</b>	<b>\$ 1,887</b>	<b>\$ 2,040</b>

*Product Line Information*

Sales by product line for each of the three years ended December 31, 2003, is as follows (in millions of dollars):

	Year Ended December 31,		
	2003	2002	2001
<b>Timber and Land</b>			
Timber	\$ 153	\$ 172	\$ 189
Land	106	75	84
<b>Total Timber and Land</b>	<b>259</b>	<b>247</b>	<b>273</b>
<b>Performance Fibers</b>			
Cellulose Specialties	378	375	369
Absorbent Materials	156	151	178
<b>Total Performance Fibers</b>	<b>534</b>	<b>526</b>	<b>547</b>
<b>Wood Products</b>			
Lumber	97	99	89
MDF	41	38	36
<b>Total Wood Products</b>	<b>138</b>	<b>137</b>	<b>125</b>
<b>Other</b>	<b>172</b>	<b>216</b>	<b>192</b>
<b>Intersegment Eliminations</b>	<b>(2)</b>	<b>(9)</b>	<b>(13)</b>
<b>Total Sales</b>	<b>\$1,101</b>	<b>\$1,117</b>	<b>\$1,124</b>

*Geographical Operating Information*

Information by geographical operating area for each of the three years ended December 31, 2003, is as follows (in millions of dollars):

	Sales			Operating Income/(Loss)			Identifiable Assets		
	2003	2002	2001	2003	2002	2001	2003	2002	2001
United States	\$ 1,003	\$ 989	\$ 1,012	\$ 100	\$ 119	\$ 146	\$ 1,577	\$ 1,652	\$ 1,732
New Zealand	86	87	72	4	9	3	207	198	282
All Other	12	41	40	(1)	2	—	55	37	26
<b>Total</b>	<b>\$ 1,101</b>	<b>\$ 1,117</b>	<b>\$ 1,124</b>	<b>\$ 103</b>	<b>\$ 130</b>	<b>\$ 149</b>	<b>\$ 1,839</b>	<b>\$ 1,887</b>	<b>\$ 2,040</b>

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(Dollar amounts in thousands unless otherwise stated)

Rayonier's sales by destination for each of the three years ended December 31, 2003, are as follows (in millions of dollars):

	Sales by Destination					
	2003	%	2002	%	2001	%
United States	\$ 684	62	\$ 674	61	\$ 656	58
Europe	128	12	122	11	125	11
Japan	79	7	79	7	111	10
China	72	6	69	6	66	6
Other Asia	78	7	93	8	76	7
Latin America	30	3	34	3	45	4
Canada	22	2	36	3	34	3
All other	8	1	10	1	11	1
	\$ 1,101	100	\$ 1,117	100	\$ 1,124	100

The majority of sales to foreign countries are denominated in U. S. dollars.

**4. REAL ESTATE INVESTMENT TRUST (REIT) - LEGAL AND TAX CONVERSION**

On August 18, 2003, the Company's Board of Directors approved a plan to convert the Company into a REIT, effective January 1, 2004. The Company's U.S. timber harvest operations qualify for REIT tax treatment and will not be required to pay federal income taxes if applicable distribution, income, asset and shareholder tests are met. These operations are conducted by the Company's wholly-owned subsidiary, Rayonier Forest Resources, L.P. (RFR), formerly known as Rayonier Timberlands Operating Company. Other non-REIT qualifying and foreign operations, which will continue to pay corporate-level tax on earnings, were transferred to Rayonier TRS Holdings Inc, a wholly-owned taxable REIT subsidiary of Rayonier Inc. These operations included the Company's Performance Fibers, New Zealand timber, and Wood Products businesses, as well as the Company's HBU land sales activities. REIT conversion costs totaled \$7 million in 2003, with an additional \$5 million expected in the first quarter of 2004.

In order to comply with IRS regulations applicable to REITs, the Company was required to dividend to common shareholders its pre-REIT undistributed accumulated taxable earnings and profits. In December 2003, the Company remitted a special dividend, consisting of 6.4 million common shares valued at \$253 million and cash of \$61 million.

In addition, deferred tax liabilities of approximately \$70 million to \$80 million, relating to REIT qualifying activities, will no longer be required as of January 1, 2004, and the balance will be reduced in the first quarter of 2004, by recording a benefit in the Company's provision for income taxes.

**5. FINANCIAL INSTRUMENTS**

*Foreign Currency Forward Contracts*

In the Company's Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2003 and 2002, gains of approximately \$2.4 million and \$1.2 million, respectively, were recorded on foreign currency contracts primarily reflecting realized gains on contracts matured, plus the time value changes for outstanding contracts. The Company also had mark-to-market unrealized after-tax gains of approximately \$0.8 million and \$0.7 million in AOCI in the Consolidated Balance Sheet as of December 31, 2003 and 2002, respectively. When the forecasted transactions come to fruition and are recorded, the amounts in AOCI are reclassified to the Consolidated Statements of Income and Comprehensive Income. The Company expects to reclassify the December 31, 2003 AOCI amount into earnings over the next eleven months.

In 2003 and 2002, the gains and losses representing the change in the forward contracts' time value, which are excluded for purposes of measuring the contracts' effectiveness, were insignificant and recorded in earnings over the life of the contracts.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(Dollar amounts in thousands unless otherwise stated)

At December 31, 2003, the Company held \$8.1 million of New Zealand foreign currency contracts maturing through November 2004. The largest amount of foreign currency forward contracts outstanding during 2003 and 2002 totaled \$10.2 million and \$13.1 million, respectively.

*Interest Rate Swap Agreements*

In March 2002, the Company entered into an interest rate swap on \$50 million of 6.15 percent fixed rate notes payable maturing in February 2004. The interest rate swap converted interest payments from fixed rates to floating rates. The interest rate swap qualified as a fair value hedge under SFAS No. 133. As such, the net effect from the interest rate swap is recorded as part of interest expense. Interest rate differentials under the swap agreement settle every May 15 and November 15 through its maturity in February 2004. During the years ended December 31, 2003 and 2002, this swap agreement decreased the Company's interest expense by \$1.3 million and \$0.7 million, respectively. Based upon current interest rates for similar transactions, the fair value of the interest rate swap agreement resulted in an asset and a corresponding increase in debt at December 31, 2003 and 2002, of approximately \$0.3 million and \$1.4 million, respectively.

In April 2003, the Company's wholly-owned subsidiary, RFR entered into an interest rate swap on \$40 million of 8.288 percent fixed rate notes payable maturing on December 31, 2007. The swap converts interest payments from the fixed rate to six-month LIBOR plus 4.99 percent and qualifies as a fair value hedge under SFAS No. 133. As such, the net effect from the interest rate swap is recorded as interest expense. During the year ended December 31, 2003, this swap reduced the Company's interest expense by \$0.6 million. Based upon current interest rates for similar transactions, the fair value of the interest rate swap at December 31, 2003 was essentially equal to its contract amount.

*Commodity Swap Agreements*

During the year ended December 31, 2003, the Company realized a loss of \$0.2 million on fuel oil forward contracts that matured. During the third quarter of 2003, the Company entered into the following fuel oil forward contracts:

Volume (barrels)	Price per barrel	Maturity
45,000	\$ 22.22	March 2004
50,000	\$ 21.60	June 2004

These contracts represent approximately 20 to 25 percent of the Company's estimated quarterly fuel oil consumption for those periods. The Company's fuel oil contracts do not qualify for hedge accounting under SFAS No. 133 and instead are required to be marked-to-market with any resulting gain or loss recorded in Other Operating Income/(Expense). During the year ended December 31, 2003, the mark-to-market adjustment on these outstanding contracts was a \$0.1 million gain.

At December 31, 2003 and 2002, the estimated fair values of Rayonier's financial instruments were as follows:

	2003		2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Asset (liability)</b>				
Cash and cash equivalents	\$ 21,397	\$ 21,397	\$ 18,924	\$ 18,924
Long-term debt	(614,935)	(673,331)	(649,628)	(727,715)
Foreign currency forward contracts	1,274	1,274	1,154	1,154
Interest rate swap agreements	280	280	1,428	1,428
Commodity swap agreements	73	73	—	—

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(Dollar amounts in thousands unless otherwise stated)

See Note 2 – Summary of Significant Accounting Policies, Financial Instruments, for the methods and assumptions used in estimating the fair values of financial instruments.

**6. FUNCTIONAL CURRENCY**

On August 1, 2003, the Company changed the functional currency of its New Zealand-based timber and log trading operations from the U.S dollar (USD) to the New Zealand dollar (NZD). In accordance with SFAS No. 52, *Foreign Currency Translation*, a change in the functional currency is appropriate when significant changes occur in the economic facts and circumstances of an entity's operations.

In 1992, when the Company acquired the New Zealand-based operations, the USD was determined to be the functional currency primarily because the predominant revenue generator for the New Zealand-based operations was export sales denominated in USD. In 2002, the Company sold its New Zealand East Coast timber operations and related assets resulting in a significant reduction of such export sales. The Company's remaining New Zealand-based sales consist primarily of timber harvesting denominated in NZD, with a decreased level of log trading operations denominated in USD. The majority of the operating expenses are denominated in NZD. As a result, the functional currency was changed to the NZD.

In accordance with SFAS No. 52, non-monetary assets such as inventories, timberlands, and property, plant and equipment were remeasured from historical exchange rates to the current exchange rate in effect as of August 1, 2003. This remeasurement resulted in a foreign currency translation gain recorded in AOCI. At December 31, 2003, the cumulative foreign currency translation gain recorded in AOCI was \$22.2 million.

**7. OTHER ASSETS**

Other assets include long-term receivables, manufacturing and maintenance supplies not expected to be utilized over the next 12 months, HBU land inventory not expected to be sold over the next 12 months, prepaid pension costs, and other deferred costs such as debt issuance costs and capitalized software costs. In 2003, the Company negotiated a new \$250 million revolving credit facility and capitalized \$1.8 million in deferred financing fees. Debt issuance costs are amortized to interest expense over the term of the debt to which they relate and totaled \$2.3 million, \$2.1 million and \$1.8 million in 2003, 2002 and 2001, respectively. Software costs are capitalized and amortized over a period not exceeding 60 months. Amortization of deferred software costs totaled \$2.7 million, \$5.9 million and \$4.8 million in 2003, 2002 and 2001, respectively.

**8. INCOME TAXES**

The components of "Income from Continuing Operations, Before Income Taxes" consist of U.S. income of \$27.2 million, \$47.5 million and \$68.3 million, and foreign income of \$28.6 million, \$22.3 million and \$12.4 million for the years ended December 31, 2003, 2002 and 2001, respectively.

The provision for income taxes from continuing operations consists of the following:

	2003	2002	2001
<b>Current</b>			
U.S. federal	\$ 1,686	\$ 7,726	\$ 16,974
State and local	152	790	759
Foreign	1,824	1,359	2,359
	<u>3,662</u>	<u>9,875</u>	<u>20,092</u>
<b>Deferred</b>			
U.S. federal	2,833	3,639	4,877
State and local	208	(315)	376
Foreign	(897)	1,681	(1,598)
	<u>2,144</u>	<u>5,005</u>	<u>3,655</u>
<b>Total</b>	<u>\$5,806</u>	<u>\$14,880</u>	<u>\$23,747</u>

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(Dollar amounts in thousands unless otherwise stated)

Deferred income taxes result from recording revenues and expenses for financial reporting in one period but in different periods for tax return purposes. The nature of the temporary differences and the resulting net deferred tax assets (liabilities) at December 31, 2003 and 2002 are as follows:

	2003	2002
Accelerated depreciation and depletion	\$(141,265)	\$(152,023)
Reserves for dispositions and discontinued operations	40,938	48,010
Deferred gain on timberland sales	(33,073)	(19,695)
Deferred additional minimum pension liability benefit	18,320	17,799
All other, net	(733)	909
<b>Total</b>	<b>\$(115,813)</b>	<b>\$(105,000)</b>

Included in the above table are net operating loss and foreign tax credit carryforwards. At December 31, 2003, the Company had New Zealand net operating loss carryforwards of \$85 million with an indefinite carryforward period. In addition, the Company has \$0.8 million of foreign tax credit carryforwards that expire between 2004 and 2007 and are available to reduce future income taxes. With respect to the latter, the Company recorded a valuation allowance of \$0.5 million in 2003, reducing the amount of foreign tax credit carryforwards it expects to realize. Management believes that it will obtain the full benefit of the remaining net deferred tax assets based on its evaluation of the Company's anticipated profitability over the period of years that the temporary differences are expected to reverse.

In 2003 and 2002, the Company recorded tax benefits of \$4.8 million and \$2.5 million, respectively, related to the exercise of stock options. These amounts were credited directly to shareholders' equity and are not included in the consolidated tax provisions.

At December 31, 2003 and 2002, the Company had current deferred tax assets of \$6.0 million and \$5.2 million, respectively, which are included in "Other Current Assets" in the Consolidated Balance Sheet. The Company also has a \$9.5 million income tax receivable recorded in "Other Current Assets" at December 31, 2003, due to a refund expected in 2004 from 2003 tax losses.

In the first quarter of 2004, the Company will reverse approximately \$70 million to \$80 million of deferred tax liabilities no longer required as a result of the REIT conversion on January 1, 2004. Separately, the Company has not provided for taxes on approximately \$132 million of undistributed foreign earnings, as the Company has expected to reinvest such earnings overseas in the future. This assumption is reviewed periodically to ensure that any changes in the Company's ability and intent to reinvest these earnings will be properly disclosed and accounted for. With the conversion to a REIT effective January 1, 2004, the Company's strategy and preference is changing more toward investing in timberlands domestically. The effect of this strategic change will be evaluated in the first quarter 2004. Such amount would be charged to expense when management affirms a change in overseas investment strategy. As a result, it is probable that a substantial part of these undistributed foreign earnings will become subject to additional cash taxes when remitted, or deemed remitted as a dividend. The additional amount of taxes payable if remitted, could approximate \$33 million.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(Dollar amounts in thousands unless otherwise stated)

A reconciliation of the income tax provision at the U.S. statutory rate to the reported provision for income taxes follows:

	2003	%	2002	%	2001	%
Income tax provision from continuing operations at U.S. statutory rate	\$ 19,521	35.0	\$ 24,429	35.0	\$ 28,230	35.0
State and local taxes, net of federal benefit	234	0.4	309	0.4	737	0.9
Foreign operations *	(11,416)	(20.5)	(5,538)	(7.9)	(1,139)	(1.4)
Tax benefit on foreign sales	(1,416)	(2.5)	(2,266)	(3.3)	(2,137)	(2.7)
Permanent differences	(98)	(0.2)	(373)	(0.5)	592	0.6
Tax benefit from favorable audit interim partial settlement	(2,323)	(4.2)	—	—	—	—
Tax credits and other, net	1,304	2.4	(1,681)	(2.4)	(2,536)	(3.0)
<b>Income tax provision from continuing operations as reported</b>	<b>\$ 5,806</b>	<b>10.4</b>	<b>\$ 14,880</b>	<b>21.3</b>	<b>\$ 23,747</b>	<b>29.4</b>

\* Primarily from foreign exchange and rate differentials

The unusually low effective tax rate of 10.4 percent in 2003 primarily resulted from a foreign exchange loss associated with the settlement of a New Zealand dollar denominated intercompany loan and the tax benefit arising from an IRS audit interim partial settlement.

In 2002, the Company sold its New Zealand East Coast operations which required separate discontinued operations disclosure in its Consolidated Statements of Income and Comprehensive Income. The income tax provision for discontinued operations is also required to be shown separately from the provision for continuing operations.

A reconciliation of the income tax provision from discontinued operations at the U.S. statutory rate to the reported provision for income taxes follows:

	2003	%	2002	%	2001	%
Income tax provision from discontinued operations at U.S. statutory rate	\$ —	—	\$ 1,170	35	\$ 667	35
Foreign exchange rate differences*	—	—	2,917	87	551	29
<b>Income tax provision from discontinued operations as reported</b>	<b>\$ —</b>	<b>—</b>	<b>\$ 4,087</b>	<b>122</b>	<b>\$ 1,218</b>	<b>64</b>

\* The foreign exchange related difference of the 2002 amount is attributable to the tax effected difference between the May 2002 exchange rate and the historical exchange rate applied to the book value of the East Coast assets.

**9. INCOME FROM CONTINUING OPERATIONS PER COMMON SHARE**

Basic earnings per share (EPS) is calculated by dividing income from continuing operations by the weighted average number of common shares outstanding during the year. Diluted EPS is calculated by dividing income from continuing operations by the weighted average number of common shares outstanding adjusted to include the potentially dilutive effect of outstanding stock options and contingent performance shares. In 2003, 215,200 stock options that had been previously awarded were excluded from the computation of diluted EPS due to their anti-dilutive effect. In 2002 and 2001, 599,583 and 985,359 stock options, respectively, were similarly excluded.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(Dollar amounts in thousands unless otherwise stated)

The following table provides details of the calculation of basic and diluted EPS for 2003, 2002 and 2001:

	2003	2002*	2001*
Income from continuing operations	\$ 49,972	\$ 54,917	\$ 56,910
Shares used for determining basic EPS	42,262,835	41,522,678	40,816,203
Dilutive effect of:			
Stock options	466,044	351,687	323,087
Contingent shares	364,213	362,000	263,558
Shares used for determining diluted EPS	43,093,092	42,236,365	41,402,848

\* Share amounts restated to reflect the three for two stock split on June 12, 2003.

On December 19, 2003 the Company paid a special dividend in conjunction with the Company's conversion to a REIT (See Note 4-Real Estate Investment Trust (REIT) - Legal and Tax Conversion). The dividend consisted of 6,351,975 shares of common stock and \$61 million in cash. The following reflects the pro forma results giving effect to the common stock dividend for diluted earnings per share for the three fiscal years ended December 31, 2003:

	2003	2002	2001
Income from continuing operations	\$49,972	\$54,917	\$56,910
Diluted earnings per share:			
As reported	\$ 1.16	\$ 1.30	\$ 1.37
Pro forma	\$ 1.02	\$ 1.13	\$ 1.19

**10. INVENTORY**

As of December 31, 2003 and 2002, Rayonier's inventory included the following:

	2003	2002
Finished goods*	\$66,359	\$63,309
Work in progress	7,972	7,303
Raw materials	11,304	6,564
Manufacturing and maintenance supplies	9,226	7,895
Total inventory	\$94,861	\$85,071

\* Includes \$9.9 million and \$0.5 million of HBU land held for sale at December 31, 2003 and 2002, respectively.

**11. DEBT**

Rayonier's debt included the following at December 31, 2003 and 2002:

	2003	2002
Medium-term notes due 2004 at fixed interest rates of 6.15%	\$ 50,289	\$ 51,428
Term loans due 2006 at weighted average interest rates of 3.03% at December 31, 2003 and 7.07% at December 31, 2002	8,975	12,065
Pollution control and industrial revenue bonds due 2004-2020 at variable interest rates of 2.20% to 6.20%	74,225	74,655
RFR installment notes due 2007-2014 at fixed interest rates of 8.29% to 8.64%	484,991	485,000
RFR term loan due 2004 at a weighted average interest rate of 2.29% at December 31, 2002	—	30,000
Total debt	618,480	653,148
Less: Current maturities	(3,545)	(3,520)
Long-term debt	\$614,935	\$649,628

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(Dollar amounts in thousands unless otherwise stated)

Principal payments due during the next five years and thereafter are as follows:

2004	\$ 3,545
2005	3,575
2006	53,310
2007	118,005
2008	23,885
2009-2015	415,880
	\$618,200

The Company reduced its long-term debt by \$34 million in 2003. During 2002 and 2001, the Company reduced its long-term debt by \$213 million and \$126 million, respectively.

In November 2003, Rayonier negotiated a revolving credit facility that provides the Company with unsecured credit totaling \$250 million expiring in November 2006. This facility replaces a \$75 million RFR facility and a \$170 million Rayonier facility. As of December 31, 2003, the Company had \$250 million of available borrowings. In addition, the Company has on file with the Securities and Exchange Commission, a shelf registration statement to offer \$500 million of new public debt and equity securities of which, \$247 million is available at December 31, 2003. During February 2004, the Company utilized \$50 million of the unsecured credit facility to refinance the medium term notes that matured. These notes were classified as long-term debt at December 31, 2003 due to the Company's ability and intent to refinance them with the credit facility.

The carrying value of long-term debt was increased by \$0.3 million and \$1.4 million as of December 31, 2003 and 2002, respectively, to reflect the fair market value of the interest rate swaps held. See *Note 5—Financial Instruments* for more information.

In conjunction with the Company's long-term debt and unsecured credit facilities, certain covenants must be met, including ratios based on the financial institution's particular definition of EBITDA (Covenant EBITDA). Covenant EBITDA as defined by the credit facility agreement consists of earnings from continuing operations before the cumulative effect of an accounting change, the provision for dispositions, income taxes, interest expense, depreciation, depletion and amortization and the non-cash cost basis of timberland and real estate sold. In addition, there are covenant requirements in effect for RFR on the ratio of consolidated cash flow available for fixed charges to consolidated fixed charges.

The Company's dividend restriction covenant limits the sum of dividends in any period of four fiscal quarters to 90 percent of Covenant Funds From Operations (Covenant FFO) plus the aggregate amount of dividends permitted under this Covenant FFO limitation in excess of the amount of dividends paid during such period. Covenant FFO is defined as Consolidated Net Income excluding gains or losses from debt restructuring and investments in marketable securities plus depletion, depreciation and amortization and the non cash cost basis of timberland sold.

The covenants are calculated on a trailing 12-month basis. The most restrictive long-term debt covenants in effect for Rayonier as of December 31, 2003, were as follows:

	<u>Covenant Requirement</u>	<u>Actual Covenant at December 31, 2003</u>	<u>Favorable (Unfavorable)</u>
EBITDA to consolidated interest expense should not be less than	2.50 to 1	5.50 to 1	3.00
Total debt to EBITDA should not exceed	4.00 to 1	2.31 to 1	1.69
Consolidated RFR cash flow available for fixed charges to consolidated RFR fixed charges should not be less than	2.50 to 1	3.73 to 1	1.23
Dividends paid should not exceed 90 percent of FFO	90%	49%	41%

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The Company is currently in compliance with all of its financial covenants. In addition to the financial covenants listed above, the credit agreements 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 Company's RFR installment note-related agreements requires the Company, subject to certain exceptions, to either reinvest cumulative timberland sales proceeds in excess of \$100 million (the "excess proceeds") in timberland-related investments and activities, or, once the amount of excess proceeds not reinvested exceeds \$50 million, to make an offer to the note holders to prepay the notes ratably in the amount of the excess proceeds. At December 31, 2003 the amount of excess proceeds was approximately \$16 million.

As part of the Company's REIT conversion and related restructuring, the Company's assets and debt were generally separated into two operating groups. One, RFR, owns most of the Company's REIT eligible assets and conducts the REIT eligible activities. The other, TRS Holdings Company ("TRS"), directly and indirectly owns all other assets of the Company, conducts the activities not generally eligible for a REIT and, in the restructuring, assumed some debt of the Company and RFR in order to ensure that each of the operating groups have a capital structure appropriate to its business.

The debt remaining in RFR and the parent company, with an associated annual interest expense of approximately \$16.7 million, will not produce a reduction in the Company's tax liability as it did in the past because the Company, as a REIT, is not expected to pay any taxes. Similarly, other costs borne by the Company or RFR which ordinarily are deductible for determining taxable income will not generally reduce the Company's tax liability because it is a REIT and not expected to pay taxes.

**12. SHAREHOLDERS' EQUITY**

An analysis of shareholders' equity for each of the three years ended December 31, 2003, is shown below. On May 21, 2003 the Company's Board of Directors approved a three-for-two stock split and a 12.5 percent increase in the post-split quarterly cash dividend from 24 cents to 27 cents per share. The stock split was effected in the form of a stock dividend and on June 12, 2003, the Company issued one additional share of common stock for every two shares held to shareholders of record on June 2, 2003. Amounts shown below prior to the stock split have been restated.

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	Common Shares		Accumulated Other Comprehensive Income/(Loss)	Retained Earnings	Shareholders' Equity
	Shares	Amount			
<b>Balance, January 1, 2001</b>	40,653,373	\$ 48,717	\$ —	\$ 631,384	\$ 680,101
Net income	—	—	—	57,598	57,598
Dividends paid (\$0.96 per share)	—	—	—	(39,207)	(39,207)
Issuance of shares under incentive stock plans	440,750	11,561	—	—	11,561
Unrealized gain on hedged transactions	—	—	7	—	7
Minimum pension liability adjustment	—	—	(709)	—	(709)
Repurchase of common shares	(79,350)	(2,031)	—	—	(2,031)
Tax benefit on exercise of stock options	—	1,474	—	—	1,474
	41,014,773	\$ 59,721	\$ (702)	\$ 649,775	\$ 708,794
<b>Balance, December 31, 2001</b>	41,014,773	\$ 59,721	\$ (702)	\$ 649,775	\$ 708,794
Net income	—	—	—	54,172	54,172
Dividends paid (\$0.96 per share)	—	—	—	(39,910)	(39,910)
Issuance of shares under incentive stock plans	666,021	17,566	—	—	17,566
Unrealized gain on hedged transactions	—	—	697	—	697
Minimum pension liability adjustment	—	—	(30,933)	—	(30,933)
Repurchase of common shares	(105,000)	(3,144)	—	—	(3,144)
Tax benefit on exercise of stock options	—	2,470	—	—	2,470
	41,575,794	\$ 76,613	\$ (30,938)	\$ 664,037	\$ 709,712
<b>Balance, December 31, 2002</b>	41,575,794	\$ 76,613	\$ (30,938)	\$ 664,037	\$ 709,712
Net income	—	—	—	49,972	49,972
Dividends paid (\$1.05 per share)	—	—	—	(44,248)	(44,248)
Special dividend - common stock (Note 4)	6,351,975	252,650	—	(252,650)	—
Special dividend - cash (Note 4)	—	—	—	(61,155)	(61,155)
Cash in lieu of fractional shares	—	(173)	—	—	(173)
Issuance of shares under incentive stock plans	1,090,547	30,951	—	—	30,951
Unrealized gain on hedged transactions	—	—	44	—	44
Minimum pension liability adjustment	—	—	(925)	—	(925)
Tax benefit on exercise of stock options	—	4,769	—	—	4,769
Foreign currency translation adjustment (Note 6)	—	—	22,159	—	22,159
	49,018,316	\$ 364,810	\$ (9,660)	\$ 355,956	\$ 711,106
<b>Balance, December 31, 2003</b>	49,018,316	\$ 364,810	\$ (9,660)	\$ 355,956	\$ 711,106

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

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**13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

Accumulated other comprehensive income (loss) was comprised of the following as of December 31, 2003 and 2002:

	2003	2002
Foreign currency translation adjustments	\$ 22,159	\$ —
Unrealized gains on hedged transactions	748	704
Minimum pension liability adjustments	(32,567)	(31,642)
<b>Total</b>	<b>\$ (9,660)</b>	<b>\$(30,938)</b>

**14. RESERVES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS**

The Company's dispositions and discontinued operations include Rayonier's Port Angeles, WA, mill, which was closed on February 28, 1997; its wholly owned subsidiary, Southern Wood Piedmont Company (SWP), which ceased operations in 1989; its Eastern Research Division (ERD), which ceased operations in 1981; and other miscellaneous assets held for disposition. SWP has been designated a potentially responsible party ("PRP"), or has had other claims made against it, under the U.S. Comprehensive Environmental Response, Compensation and Liability Act and/or comparable state statutes relating to various sites where the Company no longer operates, including 10 former wood processing sites.

An analysis of activity in the reserves for dispositions and discontinued operations for the two years ended December 31, 2003, is as follows:

	2003	2002
Balance, January 1	\$ 162,197	\$ 168,704
Expenditures charged to reserves	(9,885)	(9,241)
Additions to reserves	—	2,734
<b>Balance, December 31</b>	<b>152,312</b>	<b>162,197</b>
Less: Current portion	(12,135)	(15,902)
<b>Non-current portion</b>	<b>\$ 140,177</b>	<b>\$ 146,295</b>

Rayonier has identified specific reserves for three SWP sites, (Augusta, GA, Spartanburg, SC, and East Point, GA) and Port Angeles, WA as material and requiring separate disclosure. An analysis of the reserve activity for the two years ended December 31, 2003 is as follows:

**RESERVE ACTIVITY (in millions) as of December 31,**

Sites	2001	Expenditures	Revisions to Estimates	2002	Expenditures	Revisions to Estimates	2003
Augusta, GA	\$ 21.9	\$ (0.7)	\$ (0.8)	\$ 20.4	\$ (0.9)	\$ —	\$ 19.5
Spartanburg, SC	20.1	(0.7)	(1.3)	18.1	(0.7)	1.5	18.9
East Point, GA	15.1	(0.5)	3.4	18.0	(0.5)	(3.9)	13.6
Other SWP sites	87.0	(2.3)	(1.3)	83.4	(2.7)	2.4	83.1
<b>Total SWP</b>	<b>144.1</b>	<b>(4.2)</b>	<b>—</b>	<b>139.9</b>	<b>(4.8)</b>	<b>—</b>	<b>135.1</b>
Port Angeles, WA	19.1	(4.2)	2.4	17.3	(4.8)	—	12.5
All other sites	5.5	(0.8)	0.3	5.0	(0.3)	—	4.7
<b>TOTAL</b>	<b>\$ 168.7</b>	<b>\$ (9.2)</b>	<b>\$ 2.7</b>	<b>\$ 162.2</b>	<b>\$ (9.9)</b>	<b>\$ —</b>	<b>\$ 152.3</b>

A brief description of each of these sites is as follows:

Augusta, Georgia - SWP operated a wood treating plant at this site from 1928 to 1988. SWP is the only PRP at this site. The majority of visually contaminated surface soils have been removed, and remediation activities consist of a groundwater recovery

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system. The site had operated under a 10 year Resource Conservation and Recovery Act (RCRA)/Hazardous and Solid Waste Amendments of 1984 hazardous waste permit, which expired. SWP is currently waiting on a renewed permit. Current cost estimates could change if discharge volumes increase or decrease drastically or if enhanced remediation is implemented. Total spending to date at December 31, 2003 was \$59.4 million.

Spartanburg, South Carolina- SWP operated a wood treatment plant at this site from 1925 to 1989. SWP is the only PRP at this site. Remediation activities include: (1) a recovery system and biological wastewater treatment plant, (2) an ozone sparging system treating soil and groundwater and, (3) an ion-exchange resin system treating groundwater. A cost estimate has been determined for cleanup of an adjoining area, which received runoff from a portion of the former operating plant. Changes in costs associated with this phase of clean up are unpredictable at this time. SWP is currently awaiting state agency approval prior to starting the cleanup of the adjoining property. Total spending to date at December 31, 2003 was \$32.2 million.

East Point, Georgia – SWP operated a wood preserving facility at this site from 1908 to 1984. The site is subject to a 30-year RCRA hazardous waste facility permit, which is renewed on a 10-year basis. SWP is the only PRP at this site. The facility is in an advanced stage of corrective action with active remedial measures in place. Limited additional remedial measures may be necessary. Total spending to date at December 31, 2003 was \$13.8 million.

Included in the reserves for the three SWP sites discussed above are soil remediation costs related to the recycling of 150,000 tons of contaminated soil by a third-party processor. See *Note 16-Contingencies* for additional information.

Port Angeles, Washington - Rayonier operated a dissolving sulfite pulp mill on a 70-acre site on Port Angeles, Washington's harbor from 1930 to 1997. The mill was dismantled in 1997 and 1998 and was also evaluated for Superfund listing by the U.S. Environmental Protection Agency (EPA) during the same period. The EPA subsequently deferred the site to the State of Washington in May 2000. Several interim clean up actions for petroleum and PCB contamination have been completed. Total spending to date at December 31, 2003 was \$44.5 million.

Cumulative environmental and disposition spending for all other sites included in the reserves was \$94 million as of December 31, 2003.

In addition, the Company is exposed to the risk of reasonably possible additional losses in excess of the established reserves for PRP sites. As of December 31, 2003, this amount is estimated at \$8 million and arises from uncertainty over the effectiveness of treatments, additional contamination that may be discovered, changes in laws, regulations and administrative interpretations and in environmental remediation technology. Excluded from this estimate are the Gulf, North Carolina and the Wilmington, North Carolina sites for which the Company is not able to determine reasonably possible additional losses. Evaluation of these sites is in preliminary stages.

Rayonier currently estimates that expenditures for environmental remediation, monitoring and other costs for all dispositions and discontinued operations in 2004 and 2005 will be approximately \$12 million each year. Such costs will be charged against Rayonier's reserves for dispositions and discontinued operations, which include environmental monitoring and remediation costs. The Company believes established reserves are sufficient for costs expected to be incurred over the next 25 to 30 years with respect to its dispositions and discontinued operations. Remedial actions for these sites vary, but can include, among other remedies, removal of contaminated soils, groundwater recovery and treatment systems, and source remediation and/or control. The reliability and precision of cost estimates for these sites and the amount of actual future environmental costs can be impacted by various factors, including but not limited to significant changes in discharge volumes, necessity for enhanced or different remediation, changes in environmental remediation technology, the extent of groundwater contamination migration, additional findings of contaminated soil or sediment off-site, remedy selection, and the outcome of negotiations with federal and state agencies. Additionally, a site's potential for Brownfields (environmentally impacted site considered for re-development), or other similar projects, could accelerate expenditures as well as impact the amount and/or type of remediation required, as could new laws, regulations and administrative interpretations. Based on information currently available, the Company does not believe that any future changes in estimates, if necessary, would materially affect its consolidated financial position or results of operations.

As of December 31, 2003, 2002 and 2001 Rayonier had \$8.0 million of receivables, net of reserves, from insurance claims included in "Other Assets." Such receivables represent the Company's claim for reimbursements in connection with property damage settlements relating to SWP's discontinued wood preserving operations and the ERD.

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**15. SALE OF NEW ZEALAND EAST COAST TIMBER OPERATIONS**

During the second quarter of 2002, the Company sold its New Zealand East Coast timber operations and associated assets for \$64.4 million. In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the sale and results of operations were recorded as discontinued operations. The Company received \$64.4 million from the sale in 2002, while cash flow from the operation totaled \$6.1 million and \$5.8 million for the years ended December 31, 2002 and 2001, respectively. The Company recorded an after-tax loss from discontinued operations of approximately \$0.7 million or \$0.02 per share in 2002, consisting of an after-tax loss on the sale of approximately \$1.6 million, net of after-tax income from East Coast operations of \$0.9 million. The Consolidated Statements of Income and Comprehensive Income, Consolidated Statements of Cash Flows and related Notes have been reclassified to present the East Coast operations as a discontinued operation in 2001. The East Coast operations and associated assets were previously reported in the Company's Timber and Land segment and in Other.

Operating results of the discontinued operation for the years ended December 31, are summarized below:

	2002	2001
Sales	\$ 19,011	\$ 41,154
Operating Income	\$ 1,684	\$ 1,905
Income from discontinued operations	\$ 904	\$ 688

A provision in the Company's original agreement to purchase the East Coast property from the New Zealand government requires the Company, in the event of a sale, to guarantee five years of Crown Forest license obligations, estimated at \$1.9 million per year. However, the buyer is the primary obligor and as such, has posted a performance bond with the New Zealand government. See *Note 17-Guarantees*, for additional information.

**16. CONTINGENCIES**

From time to time, Rayonier may become liable with respect to pending and threatened litigation and environmental and other matters.

*Legal Proceedings*

The Company is involved in various legal actions, including those involving environmental matters that are discussed more fully in *Note 14-Reserves for Dispositions and Discontinued Operations*. While the ultimate results of these legal actions and related claims cannot be determined, the Company does not expect that they will have a material adverse effect on the Company's consolidated financial position or results of operations.

On February 22, 2001, the Company received a notice of proposed disallowance from the Internal Revenue Service (IRS), arising from an issue in dispute regarding the Company's 1996 and 1997 federal tax returns, which could have resulted in an additional tax liability of \$28.3 million. The Company had been discussing this issue with the IRS since 1999 and in the first quarter of 2003 it accepted a proposal from the IRS (the "Settlement Initiative") in order to expedite the resolution of the matter. Under the Settlement Initiative the maximum disallowance was set at a 90 percent level. Accordingly, the Company adjusted its estimated first quarter 2003 tax provision to recognize a tax benefit of \$2.3 million at a 10 percent minimum allowance threshold, to reflect the maximum 90 percent disallowance set forth in the Settlement Initiative. In April 2003, the Company deposited \$6.4 million with the IRS, representing \$3.7 million in tax and \$2.7 million in interest, in anticipation of audit settlements pertaining to this issue. Final resolution of this matter is likely to occur in the next 12 to 24 months.

Between 1985 and 1995, Southern Wood Piedmont (SWP), a subsidiary of the Company, sent contaminated soil excavated in connection with the cleanup of various closed wood processing sites to a third-party processor for recycling. The processing facility closed in 1995 and is the subject of a variety of environmental related charges and a lawsuit brought by the U.S. Environmental Protection Agency (EPA) and the Louisiana Department of Environmental Quality (LDEQ) in June 1990, in United States District Court for the Western District of Louisiana against the owner of the processing facility. Also in dispute is disposal liability for approximately 150,000 tons of recycled material from sites operated by SWP that are still owned and retained by the processor. Currently there are no claims pending against the Company or SWP by the EPA or the LDEQ. However, both have indicated that they believe SWP may be liable for some portion of the costs of clean-up and disposal of the recycled material sent to the processing site by SWP. If no settlement is reached in this matter, trial is scheduled to begin in

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September, 2004. There are numerous possible outcomes that could determine the Company's ultimate liability, if any. The Company believes that reserves at December 31, 2003 adequately reflect the probable costs to be incurred upon the ultimate resolution of the dispute. See also *Note 14—Reserves for Dispositions and Discontinued Operations*.

In December 2001, the United States commenced a lawsuit against the Company in the United States District Court for the Western District of Washington to recover approximately \$3.2 million in costs allegedly incurred by the EPA in 1997 to conduct an Expanded Site Investigation at the Company's Port Angeles mill site. Rayonier challenged the EPA's authority to recover this type of cost, as well as the validity of the amount spent. Trial in this matter commenced February 2, 2004 and concluded on February 24. On February 25, the court held that the United States was entitled only to approximately \$0.7 million of the approximately \$3.2 million claimed, and denied a request by the United States for an order permitting it to recover future costs relating to the Port Angeles site. While the court's ruling is favorable, the Company is evaluating its options as it is unclear whether the United States will appeal the decision. The Company believes that the ultimate outcome will not have a material adverse impact on the Company's financial position, liquidity of results of operations and that its reserves at December 31, 2003 adequately include the probable costs to be incurred upon the ultimate resolution of the dispute.

*Environmental Matters*

Rayonier is subject to stringent environmental laws and regulations concerning air emissions, water discharges and waste disposal. Such environmental laws and regulations include the Federal Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, and the Comprehensive Environmental Response, Compensation and Liability Act. Management closely monitors all of its environmental responsibilities, together with trends in environmental laws and believes that the Company is in substantial compliance with current environmental requirements. It is the opinion of management that substantial expenditures over the next 10 years will be required in the area of environmental compliance. During 2003, 2002 and 2001, Rayonier spent approximately \$10 million, \$7 million and \$4 million, respectively, for capital projects related to environmental compliance for ongoing operations. During 2004 and 2005, Rayonier expects to increase spending to approximately \$25 million on such capital projects, primarily related to Cluster Rule compliance as discussed below.

The Environmental Protection Agency (EPA) finalized its Cluster Rules governing air emissions in 1998 but, due to the specialty nature of Rayonier's Performance Fibers products and operations, the agency postponed finalizing water discharge rules and certain air emissions rules governing the Company's Performance Fibers mills and two other dissolving pulp mills. In late 2003, EPA informed the Company that it was delegating its Cluster Rule rulemaking authority for the mills of the Company and the other two dissolving pulp mills to the environmental agencies of the respective states. Rayonier will continue to work with the EPA and the applicable environmental authorities to establish such rules for its mills, but the timing and costs associated with such rulemaking are uncertain. In the opinion of management, capital costs to be incurred over the next five years (2004-2008) associated with Cluster Rule compliance and other environmental regulations are not expected to exceed \$65 million at the Performance Fibers mills. With the inclusion of the environmental capital spending, total annual capital expenditures are expected to be approximately \$90 million to \$100 million, excluding any timberland acquisitions.

Federal, state and local laws and regulations intended to protect threatened and endangered species, as well as wetlands and waterways, limit and may prevent timber harvesting, road building and other activities on private lands, including a portion of the Company's timberlands. Over the past several years, the harvest of timber from the Company's timberlands in the State of Washington has been restricted as a result of the listing of the northern spotted owl, the marbled murrelet and several species of salmon and trout as threatened species under the Endangered Species Act. In 1999, the timber industry and federal, state, local and tribal governments, entered into an agreement, known as the Forests and Fish Report. The Washington Forest Practices Board has adopted rules implementing the Forests and Fish Report that further restrict timber harvesting within buffers along streams with fish habitat. All of these restrictions have caused Rayonier to restructure and reschedule some harvest plans and have reduced the total acreage and volume of timber available for harvest. However, these restrictions have not had a material impact on Rayonier's annual harvest volumes, and Rayonier has made changes to its long-term harvest plan to compensate for these restrictions.

Rayonier currently estimates that expenditures during 2004-2005 for environmental remediation and monitoring costs, excluding environmental capital spending, for all dispositions and discontinued operations will total approximately \$24 million.

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Such costs, including monitoring and remediation costs, will be charged against the Company's reserves for estimated environmental obligations which the Company believes are sufficient for costs expected to be incurred over the next 25 to 30 years with respect to dispositions and discontinued operations. At December 31, 2003, these reserves totaled approximately \$152 million (including current portion). The actual future environmental costs will be dependent on the outcome of site evaluations and negotiations with federal and state agencies and may also be affected by new laws, regulations and administrative interpretations, and changes in environmental remediation technology. Based on information currently available, management does not believe that any future changes in estimates would materially affect Rayonier's consolidated financial position or results of operations.

#### 17. GUARANTEES

The Company provides financial guarantees as required by creditors, insurance programs, and State and foreign governmental agencies. As of December 31, 2003, the following financial guarantees were outstanding:

Financial Commitments (000's)	Potential Payments	Carrying Amount of Liability
Standby letters of credit (1)	\$76,596	\$ 61,410
Crown Forest guarantees (2)	7,569	—
Surety bonds (3)	13,726	665
<b>Total financial commitments</b>	<b>\$97,891</b>	<b>\$ 62,075</b>

- (1) Approximately \$62 million of the standby letters of credit serve as credit support for industrial revenue bonds. The remaining letters of credit support various insurance coverages, primarily workers' compensation and pollution requirements. These letters of credit expire at various dates during 2004 and 2005 and are typically rolled over as required.
- (2) In conjunction with the sale of the New Zealand East Coast timber operations in 2002, the Company guaranteed five years of Crown Forest license obligations, currently estimated at \$1.9 million per year over the next four years. The buyer of the property is the primary obligor and has posted a bank performance bond with the New Zealand government. If the buyer fails to pay the obligations, the New Zealand government will demand payment from the buyer's bankers pursuant to the bond. The Company would have to perform under the guarantee and seek legal redress from the buyer if the bankers defaulted on the bond. The 2003 obligation was paid by the buyer. However, in late 2003, the buyer defaulted on its loan payments to its creditors and went into receivership. The Company expects the buyer's bond to be sufficient to cover the license obligations. This guarantee expires in 2007.
- (3) Rayonier has issued surety bonds primarily to secure timber in the State of Washington as well as providing collateral for the Company's workers' compensation self-insurance program in that State. These surety bonds expire at various dates during 2004 and 2005 and are renewed as required.

#### 18. COMMITMENTS

The Company leases certain buildings, machinery and equipment under various operating leases. Total rental expense for operating leases amounted to \$6.9 million, \$6.8 million and \$7.2 million in 2003, 2002 and 2001, respectively. The Company also has long-term leases on certain timberlands in the Southeastern U.S. and in New Zealand. These leases typically have initial terms of approximately 30 to 65 years, with renewal provisions in some cases. Such leases are generally noncancelable and require minimum annual rental payments.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(Dollar amounts in thousands unless otherwise stated)

At December 31, 2003, the future minimum payments under noncancelable operating and timberland leases were as follows:

	Operating Leases	Timberland Leases	Total
2004	\$ 3,213	\$ 4,770	\$ 7,983
2005	2,541	4,774	7,315
2006	2,014	4,610	6,624
2007	670	4,481	5,151
2008	611	4,480	5,091
Thereafter through 2036	3,319	83,755	87,074
	<u>\$12,368</u>	<u>\$ 106,870</u>	<u>\$ 119,238</u>

#### 19. INCENTIVE STOCK PLANS

The Company applies the intrinsic value based method of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, to account for its stock plans. See Stock-based Compensation in *Note 2 - Summary of Significant Accounting Policies* for a presentation of pro forma net income and earnings per share information pursuant to the disclosure requirements of SFAS No. 148, *Accounting for Stock-based Compensation - Transition and Disclosure*, and a description of the 1994 and 2004 Rayonier Incentive Stock plans. All share and share price amounts have been restated to reflect the three for two stock split on June 12, 2003 and the special dividend on December 19, 2003. Restatements do not affect the aggregate cost of the options granted.

Restricted stock granted under the 1994 Plan vest upon completion of a three-year period. During 2003 and 2002, 28,487 and 29,377 restricted shares were granted at a price of \$24.85 and \$27.88, respectively, per share. No restricted shares were granted in 2001.

In 2003, 2002 and 2001, 192,294, 162,916 and 184,282 common shares of Company stock were reserved for contingent performance shares, with grant-date fair values of \$25.84, \$27.88 and \$21.52, respectively.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The following chart provides a tabular overview of the weighted average assumptions and related fair value calculations of options granted for the three years ended December 31:

	2003	2002	2001
Dividend yield	3.0%	2.9%	3.7%
Expected volatility	30.3%	29.8%	28.7%
Risk-free rate	3.9%	4.0%	4.8%
Expected life (in years)	7.0	7.0	7.5
Fair value of options granted	\$8.21	\$7.56	\$5.44

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(Dollar amounts in thousands unless otherwise stated)

A summary of the status of the Company's stock option plans as of December 31, 2003, 2002 and 2001, and changes during the years then ended is presented below:

	2003		2002		2001	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Options outstanding at beginning of year	3,795,371	\$ 23.01	3,950,858	\$ 21.68	3,903,585	\$ 21.22
Granted	818,760	\$ 29.93	600,474	\$ 27.88	655,313	\$ 21.66
Exercised	(1,117,523)	\$ 21.21	(725,819)	\$ 19.73	(518,718)	\$ 17.70
Canceled	(62,024)	\$ 26.09	(30,142)	\$ 24.71	(89,322)	\$ 24.38
Outstanding at end of year	3,434,584	\$ 25.19	3,795,371	\$ 23.01	3,950,858	\$ 21.68
Options exercisable at year-end	2,643,675	\$ 23.60	3,195,159	\$ 22.49	2,599,112	\$ 20.65

The following table summarizes information about stock options outstanding and exercisable at December 31, 2003:

Range of Exercise Prices	Outstanding			Exercisable	
	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Number of Shares	Weighted Average Exercise Price
\$16.22 - \$18.74	395,407	\$ 17.64	1.4	395,407	\$ 17.64
\$21.42 - \$24.14	992,955	\$ 22.25	5.3	989,097	\$ 22.25
\$24.32 - \$26.26	1,270,093	\$ 25.92	7.2	882,646	\$ 25.96
\$27.14 - \$28.50	554,994	\$ 27.87	7.9	376,525	\$ 27.86
\$33.79 - \$41.20	221,135	\$ 41.00	9.9	—	—

**20. EMPLOYEE BENEFIT PLANS**

Rayonier has four qualified non-contributory defined benefit pension plans covering substantially all of its employees and an unfunded plan that provides benefits in excess of amounts allowable under current tax law in the qualified plans. Certain plans are subject to union negotiation. 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.

On December 8, 2003, President Bush signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003. Following the guidance of the Financial Accounting Standards Board, the Company has elected to defer recognition of this Act at this time since specific authoritative guidance on the accounting for the federal subsidy is pending and guidance, when issued, could require a change to previously reported information. As a result, at December 31, 2003, the accumulated projected benefit obligation and net benefit cost do not reflect the effect of the Act on the Company's postretirement plans.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(Dollar amounts in thousands unless otherwise stated)

The following tables set forth the change in projected benefit obligation and plan assets and reconcile the funded status and the amounts recognized in the Consolidated Balance Sheets for the pension and postretirement benefit plans for the years ended December 31:

	Pension		Postretirement	
	2003	2002	2003	2002
<b>Change in Projected Benefit Obligation</b>				
Projected benefit obligation at beginning of year	\$ 172,672	\$ 146,861	\$ 30,946	\$ 28,336
Service cost	6,640	5,590	643	576
Interest cost	11,203	10,754	1,933	2,012
Actuarial loss	19,924	17,699	988	2,522
Benefits paid	(8,625)	(8,232)	(3,680)	(2,500)
Projected benefit obligation at end of year	<u>\$ 201,814</u>	<u>\$ 172,672</u>	<u>\$ 30,830</u>	<u>\$ 30,946</u>
<b>Change in Plan Assets</b>				
Fair value of plan assets at beginning of year	\$ 108,248	\$ 130,440	\$ —	\$ —
Actual return on plan assets	27,242	(14,166)	—	—
Employer contributions	11,346	665	3,680	2,500
Benefits paid	(8,625)	(8,232)	(3,680)	(2,500)
Other expense	(838)	(459)	—	—
Fair value of plan assets at end of year	<u>\$ 137,373</u>	<u>\$ 108,248</u>	<u>\$ —</u>	<u>\$ —</u>
<b>Reconciliation of Funded Status at End of Year</b>				
Funded status	\$ (64,441)	\$ (64,424)	\$ (30,830)	\$ (30,946)
Unrecognized prior service cost	11,126	12,728	3,715	4,003
Unrecognized actuarial net (gain) loss	66,091	61,208	11,327	10,952
Unrecognized net transition asset	(2)	(200)	—	—
Net prepaid /(accrued) benefit cost	<u>\$ 12,774</u>	<u>\$ 9,312</u>	<u>\$ (15,788)</u>	<u>\$ (15,991)</u>
<b>Amounts Recognized in the Consolidated Balance Sheets Consist of:</b>				
Prepaid benefit cost	\$ 19,954	\$ 19,585	\$ —	\$ —
Accrued benefit liability	(69,508)	(72,800)	(15,788)	(15,991)
Intangible asset	11,440	13,085	—	—
Accumulated other comprehensive loss	50,888	49,442	—	—
Net amount recognized	<u>\$ 12,774</u>	<u>\$ 9,312</u>	<u>\$ (15,788)</u>	<u>\$ (15,991)</u>

For plans with accumulated benefit obligations in excess of plan assets, the following table sets forth the projected and accumulated benefit obligations and the fair value of plan assets for the years ended December 31:

	2003	2002
Projected benefit obligation	\$201,814	\$172,672
Accumulated benefit obligation	186,927	161,463
Fair value of plan assets	137,373	108,248

The provisions of SFAS No. 87, *Employers' Accounting for Pensions*, require recording an additional minimum liability when the accumulated benefit obligation exceeds plan assets. As a result, the Company recorded an additional liability of \$62.3 million and \$62.5 million at December 31, 2003 and 2002, respectively. This additional liability may be offset by an intangible asset to the extent of previously unrecognized prior service cost. An intangible asset of \$11.4 million and \$13.1 million was included in "Other Assets" in the Consolidated Balance Sheet as of December 31, 2003 and 2002, respectively. The remaining offset of \$32.6 million and \$31.6 million, net of related tax benefits, was recorded as a component of Shareholders' Equity in AOCI at December 31, 2003 and 2002, respectively.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(Dollar amounts in thousands unless otherwise stated)

The following tables set forth the components of net pension and postretirement benefit cost and the amount of additional minimum liability included in accumulated other comprehensive income (loss) for the two years ended December 31:

	Pension		Postretirement	
	2003	2002	2003	2002
<b>Components of Net Periodic Benefit Cost</b>				
Service cost	\$ 6,640	\$ 5,590	\$ 643	\$ 576
Interest cost	11,203	10,754	1,933	2,012
Expected return on plan assets	(12,710)	(14,102)	—	—
Amortization of prior service cost	1,602	1,606	288	295
Amortization of losses	1,347	242	613	465
Amortization of transition asset	(198)	(661)	—	—
<b>Net periodic benefit cost</b>	<b>\$ 7,884</b>	<b>\$ 3,429</b>	<b>\$3,477</b>	<b>\$3,348</b>
			<b>Pension</b>	
			2003	2002
<b>Increase in minimum liability included in accumulated other comprehensive income/(loss)</b>			<b>\$925</b>	<b>\$30,933</b>

The following table sets forth the principal assumptions inherent in the determination of benefit obligations and net periodic benefit cost of the pension and postretirement benefit plans as of December 31:

	Pension		Postretirement	
	2003	2002	2003	2002
<b>Assumptions used to determine benefit obligations at December 31:</b>				
Discount rate	6.25%	6.50%	6.25%	6.50%
Rate of compensation increase	4.50%	4.50%	—	—
<b>Assumptions used to determine net periodic benefit cost for years ended December 31:</b>				
Discount rate	6.50%	7.40%	6.50%	7.40%
Expected long-term return on plan assets	8.50%	9.75%	—	—
Rate of compensation increase	4.50%	5.00%	—	—

As of December 31, 2003, Rayonier decreased its plans' discount rate from 6.5 percent to 6.25 percent to more closely approximate interest rates on high quality, long-term obligations. Effective January 1, 2004, the Company kept its expected return on plan assets at 8.5 percent.

The expected long-term rate of return on plan assets of 8.5 percent is based on historical long-term rates of return on broad equity and bond indices and consideration of the actual annualized rate of return since the Company's spin-off from ITT in 1994. The Company's external consultants utilize this information in developing assumptions for returns, risks and correlation of asset classes which is then used to establish the asset allocation ranges.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(Dollar amounts in thousands unless otherwise stated)

The following table sets forth the assumed health care cost trend rates at December 31:

	Postretirement	
	2003	2002
Health care cost trend rate assumed for next year	9.00%	10.00%
Rate to which the cost trend rate is assumed to decline (ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2008	2008

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement benefit plans. The following table shows the effect of a one percentage point change in assumed health care cost trends:

Effect on:	1 Percent	
	Increase	Decrease
Total of service and interest cost components	\$ 104	\$ (99)
Accumulated postretirement benefit obligation	\$ 1,253	\$(1,195)

*Investment of Plan Assets*

The Company's pension plans' asset allocation at December 31, 2003 and 2002, and target allocation ranges by asset category are as follows:

Asset Category	Percentage of Plan Assets at December 31		Target Allocation Range
	2003	2002	
Domestic Equity Securities	49.3%	47.7%	40-45%
International Equity Securities	16.6%	14.1%	20-30%
Domestic Fixed Income Securities	29.2%	38.2%	25-30%
International Fixed Income Securities	4.9%	—	4-6%
Real Estate	—	—	2-4%
<b>Total</b>	<b>100%</b>	<b>100%</b>	

The Rayonier Pension Fund Trust and Investment Committee and the Board of Directors oversee the investment program of the Company's pension plans. The investment program is designed to maximize returns and provide sufficient liquidity to meet plan obligations while maintaining acceptable risk levels. The investment approach emphasizes diversification by allocating the plans' assets among asset categories and selecting investment managers whose various styles will be minimally correlative with each other. Investments within the equity categories may include large capitalization, small capitalization and emerging market securities, while the international fixed income portfolio may include emerging markets debt. Equity securities did not include Rayonier common stock at December 31, 2003 and 2002.

*Contributions*

The Company expects to contribute, mostly on a discretionary basis, between \$6 million and \$10 million to its pension plans in 2004.

**RAYONIER INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)**

(Dollar amounts in thousands unless otherwise stated)

*Defined Contribution Plans*

The Company also provides defined contribution plans to all of its hourly and salaried employees. Company contributions charged to expense for these plans were \$2.4 million, \$2.5 million and \$2.4 million in 2003, 2002 and 2001, respectively. Rayonier Hourly and Salaried Defined Contribution Plans include Rayonier common stock with a fair market value of \$60.4 million and \$37.5 million at December 31, 2003 and 2002, respectively.

**21. QUARTERLY RESULTS FOR 2003 AND 2002 (UNAUDITED)**

(Thousands of dollars, except per share amounts)	Quarter Ended				Total Year
	March 31	June 30	Sept. 30	Dec. 31	
<b>2003</b>					
Sales	\$ 265,938	\$ 295,867	\$ 267,629	\$ 271,418	\$ 1,100,852
Operating Income	19,246	53,949	21,660	7,728	102,583
Net income	8,236	31,672	8,092	1,972	49,972
Basic EPS*	0.20	0.76	0.19	0.05	1.18
Diluted EPS*	0.20	0.74	0.19	0.04	1.16
<b>2002</b>					
Sales	\$ 268,704	\$ 269,276	\$ 293,105	\$ 286,346	\$ 1,117,431
Operating income	27,641	39,765	35,500	27,252	130,158
Income from continuing operations	8,977	17,593	15,478	12,869	54,917
Net income	9,401	16,242	15,638	12,891	54,172
Basic EPS from continuing operations*	0.22	0.42	0.37	0.31	1.32
Diluted EPS from continuing operations*	0.21	0.41	0.37	0.31	1.30
Basic EPS*	0.23	0.39	0.37	0.31	1.30
Diluted EPS*	0.22	0.38	0.37	0.31	1.28

\* All prior quarters ended have been restated to reflect a three-for-two stock split on June 12, 2003. See *Note 9 - Income from Continuing Operations Per Common Share*, for shares used to determine EPS.

**RAYONIER INC. AND SUBSIDIARIES**  
**SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS**  
**Years Ended December 31, 2003, 2002, and 2001**

(In thousands)	<u>Balance at Beginning of Year</u>	<u>Accrual Charged to Cost and Expenses</u>	<u>Deductions/ Payments</u>	<u>Write-offs (1)</u>	<u>Balance at End of Year</u>
<b>Year ended December 31, 2003</b>					
Allowance for doubtful accounts	\$ 2,665	87	—	(527)	\$ 2,225
Maintenance accrual	\$ 1,500	14,575	(14,549)	—	\$ 1,526
<b>Year ended December 31, 2002</b>					
Allowance for doubtful accounts	\$ 3,392	469	—	(1,196)	\$ 2,665
Maintenance accrual	\$ 1,567	12,898	(12,965)	—	\$ 1,500
<b>Year ended December 31, 2001</b>					
Allowance for doubtful accounts	\$ 3,969	—	—	(577)	\$ 3,392
Maintenance accrual	\$ 1,619	10,013	(10,065)	—	\$ 1,567

(1) Includes collected amounts previously charged to reserve.



**EXHIBIT INDEX**

<u>Exhibit No.</u>	<u>Description</u>	<u>Location</u>
2.1	Purchase and Sale Agreement dated July 28, 1999 between Rayonier Inc. and Jefferson Smurfit Corporation (U.S.)	Incorporated by reference to Exhibit 2.1 to the Registrant's November 12, 1999 Form 8-K/A, Amendment No. 1
2.2	First Amendment to the Purchase and Sale Agreement dated October 25, 1999 between Rayonier Inc. and Jefferson Smurfit Corporation (U.S.)	Incorporated by reference to Exhibit 2.2 to the Registrant's November 12, 1999 Form 8-K/A, Amendment No. 1
2.3	Assignment and Assumption Agreement dated October 25, 1999 between Jefferson Smurfit Corporation (U.S.) and Timber Capital Holdings LLC	Incorporated by reference to Exhibit 2.3 to the Registrant's November 12, 1999 Form 8-K/A, Amendment No. 1
2.4	Assignment Agreement dated October 25, 1999 between Rayonier Inc. and Rayonier Timberlands Operating Company, L.P.	Incorporated by reference to Exhibit 2.4 to the Registrant's November 12, 1999 Form 8-K/A, Amendment No. 1
2.5	Contribution, Conveyance and Assumption Agreement dated December 18, 2003 by and among Rayonier Inc., Rayonier Timberlands Operating Company, L.P., Rayonier Timberlands, L.P., Rayonier Timberlands Management, LLC, Rayonier Forest Resources, LLC, Rayland, LLC, Rayonier TRS Holdings Inc., Rayonier Minerals, LLC, Rayonier Forest Properties, LLC, Rayonier Wood Products, LLC, Rayonier Wood Procurement, LLC, Rayonier International Wood Products, LLC, Rayonier Forest Operations, LLC, Rayonier Properties, LLC and Rayonier Performance Fibers, LLC	Incorporated by reference to Exhibit 10.1 to the Registrant's January 15, 2004 Form 8-K
3.1	Amended and Restated Articles of Incorporation	Incorporated by reference to Exhibit 4(a) to the Registrant's Registration Statement on Form S-8 (Registration No. 33-52437)
3.2	By-Laws	Filed herewith
4.1	Indenture dated as of September 1, 1992 between the Company and Bankers Trust Company, as Trustee, with respect to certain debt securities of the Company	Incorporated by reference to Exhibit 4.1 to the Registrant's December 31, 1993 Form 10-K
4.2	First Supplemental Indenture dated as of December 13, 1993	Incorporated by reference to Exhibit 4.2 to the Registrant's December 31, 1993 Form 10-K
4.3	Three Year Revolving Credit Agreement dated effective November 24, 2003 among Rayonier Inc., Rayonier TRS Holdings Inc. and Rayonier Timberlands Operating Company, L.P. as Borrowers, the banks named therein as Initial Lenders, and Credit Suisse First Boston as Administrative Agent for the Lenders.	Filed herewith
4.4	Note Purchase Agreement dated as of October 25, 1999 between Rayonier Timberlands Operating Company, L.P. and Timber Capital Holdings LLC.	Incorporated by reference to Exhibit 4.2 to the Registrant's September 30, 1999 Form 10-Q

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<u>Exhibit No.</u>	<u>Description</u>	<u>Location</u>
4.5	Other instruments defining the rights of security holders, including indentures	Not required to be filed. The Registrant hereby agrees to file with the Commission a copy of any other instrument defining the rights of holders of the Registrant's long-term debt upon request of the Commission
9	Voting trust agreement	None
10.1	Rayonier 1994 Incentive Stock Plan, as amended	Incorporated by reference to Exhibit 10.1 to the Registrant's September 30, 1998 Form 10-Q
10.2	Rayonier Supplemental Senior Executive Severance Pay Plan	Incorporated by reference to Exhibit 10.2 to the Registrant's December 31, 1997 Form 10-K
10.3	Rayonier Investment and Savings Plan for Salaried Employees	Incorporated by reference to Exhibit 10.3 to the Registrant's December 31, 1997 Form 10-K
10.4	Retirement Plan for Salaried Employees of Rayonier Inc. effective as of March 1, 1994, Amended and Restated January 1, 2000 and Further Amended Through October 19, 2001	Incorporated by reference to Exhibit 10.4 to the Registrant's December 31, 2001 Form 10-K
10.5	Amendment to Retirement Plan for Salaried Employees effective as of January 1, 2002	Filed herewith
10.6	Amendment to Retirement Plan for Salaried Employees effective as of January 1, 2003	Filed herewith
10.7	Amendment to Retirement Plan for Salaried Employees effective as of January 1, 2004 dated October 10, 2003	Filed herewith
10.8	Amendment to Retirement Plan for Salaried Employees effective as of January 1, 2004 dated December 15, 2003	Filed herewith
10.9	Form of Indemnification Agreement between Rayonier Inc. and its Directors and Officers	Incorporated by reference to Exhibit 10.9 to the Registrant's December 31, 1993 Form 10-K
10.10	Rayonier Inc. Excess Benefit Plan	Incorporated by reference to Exhibit 10.10 to the Registrant's December 31, 1993 Form 10-K
10.11	Amendment to Rayonier Inc. Excess Benefit Plan dated August 18, 1997	Incorporated by reference to Exhibit 10.7 to the Registrant's December 31, 1997 Form 10-K
10.12	Rayonier Inc. Excess Savings and Deferred Compensation Plan	Incorporated by reference to Exhibit 10.8 to the Registrant's December 31, 1997 Form 10-K
10.13	Form of Rayonier Inc. Excess Savings and Deferred Compensation Plan Agreements	Incorporated by reference to Exhibit 10.13 to the Registrant's December 31, 1995 Form 10-K
10.14	Form of Indemnification Agreement between Registrant and directors of Rayonier Forest Resources Company, its wholly owned subsidiary which is Managing General Partner of Rayonier Timberlands, L.P., who are not also directors of Registrant	Incorporated by reference to Exhibit 10.1 to the Registrant's March 31, 1994 Form 10-Q
10.15	Description of Rayonier 1994 Incentive Stock Plan Contingent Performance Share Awards	Incorporated by reference to Exhibit 10.1 to the Registrant's June 30, 1994 Form 10-Q

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<u>Exhibit No.</u>	<u>Description</u>	<u>Location</u>
10.16	Form of Rayonier 1994 Incentive Stock Plan Contingent Performance Share Award Agreement	Incorporated by reference to Exhibit 10.1 to the Registrant's June 30, 1994 Form 10-Q
10.17	Form of Rayonier 1994 Incentive Stock Plan Restricted Share Award Agreement	Incorporated by reference to Exhibit 10.17 to the Registrant's December 31, 1995 Form 10-K
10.18	Form of Rayonier 1994 Incentive Stock Non-qualified Stock Option Award Agreement	Incorporated by reference to Exhibit 10.18 to the Registrant's December 31, 1995 Form 10-K
10.19	Rayonier Substitute Stock Option Plan	Incorporated by reference to Exhibit 4(c) to the Registrant's Registration Statement on Form S-8 (File No. 33-52891)
10.20	Form of Rayonier Substitute Stock Option Award Agreements	Incorporated by reference to Exhibit 10.20 to the Registrant's December 31, 1995 Form 10-K
10.21	Rayonier 2004 Incentive Stock and Management Bonus Plan	Filed herewith
10.22	Form of Rayonier 2004 Incentive Stock and Management Bonus Plan Non-Qualified Stock Option Award Agreement	Filed herewith
10.23	Form of Rayonier 2004 Incentive Stock and Management Bonus Plan Restricted Share Award Agreement	Filed herewith
10.24	Description of 2004 Rayonier Incentive Stock and Management Bonus Plan Performance Share Awards	Filed herewith
10.25	Split-Dollar Life Insurance Agreement dated June 22, 1994 between Rayonier Inc. and Ronald M. Gross	Incorporated by reference to Exhibit 10.2 to the Registrant's June 30, 1994 Form 10-Q
10.26	Amendment to Split-Dollar Life Insurance Agreement, dated July 22, 1997	Incorporated by reference to Exhibit 10.18 to the Registrant's December 31, 1997 Form 10-K
10.27	Deferred Compensation / Supplemental Retirement Agreement dated June 28, 1994 between Rayonier Inc. and Ronald M. Gross	Incorporated by reference to Exhibit 10.3 to the Registrant's June 30, 1994 Form 10-Q
10.28	Amendment to Deferred Compensation / Supplemental Retirement Agreement, dated July 22, 1997	Incorporated by reference to Exhibit 10.20 to the Registrant's December 31, 1997 Form 10-K
10.29	Consulting Agreement dated October 19, 1998 between Rayonier Inc. and Ronald M. Gross	Incorporated by reference to Exhibit 10.21 to the Registrant's December 31, 1998 Form 10-K
10.30	Form of Rayonier Outside Directors Compensation Program/Cash Deferral Option Agreement	Incorporated by reference to Exhibit 10.22 to the Registrant's December 31, 1999 Form 10-K
10.31	Change in Control Agreement for W. Lee Nutter.	Incorporated by reference to Exhibit 10.23 to the Registrant's September 30, 2001, Form 10-Q
10.32	Retention Agreement dated December 31, 2003 with Paul G. Boynton	Filed herewith
10.33	Trust Agreement for the Rayonier Inc. Legal Resources Trust	Incorporated by reference to Exhibit 10.25 to the Registrant's December 31, 2001 Form 10-K

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<u>Exhibit No.</u>	<u>Description</u>	<u>Location</u>
10.34	Trust Agreement for the Rayonier Inc. Supplemental Senior Executive Severance Pay Plan and the Change in Control Agreement for W. Lee Nutter Executive Severance Trust	Incorporated by reference to Exhibit 10.26 to the Registrant's December 31, 2001 Form 10-K
10.35	Description of Rayonier Key Executive Insurance Program f/k/a Rayonier Split-Dollar Life Insurance/Deferred Compensation Retention Benefit Program	Incorporated by reference to Exhibit 10.26 to the Registrant's December 31, 2002 Form 10-K
10.36	Waiver, Release and Non-Disclosure Agreement between Rayonier Inc. and William S. Berry dated March 15, 2002	Incorporated by reference to Exhibit 10.27 to the Registrant's December 31, 2002 Form 10-K
11	Statement re computation of per share earnings	Not required to be filed
12	Statements re computation of ratios	Filed herewith
13	Annual report to security holders, Form 10-Q or quarterly report to security holders	Not applicable
14	Code of Ethics	Not required to be filed
16	Letter re change in certifying accountant	Not applicable
18	Letter re change in accounting principles	Not applicable
21	Subsidiaries of the Registrant	Filed herewith
22	Published report regarding matters submitted to vote of security holders	None
23	Consents of experts and counsel	Filed herewith
24	Powers of attorney	Filed herewith
31	Certifications	Filed herewith
32	Certification of Periodic Financial Reports Under Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith

**BYLAWS  
OF  
RAYONIER INC.**

Effective February 20, 2004

**BYLAWS  
OF  
RAYONIER INC.  
ARTICLE 1 — OFFICES**

Section 1. Offices. The principal office of the Corporation shall be located at Jacksonville, Florida. The Corporation may have offices at such other places, either within or without the State of North Carolina, as the Board of Directors may from time to time determine.

**ARTICLE 2 — MEETINGS OF SHAREHOLDERS**

Section 1. Place of Meeting. Meetings of Shareholders shall be held at such places, either within or without the State of North Carolina, as shall be designated in the notice of the meeting.

Section 2. Annual Meeting. The annual meeting of Shareholders shall be held on such date and at such time as the Board of Directors shall determine each year in advance thereof, for the purpose of electing Directors of the Corporation and the transaction of such other business as may be a proper subject for action at the meeting.

Section 3. Special Meetings. Special meetings of the Shareholders shall be held at such places and times as determined by the Board of Directors in their discretion as provided in the Articles of Incorporation.

Section 4. Notice of Meetings. At least 10 and no more than 60 days prior to any annual or special meeting of Shareholders, the Corporation shall notify Shareholders of the date, time and place of the meeting and, in the case of a special meeting or where otherwise required by the Articles of Incorporation or by law, shall briefly describe the purpose or purposes of the meeting. Only business within the purpose or purposes described in the notice may be conducted at a special meeting. Unless otherwise required by the Articles of Incorporation or by law, the Corporation shall be required to give notice only to Shareholders entitled to vote at the meeting. If an annual or special Shareholders' meeting is adjourned to a different date, time or place, notice thereof need not be given if the new date, time or place is announced at the meeting before adjournment. If a new record date for the adjourned meeting is fixed pursuant to Article 7, Section 5 hereof, notice of the adjourned meeting shall be given to persons who are Shareholders as of the new record date. If mailed, notice shall be deemed to be effective when deposited in the United States mail with postage thereon prepaid, correctly addressed to the Shareholder's address shown in the Corporation's current record of Shareholders.

Section 5. Quorum. Except as may be provided in the terms of a series of Preferred Stock, a majority of the votes entitled to be cast by a voting group on a matter, represented in person or by proxy at a meeting of Shareholders, shall constitute a quorum for that

voting group for any action on that matter, unless quorum requirements are otherwise fixed by a court of competent jurisdiction acting pursuant to Section 55-7-03 of the General Statutes of North Carolina. Once a share is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting and any adjournment thereof, unless a new record date is or must be set for the adjournment. Action may be taken by a voting group at any meeting at which a quorum of that voting group is represented, regardless of whether action is taken at that meeting by any other voting group. In the absence of a quorum at the opening of any meeting of Shareholders, such meeting may be adjourned from time to time by a vote of the majority of the shares voting on the motion to adjourn.

Section 6. Voting of Shares. Except as otherwise provided by the Articles of Incorporation or by law, each outstanding share of voting capital stock of the Corporation shall be entitled to one vote on each matter submitted to a vote at a meeting of the Shareholders. Action on a matter by a voting group for which a quorum is present is approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action, unless the vote of a greater number is required by law, by the Articles of Incorporation, by rules of any exchange on which the voting group's stock is listed or by Section 55-10-03(c) of the North Carolina Business Corporation Act (the "NCBCA"). Voting on all matters shall be by ballot vote.

Section 7. Notice of Shareholder Proposal. For business proposed by a Shareholder (other than director nominations) to be a proper subject for action at an Annual Shareholders meeting, in addition to any requirement of law the Shareholder must timely request (by Certified Mail - Return Receipt Requested) that the proposal be included in the Corporation's proxy statement for the meeting, and such request must satisfy all of the provisions of Rule 14a-8 under the Securities Exchange Act of 1934, as amended.

Section 8. Postponement of Shareholders' Meeting. A scheduled annual or special meeting of Shareholders may be postponed by the Board of Directors by public notice given at or prior to the time of the meeting.

### **ARTICLE 3 — BOARD OF DIRECTORS**

Section 1. General Powers. Except as otherwise expressly provided in the Articles of Incorporation or by law, the Board of Directors shall have the exclusive power and authority to direct the management of the business and affairs of the Corporation and shall exercise all corporate powers, and possess all authority, necessary or appropriate to carry out the intent of this provision, and which are customarily exercised by the board of directors of a public company.

Section 2. Number, Term and Qualification. The number, term and qualification of Directors of the Corporation shall be as provided in the Articles of Incorporation.

Section 3. Removal. Directors may be removed from office only for the reasons, if any, specified in the Articles of Incorporation.

Section 4. Vacancies. Vacancies occurring in the Board of Directors shall be filled only as provided in the Articles of Incorporation.

Section 5. Compensation. Compensation for the services of Directors as such shall be determined exclusively by the Board of Directors as provided in the Articles of Incorporation.

Section 6. Nominations for Election of Directors. Only persons who are nominated in accordance with the provisions set forth in these Bylaws shall be eligible to be elected as directors at an Annual Shareholders meeting. Nominations of persons for election to the Board of Directors may be made at such meeting of shareholders (i) by or at the direction of the Board of Directors, or (ii) by any shareholder of the Corporation who is a shareholder of record at the time of giving of notice provided for in this Section 6, who shall be entitled to vote for the election of Directors at the meeting and who complies with the notice procedures set forth in this Section 6. Such nominations, other than those made by or at the direction of the Board, shall be made pursuant to timely notice in writing to the Secretary. To be timely, a shareholder's notice shall be delivered to, or mailed and received at, the principal executive offices of the Corporation not less than 120 days prior to the first anniversary of the date of the Proxy Statement mailed to shareholders in connection with the preceding year's Annual Shareholders meeting; provided, however, in the event the date of the Annual Shareholders meeting is changed by more than 30 days from the date of the preceding year's Annual Shareholders meeting, notice by a shareholder must be so delivered by a date that is a reasonable time before the Corporation begins to print and mail its Proxy Statement for the subject Annual Shareholders meeting. Such shareholder's notice shall set forth (a) as to each person whom the shareholder proposes to nominate for election or reelection as a Director, information relating to such person which is substantially the same as that required to be disclosed in solicitations of proxies for election of directors pursuant to Items 7(a) and (b) of Regulation 14A under the Securities Exchange Act of 1934, as amended, and such person's written consent to being named as a nominee and to serving as a director if elected, and (b) as to the shareholder giving the notice, (i) the name and address, as they appear on the Corporation's books, of such shareholder, and (ii) the class and number of shares of the Corporation which are owned of record or beneficially by such shareholder. At the request of the Board of Directors, any person nominated by the Board for election as a Director shall furnish to the Secretary that information required to be set forth in a shareholder's notice of nomination which pertains to the nominee. The chairman of the Annual Shareholders meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the provisions prescribed by these Bylaws and, if the chairman should so determine, the chairman shall so declare to the meeting and the defective nomination shall be disregarded. The foregoing provisions of this Section 6 shall not apply to (x) any Director who is nominated and elected under specified circumstances by holders of any class or series of stock having a preference over the common stock as to dividends or upon liquidation; or (y) any shareholder notice delivered in compliance with any inconsistent advance notice requirement mandated by rules or regulations of the U.S. Securities and Exchange Commission.

#### **ARTICLE 4 — MEETINGS OF DIRECTORS**

Section 1. Annual and Regular Meetings. All annual and regular meetings of the Board of Directors shall be held at such places and times as determined by the Board of Directors in their discretion as provided in the Articles of Incorporation.

Section 2. Special Meetings. Special meetings of the Board of Directors shall be held at such places and times as determined by the Board of Directors in their discretion as provided in the Articles of Incorporation.

Section 3. Notice of Meetings. Unless the Board of Directors by resolution determines otherwise in accordance with authority set forth in the Articles of Incorporation, all meetings of the Board of Directors may be held without notice of the date, time, place or purpose of the meeting. The Secretary shall give such notice of any meetings called by the Board by such means of communication as may be specified by the Board.

Section 4. Quorum. The percentage of Directors in office specified in the Articles of Incorporation will constitute a quorum for the transaction of business at any meeting of the Board of Directors.

Section 5. Manner of Acting. A majority of Directors who are present at a meeting at which a quorum is present will constitute the required vote to effect any action taken by the Board of Directors.

Section 6. Action required or permitted to be taken at a meeting of the Board of Directors may be taken without a meeting if the action is taken by all members of the Board. The action must be evidenced by one or more written consents signed by each Director before or after such action, describing the action taken, and included in the minutes or filed with the corporate records. Action taken without a meeting is effective when the last Director signs the consent, unless the consent specifies a different effective date.

Section 7. Meeting by Communications Device. The Board of Directors may permit Directors to participate in any meeting of the Board of Directors by, or conduct the meeting through the use of, any means of communication by which all Directors participating may simultaneously hear each other during the meeting. A Director participating in a meeting by this means is deemed to be present in person at the meeting.

## **ARTICLE 5 — COMMITTEES**

Section 1. Election and Powers. The Board of Directors may have such committees, with such members who shall have such powers and authority as may be determined by the Board of Directors as provided by the Articles of Incorporation. To the extent specified by the Board of Directors or in the Articles of Incorporation, each committee shall have and may exercise the powers of the Board in the management of the business and affairs of the Corporation, except that no committee shall have authority to do the following:

- (a) Authorize distributions.
- (b) Approve or propose to Shareholders action required to be approved by Shareholders.
- (c) Fill vacancies on the Board of Directors or on any of its committees.
- (d) Amend the Articles of Incorporation.

- (e) Adopt, amend or repeal the bylaws.
- (f) Approve a plan of merger not requiring Shareholder approval.
- (g) Authorize or approve the reacquisition of shares, except according to a formula or method prescribed by the Board of Directors.
- (h) Authorize or approve the issuance, sale or contract for sale of shares, or determine the designation and relative rights, preferences and limitations of a class or series of shares, except that the Board of Directors may authorize a committee (or a senior executive officer of the Corporation) to do so within limits specifically prescribed by the Board of Directors.

Section 2. Removal; Vacancies. Unless the Board of Directors by resolution determines otherwise in accordance with authority specified in the Articles of Incorporation, any member of a committee may be removed at any time exclusively by the Board of Directors with or without cause, and vacancies in the membership of a committee as a result of death, resignation, disqualification or removal shall be filled by a majority of the whole Board of Directors.

Section 3. Meetings. The provisions of Article 4 governing meetings of the Board of Directors, action without meeting, notice, waiver of notice and quorum and voting requirements shall apply to the committees of the Board and its members to the extent not otherwise prescribed by the Board in the resolution authorizing the establishment of the committee.

Section 4. Minutes. Each committee shall keep minutes of its proceedings and shall report thereon to the Board of Directors at or before the next meeting of the Board.

## **ARTICLE 6 — OFFICERS**

Section 1. Titles. Pursuant to authority conferred in the Articles of Incorporation, the Board of Directors shall have the exclusive power and authority to elect from time to time such officers of the Corporation, including a Chairman and a President (one of whom shall be the Chief Executive Officer), a Vice Chairman, one or more Executive Vice Presidents, one or more Senior Vice Presidents, one or more Vice Presidents, a Chief Financial Officer, a General Counsel, a Controller, a Treasurer, a Secretary, one or more Assistant Controllers, one or more Assistant Treasurers, and one or more Assistant Secretaries, and such other officers as shall be deemed necessary or desirable from time to time. The officers shall have the authority and perform the duties as set forth herein or as from time to time may be prescribed by the Board of Directors. Any two or more offices may be held by the same individual, but no officer may act in more than one capacity where action of two or more officers is required.

The officers of the Corporation may appoint one or more individuals to hold a position which includes one of the titles indicated above. An individual holding such title by virtue of being so appointed rather than by virtue of being elected to such position by the Board of

Directors shall not be an officer of the Corporation for purposes of the Articles of Incorporation or these Bylaws, but such individual shall have such duties as may be prescribed by the officer or officers appointing him or her.

Section 2. Election; Removal. Pursuant to authority conferred in the Articles of Incorporation, the officers of the Corporation shall be elected exclusively by the Board of Directors and shall serve at the pleasure of the Board as specified at the time of their election, until their successors are elected and qualify, or until the earlier of their resignation or removal. Pursuant to authority conferred in the Articles of Incorporation, any officer may be removed by the Board at any time with or without cause.

Section 3. Compensation. Pursuant to authority conferred in the Articles of Incorporation, the compensation of the officers shall be fixed by the Board of Directors.

Section 4. General Powers of Officers. Except as may be otherwise provided in these bylaws or in the NCBCA, the Chairman, the Vice-Chairman, the President, any Executive Vice President, any Senior Vice President, any Vice President, the Chief Financial Officer, the General Counsel, the Controller, the Treasurer, the Secretary, or any one of them, may (i) execute and deliver in the name of the Corporation, in the name of any division of the Corporation or in both names any agreement, contract, deed, instrument, power of attorney or other document pertaining to the business or affairs of the Corporation or any division of the Corporation, and (ii) delegate to any employee or agent the power to execute and deliver any such agreement, contract, deed, instrument, power of attorney or other document.

Section 5. Chief Executive Officer. The Chief Executive Officer of the Corporation shall report directly to the Board. Except in such instances as the Board may confer powers in particular transactions upon any other officer, and subject to the control and direction of the Board, the Chief Executive Officer shall manage the business and affairs of the Corporation and shall communicate to the Board and any committee thereof reports, proposals and recommendations for their respective consideration or action. He may do and perform all acts on behalf of the Corporation.

Section 6. Chairman. The Chairman shall preside at meetings of the Board of Directors and the Shareholders and shall have such other powers and perform such other duties as the Board may prescribe or as may be prescribed in these bylaws.

Section 7. Vice Chairman. The Vice Chairman shall have such powers and perform such duties as the Board or the Chairman (to the extent he is authorized by the Board of Directors to prescribe the authority and duties of other officers) may from time to time prescribe or as may be prescribed in these bylaws.

Section 8. President. The President shall have such powers and perform such duties as the Board and the Chief Executive Officer (to the extent he is authorized by the Board of Directors to prescribe the authority and duties of other officers) may from time to time prescribe or as may be prescribed in these bylaws.

Section 9. Executive Vice Presidents, Senior Vice Presidents and Vice Presidents. The Executive Vice Presidents, Senior Vice Presidents and Vice Presidents shall have such powers and perform such duties as the Board or the Chief Executive Officer (to the extent he is authorized by the Board of Directors to prescribe the authority and duties of other officers) may from time to time prescribe or as may be prescribed in these bylaws.

Section 10. Chief Financial Officer. The Chief Financial Officer shall have such powers and perform such duties as the Board or the Chief Executive Officer (to the extent he is authorized by the Board of Directors to prescribe the authority and duties of other officers) may from time to time prescribe or as may be prescribed in these bylaws. The Chief Financial Officer shall present to the Board such balance sheets, income statements, budgets and other financial statements and reports as the Board or the Chief Executive Officer (to the extent he is authorized by the Board of Directors to prescribe the authority and duties of other officers) may require and shall perform such other duties as may be prescribed or assigned pursuant to these bylaws and all other acts incident to the position of Chief Financial Officer.

Section 11. Controller. The Controller shall be responsible for the maintenance of adequate accounting records of all assets, liabilities, capital and transactions of the Corporation. The Controller shall prepare such balance sheets, income statements, budgets and other financial statements and reports as the Board or the Chief Executive Officer or the Chief Financial Officer (to the extent they are authorized by the Board of Directors to prescribe the authority and duties of other officers) may require, and shall perform such other duties as may be prescribed or assigned pursuant to these bylaws and all other acts incident to the position of Controller.

Section 12. Treasurer.

(a) The Treasurer shall have the care and custody of all the funds and securities of the Corporation except as may be otherwise ordered by the Board, and shall cause such funds (i) to be invested or reinvested from time to time for the benefit of the Corporation as may be designated by the Board or by the Chairman, the Vice Chairman, the President, the Chief Financial Officer or the Treasurer (to the extent they are authorized by the Board of Directors to make such designations), or (ii) to be deposited to the credit of the Corporation in such banks or depositories as may be designated by the Board or by the Chairman, the President, the Chief Financial Officer or the Treasurer (to the extent they are authorized by the Board of Directors to make such designations), and shall cause such securities to be placed in safekeeping in such manner as may be designated by the Board or by the Chairman, the President, the Chief Financial Officer or the Treasurer (to the extent they are authorized by the Board of Directors to make such designations).

(b) The Treasurer or such other person or persons as may be designated for such purpose by the Board or by the Chairman, the President, the Chief Financial Officer or the Treasurer (to the extent they are authorized by the Board of Directors to make such designations) may endorse in the name and on behalf of the Corporation all instruments for the payment of money, bills of lading, warehouse receipts, insurance policies and other commercial documents requiring such endorsement.

(c) The Treasurer or such other person or persons as may be designated for such purpose by the Board or by the Chairman, the President, the Chief Financial Officer or the Treasurer (to the extent they are authorized by the Board of Directors to make such designations), (i) may sign all receipts and vouchers for payments made to the Corporation; (ii) shall prepare a statement of the cash account of the Corporation to the Board as often as it shall

require the same; and (iii) shall enter regularly in books to be kept for that purpose full and accurate account of all moneys received and paid on account of the Corporation and of all securities received and delivered by the Corporation.

(d) The Treasurer shall perform such other duties as may be prescribed or assigned pursuant to these bylaws and all other acts incident to the position of Treasurer.

Section 13. Secretary. The Secretary shall keep the minutes of all proceedings of the Shareholders, the Board and the Committees of the Board. The Secretary shall attend to the giving and serving of all notices of the Corporation, in accordance with the provisions of these bylaws and as required by the laws of the State of North Carolina. The Secretary shall cause to be prepared and maintained (i) at the office of the Corporation a stock ledger containing the names and addresses of all Shareholders and the number of shares held by each and (ii) any list of Shareholders required by law to be prepared for any meeting of Shareholders. The Secretary shall be responsible for the custody of all stock books and of all unissued stock certificates. The Secretary shall be the custodian of the seal of the Corporation. The Secretary shall affix or cause to be affixed the seal of the Corporation to such contracts, instruments and other documents requiring the seal of the Corporation, and when so affixed may attest the same and shall perform such other duties as may be prescribed or assigned pursuant to these bylaws and all other acts incident to the position of Secretary.

Section 14. Voting Upon Securities. Unless otherwise ordered by the Board of Directors, the Chairman, the President, any Executive Vice President, any Senior Vice President or any Vice President shall have full power and authority in behalf of the Corporation to attend, act and vote at meetings of the security holders of any entity in which this Corporation may hold securities, and at such meetings shall possess and may exercise any and all rights and powers incident to the ownership of such securities and which, as the owner, the Corporation might have possessed and exercised if present. The Board of Directors may by resolution from time to time confer such power and authority upon any other person or persons.

Section 15. Continuing Determination by Board. All powers and duties of the officers shall be subject to a continuing determination by the Board of Directors.

## **ARTICLE 7 — CAPITAL STOCK**

Section 1. Certificates. Unless the Board determines otherwise, shares of the capital stock of the Corporation shall be represented by certificates. The name and address of the persons to whom shares of capital stock of the Corporation are issued, with the number of shares and date of issue, shall be entered on the stock transfer records of the Corporation. Certificates for shares of the capital stock of the Corporation shall be in such form not inconsistent with the Articles of Incorporation of the Corporation as shall be approved by the Board of Directors. Each certificate shall be signed (either manually or by facsimile) by (a) the Chairman, the Vice Chairman, the President or any Vice President and by the Secretary, Assistant Secretary, Treasurer or Assistant Treasurer or (b) any two officers designated by the Board of Directors. Each certificate may be sealed with the seal of the Corporation or a facsimile thereof.

Section 2. Transfer of Shares. Transfer of shares shall be made on the stock transfer records of the Corporation, and transfers shall be made only upon surrender of the

certificate for the shares sought to be transferred by the record holder or by a duly authorized agent, transferee or legal representative. All certificates surrendered for transfer or reissue shall be canceled before new certificates for the shares shall be issued.

Section 3. Transfer Agent and Registrar. The Board of Directors may appoint one or more transfer agents and one or more registrars of transfers and may require all stock certificates to be signed or countersigned by the transfer agent and registered by the registrar of transfers.

Section 4. Regulations. The Board of Directors may make rules and regulations as it deems expedient concerning the issue, transfer and registration of shares of capital stock of the Corporation.

Section 5. Fixing Record Date. For the purpose of determining Shareholders entitled to notice of or to vote at any meeting of Shareholders, or entitled to receive payment of any dividend, or in order to make a determination of Shareholders for any other purpose, the Board of Directors may fix in advance a date as the record date for the determination of Shareholders. The record date shall be not more than 70 days before the meeting or action requiring a determination of Shareholders. A determination of Shareholders entitled to notice of or to vote at a Shareholders' meeting shall be effective for any adjournment of the meeting unless the Board of Directors fixes a new record date, which it shall do if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting.

Section 6. Lost Certificates. The Board of Directors must authorize the issuance of a new certificate in place of a certificate claimed to have been lost, destroyed or wrongfully taken, upon receipt of (a) an affidavit from the person explaining the loss, destruction or wrongful taking, and (b) a bond from the claimant in a sum as the Corporation may reasonably direct to indemnify the Corporation against loss from any claim with respect to the certificate claimed to have been lost, destroyed or wrongfully taken. The Board of Directors may, in its discretion, waive the affidavit and bond and authorize the issuance of a new certificate in place of a certificate claimed to have been lost, destroyed or wrongfully taken.

## **ARTICLE 8 — GENERAL PROVISIONS**

Section 1. Dividends and other Distributions. The Board of Directors may from time to time declare and the Corporation may pay dividends or make other distributions with respect to its outstanding shares in the manner and upon the terms and conditions provided by law.

Section 2. Seal. The seal of the Corporation shall be any form approved from time to time or at any time by the Board of Directors.

Section 3. Waiver of Notice. Whenever notice is required to be given to a Shareholder, director or other person under the provisions of these bylaws, the Articles of Incorporation or applicable law, a waiver in writing signed by the person or persons entitled to the notice, whether before or after the date and time stated in the notice, and delivered to the Corporation shall be equivalent to giving the notice.

Section 4. Depositories. The Chairman, the President, the Chief Financial Officer, and the Treasurer are each authorized to designate depositories for the funds of the Corporation deposited in its name or that of a division of the Corporation, or both, and the signatories with respect thereto in each case, and from time to time, to change such depositories and signatories, with the same force and effect as if each such depository and the signatories with respect thereto and changes therein had been specifically designated or authorized by the Board; and each depository designated by the Board or by the Chairman, the President, the Chief Financial Officer, or the Treasurer shall be entitled to rely upon the certificate of the Secretary or any Assistant Secretary of the Corporation or of a division of the Corporation setting forth the fact of such designation and of the appointment of the officers of the Corporation or of the Division or of both or of other persons who are to be signatories with respect to the withdrawal of funds deposited with such depository, or from time to time the fact of any change in any depository or in the signatories with respect thereto.

Section 5. Signatories. Unless otherwise designated by the Board or by the Chairman, the President, the Chief Financial Officer or the Treasurer, all notes, drafts, checks, acceptances, orders for the payment of money shall be (a) signed by the Treasurer or any Assistant Treasurer and (b) countersigned by the Controller or any Assistant Controller, or either signed or countersigned by the Chairman, the Vice Chairman, the President, any Executive Vice President, any Senior Vice President or any Vice President in lieu of either the officers designated in (a) or the officers designated in (b) of this Section.

Section 6. Fiscal Year. The fiscal year of the Corporation shall be fixed by the Board of Directors.

Section 7. Amendment. These bylaws may be amended or repealed by the Board of Directors, including any bylaw adopted, amended or repealed by the Shareholders generally. These bylaws may be amended or repealed by the Shareholders even though the bylaws may also be amended or repealed by the Board of Directors.

**U.S. \$250,000,000**

**THREE YEAR REVOLVING CREDIT AGREEMENT**

**Among**

**RAYONIER INC.,  
RAYONIER TRS HOLDINGS INC.,  
RAYONIER TIMBERLANDS OPERATING COMPANY, L.P.  
as Borrowers**

**and**

**The Several Lenders from Time to Time Parties Hereto,**

**The Issuing Banks from Time to Time Parties Hereto**

**and**

**CREDIT SUISSE FIRST BOSTON,  
acting through its Cayman Islands Branch,  
as Administrative Agent**

**and**

**CREDIT SUISSE FIRST BOSTON,  
BANK OF AMERICA, N.A.  
as Co-Syndication Agents**

**and**

**JPMORGAN CHASE BANK,  
SUNTRUST BANK,  
THE BANK OF NEW YORK  
as Co-Documentation Agents**

**and**

**CREDIT SUISSE FIRST BOSTON,  
BANC OF AMERICA SECURITIES LLC  
as Joint Lead Arrangers**

**Dated as of November 24, 2003**

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- Schedule 5.03(b) - Existing Liens
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## Exhibits

- Exhibit A - Form of Revolving Credit Promissory Note
- Exhibit B - Form of Notice of Revolving Credit Borrowing
- Exhibit C-1 - Form of Guarantee Agreement
- Exhibit C-2 - Form of RTOC Subsidiary Guarantee Agreement
- Exhibit C-3 - Form of TRS Subsidiary Guarantee Agreement
- Exhibit D-1 - Form of Opinion of Rayonier's Vice President, Governance and Corporate Secretary
- Exhibit D-2 - Form of Opinion of Counsel for the Borrowers
- Exhibit D-3 - Form of Opinion of Special New York Counsel for the Borrowers
- Exhibit E - Form of Closing Certificate
- Exhibit F - Form of Assignment and Acceptance

THREE YEAR REVOLVING CREDIT AGREEMENT, dated as of November 24, 2003, among RAYONIER INC., a North Carolina corporation ("Rayonier"), RAYONIER TRS HOLDINGS INC., a Delaware corporation ("TRS"), RAYONIER TIMBERLANDS OPERATING COMPANY, L.P., a Delaware limited partnership ("RTOC;" Rayonier, TRS and RTOC, each a "Borrower" and, collectively, the "Borrowers"), the several banks, financial institutions and other institutional lenders from time to time party hereto (the "Lenders"), the issuing banks from time to time party hereto (the "Issuing Banks"), CREDIT SUISSE FIRST BOSTON, acting through its Cayman Islands Branch, as Administrative Agent (in such capacity, the "Administrative Agent"), CREDIT SUISSE FIRST BOSTON and BANK OF AMERICA, N.A., as Co-Syndication Agents, JPMORGAN CHASE BANK, SUN TRUST BANK and THE BANK OF NEW YORK, as Co-Documentation Agents, and CREDIT SUISSE FIRST BOSTON and BANC OF AMERICA SECURITIES LLC, as Joint Lead Arrangers (the "Agreement").

#### PRELIMINARY STATEMENTS

1. The Borrowers have requested that the Lenders extend credit to the Borrowers in an aggregate principal amount of up to \$250,000,000 in the form of revolving credit advances and letters of credit.

2. In consideration of the foregoing promises and the mutual covenants herein contained and for other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound, hereby agree as follows:

#### ARTICLE I

##### DEFINITIONS AND ACCOUNTING TERMS

SECTION 1.01. Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

"Acquired Debt" means, with respect to any specified Person (a) Debt of any other Person existing at the time such other Person merged with or into or became a Subsidiary of such specified Person, including Debt incurred in connection with, or in contemplation of, such other Person merging with or into or becoming a Subsidiary of such specified Person and (b) Debt encumbering any asset acquired by such specified Person.

"Adjusted Asset Sales Amount" means \$100,000,000 as increased by 10% of the purchase price of Asset Acquisitions (other than like-kind exchanges) subsequent to the Closing Date.

"Administrative Agent's Account" means the account of the Administrative Agent maintained by the Administrative Agent at The Bank of New York, ABA No. 02100018, Account No. 8900492627, Attn: Agency Cayman, Reference: Rayonier or such other account as the Administrative Agent may designate from time to time by notice to Rayonier and the Lenders.

“Affiliate” means, as to any Person, any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person or is a director or officer of such Person. For purposes of this definition, the term “control” (including the terms “controlling”, “controlled by” and “under common control with”) of a Person means the possession, direct or indirect, of the power to vote 5% or more of the Voting Stock of such Person or to direct or cause the direction of the management and policies of such Person, whether through the ownership of Voting Stock, by contract or otherwise.

“Alternate Base Rate” shall mean, on any particular date, a rate of interest per annum equal to the higher of

- (a) the rate of interest most recently announced by CSFB as its prime rate in effect at its principal office in New York City (which rate is not necessarily intended to be the lowest rate of interest charged by CSFB in connection with extensions of credit); and
- (b) the Federal Funds Rate for such date plus 0.50%.

“Alternate Base Rate Advance” means a Revolving Credit Advance that bears interest as provided in Section 2.07(a)(i).

“Applicable Lending Office” means, with respect to each Lender, such Lender’s Domestic Lending Office in the case of an Alternate Base Rate Advance and such Lender’s Eurodollar Lending Office in the case of a Eurodollar Rate Advance.

“**Applicable Margin**” means (a) for Alternate Base Rate Advances, 0% per annum and (b) for Eurodollar Rate Advances, as of any date, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

<u>Public Debt Rating S&amp;P/Moody's</u>	<u>Applicable Margin for Eurodollar Rate Advances</u>
Level 1 BBB+ or Baa1 or above	0.450%
Level 2 Lower than Level 1 but at least BBB or Baa2	0.675%
Level 3 Lower than Level 2 but at least BBB- and Baa3	0.875%
Level 4 Lower than Level 3 but at least BBB- or Baa3	0.950%
Level 5 Lower than Level 4 but at least BB+ and Ba1	1.125%
Level 6 Lower than Level 5	1.375%

“**Applicable Utilization Fee**” means, as of any date that the aggregate amount of Revolving Credit Advances and total LC Exposure exceeds 33% of the aggregate Commitments, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

<u>Public Debt Rating S&amp;P/Moody's</u>	<u>Applicable Utilization Fee</u>
Level 1 BBB+ or Baa1 or above	0.125%
Level 2 Lower than Level 1 but at least BBB or Baa2	0.125%
Level 3 Lower than Level 2 but at least BBB- and Baa3	0.250%
Level 4 Lower than Level 3 but at least BBB- or Baa3	0.250%
Level 5 Lower than Level 4 but at least BB+ and Ba1	0.250%
Level 6 Lower than Level 5	0.375%

“Asset Acquisition” means (a) an Investment by RTOC or any Restricted Subsidiary in any other Person pursuant to which such Person shall become a Restricted Subsidiary or shall be merged with or into RTOC or any Restricted Subsidiary, (b) the acquisition by RTOC or any Restricted Subsidiary of the assets of any Person (other than a Restricted Subsidiary) which constitute all or substantially all of the assets of such Person, (c) the acquisition by RTOC or any Restricted Subsidiary of merchantable Timber or Timberlands outside the ordinary course of business, or (d) the acquisition by RTOC or any Restricted Subsidiary of any division or line of business of any Person (other than a Restricted Subsidiary).

“Asset Sale” means “Asset Sale” as such term is defined in the Installment Note Agreement as in existence as of the date hereof.

“Assignment and Acceptance” means an assignment and acceptance entered into by a Lender and an Eligible Assignee, and accepted by the Administrative Agent, in the form of Exhibit F hereto (or such other form as may be acceptable to the Administrative Agent).

“Attributable Debt” means, with respect to any Sale and Leaseback Transaction not involving a Capital Lease, as of any date of determination, the total obligation (discounted to present value at the rate of interest implicit in the lease included in such transaction) of the lessee for rental payments (other than amounts required to be paid on account of property taxes, maintenance, repairs, insurance, assessments, utilities, operating and labor costs and other items which do not constitute payments for property rights) during the remaining portion of the term (including extensions which are at the sole option of the lessor) of the lease included in such transaction (in the case of any lease which is terminable by the lessee upon a payment of a penalty, such rental obligation shall also include the amount of such penalty, but no rent shall be considered as required to be paid under such lease subsequent to the first date upon which it may be so terminated).

“Available Cash” means, with respect to any Fiscal Quarter,

(a) the sum of (i) all cash and cash equivalents of the Partnership Group on hand at the end of such Fiscal Quarter, and (ii) all additional cash and cash equivalents of the Partnership Group on hand on the date of determination of Available Cash with respect to such Fiscal Quarter resulting from the Working Capital Borrowings made subsequent to the end of such Fiscal Quarter, less

(b) the amount of any cash reserves that is necessary or appropriate in the reasonable discretion of the Managing General Partner to (i) provide for the proper conduct of the business of the Partnership Group (including reserves for future capital expenditures and for anticipated future credit needs of the Partnership Group) subsequent to such Fiscal Quarter, or (ii) comply with applicable law or any loan agreement, security agreement, mortgage, debt instrument or other agreement or obligation to which any Group Member is a party or by which it is bound or its assets are subject.

For purposes of the definition of “Available Cash”, the following terms shall have the following meanings:

“Group Member” means a member of the Partnership Group.

“Partnership Group” means RTOC and all its Subsidiaries, treated as a single Consolidated entity.

“Working Capital Borrowings” means borrowings by the Partnership Group under any Working Capital Facility giving rise to Debt incurred for working capital purposes and for the purpose of making distributions to RTOC and its Subsidiaries.

“Business Day” means a day of the year on which banks are not required or authorized by law to close in New York City and, if the applicable Business Day relates to any Eurodollar Rate Advances, on which dealings are carried on in the London interbank market.

“Capital Lease” means, as applied to any Person, any lease of any property (whether real, personal or mixed) by such Person (as lessee or guarantor or other surety) which would, in accordance with GAAP, be required to be classified and accounted for as a capital lease on a balance sheet of such Person.

“Capital Stock” means, with respect to any Person, any and all shares, units representing interests, participations, rights in or other equivalents (however designated) of such Person’s capital stock, including (x) with respect to partnerships, partnership interests (whether general or limited) and any other interest or participation that confers upon a Person the right to receive a share of the profits and losses of, or distributions of assets of, such partnership, (y) with respect to limited liability companies, member interests, and (z) with respect to any Person, any rights (other than debt securities convertible into capital stock), warrants or options exchangeable for or convertible into such capital stock.

“CERCLA” means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended.

“CERCLIS” has the meaning specified in Section 4.01(m).

“Closing Date” means the date on which the conditions precedent set forth in Section 3.01 shall be satisfied or waived by the Required Lenders.

“Commitment” means, with respect to any Lender at any time (a) the amount set forth opposite such Lender’s name on the signature pages hereof, or (b) if such Lender has entered into any Assignment and Acceptance, the amount set forth for such Lender in the Register maintained by the Administrative Agent pursuant to Section 8.07(d), as such amount may be reduced pursuant to Section 2.05.

“Commitment Percentage” means, as to any Lender at any time, the percentage which such Lender’s Commitment then constitutes of the aggregate Commitments (or, at any time after the Closing Date, the percentage which the aggregate principal amount of such Lender’s Revolving Credit Advances and its proportionate interest in LC Exposure then outstanding constitutes of the aggregate principal amount of the Revolving Credit Advances and LC Exposure then outstanding).

“Confidential Information” means information that any Borrower furnishes to the Administrative Agent or any Lender or Issuing Bank in a writing designated as confidential, but does not include any such information that is or becomes generally available to the public or that is or becomes available to the Administrative Agent or such Lender or Issuing Bank from a source other than any Borrower, that is not acting in violation of a confidentiality agreement with any Borrower.

“Consolidated” refers to the consolidation of accounts in accordance with GAAP.

“Consolidated Assets” means on any date of determination, all amounts that are or should, in accordance with GAAP be included under assets on a Consolidated balance sheet of any Person and its Subsidiaries determined in accordance with GAAP as at such date.

“Consolidated Cash Flow Available for Fixed Charges” means, with respect to RTOC and its Restricted Subsidiaries for any period, the sum of, without duplication, the amounts for such period, taken as a single accounting period, of (a) RTOC Consolidated Net Income, (b) Consolidated Non-Cash Charges, (c) Consolidated Interest Expenses, (d) interest on the Rayonier Subordinated Notes (to the extent such interest is deducted in the determination of RTOC Consolidated Net Income) and (e) Consolidated Income Tax Expense.

“Consolidated Fixed Charges” means, with respect to RTOC and its Restricted Subsidiaries for any period, the sum of, without duplication, (a) the amount for such period of Consolidated Interest Expense and (b) the product of (i) the aggregate amount of dividends and other distributions paid or accrued during such period in respect of Preferred Stock and Redeemable Capital Stock of Restricted Subsidiaries on a Consolidated basis and (ii) a fraction, the numerator of which is one and the denominator of which is one minus the then applicable current combined federal, state and local statutory tax rate, expressed as a percentage.

“Consolidated Income Tax Expense” means, with respect to any period, all provisions for federal, state, local and foreign income taxes of RTOC and its Restricted Subsidiaries for such period as determined on a Consolidated basis in accordance with GAAP.

“Consolidated Interest Expense” means, with respect to RTOC and its Restricted Subsidiaries for any period, without duplication, the sum of (a) the interest expense (not including any amounts paid or accrued in respect of any Preferred Stock or Redeemable Capital Stock) of RTOC and its Restricted Subsidiaries for such period as determined on

a Consolidated basis in accordance with GAAP, including, without limitation, (i) any amortization of debt discount, (ii) the net cost under Interest Rate Agreements, (iii) the interest portion of any deferred payment obligation, (iv) all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financings that constitute Debt, and (v) all accrued interest and (b) the interest component of Capital Leases paid, accrued or scheduled to be paid or accrued by RTOC and its Restricted Subsidiaries during such period as determined on a Consolidated basis in accordance with GAAP. Consolidated Interest Expense shall not include interest on the Rayonier Subordinated Notes.

“Consolidated Net Income” means, with respect to any specified Person for any period, Consolidated net income (or loss) of such Person and its Subsidiaries for such period determined on a Consolidated basis in accordance with GAAP; provided that there shall be excluded (a) the income (or deficit) of any other Person accrued prior to the date it becomes a Subsidiary of such specified Person or is merged into or Consolidated with such specified Person or any of its Subsidiaries and (b) the undistributed earnings of any Subsidiary of such specified Person to the extent that the declaration or payment of dividends or similar distributions by such Subsidiary is not at the time permitted by the terms of any contractual obligation or requirement of law applicable to such Subsidiary.

“Consolidated Non-Cash Charges” means, with respect to RTOC and its Restricted Subsidiaries for any period, the aggregate depreciation, depletion, amortization and any other non-cash charges (including, without limitation, the non-cash cost basis of land sold), in each case reducing RTOC Consolidated Net Income for such period, determined on a Consolidated basis in accordance with GAAP.

“Consolidated Tangible Net Worth” means, with respect to any Person as of any date of determination, the excess of total assets over total liabilities, total assets and total liabilities each to be determined in accordance with GAAP, excluding, however, from the determination of total assets, (a) goodwill, experimental or organizational expenses, research and development expenses, franchises, trademarks, service marks, trade names, copyrights, patents, patent applications, licenses and rights in any thereof, and other similar intangibles, (b) all unamortized debt discount and expense, (c) treasury stock and Capital Stock, obligations or other securities of, or capital contributions to, or investments in, any Subsidiary, and (d) any items not included in clauses (a) through (c) above which are treated as intangibles in conformity with GAAP, in each case, determined on a Consolidated basis and in accordance with GAAP.

“Convert”, “Conversion” and “Converted” each refers to a conversion of Revolving Credit Advances of one Type into Revolving Credit Advances of the other Type pursuant to Section 2.09 or 2.10.

“CSFB” means Credit Suisse First Boston.

“Debt” of any Person means, without duplication, (a) all indebtedness of such Person for borrowed money, (b) all obligations of such Person for the deferred purchase price of property or services (other than trade payables incurred in the ordinary course of

such Person's business and that are not overdue for a period that is not consistent with the ordinary course of business of such Person), (c) all obligations of such Person evidenced by notes, bonds, debentures or other similar instruments, (d) all obligations of such Person created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), (e) all obligations of such Person as lessee under leases that have been or should be, in accordance with GAAP, recorded as capital leases, (f) all obligations, contingent or otherwise, of such Person in respect of acceptance, letter of credit or similar facilities (other than obligations under (i) Trade Letters of Credit, (ii) performance bonds or letters of credit issued in connection with the purchase of inventory, including prepaid timber stumpage, by Rayonier or any of its Subsidiaries in the ordinary course of business, (iii) performance bonds or letters of credit to secure obligations under workers' compensation laws or similar legislation, (iv) performance bonds or letters of credit issued for the account of Rayonier or any of its Subsidiaries to secure obligations under self-insurance programs to the extent permitted by the terms of this Agreement and in an aggregate maximum available amount with respect to all such performance bonds and letters of credit not to exceed at any one time \$20,000,000 and (v) performance bonds or letters of credit issued for the account of Rayonier or any of its Subsidiaries not otherwise excluded from this definition in an aggregate maximum available amount with respect to all such performance bonds and letters of credit not to exceed at any one time \$2,000,000, provided that in each case such performance bond or letter of credit (including, without limitation, any Trade Letters of Credit but excluding performance bonds or letters of credit described in clause (f)(v) above) does not secure Debt), (g) all Guarantees issued by such Person and (h) all Debt referred to in clauses (a) through (g) above secured by (or for which the holder of such Debt has an existing right, contingent or otherwise, to be secured by) any Lien on property (including, without limitation, accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Debt. The Debt of any Person shall include the Debt of any partnership in which such Person is a general partner, but shall not include obligations under a financial assurance statement that a Person is required to provide under Environmental Law in support of the closure and post-closure obligations of one or more of its Subsidiaries.

"Default" means any Event of Default or any event that would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

"Default Interest" has the meaning specified in Section 2.07(b).

"Disclosed Litigation" has the meaning specified in Section 4.01(g).

"Domestic Lending Office" means, with respect to any Lender, the office of such Lender specified as its "Domestic Lending Office" opposite its name on Schedule I hereto or in the Assignment and Acceptance pursuant to which it became a Lender, or such other office of such Lender as such Lender may from time to time specify to Rayonier and the Administrative Agent.

“EBITDA” means, for any Person during any period, earnings (income) from continuing operations before the cumulative effect of accounting changes and any provision for dispositions, income taxes, interest expense and depreciation, depletion and amortization and the non-cash cost of timberland and real estate sales, provided, that for purposes of calculating compliance with Section 5.05, the EBITDA attributable to any Person or business unit acquired by Rayonier or any of its Subsidiaries during any period of four full Fiscal Quarters shall be included on a pro forma basis for such period of four full Fiscal Quarters (assuming the consummation of each such acquisition occurred on the first day of such period of four full Fiscal Quarters).

“Eligible Assignee” means (a) any Lender; (b) an Affiliate of a Lender; (c) a commercial bank organized under the laws of the United States, or any State thereof, and having total assets in excess of \$10,000,000,000; (d) a commercial bank organized under the laws of any other country that is a member of the Organization for Economic Cooperation and Development or has concluded special lending arrangements with the International Monetary Fund associated with its General Arrangements to Borrow or of the Cayman Islands, or a political subdivision of any such country, and having total assets in excess of \$10,000,000,000, so long as such bank is acting through a branch or agency located in the country in which it is organized or another country that is described in this clause (d); (e) the central bank of any country that is a member of the Organization for Economic Cooperation and Development; and (f) any other Person approved by the Administrative Agent; provided, however, that (x) each Eligible Assignee shall maintain a branch or representative office or similar presence in the United States and (y) no Borrower nor an Affiliate of any Borrower shall qualify as an Eligible Assignee.

“Environmental Action” means any (a) administrative, regulatory or judicial action, suit, written demand, demand letter, written claim, notice of noncompliance or violation, notice of liability or potential liability, investigation, proceeding, consent order or consent agreement relating in any way to any Environmental Law, Environmental Permit or Hazardous Materials or arising from alleged injury or threat of injury to health, safety or the environment including, without limitation, (i) by any governmental or regulatory authority for enforcement, cleanup, removal, response, remedial or other actions or damages and (ii) by any governmental or regulatory authority for damages, contribution, indemnification, cost recovery, compensatory or injunctive relief; and (b) any administrative, regulatory or judicial action, suit or proceeding brought by any third party properly before a forum of competent jurisdiction relating in any way to any Environmental Law, Environmental Permit or Hazardous Materials or arising from alleged injury or threat of injury to health, safety or the environment.

“Environmental Law” means any federal, state, local or foreign statute, law, ordinance, rule, regulation, code, order, judgment, decree or judicial or agency interpretation, policy or guidance relating to pollution or protection of the environment, health, safety or natural resources, including, without limitation, those relating to the use, handling, transportation, treatment, storage, disposal, release or discharge of Hazardous Materials all as amended or hereafter amended.

“Environmental Permit” means any permit, approval, identification number, license or other authorization required under any Environmental Law.

“ERISA” means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

“ERISA Affiliate” means any Person that for purposes of Title IV of ERISA is a member of any Borrower’s controlled group, or under common control with any Borrower, within the meaning of Section 414 of the Internal Revenue Code.

“ERISA Event” means (a) (i) the occurrence of a reportable event, within the meaning of Section 4043 of ERISA, with respect to any Plan unless the 30-day notice requirement with respect to such event has been waived by the PBGC, or (ii) the requirements of subsection (1) of Section 4043(b) of ERISA (without regard to subsection (2) of such Section) are met with respect to a contributing sponsor, as defined in Section 4001(a)(13) of ERISA, of a Plan, and an event described in paragraph (9), (10), (11), (12) or (13) of Section 4043(c) of ERISA is reasonably expected to occur with respect to such Plan within the following 30 days; (b) the application for a minimum funding waiver with respect to a Plan; (c) the provision by the administrator of any Plan of a notice of intent to terminate such Plan pursuant to Section 4041(a)(2) of ERISA (including any such notice with respect to a plan amendment referred to in Section 4041(e) of ERISA); (d) the cessation of operations at a facility of any Borrower or any of its ERISA Affiliates in the circumstances described in Section 4062(e) of ERISA; (e) the withdrawal by any Borrower or any of its ERISA Affiliates from a Multiple Employer Plan during a plan year for which it was a substantial employer, as defined in Section 4001(a)(2) of ERISA; (f) the conditions for the imposition of a lien under Section 302(f) of ERISA or Section 412 (n) of the Internal Revenue Code shall have been met with respect to any Plan; (g) the adoption of an amendment to a Plan requiring the provision of security to such Plan pursuant to Section 307 of ERISA; or (h) the institution by the PBGC of proceedings to terminate a Plan pursuant to Section 4042 of ERISA, or the occurrence of any event or condition described in Section 4042 of ERISA that could constitute grounds for the termination of, or the appointment of a trustee to administer, a Plan.

“Eurodollar Base Rate” means, with respect to any Eurodollar Rate Advance for any Interest Period, the rate per annum determined by the Administrative Agent at approximately 11:00 a.m. (London time) on the date which is two (2) Business Days prior to the beginning of such Interest Period by reference to the British Bankers’ Association Interest Settlement Rates for deposits in Dollars (as set forth by any service selected by the Administrative Agent which has been nominated by the British Bankers’ Association as an authorized information vendor for the purpose of displaying such rates) for a period equal to such Interest Period; provided that, to the extent that an interest rate is not ascertainable pursuant to the foregoing provisions of this definition, the “Eurodollar Base Rate” shall be the interest rate per annum determined by the Administrative Agent to be the average of the rates per annum at which deposits in Dollars are offered for such Interest Period to major banks in the London interbank market in London, England by the

Administrative Agent at approximately 11:00 a.m. (London time) on the date which is two (2) Business Days prior to the beginning of such Interest Period.

“Eurodollar Lending Office” means, with respect to any Lender, the office of such Lender specified as its “Eurodollar Lending Office” opposite its name on Schedule I hereto or in the Assignment and Acceptance pursuant to which it became a Lender (or, if no such office is specified, its Domestic Lending Office), or such other office of such Lender as such Lender may from time to time specify to Rayonier and the Administrative Agent.

“Eurodollar Rate” means with respect to each day during each Interest Period pertaining to a Eurodollar Rate Advance, a rate per annum determined for such day in accordance with the following formula:

Eurodollar Base Rate

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1.00 - Eurodollar Reserve Requirements

“Eurodollar Rate Advance” means a Revolving Credit Advance that bears interest as provided in Section 2.07(a)(ii).

“Eurodollar Reserve Requirements” means, for any day as applied to a Eurodollar Rate Advance, the aggregate (without duplication) of the rates (expressed as a decimal) of reserve requirements in effect on such day (including, without limitation, basic, supplemental, marginal and emergency reserves) under any regulations of the Board of Governors of the Federal Reserve System or other Governmental Authority having jurisdiction with respect thereto) dealing with reserve requirements prescribed for eurocurrency funding (currently referred to as “Eurocurrency Liabilities” in Regulation D of such Board) maintained by a member bank of such System.

“Events of Default” has the meaning specified in Section 6.01.

“Excess Harvest” means a harvest of Timber (including timber deed, bulk, pay-as-cut and stumpage sales), to the extent in excess in the aggregate of the following limitations: (a) 140% of the Planned Volume during any fiscal year of RTOC, (b) 135% of the Planned Volume during any period of two consecutive fiscal years of RTOC, (c) 130% of the Planned Volume during any period of three consecutive fiscal years of RTOC, (d) 125% of the Planned Volume during any period of four consecutive fiscal years of RTOC, and (e) 120% of the Planned Volume during any period of five consecutive fiscal years of RTOC. In the event that RTOC or any of its Restricted Subsidiaries sells Timber pursuant to a timber deed, bulk, pay-as-cut or stumpage contract, the Timber shall be deemed harvested in equal monthly amounts over the life of the contract, regardless of when the purchaser actually severs the Timber.

“Excess Harvest Offer” has the meaning specified in Section 5.04(d).

“Excess Harvest Proceeds” has the meaning specified in Section 5.04(d).

“Existing Credit Agreements” means, collectively, (a) Three Year Credit Agreement dated as of November 19, 2001 by and among Rayonier, as borrower, lenders from time to time parties thereto and Citibank, N.A., as administrative agent and (b) the Credit Agreement dated as of October 25, 1999 by and among RTOC, as borrower, lenders from time to time parties thereto and Credit Suisse First Boston, acting through its New York Branch, as administrative agent.

“Existing Subsidiary Debt” has the meaning specified in Section 5.03(e)(iii).

“Facility Fee” means, as of any date, a percentage per annum determined by reference to the Public Debt Rating in effect on such date as set forth below:

<u>Public Debt Rating S&amp;P/Moody's</u>	<u>Facility Fee</u>
Level 1 BBB+ or Baa1 or above	0.175%
Level 2 Lower than Level 1 but at least BBB or Baa2	0.200%
Level 3 Lower than Level 2 but at least BBB - and Baa3	0.250%
Level 4 Lower than Level 3 but at least BBB - or Baa3	0.300%
Level 5 Lower than Level 4 but at least BB+ and Ba1	0.375%
Level 6 Lower than Level 5	0.500%

“Fair Market Value” means, at any time and with respect to any property, the sale value of such property that would be realized in an arm’s-length sale at such time between an informed and willing buyer and an informed and willing seller (neither being under a compulsion to buy or sell).

“Federal Funds Rate” means for any particular date, the rate per annum (rounded upwards, if necessary, to the nearest 1/100 of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, and (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate charged to

the Administrative Agent (in its individual capacity) on such day on such transactions as determined by the Administrative Agent.

“Fiscal Quarter” means each consecutive three calendar month period ending March 31, June 30, September 30 or December 31 of any fiscal year.

“Funds From Operations,” for any period, means Consolidated Net Income of Rayonier for such period, excluding, without duplication, (i) gains (or losses) from debt restructuring, sales of depreciable property not in the ordinary course of business or extraordinary items and (ii) gains (or losses) on investments in marketable securities, and plus, without duplication, (i) depletion, depreciation and amortization (excluding amortization of financing costs) of Consolidated Assets of Rayonier and its Subsidiaries and (ii) non-cash costs of timberland sales (to the extent not constituting previously depreciated operating property), in each case for such period.

“GAAP” has the meaning specified in Section 1.03.

“Governmental Authority” means any national government (United States or foreign), any state or other political subdivision thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government and any agency, authority, instrumentality, or regulatory body of any thereof.

“Guarantee” by any Person, means any obligation, contingent or otherwise, of such Person guaranteeing directly or indirectly in any manner the Debt of any other Person, or in effect guaranteeing directly or indirectly the Debt of any other Person through an agreement (i) to pay or purchase such Debt or to advance or supply funds for the payment or purchase of such Debt, (ii) to purchase, sell or lease (as lessee or lessor) property, or to purchase or sell services, primarily for the purpose of enabling the debtor to make payment of such Debt or to assure the holder of such Debt against loss, (iii) to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether such property is received or such services are rendered) or (iv) otherwise to assure a creditor against loss.

“Guarantee Agreement” means a guarantee agreement among Rayonier and TRS as guarantors and CSFB, as administrative agent, pursuant to which Rayonier guarantees all obligations of each of TRS and RTOC under this Agreement and TRS guarantees all obligations of Rayonier under this Agreement, such agreement to be substantially in the form of Exhibit C-1 hereto.

“Hazardous Materials” means petroleum and petroleum products, byproducts or breakdown products, radioactive materials, asbestos-containing materials, polychlorinated biphenyls and radon gas and any other chemicals, materials or substances designated, classified or regulated as being “hazardous” or “toxic” or words of similar import, under any applicable Environmental Law.

“Indemnified Costs” has the meaning specified in Section 7.05.

“Indemnified Party” has the meaning specified in Section 8.04(b).

“Installment Notes” means (a) \$112,500,000 aggregate principal amount of the RTOC’s Series A Senior Notes due December 31, 2007, (b) \$147,500,000 aggregate principal amount of the RTOC’s Series B Senior Notes due December 31, 2009, (c) \$112,500,000 aggregate principal amount of the RTOC’s Series C Senior Notes due December 31, 2011, and (d) \$112,500,000 aggregate principal amount of the RTOC’s Series D Senior Notes due December 31, 2014, all issued pursuant to the Installment Note Agreement.

“Installment Note Agreement” means the Note Purchase Agreement dated as of October 25, 1999, between RTOC and Timber Capital Holdings LLC, as amended from time to time.

“Insufficiency” means, with respect to any Plan, the amount, if any, of its unfunded benefit liabilities, as defined in Section 4001(a)(18) of ERISA.

“Interest Period” means, for each Eurodollar Rate Advance comprising part of the same Revolving Credit Borrowing, the period commencing on the date of such Eurodollar Rate Advance or the date of the Conversion of any Alternate Base Rate Advance into such Eurodollar Rate Advance and ending on the last day of the period selected by a Borrower pursuant to the provisions below and, thereafter, each subsequent period commencing on the last day of the immediately preceding Interest Period and ending on the last day of the period selected by such Borrower pursuant to the provisions below, provided, however, that if the applicable Borrower shall fail to select the duration of such subsequent period pursuant to the provisions below, such Eurodollar Rate Advance shall be automatically converted to an Alternate Base Rate Advance on the last day of such then expiring Interest Period. The duration of each Interest Period shall be one, two, three or six months, as the Borrower may, upon notice received by the Administrative Agent not later than 12:00 Noon (New York City time) on the third Business Day prior to the first day of such Interest Period, select; provided, however, that:

(a) a Borrower may not select any Interest Period that ends after the Termination Date;

(b) Interest Periods commencing on the same date for Eurodollar Rate Advances comprising part of the same Revolving Credit Borrowing shall be of the same duration;

(c) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day, provided, however, that, if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day; and

(e) whenever the first day of any Interest Period occurs on a day of an initial calendar month for which there is no numerically corresponding day in the

calendar month that succeeds such initial calendar month by the number of months equal to the number of months in such Interest Period, such Interest Period shall end on the last Business Day of such succeeding calendar month.

“Interest Rate Agreement” means any interest rate swap agreement, interest rate cap agreement, interest rate collar agreement or other similar agreement or arrangement designated to protect RTOC or any Restricted Subsidiary from fluctuations in interest rates.

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended from time to time.

“Investment” means as applied to any Person, any direct or indirect purchase or other acquisition by such Person of stock or other securities of any other Person, or any direct or indirect loan, advance or capital contribution by such Person to any other Person, and any other item which would be classified as an “investment” on a balance sheet of such Person prepared in accordance with GAAP, including, without limitation, any direct or indirect contribution by such Person of property or assets to a joint venture, partnership or other business entity in which such Person retains an interest (it being understood that a direct or indirect purchase or other acquisition by such Person of assets of any other Person (other than stock or other securities) shall not constitute an Investment). The amount involved in Investments made during any period shall be the aggregate cost to RTOC and its Restricted Subsidiaries of all such Investments made during such period, determined in accordance with GAAP, but without regard to unrealized increases or decreases in value, or write-ups, write-downs or write-offs, of such Investments and without regard to the existence of any undistributed earnings or accrued interest with respect thereto accrued after the respective dates on which such Investments were made, less any net return of capital realized during such period upon the sale, repayment or other liquidation of such Investments (determined in accordance with GAAP, but without regard to any amounts received during such period as earnings (in the form of dividends not constituting a return of capital, interest or otherwise) on such Investments or as loans from any Person in whom such Investments have been made). Notwithstanding the foregoing, if RTOC shall at any time designate any Restricted Subsidiary as an Unrestricted Subsidiary, the amount of the Investment in such newly designated Unrestricted Subsidiary arising at such time by reason of such designation shall be the portion of the Fair Market Value of the net assets of such Subsidiary allocable to RTOC’s equity interest in such Subsidiary at the time that such Subsidiary is designated an Unrestricted Subsidiary.

“Issuing Bank” means each Lender selected by Rayonier which agrees to act (pursuant to a written agreement among (and in form and substance acceptable to) such Lender, Rayonier and the Administrative Agent) as an Issuing Bank, in its capacity as issuer of Letters of Credit hereunder and which by execution of an agreement referred to above shall become a party hereto, and each of their successors in such capacity as provided in Section 2.03(h).

“LC Commitment” of an Issuing Bank means, as of any date, the amount mutually agreed between such Issuing Bank and Rayonier, not to exceed \$50,000,000.

“LC Disbursement” means a payment made by the Issuing Bank pursuant to a Letter of Credit.

“LC Exposure” means, at any time, the sum of (a) the aggregate undrawn amount of all outstanding Letters of Credit at such time plus (b) the aggregate amount of all LC Disbursements that have not yet been reimbursed by or on behalf of the applicable Borrower at such time. The LC Exposure of any Lender at any time shall be its Commitment Percentage of the total LC Exposure at such time.

“Lenders” means the Lenders party hereto and each Person that shall become a party hereto pursuant to Section 8.07.

“Letters of Credit” means the letters of credit issued pursuant to Section 2.03(a).

“Lien” means any lien, security interest or other charge or encumbrance of any kind, or any other type of preferential arrangement, including, without limitation, the lien or retained security title of a conditional vendor and any easement, right of way or other encumbrance on title to real property.

“Loan Documents” means collectively, this Agreement, the Guarantee Agreement, RTOC Subsidiary Guarantee Agreement, TRS Subsidiary Guarantee Agreement, the Notes (if any) and each other agreement, instrument or certificate (other than an Assignment and Acceptance, pursuant to which the assignor therein sells and/or assigns an interest under this Agreement) issued, executed and delivered to the Administrative Agent, any Issuing Bank, or the Lenders hereunder or thereunder or pursuant hereto or thereto (in each case as the same may be amended, restated, supplemented, extended, renewed or replaced from time to time), and “Loan Document” means any one of them.

“Loan Event” has the meaning specified in Section 3.02.

“Loan Parties” means, collectively, (i) each Borrower, (ii) so long as such Subsidiary remains (or is required to be) party to the RTOC Subsidiary Guarantee Agreement, each RTOC Subsidiary Guarantor, and (iii) so long as such Subsidiary remains (or is required to be) party to the TRS Subsidiary Guarantee Agreement, each TRS Subsidiary Guarantor.

“Managing General Partner” means the managing general partner of RTOC, which on the date hereof is Rayonier Timberlands Management, Inc. and any successor thereto.

“Material Adverse Change” means any material adverse change in the business, condition (financial or otherwise), operations, performance or properties of Rayonier and its Subsidiaries taken as a whole.

“Material Adverse Effect” means a material adverse effect on (a) the business, condition (financial or otherwise), operations, performance or properties of Rayonier and its Subsidiaries taken as a whole, (b) the rights and remedies of the Administrative Agent or any Lender or Issuing Bank under this Agreement, any Note or any other Loan Document or (c) the ability of any Borrower to perform its obligations under this Agreement, any Note or any other Loan Document.

“Moody’s” means Moody’s Investors Service, Inc.

“MTNs” means Rayonier’s Medium Term Notes due 2004.

“Multiemployer Plan” means a multiemployer plan, as defined in Section 4001(a)(3) of ERISA, to which any Borrower or any of its ERISA Affiliates is making or accruing an obligation to make contributions, or has within any of the preceding five plan years made or accrued an obligation to make contributions.

“Multiple Employer Plan” means a single employer plan, as defined in Section 4001(a)(15) of ERISA, that (a) is maintained for employees of any Borrower or any ERISA Affiliate and at least one Person other than such Borrower and its ERISA Affiliates or (b) was so maintained and in respect of which any Borrower or any of its ERISA Affiliates could have liability under Section 4064 or 4069 of ERISA in the event such plan has been or were to be terminated.

“Net Proceeds” means, with respect to any Excess Harvest, the proceeds thereof in the form of cash or cash equivalents, including payments in respect of deferred payment obligations when received in the form of cash or cash equivalents (except to the extent that such deferred payment obligations are financed or sold with recourse to RTOC or any Restricted Subsidiary), net of (a) brokerage commissions and other fees and expenses (including, without limitation, fees and expenses of legal counsel and accountants and fees, expenses, discounts or commissions of underwriters, placement agents and investment bankers) related to such Excess Harvest, (b) provisions for all taxes payable as a result of such Excess Harvest, (c) amounts required to be paid to any Person (other than RTOC or any Restricted Subsidiary) owning a beneficial interest in the assets subject to such Excess Harvest, (d) appropriate amounts to be provided by RTOC or any Restricted Subsidiary, as the case may be, as a reserve required in accordance with GAAP against liabilities associated with such Excess Harvest and retained by RTOC or any Restricted Subsidiary, as the case may be, after such Excess Harvest, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Excess Harvest, and (e) amounts required to be applied to the repayment of Debt secured by a Lien on the asset or assets sold in such Excess Harvest.

“Note” means a revolving credit promissory note of the applicable Borrower payable to the order of any Lender, delivered pursuant to a request made under Section 2.17, in substantially the form of Exhibit A hereto, evidencing the aggregate

indebtedness of such Borrower to such Lender resulting from the Revolving Credit Advances made by such Lender.

“Notice of Revolving Credit Borrowing” has the meaning specified in Section 2.02(a).

“NPL” has the meaning specified in Section 4.01(m).

“Other Taxes” has the meaning specified in Section 2.15(b).

“Payment Restrictions” has the meaning specified in Section 5.04(e).

“PBGC” means the Pension Benefit Guaranty Corporation (or any successor).

“Permitted Liens” means such of the following as to which no enforcement, collection, execution, levy or foreclosure proceeding shall have been commenced: (a) Liens for taxes, assessments and governmental charges or levies to the extent not required to be paid under Section 5.01(b) hereof; (b) Liens imposed by law, such as materialmen’s, mechanics’, carriers’, workmen’s and repairmen’s Liens and other similar Liens arising in the ordinary course of business securing obligations that are not overdue for a reasonable period and which, individually or when aggregated with all other Permitted Liens outstanding on any date, do not materially affect the use of the property to which they relate; (c) pledges or deposits to secure obligations under workers’ compensation laws or similar legislation or to secure public or statutory obligations; and (d) easements, rights of way, encumbrances and minor defects or irregularities in title to real property not interfering in any material respect with the ordinary conduct of the business of any Borrower or any of its Subsidiaries.

“Person” means an individual, partnership, corporation (including a business trust), limited liability company, joint stock company, trust, unincorporated association, joint venture or other entity, or a government or any political subdivision or agency thereof.

“Plan” means a Single Employer Plan or a Multiple Employer Plan.

“Planned Volume” means 6,700,000 tons for the calendar year 2000 and shall increase 2% per year thereafter. In the event of the acquisition of merchantable Timber or Timberlands (other than in like-kind exchange of Timber or Timberlands for other Timber or Timberlands and other than Timber or Timberlands acquired with the Net Proceeds of an Excess Harvest) constituting an Asset Acquisition, Planned Volume will be increased for 10 years by 10% of the volume of merchantable Timber so acquired; provided that if such Asset Acquisition is made under a cutting contract with a term of less than 10 years, Planned Volume will be increased for each year during the term of the cutting contract by a number of tons equal to the number of tons so acquired multiplied by the quotient of 100% divided by the numbers of years in the cutting contract. In the event of a disposition of merchantable Timber or Timberlands constituting an Asset Sale, Planned Volume will be reduced by 10% of the volume of merchantable Timber sold in such Asset Sale. In the event of an Excess Harvest, Planned Volume will be reduced by

10% of the amount of the Excess Harvest. For the purpose of this definition, all volumes of Timber harvested that are denominated in board feet shall be converted to tons on the basis of 7.2 tons per thousand board feet.

“Preferred Stock”, as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated), which is preferred as to the payment of distributions, dividends, or upon and voluntary or involuntary liquidation or dissolution of such Person, over shares or units of Capital Stock of any other class of such Person.

“Public Debt Rating” means, as of any date, the highest rating that has been most recently announced by either S&P or Moody’s, as the case may be, for any class of non-credit enhanced long-term senior unsecured debt issued by Rayonier. For purposes of the foregoing, (a) if only one of S&P and Moody’s shall have in effect a Public Debt Rating, the Applicable Margin, the Facility Fee and the Applicable Utilization Fee shall be determined by reference to the available rating; (b) if neither S&P nor Moody’s shall have in effect a Public Debt Rating, the Applicable Margin, the Facility Fee and the Applicable Utilization Fee will be set in accordance with Level 6 under the definition of “Applicable Margin”, “Facility Fee” or “Applicable Utilization Fee”, as the case may be; (c) if any rating established by S&P or Moody’s shall be changed, such change shall be effective as of the date on which such change is first announced publicly by the rating agency making such change; and (d) if S&P or Moody’s shall change the basis on which ratings are established, each reference to the Public Debt Rating announced by S&P or Moody’s, as the case may be, shall refer to the then equivalent rating by S&P or Moody’s, as the case may be.

“Rayland” has the meaning specified in Section 5.01(l)(i).

“Rayonier Subordinated Notes” means Subordinated Debt owed by RTOC on the Closing Date to Rayonier or its Affiliates with the terms specified in Schedule 1.01-1.

“Redeemable Capital Stock” means any shares of any class or series of Capital Stock, that, either by the terms thereof, by the terms of any security into which it is convertible or exchangeable or by contract or otherwise, is or upon the happening of an event or passage of time would be, (i) required to be redeemed prior to the Termination Date, (ii) redeemable at the option of the holder thereof at any time prior to the Termination Date, or (iii) convertible into or exchangeable for debt securities at any time prior to the Termination Date.

“Refinancing” means those events specified in Section 3.01(c).

“Register” has the meaning specified in Section 8.07(d).

“REIT” means a real estate investment trust.

“REIT Effective Date” means January 1, 2004, the date starting from which Rayonier becomes eligible to elect to be taxed as a REIT.

“REIT Qualifying Distribution” means a dividend distribution to Rayonier’s shareholders representing accumulated tax earnings and profits of Rayonier accrued prior to the REIT Effective Date which distribution is required in order to qualify for status of a REIT in compliance with all applicable provisions of the Internal Revenue Code (of which not more than an amount equal to approximately 20% of the aggregate value of the total distribution shall be in cash (but in any event such cash amount shall not exceed \$100,000,000) and the remainder shall be in Capital Stock of Rayonier).

“Required Lenders” means at any time Lenders owed at least a majority in interest of the then aggregate unpaid principal amount of the Revolving Credit Advances and LC Exposure owing to Lenders, or, if no such principal amount is then outstanding, Lenders having at least a majority in interest of the Commitments.

“Restricted Subsidiary” means any Subsidiary of RTOC which, as of the date of determination, is not an Unrestricted Subsidiary.

“Restructuring” means (i) the transfer (or series of consecutive transfers), by way of contribution, dividend or otherwise, of businesses, assets or rights of Rayonier or any of its wholly owned Subsidiaries (including without limitation any Capital Stock in any Subsidiary) to Rayonier or any of its wholly owned Subsidiaries, (ii) the assumption (or series of consecutive assumptions), by way of novation, guaranty or otherwise, of existing liabilities and obligations of Rayonier or any of its wholly owned Subsidiaries by Rayonier or any of its wholly owned Subsidiaries and (iii) the payment of the REIT Qualifying Distribution, in each case as Rayonier, in its reasonable judgment, deems necessary or appropriate in order for Rayonier to become eligible to elect to be taxed as a REIT from and after the REIT Effective Date. For illustrative purposes only, Schedule 1.01-2 sets forth the series of such transfers and assumptions as currently contemplated as of the date hereof.

“Revolving Credit Advance” means an advance by a Lender to any Borrower as part of a Revolving Credit Borrowing and refers to a Alternate Base Rate Advance or a Eurodollar Rate Advance (each of which shall be a “Type” of Revolving Credit Advance).

“Revolving Credit Borrowing” means a borrowing consisting of simultaneous Revolving Credit Advances of the same Type made by each of the Lenders pursuant to Section 2.01.

“RTOC Consolidated Fixed Charge Coverage Ratio” means, with respect to RTOC and its Restricted Subsidiaries, the ratio of the aggregate amount of Consolidated Cash Flow Available for Fixed Charges for the most recent four full Fiscal Quarters for which financial information in respect thereof is available immediately preceding the date of the transaction (the “Transaction Date”) giving rise to the need to calculate the RTOC Consolidated Fixed Charge Coverage Ratio (such most recent four full Fiscal Quarter period being referred to herein as the “Four Quarter Period”) to the aggregate amount of Consolidated Fixed Charges for the Four Quarter Period. In addition to and without limitation of the foregoing, for purposes of this definition, “Consolidated Cash Flow

Available for Fixed Charges” and “Consolidated Fixed Charges” shall be calculated after giving effect on a pro forma basis for the period of such calculation to, without duplication (a) the incurrence or repayment of any Debt of RTOC or any of its Restricted Subsidiaries (and, in the case of any incurrence, the application of the net proceeds thereof) during the period commencing on the first day of the Four Quarter Period to and including the Transaction Date (the “Reference Period”), including, without limitation, the incurrence of the Debt giving rise to the need to make such calculation (and the application of the net proceeds thereof), as if such incurrence (and application) occurred on the first day of the Reference Period (including any actual interest payments made with respect to Debt under the Working Capital Facility), and (b) any Asset Sales or Asset Acquisitions (including, without limitation, any Asset Acquisition giving rise to the need to make such calculation as a result of RTOC or one of its Restricted Subsidiaries (including any Person who becomes a Restricted Subsidiary as a result of the Asset Acquisition) incurring, assuming or otherwise being liable for Acquired Debt) occurring during the Reference Period, as if such Asset Sale or Asset Acquisition occurred on the first day of the Reference Period; provided, however, that (i) Consolidated Fixed Charges shall be reduced by amounts attributable to businesses or assets that are so disposed of or discontinued only to the extent that the obligations giving rise to such Consolidated Fixed Charges would no longer be obligations contributing to the Consolidated Fixed Charges subsequent to the date of determination of the Consolidated Fixed Charge Coverage Ratio and (ii) Consolidated Cash Flow Available for Fixed Charges generated by an acquired business or asset shall be determined (x) in the case of an Asset Acquisition of Timber or Timberlands by RTOC or a Restricted Subsidiary during such period, by using the projected net cash flow of the Timber or Timberlands so acquired, based on the harvest plan prepared in the ordinary course of business and in good faith by the Managing General Partner, for the first 12 full months of operations of the acquired Timber or Timberlands following the date of the Asset Acquisition; provided that such harvest plan shall not assume the harvesting or sale of more than 10% (or, in the case of an acquisition under a cutting contract with a term of less than 10 years, such higher percentage as shall be equal to the quotient of 100% divided by the term of such cutting contract (expressed in years)) of the total merchantable Timber so acquired in the first 12 full months following the date of the Asset Acquisition; and provided further, in determining projected cash flow from acquired Timber or Timberlands, prices shall be assumed to equal the average prices realized by RTOC for comparable Timber sold during such prior period, and (y) in the case of all other Asset Acquisitions during such period, by using the actual gross profit (revenues minus cost of goods sold) of such acquired business or asset during the Four Quarter Period minus the pro forma expenses that would have been incurred by RTOC and its Restricted Subsidiaries in the operation of such acquired business or asset during such period computed on the basis of personnel expenses for employees retained or to be retained by RTOC and its Restricted Subsidiaries in the operation of the acquired business or asset and non-personnel costs and expenses incurred by RTOC and its Restricted Subsidiaries in the operation of RTOC’s business at similarly situated facilities. If the applicable Reference Period for any calculation of the RTOC Consolidated Fixed Charge Coverage Ratio shall include a portion prior to the Closing Date, then such RTOC Consolidated Fixed Charge Coverage Ratio shall be calculated based upon the Consolidated Cash Flow Available for Fixed Charges and the

Consolidated Fixed Charges of RTOC on a pro forma basis for such portion of the Reference Period prior to the Closing Date, giving effect to the transactions occurring on the Closing Date, and the Consolidated Cash Flow Available for Fixed Charges and the Consolidated Fixed Charges for the remaining portion of the Reference Period on and after the Closing Date, giving pro forma effect, as described in the two foregoing sentences, to all applicable transactions occurring on the Closing Date or otherwise. Furthermore, in calculating “Consolidated Fixed Charges” for purposes of determining the “RTOC Consolidated Fixed Charge Coverage Ratio” (i) interest on outstanding Debt (other than Debt referred to in clause (ii) below) determined on a fluctuating basis as of the last day of the Four Quarter Period and which will continue to be so determined thereafter shall be deemed to have accrued at a fixed rate per annum equal to the rate of interest on such Debt in effect on such date; (ii) only actual interest payments associated with Debt incurred in accordance with clause (d) of the definition of RTOC Permitted Debt and all RTOC Permitted Refinancing Debt in respect thereof, during the Four Quarter Period shall be included in such calculation; and (iii) if interest of any Debt actually incurred on such date may optionally be determined at an interest rate based upon a factor of a prime or similar rate, a eurocurrency interbank offered rate, or other rates, then the interest rate in effect on the last day of the Four Quarter Period will be deemed to have been in effect during such period.

“RTOC Consolidated Net Income” means the net income of RTOC and its Restricted Subsidiaries, as determined on a consolidated basis in accordance with GAAP and as adjusted to exclude (a) net after-tax extraordinary gains or losses, and (b) net after-tax gains or losses attributable to Asset Sales to the extent that Net Proceeds therefrom result in the aggregate Net Proceeds received by RTOC or any Restricted Subsidiary from all Asset Sales since the Closing Date exceeding the Adjusted Asset Sales Amount, (c) the net income or loss of any Person which is not a Restricted Subsidiary and which is accounted for by the equity method of accounting, provided that RTOC Consolidated Net Income shall include the amount of dividends or distributions actually paid to RTOC or any Restricted Subsidiary, (d) the net income or loss prior to the date of acquisition of any Person combined with RTOC or any Restricted Subsidiary in a pooling of interest, (e) the net income of any Restricted Subsidiary to the extent that dividends or distributions of such net income are not at the date of determination permitted by the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule, or other regulation and (f) the cumulative effect of any changes in accounting principles.

“RTOC Permitted Debt” means “Permitted Debt” as such term is defined in the Installment Note Agreement as in existence as of the date hereof.

“RTOC Permitted Investments” means, at any time, all of the following:

(a) Investments made or owned by RTOC or any Restricted Subsidiary in (i) any evidence of Debt with a maturity of 365 days or less issued by or directly, fully and unconditionally guaranteed or insured by the United States of America or any agency or instrumentality thereof (provided that the full faith and credit of the United States of America is pledged in support thereof); (ii) deposits, certificates of deposit or acceptances with a maturity of 365 days or less of any institution that is a member of the Federal

Reserve System having combined capital and surplus and undivided profits of not less than \$500,000,000; (iii) commercial paper with a maturity of 365 days or less issued by a corporation (other than an Affiliate of RTOC) incorporated or organized under the laws of the United States or any state thereof or the District of Columbia and rated at least A-1 by S&P or P-1 by Moody's; (iv) repurchase agreements and reverse repurchase agreements relating to marketable direct obligations issued by or directly, fully and unconditionally guaranteed or insured by the United States of America or any agency or instrumentality thereof (provided that the full faith and credit of the United States of America is pledged in support thereof), in each case maturing within 365 days from the date of acquisition; (v) marketable direct obligations issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof maturing within one year from the date of acquisition thereof and having as at such date the highest rating obtainable from either S&P or Moody's; or (vi) money market mutual or similar funds that invest in obligations referred to in clauses (i) through (v) of this definition, in each case having assets in excess of \$100,000,000;

(b) the acquisition by RTOC or any Restricted Subsidiary of Capital Stock or other ownership interests, whether in a single transaction or in a series of related transactions, of a Person engaged in substantially the same business as RTOC such that upon the completion of such transaction or series of transactions, such Person becomes a Restricted Subsidiary;

(c) the making or ownership by RTOC or any Restricted Subsidiary of Investments (in addition to Investments permitted by subdivisions (a), (b), (d), (e), (f) and (g)) in any Person which is engaged in substantially the same business as RTOC, provided that the aggregate amount of all such Investments made by RTOC and its Restricted Subsidiaries following the Closing Date and outstanding pursuant to this subdivision (c) shall not at any date of determination exceed 10% of Consolidated total assets of RTOC and its Restricted Subsidiaries (the "Investment Limit"), provided that, in addition to Investments that would be permitted under the Investment Limit, during any fiscal year RTOC and its Restricted Subsidiaries may invest up to \$100,000,000 (the "Annual Limit") pursuant to the provisions of this subdivision (c), but the unused amount of the Annual Limit shall not be carried over to any future years;

(d) the making or ownership by RTOC or any Restricted Subsidiary of Investments (i) arising out of loans and advances to employees incurred in the ordinary course of business, (ii) arising out of extensions of trade credit or advances to third parties in the ordinary course of business and (iii) acquired by reason of the exercise of customary creditors rights upon default or pursuant to the bankruptcy, insolvency or reorganization of a debtor;

(e) the creation or incurrence of liability by RTOC or any Restricted Subsidiary with respect to any Guarantee constituting an obligation, warranty or indemnity, not guaranteeing Debt of any Person, which is undertaken or made in the ordinary course of business;

(f) the creation or incurrence of liability by RTOC or any Restricted Subsidiary with respect to any Interest Rate Agreements;

(g) the guarantees by RTOC Subsidiary Guarantors of all obligations of RTOC hereunder and the guarantees by applicable RTOC's Subsidiaries of the Installment Notes (and, in each case, any assumption of the obligations guaranteed thereby), and the making by RTOC or any Restricted Subsidiary of Investments in RTOC or another Restricted Subsidiary; and

(h) investments existing on the date hereof and set forth on Schedule 5.04(b).

“RTOC Permitted Refinancing Debt” means “Permitted Refinancing Debt” as such term is defined in the Installment Note Agreement as in existence as of the date hereof.

“RTOC Restricted Payments” has the meaning specified in Section 5.04(b).

“RTOC Subsidiary Guarantee Agreement” means a guarantee agreement among certain Subsidiaries of RTOC as guarantors and CSFB, as administrative agent, pursuant to which each such Subsidiary guarantees all obligations of RTOC under this Agreement, such agreement to be substantially in the form of Exhibit C-2 hereto.

“RTOC Subsidiary Guarantor” means each Subsidiary of RTOC which is then a party to the RTOC Subsidiary Guarantee Agreement as a guarantor.

“Sale and Leaseback Transaction” of any Person (a “Transferor”) means any arrangement (other than between RTOC and a Restricted Subsidiary or between Restricted Subsidiaries) whereby (a) property (the “Subject Property”) has been or is to be disposed of by such Transferor to any other Person with the intention on the part of such Transferor of taking back a lease of such Subject Property pursuant to which the rental payments are calculated to amortize the purchase price of such Subject Property substantially over the useful life of such Subject Property, and (b) such Subject Property is in fact so leased by such Transferor or an Affiliate of such Transferor.

“SEC” means the Securities and Exchange Commission.

“Securities Act” means the Securities Act of 1933, as amended from time to time.

“Security” has the meaning set forth in section 2(a)(1) of the Securities Act.

“Senior Debt” means Debt of RTOC or any of its Restricted Subsidiaries which is not Subordinated Debt.

“Single Employer Plan” means a single employer plan, as defined in Section 4001(a)(15) of ERISA, that (a) is maintained for employees of any Borrower or any of its ERISA Affiliates and no Person other than such Borrower and its ERISA Affiliates or (b) was so maintained and in respect of which any Borrower or any of its ERISA Affiliates

could have liability under Section 4069 of ERISA in the event such plan has been or were to be terminated.

“S&P” means Standard & Poor’s, a division of The McGraw-Hill Companies, Inc.

“Stated Maturity” means when used with respect to any Debt, the date or dates specified in the instrument governing such Debt as the fixed date or dates on which each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of such Debt, or any installment of interest thereon, is due and payable.

“Subordinated Debt” means Debt of RTOC and any RTOC Subsidiary Guarantor which is expressly subordinated in right of payment to its obligations hereunder and under the RTOC Subsidiary Guarantee Agreement.

“Subsidiary” (a) of RTOC means (i) a corporation a majority of whose Voting Stock (or, in the case of a partnership, a majority of the partners’ Capital Stock, considering all partners’ Capital Stock as a single class) is at the time, directly or indirectly, owned by RTOC, by one or more Subsidiaries of RTOC or by RTOC and one or more Subsidiaries thereof, and (ii) any other Person, including, without limitation, a joint venture, in which RTOC, one or more Subsidiaries thereof or RTOC and one or more Subsidiaries thereof, directly or indirectly, at the date of determination thereof, has at least majority ownership interest entitled to vote in the election of directors, managers, general partners or trustees thereof (or other Person performing similar functions) or, if such Persons are not elected, to vote on any matter that is submitted to the vote of all Persons holding ownership interests in such entity, and (iii) a corporation or any other Person substantially all the equity interest in which (whether or not a voting interest) is at the time, directly or indirectly, owned by RTOC, by one or more Subsidiaries of RTOC or by RTOC and one or more Subsidiaries thereof (for purposes of this definition, any directors qualifying shares or investments by foreign nationals mandated by applicable law shall be disregarded in determining the ownership of a Subsidiary), and (b) of any Person (other than RTOC) means any corporation, partnership, joint venture, limited liability company, trust or estate of which (or in which) more than 50% of (i) the issued and outstanding Capital Stock having ordinary voting power to elect a majority of the Board of Directors of such corporation (irrespective of whether, at the time, Capital Stock of any other class or classes of such corporation shall or might have voting power upon the occurrence of any contingency), (ii) the interest in the capital or profits of such partnership, joint venture or limited liability company or (iii) the beneficial interest in such trust or estate is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more of its other Subsidiaries or by one or more of such Person’s other Subsidiaries.

“Subsidiary Guarantors” means, collectively, the TRS Subsidiary Guarantors and the RTOC Subsidiary Guarantors.

“Taxes” has the meaning specified in Section 2.15(a).

“Termination Date” means the earlier of (a) November 24, 2006 and (b) the date of termination in whole of the Commitments pursuant to Section 2.05 or 6.01.

“Timber” means all crops and all trees, timber, whether severed or unsevered and including standing and down timber, stumps and cut timber, logs, wood chips and other forest products, whether now located on or hereafter planted or growing in or on the Timberlands or otherwise or now or hereafter removed from the Timberlands or otherwise for sale or other disposition.

“Timberlands” means, at any date of determination, all real property owned by or leased to RTOC that is suitable for Timber production.

“Trade Letter of Credit” means any letter of credit that is issued for the benefit of a supplier of inventory or provider of a service related to for the conduct of the business of any Borrower or any of its Subsidiaries (other than any financial services) to such Borrower or any of its Subsidiaries to effect payment for such inventory or service.

“Transactions” means the Restructuring, the Refinancing, the entering into the Loan Documents and borrowing hereunder and each of the other transactions entered into and consummated in connection with any of the foregoing.

“TRS Subsidiary Guarantee Agreement” means a guarantee agreement among certain subsidiaries of TRS as guarantors and CSFB, as administrative agent, pursuant to which each such Subsidiary guarantees all obligations of TRS under this Agreement and the Guarantee Agreement, such agreement to be substantially in the form of Exhibit C-3 hereto.

“TRS Subsidiary Guarantor” means each Subsidiary of TRS which is then a party to the TRS Subsidiary Guarantee Agreement as a guarantor.

“Unrestricted Subsidiary” means any Subsidiary of RTOC or a Restricted Subsidiary that is designated as such by the Managing General Partner, provided that no portion of the Debt or any other obligation (contingent or otherwise) of such Subsidiary (a) is guaranteed by RTOC or any Restricted Subsidiary, (b) is recourse to or obligates RTOC or any Restricted Subsidiary in any way or (c) subjects any property or assets of RTOC or any Restricted Subsidiary, directly or indirectly, contingently or otherwise, to the satisfaction thereof. Notwithstanding the foregoing, RTOC or a Restricted Subsidiary may Guarantee or agree to provide funds for the payment or maintenance of, or otherwise become liable with respect to Debt of an Unrestricted Subsidiary, but only to the extent that RTOC or a Restricted Subsidiary would be permitted to (a) make an Investment in an amount equal to the Debt represented by such Guarantee or agreement in such Unrestricted Subsidiary pursuant to subdivision (c) of the definition of RTOC Permitted Investments and (b) incur the Debt represented by such Guarantee or agreement pursuant to Section 5.04(a). The Managing General Partner may designate an Unrestricted Subsidiary to be a Restricted Subsidiary, provided that immediately after giving effect to such designation (a) there exists no Default or Event of Default, and (b) if such Unrestricted Subsidiary has, as of the date of such designation, outstanding Debt (other

than RTOC Permitted Debt), RTOC could incur at least \$1.00 of Debt (other than RTOC Permitted Debt). Notwithstanding the foregoing, no Subsidiary may be designated an Unrestricted Subsidiary if such Subsidiary, directly or indirectly, holds Capital Stock of a Restricted Subsidiary.

“Voting Stock” means (a) with respect to RTOC, (i) Securities of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the directors (or Persons performing similar functions) or (ii) in the case of a partnership, limited liability company or joint venture, interest in the profits or capital thereof entitling the holders of such interests to approve major business actions, and (b) with respect to any Person (other than RTOC), Capital Stock issued by a corporation, or equivalent interests in any other Person, the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even though the right so to vote has been suspended by the happening of such a contingency.

“Wholly-Owned Restricted Subsidiary” means any Subsidiary of RTOC of which 99% of the outstanding Capital Stock is owned by RTOC or by one or more Wholly-Owned Restricted Subsidiaries of RTOC or by RTOC and one or more Wholly-Owned Restricted Subsidiaries of RTOC. For purposes of this definition, any directors qualifying shares or investments by foreign nationals mandated by applicable law shall be disregarded in determining the ownership of a Subsidiary.

“Withdrawal Liability” has the meaning specified in Part 1 of Subtitle E of Title IV of ERISA.

“Working Capital Facility” means any working capital facility or facilities of RTOC (other than the working capital facility provided hereunder), including a commercial paper facility.

SECTION 1.02. Computation of Time Periods. In this Agreement in the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including” and the words “to” and “until” each means “to but excluding”.

SECTION 1.03. Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with United States generally accepted accounting principles as in effect from time to time (“GAAP”).

## ARTICLE II

### AMOUNTS AND TERMS OF THE REVOLVING CREDIT ADVANCES

SECTION 2.01. The Revolving Credit Advances. Each Lender severally agrees, on the terms and conditions hereinafter set forth, to make Revolving Credit Advances to any Borrower from time to time on any Business Day during the period from the Closing Date until the Termination Date up to the full amount of such Lender’s Commitment hereunder; provided that (i) the aggregate amount of such Revolving Credit Advances made by such Lender at any time outstanding for all Borrowers plus such Lender’s then outstanding LC Exposure shall

not exceed such Lender's Commitment and (ii) the sum of the aggregate outstanding principal amount of the Revolving Credit Advances made by all Lenders plus the total LC Exposure shall not exceed at any time the aggregate amount of the Commitments of the Lenders. Each Revolving Credit Borrowing shall be in an aggregate amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof and shall consist of Revolving Credit Advances of the same Type made on the same day by the Lenders ratably according to their respective Commitments. The Borrowers may borrow under this Section 2.01 subject to limitation set forth in this Section 2.01, prepay pursuant to Section 2.11 and reborrow under this Section 2.01.

SECTION 2.02. Making the Revolving Credit Advances. (a) Each Revolving Credit Borrowing shall be made on notice, given not later than (x) 12:00 Noon (New York City time) on the third Business Day prior to the date of the proposed Revolving Credit Borrowing in the case of a Revolving Credit Borrowing to be comprised of Eurodollar Rate Advances or (y) 11:00 A.M. (New York City time) on the Business Day of the proposed Revolving Credit Borrowing in the case of a Revolving Credit Borrowing to be comprised of Alternate Base Rate Advances, by the applicable Borrower to the Administrative Agent, which shall give to each Lender prompt notice thereof. Each such notice of a Revolving Credit Borrowing (a "Notice of Revolving Credit Borrowing") shall be by telephone, confirmed immediately in writing, or telecopier or telex in substantially the form of Exhibit B hereto, specifying therein the requested (i) date of such Revolving Credit Borrowing, (ii) Type of Revolving Credit Advances comprising such Revolving Credit Borrowing, (iii) aggregate amount of such Revolving Credit Borrowing, (iv) remittance instructions and (v) in the case of a Revolving Credit Borrowing consisting of Eurodollar Rate Advances, initial Interest Period for each such Revolving Credit Advance. If no election as to Type of Revolving Credit Advances comprising such Revolving Credit Borrowing is specified in any such Notice of Revolving Credit Borrowing, then such Revolving Credit Advances shall be Alternate Base Rate Advances. If no Interest Period with respect to Eurodollar Rate Advances is specified in any such Notice of Revolving Credit Borrowing, then the applicable Borrower shall be deemed to have selected an Interest Period of one month duration. Each Lender shall on the date of such Revolving Credit Borrowing, before 11:00 A.M. (New York City time), in the case of a Revolving Credit Borrowing to be comprised of Eurodollar Rate Advances, and before 1:00 P.M. (New York City time), in the case of a Revolving Credit Borrowing to be comprised of Alternate Base Rate Advances, make available for the account of its Applicable Lending Office to the Administrative Agent at the Administrative Agent's Account, in same day funds, such Lender's ratable portion of such Revolving Credit Borrowing. After the Administrative Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Section 3.02, the Administrative Agent will make such funds available to the applicable Borrower in the manner specified by the applicable Borrower in the Notice of Revolving Credit Borrowing.

(b) Anything in subsection (a) above to the contrary notwithstanding, (i) no Borrower may select Eurodollar Rate Advances for any Revolving Credit Borrowing if the obligation of the Lenders to make Eurodollar Rate Advances shall then be suspended pursuant to Section 2.09 or 2.13 and (ii) the Eurodollar Rate Advances may not be outstanding as part of more than eight separate Revolving Credit Borrowings.

(c) Each Notice of Revolving Credit Borrowing shall be irrevocable and binding on the applicable Borrower. In the case of any Revolving Credit Borrowing that the

related Notice of Revolving Credit Borrowing specifies is to be comprised of Eurodollar Rate Advances, the applicable Borrower shall indemnify each Lender against any loss, cost or expense incurred by such Lender as a result of any failure to fulfill on or before the date specified in such Notice of Revolving Credit Borrowing for such Revolving Credit Borrowing the applicable conditions set forth in Section 3.02, including, without limitation, any loss, cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Revolving Credit Advance to be made by such Lender as part of such Revolving Credit Borrowing when such Revolving Credit Advance, as a result of such failure, is not made on such date.

(d) Unless the Administrative Agent shall have received notice from a Lender prior to the date of any Revolving Credit Borrowing (in the case of a Revolving Credit Borrowing to be comprised of Eurodollar Rate Advances) and not later than 12:00 Noon (New York City time) on the Business Day of the proposed Revolving Credit Borrowing (in the case of a Revolving Credit Borrowing to be comprised of Alternate Base Rate Advances) that such Lender will not make available to the Administrative Agent such Lender's ratable portion of such Revolving Credit Borrowing, the Administrative Agent may assume that such Lender has made such portion available to the Administrative Agent on the date of such Revolving Credit Borrowing in accordance with subsection (a) of this Section 2.02 and the Administrative Agent may, in reliance upon such assumption, make available to the applicable Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such ratable portion available to the Administrative Agent, such Lender and the applicable Borrower severally agree to repay to the Administrative Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the applicable Borrower until the date such amount is repaid to the Administrative Agent, at (i) in the case of the applicable Borrower, the interest rate applicable at such time to Revolving Credit Advances comprising such Revolving Credit Borrowing and (ii) in the case of such Lender, the Federal Funds Rate for the first three days and Alternate Base Rate thereafter. If such Lender shall repay to the Administrative Agent such corresponding amount, such amount so repaid shall constitute such Lender's Revolving Credit Advance as part of such Revolving Credit Borrowing for purposes of this Agreement.

(e) The failure of any Lender to make the Revolving Credit Advance to be made by it as part of any Revolving Credit Borrowing shall not relieve any other Lender of its obligation, if any, hereunder to make its Revolving Credit Advance on the date of such Revolving Credit Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Revolving Credit Advance to be made by such other Lender on the date of any Revolving Credit Borrowing.

SECTION 2.03. Letters of Credit. Subject to the terms and conditions set forth herein, each Borrower may request the issuance of, and each Issuing Bank agrees to issue, one or more Letters of Credit for its own account, in a form and substance reasonably acceptable to the Administrative Agent and the applicable Issuing Bank, at any time and from time to time during the period from the Closing Date until the thirtieth (30th) day prior to the Termination Date on a revolving basis. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any form of letter of credit application or other agreement submitted by the applicable Borrower to, or entered into by the applicable Borrower

with, the applicable Issuing Bank relating to any Letter of Credit, the terms and conditions of this Agreement shall control. At the request of the applicable Borrower, any Letter of Credit may be issued (i) designating a Subsidiary of such Borrower as a nominal account party in respect of such Letter of Credit, but no such designation shall in any manner limit or impair, or relieve such Borrower of, the obligations of such Borrower hereunder and in respect of such Letter of Credit, it being understood and agreed that, as among the several parties to this Agreement, such Borrower shall at all times have all of the rights and be subject to all of the obligations, duties and responsibilities of an account party in respect thereof or (ii) for the joint and several account of such Borrower and another Borrower.

(a) Notice of Issuance; Amendment; Renewal; Extension; Certain Conditions. To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), the applicable Borrower shall hand deliver or telecopy (or transmit by electronic communication, if arrangements for doing so have been approved by the applicable Issuing Bank) to the applicable Issuing Bank and the Administrative Agent on the third Business Day (or such other period of time acceptable to the applicable Issuing Bank) prior to requested date of issuance, amendment, renewal or extension a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, the date of issuance, amendment, renewal or extension, the date on which such Letter of Credit is to expire (which shall comply with subsection (b) of this Section 2.03), the amount of such Letter of Credit, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. If requested by the applicable Issuing Bank, such Borrower also shall submit a letter of credit application on such Issuing Bank's standard form in connection with any request for a Letter of Credit. A Letter of Credit shall be issued, amended, renewed or extended only if (and upon issuance, amendment, renewal or extension of each Letter of Credit, the applicable Borrower shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension (i) the total LC Exposure shall not exceed \$50,000,000, and (ii) the sum of the aggregate outstanding principal amount of the Revolving Credit Advances made by all Lenders plus the total LC Exposure shall not exceed at any time the aggregate amount of the Commitments of the Lenders.

(b) Expiration Date. Each Letter of Credit shall expire at or prior to the close of business on the earlier of (i) the date one year after the date of the issuance of such Letter of Credit (or, in the case of any renewal or extension thereof, one year after such renewal or extension) and (ii) the date that is five Business Days prior to the Termination Date; provided that any Letter of Credit may provide for the renewal thereof for additional periods not to exceed one year (which in no event extend beyond the date referred to in clause (ii) above). Notwithstanding the foregoing, the Issuing Bank, in its sole discretion, may issue one or more Letters of Credit, each with an expiration date extending beyond the Termination Date (each a "Designated Letter of Credit" and, collectively, the "Designated Letters of Credit"); provided that on or before the Termination Date, to the extent that any Designated Letter of Credit remains outstanding, the applicable Borrower shall Cash Collateralize the aggregate then undrawn and unexpired amount of all Designated Letters of Credit outstanding at such time. For purposes hereof, "Cash Collateralize" means to pledge and deposit with or deliver to the Administrative Agent, until the cause for such cash collateral no longer exists, for the benefits of the Issuing Bank and the Lenders, as collateral for the outstanding Designated Letters of Credit, cash or

deposit accounts balances in an amount equal to the aggregate then undrawn and unexpired amount of all Designated Letters of Credit outstanding at such time pursuant to documentation in form and substance reasonable satisfactory to the Administrative Agent and the Issuing Bank. In the event that the applicable Borrower fails to Cash Collateralize the outstanding Designated Letters of Credit by the Termination Date, each such outstanding Designated Letter of Credit shall automatically be deemed drawn in full and such Borrower shall be deemed to have requested a Revolving Credit Advance to be funded by the Lenders on the Termination Date to reimburse such drawing (with the proceeds of such Revolving Credit Advance being used to Cash Collateralize outstanding Designated Letters of Credit as set forth above) in accordance with Section 2.03(d). The funding by a Lender of its pro rata share of such Revolving Credit Advance to Cash Collateralize the outstanding Designated Letters of Credit on the Termination Date shall be deemed payment by such Lender in respect of its participation in each such Designated Letter of Credit.

(c) Participations. By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) and without any further action on the part of any Issuing Bank or the Lenders, each Issuing Bank issuing one or more Letters of Credit hereby grants to each Lender, and each Lender hereby acquires from such Issuing Bank, a participation in each such Letter of Credit equal to such Lender's Commitment Percentage of the aggregate amount available to be drawn under such Letter of Credit. In consideration and in furtherance of the foregoing, each Lender hereby absolutely and unconditionally agrees to pay to the Administrative Agent, for the account of the applicable Issuing Bank, such Lender's Commitment Percentage of each LC Disbursement made by such Issuing Bank and not reimbursed on or before the date due as provided in subsection (d) of this Section 2.03, or of any reimbursement payment required to be refunded to the applicable Borrower for any reason. Each Lender acknowledges and agrees that its obligation to acquire participations pursuant to this subsection in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(d) Reimbursement. If the applicable Issuing Bank shall make any LC Disbursement in respect of a Letter of Credit, the applicable Borrower shall reimburse such LC Disbursement by paying to such Issuing Bank an amount equal to such LC Disbursement not later than 2:00 p.m., New York City time, on the date that such LC Disbursement is made, if such Borrower shall have received notice of such LC Disbursement prior to 10:00 a.m., New York City time, on such date, or, if such notice has not been received by such Borrower prior to such time on such date, then not later than 2:00 p.m., New York City time, on (i) the Business Day that such Borrower receives such notice, if such notice is received prior to 10:00 a.m., New York City time, on the day of receipt or (ii) the Business Day immediately following the day that such Borrower receives such notice, if such notice is not received prior to such time on the day of receipt; provided that such Borrower may, subject to the conditions to borrowing set forth herein, request in accordance with Section 2.02 that such payment be financed with a Revolving Credit Advance in an equivalent amount and, to the extent so financed, such Borrower's obligation to make such payment shall be discharged and replaced by the resulting Revolving Credit Advance. If such Borrower fails to make such payment when due, the applicable Issuing

Bank shall notify the Administrative Agent and the Administrative Agent shall notify each Lender of the applicable LC Disbursement, the payment then due from such Borrower in respect thereof and such Lender's Commitment Percentage thereof. Promptly following receipt of such notice, each Lender shall pay to the Administrative Agent its Commitment Percentage of the payment then due from such Borrower, in the same manner as provided in Section 2.02 with respect to Revolving Credit Advances made by such Lender (and Section 2.02 shall apply, mutatis mutandis, to the payment obligations of the Lenders), and the Administrative Agent shall promptly pay to the applicable Issuing Bank the amounts so received by it from the Lenders; provided that such Borrower shall remain obligated to pay interest on such LC Disbursement until the applicable Issuing Bank is reimbursed for such LC Disbursement in accordance with subsection (g) of this Section 2.03. Promptly following receipt by the Administrative Agent of any payment from such Borrower pursuant to this subsection, the Administrative Agent shall distribute such payment to the applicable Issuing Bank or, to the extent that Lenders have made payments pursuant to this subsection to reimburse such Issuing Bank, then to such Lenders and such Issuing Bank as their interests may appear. Any payment made by a Lender pursuant to this subsection to reimburse the applicable Issuing Bank for any LC Disbursement (including the funding of Revolving Credit Advances as contemplated above) shall constitute a Revolving Credit Advance and the applicable Borrower shall be deemed to have reimbursed the applicable Issuing Bank as of date of such payment and the Lenders shall be deemed to have extended, and such Borrower shall be deemed to have accepted, a Revolving Credit Advance in the aggregate principal amount of such payment without any further action on the part of any party.

(e) Obligations Absolute. Each applicable Borrower's obligation to reimburse LC Disbursements as provided in subsection (d) of this Section 2.03 shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever and irrespective of:

- (i) any lack of validity or enforceability of any Letter of Credit or this Agreement, or any term or provision therein;
- (ii) any amendment or waiver of or any consent to departure from all or any of the provisions of any Letter of Credit or this Agreement;
- (iii) the existence of any claim, setoff, defense or other right that any Borrower, any other party guaranteeing, or otherwise obligated with, any Borrower, any Subsidiary or other Affiliate thereof or any other Person, other than payment in full of all amounts due and payable, may at any time have against the beneficiary under any Letter of Credit, the applicable Issuing Bank, the Administrative Agent or any Lender or any other Person, whether in connection with this Agreement or any other related or unrelated agreement or transaction;
- (iv) any draft or other document presented under a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect;

(v) payment by the applicable Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit; and

(vi) any other act or omission to act or delay of any kind of the applicable Issuing Bank, the Lenders, the Administrative Agent or any other Person or any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section 2.03, constitute a legal or equitable discharge of such Borrower's obligations hereunder, other than payment in full of all amounts due and payable.

Neither the Administrative Agent, the Lenders nor the applicable Issuing Bank nor any of their Affiliates, directors, officers, employees and agents, shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit or any payment or failure to make any payment thereunder, including any of the circumstances specified in clauses (i) through (vi) above, as well as any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the applicable Issuing Bank; provided that the foregoing shall not be construed to excuse such Issuing Bank from liability to such Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrowers to the extent permitted by applicable law) suffered by such Borrower that are caused by such Issuing Bank's failure to exercise the agreed standard of care (as set forth below) in determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof. The parties hereto expressly agree that each Issuing Bank shall have exercised the agreed standard of care in the absence of gross negligence or willful misconduct on the part of such Issuing Bank. Without limiting the generality of the foregoing, it is understood that any Issuing Bank may accept documents that appear on their face to be in substantial compliance with the terms of a Letter of Credit, without responsibility for further investigation, regardless of any notice or information to the contrary, and may make payment upon presentation of documents that appear on their face to be in substantial compliance with the terms of such Letter of Credit; provided that each Issuing Bank shall have the right, in its sole discretion, to decline to accept such documents and to make such payment if such documents are not in strict compliance with the terms of such Letter of Credit.

(f) Disbursement Procedures. The applicable Issuing Bank shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. Such Issuing Bank shall promptly notify the Administrative Agent and such Borrower for whose account such Letter of Credit was issued by telephone (confirmed by telecopy) of such demand for payment and whether such Issuing Bank has made or will make an LC Disbursement thereunder; provided that any failure to give or delay in giving such notice shall not relieve such Borrower of its obligation to reimburse such Issuing Bank and the Lenders with respect to any such LC Disbursement.

(g) Interim Interest. If the applicable Issuing Bank shall make any LC Disbursement, unless the applicable Borrower shall reimburse (including with the proceeds of

Revolving Credit Advances as provided in subsection (d) of this Section 2.03) or shall be deemed to have reimbursed such LC Disbursement in full on the date such LC Disbursement is made, the unpaid amount thereof shall bear interest, for each day from and including the date such LC Disbursement is made to but excluding the date that such Borrower reimbursed such LC Disbursement at the rate per annum specified in Section 2.07(a), provided that, if such Borrower fails to reimburse (including with the proceeds of Revolving Credit Advances as provided in subsection (d) of this Section 2.03) such LC Disbursement when due pursuant to subsection (d) of this Section 2.03, then Section 2.07(b) shall apply. Interest accrued pursuant to this subsection shall be for the account of the applicable Issuing Bank, except that interest accrued on and after the date of payment by any Lender pursuant to subsection (d) of this Section 2.03 to reimburse such Issuing Bank shall be for the account of such Lender to the extent of such payment.

(h) Replacement of an Issuing Bank. All or a portion of the LC Commitment of any Issuing Bank may be replaced at any time by written agreement among the Borrowers, a new Issuing Bank and the Administrative Agent (with notice to such replaced Issuing Bank); provided, however, that the Administrative Agent shall review any such proposed agreement for form only and not with respect to the identity of any successor Issuing Bank or the identity of the Issuing Bank to be replaced. The Administrative Agent shall notify the Lenders of any such replacement of the LC Commitment of an Issuing Bank. At the time any such replacement shall become effective, the Borrowers shall pay all unpaid fees accrued for the account of the replaced Issuing Bank pursuant to Section 2.04(c) and shall return to such Issuing Bank any Letter of Credit issued by such Issuing Bank (to the extent the aggregate undrawn face amount of its then outstanding Letters of Credit would exceed its revised LC Commitment). From and after the effective date of any such replacement, (i) the successor Issuing Bank shall have all the rights and obligations of an Issuing Bank under this Agreement with respect to its LC Commitment (and its Letters of Credit to be issued by it on such effective date or thereafter) and (ii) references herein to the term "Issuing Bank" shall be deemed to refer to such successor or to any previous Issuing Bank, or to such successor and all previous Issuing Banks, as the context shall require. After the replacement of an Issuing Bank hereunder, the replaced Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing Bank under this Agreement with respect to Letters of Credit issued by it prior to such replacement, but shall not be required to issue additional Letters of Credit in excess of its remaining LC Commitment (if any).

SECTION 2.04. Fees. (a) Facility Fee. The Borrowers agree, jointly and severally, to pay to the Administrative Agent for the ratable account of each Lender a Facility Fee on the aggregate amount of such Lender's Commitment (or, if terminated, its Revolving Credit Advances and LC Exposure) from the date hereof until the Termination Date at a rate per annum in effect from time to time as set forth in the definition of "Facility Fee" in Section 1.01, payable in arrears quarterly on the last Business Day of each March, June, September and December, commencing on December 31, 2003, and on the Termination Date. All Facility Fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(b) Administrative Agent's Fees. The Borrowers agree, jointly and severally, to pay to the Administrative Agent for its own account such fees as may from time to time be agreed between Rayonier and the Administrative Agent.

(c) Participation and Fronting Fees. The applicable Borrower agrees to pay (i) to the Administrative Agent for the account of each Lender a participation fee with respect to its participations in Letters of Credit issued for the account of such Borrower, which shall accrue at a rate per annum equal to the Applicable Margin applicable to interest on Eurodollar Rate Advances on such Lender's Commitment Percentage of the average daily aggregate face amount of Letters of Credit outstanding hereunder for the account of such Borrower during the period from and including the Closing Date to but excluding the date on which such Lender ceases to have any LC Exposure and (ii) to each Issuing Bank a fronting fee, which shall accrue at the rate of 0.125% per annum on the average daily aggregate face amount of the outstanding Letters of Credit of such Issuing Bank issued for the account of such Borrower, as well as such Issuing Bank's standard fees with respect to the issuance, amendment, renewal or extension of any such Letter of Credit or processing of drawings thereunder. Participation fees and fronting fees shall be payable in arrears quarterly on the last Business Day of March, June, September and December of each year, commencing on the first such date to occur after the Closing Date; provided that all such fees shall be payable on the Termination Date and any such fees accruing after the Termination Date shall be payable on demand. Any other fees payable to any Issuing Bank pursuant to this subsection shall be payable promptly after demand. All participation fees and fronting fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(d) Applicable Utilization Fee. The applicable Borrower agrees to pay to the Administrative Agent for the account of each Lender the Applicable Utilization Fee in effect from time to time, payable in arrears quarterly on the last Business Day of each March, June, September and December of each year when such Applicable Utilization Fee is in effect. All Applicable Utilization Fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(e) All fees payable hereunder shall be paid on the dates due, in immediately available funds, to the Administrative Agent for the benefit of the parties entitled thereto. Fees paid shall not be refundable under any circumstances.

SECTION 2.05. Termination or Reduction of the Commitments. Rayonier shall have the right, upon at least three Business Days' notice to the Administrative Agent, to terminate in whole or permanently reduce ratably in part the unused portions of the respective Commitments of the Lenders, provided that each partial reduction shall be in the aggregate amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof.

SECTION 2.06. Repayment of Revolving Credit Advances. The applicable Borrower shall repay to the Administrative Agent for the ratable account of the Lenders on the Termination Date the aggregate principal amount of the Revolving Credit Advances then outstanding.

SECTION 2.07. Interest on Revolving Credit Advances. (a) Scheduled Interest. The applicable Borrower shall pay interest on the unpaid principal amount of each Revolving Credit Advance owing to each Lender from the date of such Revolving Credit Advance until such principal amount shall be paid in full, at the following rates per annum:

(i) Alternate Base Rate Advances. During such periods as such Revolving Credit Advance is an Alternate Base Rate Advance, a rate per annum equal at all times to the sum of (y) the Alternate Base Rate in effect from time to time plus (z) the Applicable Margin in effect from time to time, payable in arrears quarterly on the last Business Day of each March, June, September and December during such periods.

(ii) Eurodollar Rate Advances. During such periods as such Revolving Credit Advance is a Eurodollar Rate Advance, a rate per annum equal at all times during each Interest Period for such Revolving Credit Advance to the sum of (y) the Eurodollar Rate for such Interest Period for such Revolving Credit Advance plus (z) the Applicable Margin in effect from time to time, payable in arrears on the last day of such Interest Period and, if such Interest Period has a duration of more than three months, on each day that occurs during such Interest Period every three months from the first day of such Interest Period and on the date such Eurodollar Rate Advance shall be Converted or paid in full.

(b) Default Interest. At any time during which any Borrower shall fail (i) to pay any principal of any Revolving Credit Advance, any interest on any Revolving Credit Advance or make any other payment in connection with this Agreement or any other Loan Document when the same becomes due and payable or (ii) to perform or observe any term, covenant or agreement contained in Section 5.03(h) or 5.05, the Administrative Agent may, and upon the request of the Required Lenders shall, require the Borrowers to pay interest ("Default Interest") on (i) the unpaid principal amount of each Revolving Credit Advance owing to each Lender by such Borrower, payable in arrears on the dates referred to in clause (a)(i) or (a)(ii) above, at a rate per annum equal at all times to 2% per annum above the rate per annum required to be paid on such Revolving Credit Advance pursuant to clause (a)(i) or (a)(ii) above and (ii) to the fullest extent permitted by law, the amount of any interest, fee or other amount payable hereunder that is not paid when due, from the date such amount shall be due until such amount shall be paid in full, payable in arrears on the date such amount shall be paid in full and on demand, at a rate per annum equal at all times to 2% per annum above the rate per annum required to be paid on Alternate Base Rate Advances pursuant to clause (a)(i) above, provided, however, that following acceleration of the Revolving Credit Advances pursuant to Section 6.01, Default Interest shall accrue and be payable hereunder whether or not previously required by the Administrative Agent.

#### SECTION 2.08. Computation of Interest

(a) The Alternate Base Rate interest (when calculated based upon the prime rate) shall be calculated on the basis of a 365/366 day year and all other interest shall be calculated on the basis of a 360-day year for the actual days elapsed. The Administrative Agent shall as soon as practicable notify Rayonier and the Lenders of each determination of a Eurodollar Rate. Any change in the interest rate on a Revolving Credit Advance resulting from a change in the Alternate Base Rate or the Eurodollar Reserve Requirements shall become

effective as of the opening of business on the day on which such change becomes effective. The Administrative Agent shall, as soon as practicable, notify Rayonier and the Lenders of the effective date and the amount of each such change in interest rate.

(b) Each determination of an interest rate by the Administrative Agent pursuant to any provision of this Agreement shall be conclusive and binding on the Borrowers and the Lenders in the absence of manifest error.

SECTION 2.09. Inability to Determine Interest Rate. If prior to the first day of any Interest Period:

(a) the Administrative Agent shall have reasonably determined (which determination shall be conclusive and binding upon the Borrowers) that, by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the Eurodollar Rate for such Interest Period, or

(b) the Administrative Agent shall have received notice from the Required Lenders that the Eurodollar Rate determined or to be determined for such Interest Period will not adequately and fairly reflect the cost to such Lenders (as certified by such Lenders) of making or maintaining its affected Revolving Credit Advances during such Interest Period,

the Administrative Agent shall give telecopy or telephonic notice thereof to Rayonier and the Lenders as soon as practicable thereafter (which notice shall include supporting calculations in reasonable detail). If such notice is given, (i) any Eurodollar Rate Advance requested to be made on the first day of such Interest Period shall be made as Alternate Base Rate Advances, (ii) any Revolving Credit Advances that were to have been Converted on the first day of such Interest Period to Eurodollar Rate Advances shall be continued as Alternate Base Rate Advances and (iii) any outstanding Eurodollar Rate Advances shall be Converted, on the first day of such Interest Period, to Alternate Base Rate Advances. Until such notice has been withdrawn by the Administrative Agent, no further Eurodollar Rate Advances shall be made or continued as such, nor shall any Borrower have the right to Convert Alternate Base Rate Advances to Eurodollar Rate Advances.

SECTION 2.10. Conversion of Revolving Credit Advances.

(a) Optional Conversion. Any Borrower may on any Business Day, upon notice given to the Administrative Agent not later than 11:00 A.M. (New York City time) on the third Business Day prior to the date of the proposed Conversion and subject to the provisions of Sections 2.09 and 2.13, Convert all Revolving Credit Advances of one Type owed by such Borrower and comprising the same Borrowing into Revolving Credit Advances of the other Type; provided, however, that any Conversion of Eurodollar Rate Advances into Alternate Base Rate Advances shall be made only on the last day of an Interest Period for such Eurodollar Rate Advances, any Conversion of Alternate Base Rate Advances into Eurodollar Rate Advances shall be in an amount not less than the minimum amount specified for Revolving Credit Borrowings in Section 2.01 and no Conversion of any Revolving Credit Advances shall result in more separate Revolving Credit Borrowings than permitted under Section 2.02(b). Each such notice of a Conversion shall, within the restrictions specified above, specify (i) the date of such

Conversion, (ii) the Revolving Credit Advances to be Converted, and (iii) if such Conversion is into Eurodollar Rate Advances, the duration of the initial Interest Period for each such Advance. Each notice of Conversion shall be irrevocable and binding on such Borrower.

(b) Mandatory Conversion. (i) On the date on which the aggregate unpaid principal amount of Eurodollar Rate Advances comprising any Revolving Credit Borrowing shall be reduced, by payment or prepayment or otherwise, to less than \$5,000,000, such Advances shall automatically Convert into Alternate Base Rate Advances, and (ii) upon the occurrence and during the continuance of any Event of Default, (x) each Eurodollar Rate Advance will automatically, on the last day of the then existing Interest Period therefor, Convert into a Alternate Base Rate Advance and (y) the obligation of the Lenders to make, or to Convert Advances into, Eurodollar Rate Advances shall be suspended.

SECTION 2.11. Prepayments of Revolving Credit Advances. Any Borrower may, upon notice to the Administrative Agent no later than 11:00 A.M. (New York City time) on the Business Day of the proposed date of the prepayment in the case of Alternate Base Rate Advances and on the third Business Day prior to the proposed date of the prepayment in the case of Eurodollar Rate Advances, in each case stating the proposed date and aggregate principal amount of the prepayment, and if such notice is given such Borrower shall, prepay the outstanding principal amount of the Revolving Credit Advances owing by such Borrower comprising part of the same Revolving Credit Borrowing in whole or ratably in part, together with accrued interest to the date of such prepayment on the principal amount prepaid; provided, however, that (x) each partial prepayment shall be in an aggregate principal amount not less than \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof and (y) in the event of any such prepayment of a Eurodollar Rate Advance, such Borrower shall be obligated to reimburse the Lenders in respect thereof pursuant to Section 8.04(c).

SECTION 2.12. Increased Costs. (a) If, due to either (i) the introduction of or any change in or in the interpretation of any law or regulation after the date hereof or (ii) the compliance with any guideline or request from any central bank or other Governmental Authority (whether or not having the force of law) issued after the date hereof, there shall be any increase in the cost to any Lender of agreeing to make or making, funding or maintaining Eurodollar Rate Advances or to participate or participating in Letters of Credit or any Issuing Bank of agreeing to issue Letters of Credit (excluding for purposes of this Section 2.12 any such increased costs resulting from (i) Taxes or Other Taxes (as to which Section 2.15 shall govern) and (ii) changes in the basis of taxation of overall net income or overall gross income by the United States or by the foreign jurisdiction or state under the laws of which such Lender is organized or has its Applicable Lending Office or any political subdivision thereof), then the Borrowers agree, jointly and severally, to pay from time to time, upon demand by such Lender or Issuing Bank (with a copy of such demand to the Administrative Agent), to the Administrative Agent for the account of such Lender or Issuing Bank (as applicable) additional amounts sufficient to compensate such Lender or Issuing Bank for such increased cost provided, however, that any Lender claiming additional amounts under this Section 2.12 shall use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to designate a different Applicable Lending Office if such change would avoid the need for, or reduce the amount of, such increased cost that may thereafter accrue and would not, in the reasonable judgment of such Lender, be otherwise disadvantageous to such Lender. A certificate as to the amount of such

increased cost, submitted to Rayonier and the Administrative Agent by such Lender, shall be conclusive and binding for all purposes, absent manifest error.

(b) If any Lender or Issuing Bank determines that compliance with any law or regulation or any guideline or request from any central bank or other Governmental Authority enacted or made after the date hereof (whether or not having the force of law) affects or would affect the amount of capital required or expected to be maintained by such Lender or Issuing Bank or any corporation controlling such Lender or Issuing Bank and that the amount of such capital is increased by or based upon the existence of such Lender's commitment to lend hereunder or Issuing Bank's commitment to issue Letters of Credit hereunder and other commitments of this type, then, upon demand by such Lender or Issuing Bank (with a copy of such demand to the Administrative Agent), the Borrowers agree, jointly and severally, to pay to the Administrative Agent for the account of such Lender or Issuing Bank (as applicable), from time to time as specified by such Lender or Issuing Bank, additional amounts sufficient to compensate such Lender or Issuing Bank or such corporation (as applicable) in the light of such circumstances, to the extent that such Lender or Issuing Bank reasonably determines such increase in capital to be allocable to the existence of such Lender's commitment to lend hereunder or Issuing Bank's commitment to issue Letters of Credit hereunder. A certificate as to such amounts submitted to Rayonier and the Administrative Agent by such Lender or Issuing Bank shall be conclusive and binding for all purposes, absent manifest error.

(c) Failure or delay on the part of any Lender or Issuing Bank to demand compensation pursuant to this Section 2.12 shall not constitute a waiver of such Lender's or Issuing Bank's right to demand such compensation; provided that no Borrower shall be required to compensate a Lender or an Issuing Bank pursuant to this Section 2.12 for any increased costs or reductions incurred more than four months prior to the date that such Lender or Issuing Bank notifies Rayonier of the change giving rise to such increased costs or reductions and of such Lender's or Issuing Bank's intention to claim compensation therefor; provided further that, if the change giving rise to such increased costs or reductions is retroactive, then the four-month period referred to above shall include the period of retroactive effect thereof.

SECTION 2.13. Illegality. Notwithstanding any other provision of this Agreement, if any Lender shall notify the Administrative Agent that the introduction of or any change in or in the interpretation of any law or regulation makes it unlawful, or any central bank or other Governmental Authority asserts that it is unlawful, for any Lender or its Eurodollar Lending Office to perform its obligations hereunder to make Eurodollar Rate Advances or to fund or maintain Eurodollar Rate Advances hereunder, (i) the obligation of the Lenders to make, or to Convert Revolving Credit Advances into, Eurodollar Rate Advances shall be suspended until the Administrative Agent shall notify Rayonier and the Lenders that the circumstances causing such suspension no longer exist and (ii) each Borrower shall forthwith prepay in full all Eurodollar Rate Advances of such Borrower then outstanding, together with interest accrued thereon, unless such Borrower, within five Business Days of notice from the Administrative Agent, Converts all Eurodollar Rate Advances of such Borrower then outstanding into Alternate Base Rate Advances in accordance with Section 2.10.

SECTION 2.14. Payments. (a) The Borrowers shall make each payment hereunder, irrespective of any right of counterclaim or set-off, not later than 12:00 Noon (New

York City time) on the day when due in U.S. dollars to the Administrative Agent at the Administrative Agent's Account in same day funds. The Administrative Agent will promptly thereafter cause to be distributed like funds relating to the payment of principal or interest or Facility Fees or participation fees or fronting fees ratably (other than amounts payable pursuant to Section 2.12, 2.15 or 8.04(c)) to the Lenders for the account of their respective Applicable Lending Offices or the applicable Issuing Bank, and like funds relating to the payment of any other amount payable to any Lender or Issuing Bank to such Lender for the account of its Applicable Lending Office or the applicable Issuing Bank, in each case to be applied in accordance with the terms of this Agreement. Upon its acceptance of an Assignment and Acceptance and recording of the information contained therein in the Register pursuant to Section 8.07(c), from and after the effective date specified in such Assignment and Acceptance, the Administrative Agent shall make all payments hereunder and under the Notes in respect of the interest assigned thereby to the Lender assignor and the Lender assignee thereunder on a pro rata basis subject to all appropriate adjustments in such payments for periods prior to such effective date.

(b) Except as otherwise provided herein, whenever any payment hereunder or under the Notes shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest or Facility Fee, as the case may be; provided, however, that, if such extension would cause payment of interest on or principal of Eurodollar Rate Advances to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(c) Unless the Administrative Agent shall have received notice from the applicable Borrower prior to the date on which any payment is due to the Lenders or the Issuing Banks hereunder that such Borrower will not make such payment in full, the Administrative Agent may assume that such Borrower has made such payment in full to the Administrative Agent on such date and the Administrative Agent may, in reliance upon such assumption, cause to be distributed to each Lender or the applicable Issuing Bank (as applicable) on such due date an amount equal to the amount then due such Lender or Issuing Bank. If and to the extent such Borrower shall not have so made such payment in full to the Administrative Agent, each Lender or the applicable Issuing Bank shall repay to the Administrative Agent forthwith on demand such amount distributed to such Lender or Issuing Bank together with interest thereon, for each day from the date such amount is distributed to such Lender or Issuing Bank until the date such Lender or Issuing Bank repays such amount to the Administrative Agent, at the Federal Funds Rate.

SECTION 2.15. Taxes. (a) Any and all payments by each Borrower to or for the account of any Lender, Issuing Bank or the Administrative Agent hereunder, under the Notes, any other Loan Document or any other documents to be delivered hereunder shall be made, in accordance with Section 2.14 or the applicable provisions of such other documents, free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding, in the case of each Lender, Issuing Bank and the Administrative Agent, taxes imposed on its overall net income and minimum taxes, alternative minimum taxes, doing business taxes, franchise taxes and value added taxes imposed on it in lieu of net income taxes, by the jurisdiction under the

laws of which such Lender, Issuing Bank or the Administrative Agent (as the case may be) is organized (federal or state) or doing business or any political subdivision thereof and, in the case of each Lender, taxes imposed on its overall net income and minimum taxes, alternative minimum taxes, doing business taxes, franchise taxes and value added taxes imposed on it in lieu of net income taxes, by the jurisdiction of such Lender's Applicable Lending Office (federal or state) (all such non-excluded taxes, levies, imposts, deductions, charges, withholdings and liabilities in respect of payments hereunder or under the Notes being hereinafter referred to as "Taxes"). If any Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder or under any Note or any other documents to be delivered hereunder to any Lender, Issuing Bank or the Administrative Agent, (i) the sum payable shall be increased as may be necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.15) such Lender, Issuing Bank or the Administrative Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the applicable Borrower shall make such deductions and (iii) such Borrower shall pay the full amount deducted to the relevant taxation authority or other authority in accordance with applicable law.

(b) In addition, each Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies that arise from any payment made hereunder, under the Notes, any other Loan Document or any other documents to be delivered hereunder or from the execution, delivery or registration of, performing under, or otherwise with respect to, this Agreement, the Notes, any other Loan Document or any other documents to be delivered hereunder imposed by the jurisdiction under the laws of which such Borrower is organized or operates or any political subdivision thereof, or by the jurisdiction in which such Borrower's principal office is located or from which any payments hereunder are made (hereinafter referred to as "Other Taxes").

(c) The applicable Borrower will indemnify each Lender, each Issuing Bank and the Administrative Agent for and hold it harmless against the full amount of Taxes or Other Taxes (including, without limitation, taxes of any kind imposed or asserted by any jurisdiction on amounts payable under this Section 2.15) imposed on or paid by such Lender, Issuing Bank or the Administrative Agent (as the case may be) and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. This indemnification shall be made within 30 days from the date such Lender, Issuing Bank or the Administrative Agent (as the case may be) makes written demand therefor; provided, however, that in no event shall any such indemnification be due earlier than five Business Days after such Lender, Issuing Bank or the Administrative Agent (as the case may be) has paid such Taxes or Other Taxes; provided, further, that any such demand shall be accompanied by copies of all written correspondence to and from the applicable taxing authority relating to such payment and a copy of the calculation of such Taxes or Other Taxes.

(d) Within 30 days after the date of any payment of Taxes, each Borrower will furnish to the Administrative Agent, at its address referred to in Section 8.02, the original or a certified copy of a receipt evidencing such payment to the extent such a receipt is issued therefor, or other written proof of payment thereof that is reasonably satisfactory to the Administrative Agent. In the case of any payment hereunder, under the Notes, any other Loan Document or any other documents to be delivered hereunder by or on behalf of any Borrower through an account

or branch outside the United States or by or on behalf of any Borrower by a payor that is not a United States person, if the applicable Borrower determines that no Taxes are payable in respect thereof, such Borrower shall furnish, or shall cause such payor to furnish, to the Administrative Agent, at such address, an opinion of counsel reasonably acceptable to the Administrative Agent stating that such payment is exempt from Taxes. For purposes of this subsection (d) and subsection (e), the terms "United States" and "United States person" shall have the meanings specified in Section 7701 of the Internal Revenue Code.

(e) Each Lender organized under the laws of a jurisdiction outside the United States, on or prior to the date of its execution and delivery of this Agreement in the case of each Lender party to this Agreement as of the date hereof or on the date of the Assignment and Acceptance pursuant to which it becomes a Lender in the case of each other Lender, and from time to time thereafter as reasonably requested in writing by Rayonier (but only so long as such Lender remains lawfully able to do so), shall provide each of the Administrative Agent and Rayonier with two original Internal Revenue Service forms W-8BEN or W-8ECI, as appropriate, or any successor or other form prescribed by the Internal Revenue Service, certifying that such Lender is exempt from or entitled to a reduced rate of United States withholding tax on payments pursuant to this Agreement or the Notes. If the form provided by a Lender at the time such Lender first becomes a party to this Agreement indicates a United States interest withholding tax rate in excess of zero, withholding tax at such rate shall be considered excluded from Taxes unless and until such Lender provides the appropriate forms certifying that a lesser rate applies, whereupon withholding tax at such lesser rate only shall be considered excluded from Taxes for periods governed by such form; provided, however, that, if at the date of the Assignment and Acceptance pursuant to which a Lender assignee becomes a party to this Agreement, the Lender assignor was entitled to payments under subsection (a) in respect of United States withholding tax with respect to interest paid at such date, then, to such extent, the term Taxes shall include (in addition to withholding taxes that may be imposed in the future or other amounts otherwise includable in Taxes) United States withholding tax, if any, applicable with respect to the Lender assignee on such date. If any form or document referred to in this subsection (e) requires the disclosure of information, other than information necessary to compute the tax payable and information required on the date hereof by Internal Revenue Service form W-8BEN or W-8ECI, that the Lender reasonably considers to be confidential, the Lender shall give notice thereof to the Borrowers and shall not be obligated to include in such form or document such confidential information.

(f) For any period with respect to which a Lender has failed to provide Rayonier with the appropriate form, certificate or other document described in Section 2.15(e) (other than if such failure is due to a change in law, or in the interpretation or application thereof, occurring subsequent to the date on which a form, certificate or other document originally was required to be provided, or if such form, certificate or other document otherwise is not required under subsection (e) above), such Lender shall not be entitled to indemnification under Section 2.15(a) or (c) with respect to Taxes imposed by the United States by reason of such failure; provided, however, that should a Lender become subject to Taxes because of its failure to deliver a form, certificate or other document required hereunder, each Borrower shall take such steps as such Lender shall reasonably request to assist the Lender to recover such Taxes (and such Lender shall reimburse such Borrower for reasonable out-of-pocket costs and expenses of such Borrower in connection therewith).

(g) Any Lender claiming any additional amounts payable pursuant to this Section 2.15 shall use reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to change the jurisdiction of its Eurodollar Lending Office if the making of such a change would avoid the need for, or reduce the amount of, any such additional amounts that may thereafter accrue and would not, in the reasonable judgment of such Lender, be otherwise disadvantageous to such Lender, provided, that should any Borrower be required to pay any amounts under Section 2.15(a) or (c), and such Borrower delivers to each Lender that received such amounts an opinion of counsel that payments to the Lender or the Administrative Agent were not in fact subject to Taxes, each Lender shall use reasonable efforts to cooperate with such Borrower, including, but not limited to filing and pursuing a claim of refund in its own name (provided that such Borrower agrees in writing to indemnify and reimburse such Lender for its actual out-of-pocket expenses in connection with such claim for refund), in obtaining a refund of Taxes, and if such Lender receives a refund of Taxes shall promptly pay such Taxes over to such Borrower together with any interest received by, or credited against the tax liability of, such Lender to the extent such interest is attributable to such refund of Taxes.

(h) If any Lender or Issuing Bank determines, in its sole discretion, that it has actually realized, by reason of a refund, deduction or credit of any Taxes paid or reimbursed by any Borrower pursuant to subsection (a) or (c) above in respect of payments hereunder or the Notes, a current monetary benefit that it would otherwise not have obtained, and that would result in the total payments under this Section 2.15 exceeding the amount needed to make such Lender whole, such Lender or Issuing Bank shall pay to such Borrower, with reasonable promptness following the date on which it actually realized such benefit, an amount equal to the lesser of the amount of such benefit or the amount of such excess, in each case net of all out-of-pocket expenses in securing such refund, deduction or credit, provided, in the event that any portion of such refund, deduction or credit is subsequently disallowed, such Borrower shall hold such Lender or Issuing Bank harmless (on an after-tax basis) from such disallowance.

SECTION 2.16. Sharing of Payments, Etc. If any Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) on account of the Revolving Credit Advances owing to it (other than pursuant to Section 2.12, 2.15 or 8.04(c)) in excess of its ratable share of payments on account of the Revolving Credit Advances obtained by all the Lenders, such Lender shall forthwith purchase from the other Lenders such participations in the Revolving Credit Advances owing to them as shall be necessary to cause such purchasing Lender to share the excess payment ratably with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, such purchase from each Lender shall be rescinded and such Lender shall repay to the purchasing Lender the purchase price to the extent of such recovery together with an amount equal to such Lender's ratable share (according to the proportion of (i) the amount of such Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. Each Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this Section 2.16 may, to the fullest extent permitted by law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Lender were the direct creditor of such Borrower in the amount of such participation.

SECTION 2.17. Evidence of Debt. (a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of each Borrower to such Lender resulting from each Revolving Credit Advance owing to such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder in respect of Revolving Credit Advances. Each Borrower agrees that upon notice by any Lender to any Borrower (with a copy of such notice to the Administrative Agent) to the effect that a Note is required or appropriate in order for such Lender to evidence (whether for purposes of pledge, enforcement or otherwise) the Revolving Credit Advances owing to, or to be made by, such Lender, such Borrower shall promptly execute and deliver to such Lender a Note payable to the order of such Lender in a principal amount up to the Commitment of such Lender.

(b) The Register maintained by the Administrative Agent pursuant to Section 8.07(d) shall include a control account, and a subsidiary account for each Lender, in which accounts (taken together) shall be recorded (i) the date and amount of each Revolving Credit Borrowing made hereunder, the applicable Borrower thereof, the Type of Advances comprising such Revolving Credit Borrowing and, if appropriate, the Interest Period applicable thereto, (ii) the terms of each Assignment and Acceptance delivered to and accepted by it, (iii) the amount of any principal or interest due and payable or to become due and payable from each Borrower to each Lender hereunder and (iv) the amount of any sum received by the Administrative Agent from each Borrower hereunder and each Lender's share thereof.

(c) Entries made in good faith by the Administrative Agent in the Register pursuant to subsection (b) above, and by each Lender in its account or accounts pursuant to subsection (a) above, shall be prima facie evidence of the amount of principal and interest due and payable or to become due and payable from each Borrower to, in the case of the Register, each Lender and, in the case of such account or accounts, such Lender, under this Agreement, absent manifest error; provided, however, that the failure of the Administrative Agent or such Lender to make an entry, or any finding that an entry is incorrect, in the Register or such account or accounts shall not limit or otherwise affect the obligations of any Borrower under this Agreement.

SECTION 2.18. Use of Proceeds. The proceeds of the Revolving Credit Advances shall be available (and each Borrower agrees that it shall use such proceeds) solely first, for the Refinancing, and to pay fees and expenses incurred in connection with the Transactions, and, thereafter, for other general corporate purposes of the Borrowers and its Subsidiaries (including, without limitation, acquisitions, repayment of MTNs and other Debt and repurchase of Capital Stock). The Letters of Credit are to be used for the general corporate purposes of the Borrowers.

ARTICLE III

CONDITIONS PRECEDENT

SECTION 3.01. Conditions Precedent to Closing Date. This Agreement shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 8.01):

(a) Documents. The Administrative Agent shall have received each of the following documents, each of which shall be satisfactory to the Administrative Agent (and to the extent specified below, to each Lender) in form and substance:

(i) Executed Counterparts. From each party hereto either (A) multiple counterparts of this Agreement, signed on behalf of such party or (B) written evidence satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page to this Agreement) that such party has signed a counterpart of this Agreement;

(ii) Corporate Documents. (A) Such documents and certificates as the Administrative Agent or its counsel may reasonably request, certified as of the Closing Date as complete and correct copies thereof by the Secretary or an Assistant Secretary of each Borrower or, in the case of RTOC, by the Secretary or an Assistant Secretary of the Managing General Partner, relating to (1) the organization, existence and good standing of such Borrower, (2) the authorization of the execution, delivery and performance by such Borrower of the applicable Loan Documents and of the borrowings hereunder by each Borrower, and (3) certificates as to the incumbency and signature of each individual signing this Agreement and/or any other agreement or document contemplated hereby on behalf of the applicable Borrower; and (B) in the case of RTOC, a certificate of another officer of the Managing General Partner as to the incumbency and specimen signature of the Secretary or an Assistant Secretary executing the certificate pursuant to clause (A) above;

(iii) Financial Statements. Copies of (A) the audited Consolidated balance sheets of Rayonier and its Subsidiaries as of December 31, 2002 and the related Consolidated statements of income and cash flows for the period ending as of such date, and (B) the unaudited Consolidated balance sheets of Rayonier and its Subsidiaries as of September 30, 2003, and the related Consolidated statements of income and cash flows for the period ending as of such date;

(iv) Guarantee. The Administrative Agent shall have received the Guarantee Agreement substantially in the form of Exhibit C-1 hereto and executed by duly authorized officers of Rayonier and TRS respectively; and

(v) Other Documents. Such other documents as the Administrative Agent or any Lender (acting through the Administrative Agent) may reasonably request.

(b) Transactions. The Administrative Agent shall be reasonably satisfied with the Restructuring, the Refinancing and the other Transactions (including structure, terms and conditions) and the Transactions (other than the Restructuring) shall be simultaneously consummated on the date hereof in accordance with the terms thereof;

(c) Existing Credit Agreements. The Administrative Agent shall have received documentation satisfactory to the Administrative Agent evidencing that the Existing Credit Agreements shall have been terminated and all respective amounts outstanding thereunder

shall have been repaid in full and the respective liens granted thereunder (if any) shall have been released;

(d) Representations and Warranties. Each of the representations and warranties made by each Borrower in or pursuant to the Loan Documents (except to the extent applicable to an earlier date) shall be true and correct in all material respects on and as of such date as if made on and as of such date (both before and after giving effect to such Transactions as shall be required to occur on or prior to the Closing Date);

(e) No Default. No Default or Event of Default shall have occurred and be continuing on such date or after giving effect to the Transactions to be consummated on such date;

(f) Legal Opinions. The Administrative Agent shall have received, with a counterpart for each Lender, the executed legal opinions of (i) Rayonier's Vice President, Governance and Corporate Secretary, substantially in the form of Exhibit D-1 hereto, (ii) Womble Carlyle Sandridge & Rice, PLLC, special counsel for the Borrowers, substantially in the form of Exhibit D-2 hereto and (iii) Vinson & Elkins L.L.P., special New York counsel for the Borrowers, substantially in the form of Exhibit D-3 hereto and, in each such case, as to such other matters as any Lender through the Administrative Agent may reasonably request;

(g) Closing Certificate. The Administrative Agent shall have received, with a counterpart for each Lender, a closing certificate of each Borrower substantially in the form of Exhibit E hereto, dated as of the Closing Date and satisfactory in form and substance to the Administrative Agent;

(h) "Know Your Customer" Information. The Administrative Agent shall have received documentation and other information required by bank regulatory authorities under applicable "know your customer" and Anti-Money Laundering rules and regulations, including, without limitation, the USA PATRIOT Act. Such documentation shall include, without limitation, evidence satisfactory to the Administrative Agent of (y) the listing of Capital Stock of Rayonier on New York Stock Exchange and (z) Rayonier's ownership of all of the outstanding Capital Stock of TRS and RTOC;

(i) Closing Fees and Expenses. The Administrative Agent shall have received the fees to be received on the Closing Date separately agreed to between the Administrative Agent and Rayonier and shall have received reimbursement of all reasonable costs and expenses (including reasonable fees and expenses of counsel to the Administrative Agent);

(j) Outside Closing Date. The Closing Date shall have occurred and each of the conditions precedent set forth in this Section 3.01 shall have been satisfied on or prior to December 15, 2003; and

(k) Additional Matters. All corporate and other proceedings, and all documents, instruments and other legal matters in connection with the Transactions and the other transactions contemplated by this Agreement, the other Loan Documents shall be reasonably satisfactory in form and substance to the Administrative Agent, and the Administrative Agent

shall have received such other documents, instruments and legal opinions in respect of any aspect or consequence of the Transactions and the other transactions contemplated hereby or thereby as it shall reasonably request.

SECTION 3.02. Conditions Precedent to Each Loan Event. The agreement of each Lender to make any Revolving Credit Advance, including the initial Revolving Credit Advance, on the occasion of each Revolving Credit Borrowing and the agreement of the Issuing Bank to issue, amend, renew or extend (and of each Lender to participate in) any Letter of Credit (the making of any such Revolving Credit Advance or the issuance, amendment, renewal or extension of (and the participation in) any such Letter of Credit, a “Loan Event”) is subject to the satisfaction of the following conditions precedent:

(a) Closing Date. The Closing Date shall have occurred.

(b) Notice of Revolving Credit Borrowing. In the case of Revolving Credit Advances made pursuant to Section 2.01, the Administrative Agent shall have received a Notice of Revolving Credit Borrowing in compliance with the terms hereof;

(c) Representations and Warranties. Each of the representations and warranties made by each Borrower in or pursuant to the Loan Documents (except for the representations and warranties specified in Section 4.01(e),(f) and (g)(i)) shall be true and correct in all material respects on and as of such date as if made on and as of such date (both before and after giving effect to such Loan Event);

(d) No Default. No Default or Event of Default shall have occurred and be continuing on such date or after giving effect to such Loan Event requested to be made on such date; and

(e) Additional Matters. The Administrative Agent shall have received such other approvals, opinions or documents as any Lender through the Administrative Agent may reasonable request.

Each Loan Event shall constitute a representation and warranty by each Borrower as of the date of such Loan Event that the statements in any document delivered by such Borrower in connection with such Loan Event are true and correct and that the conditions contained in this Section 3.02 have been satisfied.

SECTION 3.03. Conditions Precedent to Initial Loan Event with respect to TRS. Notwithstanding the provisions of Section 3.02, the initial Loan Event with respect to TRS shall be subject to the satisfaction of the following conditions precedent:

(a) Corporate Documents. (A) The Administrative Agent shall have received such documents and certificates as the Administrative Agent or its counsel may reasonably request, each of which shall be satisfactory to the Administrative Agent and certified as of the date of initial Loan Event referred to above as complete and correct copies thereof by the Secretary or an Assistant Secretary of each Subsidiary of TRS to be party to the TRS Subsidiary Guarantee Agreement, relating to (1) the organization, existence and good standing of such TRS Subsidiary Guarantor, (2) the authorization of the execution, delivery and performance by such

TRS Subsidiary Guarantor of the TRS Subsidiary Guarantee Agreement, and (3) certifies as to the incumbency and signature of each individual signing the TRS Subsidiary Guarantee Agreement on behalf of the applicable TRS Subsidiary Guarantor;

(b) Legal Opinions. The Administrative Agent shall have received, with a counterpart for each Lender, the executed legal opinions, each of which shall be satisfactory to the Administrative Agent, of (i) Rayonier's Vice President, Governance and Corporate Secretary, (ii) Womble Carlyle Sandridge & Rice, PLLC, special counsel for the Borrowers and (iii) Vinson & Elkins L.L.P., special New York counsel for the Borrowers, as to due authorization, execution and enforceability of the TRS Subsidiary Guarantee Agreement and as to such other matters as any Lender through the Administrative Agent may reasonably request; and

(c) TRS Subsidiary Guarantee Agreement. The Administrative Agent shall have received the TRS Subsidiary Guarantee Agreement substantially in the form of Exhibit C-3 hereto executed by a duly authorized officer of each Subsidiary of TRS to be party thereto.

#### ARTICLE IV

##### REPRESENTATIONS AND WARRANTIES

SECTION 4.01. Representations and Warranties of the Borrower. Each Borrower represents and warrants as follows:

(a) Organization. Each Loan Party (i) is duly organized or formed, validly existing and in good standing under the laws of the jurisdiction of its organization or formation, (ii) has all requisite power and authority, and the legal right to own and operate its property, to lease the property it operates as lessee and to conduct the business in which it is currently engaged except to the extent that the failure to have such power and authority and the legal right could not, in the aggregate, reasonably be expected to have a Material Adverse Effect, and (iii) is duly qualified to conduct business, and is in good standing, under the laws of each jurisdiction where its ownership, lease or operation of property or the conduct of its business requires such qualification except to the extent that the failure to comply therewith could not, in the aggregate, reasonably be expected to have a Material Adverse Effect.

(b) Power and Authority. The execution, delivery and performance by each Loan Party of this Agreement, the Notes and the other Loan Documents to be delivered by it, and the consummation of the Transactions, are within such Loan Party's requisite powers, have been duly authorized by all requisite action, including member or partnership action and do not contravene (i) such Loan Party's charter or by-laws or (ii) law or any material contractual restriction binding on or affecting such Loan Party or, to the actual knowledge of a responsible officer of such Loan Party, any other contractual restriction binding on or affecting such Loan Party.

(c) Governmental Approvals. No authorization or approval or other action by, and no notice to or filing with, any Governmental Authority, regulatory body or any other third party is required for the due execution, delivery and performance by any Loan Party of this Agreement, the Notes or any other Loan Documents.

(d) Enforceability. This Agreement and any other Loan Document have been, and each of the Notes to be delivered by such Borrower when delivered hereunder will have been, duly executed and delivered by the applicable Borrower. This Agreement and any other Loan Document are, and each of the Notes when delivered hereunder will be, the legal, valid and binding obligation of the applicable Borrower enforceable against such Borrower in accordance with their respective terms; provided that the enforceability hereof and thereof is subject in each case to general principles of equity and to bankruptcy, insolvency and similar laws affecting the enforcement of creditors' rights generally.

(e) Financial Statements. The Consolidated balance sheet of Rayonier and its Subsidiaries as at December 31, 2002, and the related Consolidated statements of income and cash flows of Rayonier and its Subsidiaries for the fiscal year then ended, accompanied by an opinion of Deloitte & Touche LLP, independent public accountants, and the unaudited Consolidated balance sheet of Rayonier and its Subsidiaries as at September 30, 2003, and the related unaudited Consolidated statements of income and cash flows of Rayonier and its Subsidiaries for the nine months then ended, duly certified by the chief financial officer of Rayonier, copies of which have been furnished to each Lender, fairly present, subject, in the case of said balance sheet as at September 30, 2003, and said statements of income and cash flows for the nine months then ended, to year-end audit adjustments, the Consolidated financial condition of Rayonier and its Subsidiaries as at such dates and the Consolidated results of the operations of Rayonier and its Subsidiaries for the periods ended on such dates, all in accordance with GAAP consistently applied.

(f) No Material Adverse Change. Since December 31, 2002, there has been no Material Adverse Change.

(g) Litigation. There is no pending or, to the knowledge of the applicable Borrower, threatened action or proceeding, including, without limitation, any Environmental Action, affecting such Borrower or any of its Subsidiaries before any court, governmental agency or arbitrator that (i) could be reasonably likely to have a Material Adverse Effect (other than as set forth in Schedule 4.01(g) (the "Disclosed Litigation")), and since the date of Schedule 4.01(g) was prepared there has been no material adverse change in the status, or financial effect on such Borrower or any of its Subsidiaries, of the Disclosed Litigation from that described in Schedule 4.01(g) or (ii) purports to affect the legality, validity or enforceability of this Agreement, any Note, the other Loan Documents or the consummation of the Transactions.

(h) No Violation; Compliance with Laws. No Loan Party is in violation of any law, rule or regulation (including any zoning, building, Environmental Laws, ordinance, code or approval or any building permit) or any restrictions of record or agreements affecting such material properties or assets, or is in default with respect to any judgment, writ, injunction, decree or order of any Governmental Authority, where any such violation or default could reasonably be expected to result in a Material Adverse Effect.

(i) Accuracy of Information. No written information, report, financial statement, exhibit or schedule furnished by or on behalf of any Borrower or any of its Subsidiaries to the Administrative Agent or any Lender in connection with the negotiation of this Agreement or any other Loan Document or included herein or delivered pursuant hereto

contained or contains any material misstatement of fact or omitted or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were or are made, not misleading.

(j) Regulation U. No Loan Party is engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U issued by the Board of Governors of the Federal Reserve System).

(k) Taxes. Each Borrower and each of its Subsidiaries has timely filed or caused to be filed all federal and, to the extent the failure to timely file such return could reasonably be expected to result in a Material Adverse Effect, other tax returns which are required to be filed and has paid or caused to be paid all taxes (including interest and penalties) shown to be due and payable on said returns or on any assessments made against it or any of its property and all other taxes, fees or other charges imposed on it or any of its property by any Governmental Authority (other than any tax, fee or other charge the failure to pay which could not reasonably be expected to have a Material Adverse Effect or the amount or validity of which is currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of the applicable Borrower or such Subsidiary, as the case may be); and no tax Lien has been filed, and, to the knowledge of each Borrower, no claim is being asserted, with respect to any such tax, fee or other charge, other than any such Lien or claim which could not reasonably be expected to have a Material Adverse Effect.

(l) Environmental Matters. (A) Except as set forth in Schedule 4.01(1), the operations and properties of each Borrower and each of its Subsidiaries comply in all material respects with all Environmental Laws, all material and necessary Environmental Permits have been obtained and are in effect for the operations and properties of such Borrower and each of its Subsidiaries, and such Borrower and each of its Subsidiaries are in compliance in all material respects with all such Environmental Permits.

(B) Except as set forth in Rayonier's Form 10-K/A for 2002 and in Schedule 4.01(1), to the knowledge of the applicable Borrower, there are no circumstances that are reasonably likely to form the basis of an Environmental Action against such Borrower or any of its Subsidiaries that could be reasonably likely to have a Material Adverse Effect.

(m) CERCLA. Except as set forth in Schedule 4.01(1), none of the properties currently or formerly owned or operated by any Borrower or any of its Subsidiaries is listed or, to the knowledge of any Borrower, proposed for listing on the National Priorities List under CERCLA (the "NPL") or on the Comprehensive Environmental Response, Compensation and Liability Information System maintained by the U.S. Environmental Protection Agency ("CERCLIS") or any analogous state list if such listing or proposed listing could reasonably be likely to have a Material Adverse Effect.

(n) Transportation of Hazardous Materials. Except as set forth in Schedule 4.01(1), to the knowledge of any Borrower, neither any Borrower nor any of its Subsidiaries has transported or arranged for the transportation of any Hazardous Materials to any location that is listed or proposed for listing on the NPL or on the CERCLIS, which could reasonably be likely

to lead to claims against any Borrower or such Subsidiary for any remedial work, damage to natural resources or personal injury that have, or could reasonably be likely to have, a Material Adverse Effect.

(o) ERISA. (i) No ERISA Event has occurred or is reasonably expected to occur with respect to any Plan, (ii) Neither any Borrower nor any of its ERISA Affiliates has incurred or is reasonably expected to incur any Withdrawal Liability to any Multiemployer Plan, (iii) Neither any Borrower nor any of its ERISA Affiliates has been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization or has been terminated, within the meaning of Title IV of ERISA, and no such Multiemployer Plan is reasonably expected to be in reorganization or to be terminated, within the meaning of Title IV of ERISA. (iv) Except as set forth in Schedule 4.01(o), as of the date indicated on Schedule 4.01(o) neither any Borrower nor any of its Subsidiaries have material liability with respect to “accumulated post-retirement benefit obligations” within the meaning of Statement of Financial Accounting Standards No. 106 and (v) Schedule B (Actuarial Information) to the most recent annual report (Form 5500 Series) for each Plan, copies of which have been filed with the Internal Revenue Service and, if requested, furnished to the Administrative Agent pursuant to Section 5.01(k)(ix) hereof, is complete and accurate in all material respects and fairly presents the funding status of such Plan, and since the date of such Schedule B there has been no material adverse change in such funding status.

(p) Holding Company; Investment Company Act. None of Borrowers nor any of their respective Subsidiaries is (a) an “investment company” or a company “controlled” by an “investment company”, within the meaning of the Investment Company Act of 1940, as amended, or (b) a “holding company”, a “subsidiary company” of a “holding company”, or an “affiliate” of a “holding company”, as each such term is defined in the Public Utility Holding Company Act of 1935, as amended.

(q) NYSE Listing; REIT Status. The common stock of Rayonier is listed on the New York Stock Exchange, there is no proceeding pending to delist such common stock, and Rayonier is in good standing on such exchange. From and after the REIT Effective Date, Rayonier shall be qualified as a REIT under Section 856 of the Internal Revenue Code and in material compliance with all other provisions of the Internal Revenue Code applicable to the qualification of Rayonier as a REIT.

## ARTICLE V

### COVENANTS OF THE BORROWERS

SECTION 5.01. Affirmative Covenants. Each Borrower hereby agrees that for so long as any of the Commitments remains in effect, any Revolving Credit Advance remains outstanding and unpaid, any Letter of Credit remains outstanding, or any obligation of any Borrower is owing to any Lender, any Issuing Bank or the Administrative Agent hereunder or under any other Loan Document (other than contingent obligations which pursuant to Section 8.04(d) shall survive payment in full of all amounts referred to in Section 8.04(d)), each Borrower shall:

(a) Compliance with Laws, Etc. Comply, and cause each of its Subsidiaries to comply in all material respects, with all applicable laws, rules, regulations and orders, such compliance to include, without limitation, compliance with (i) ERISA and (ii) Environmental Laws to the extent set forth in Section 5.01(d).

(b) Payment of Taxes, Etc. Pay and discharge, and cause each of its Subsidiaries to pay and discharge, before the same shall become delinquent, (i) all federal and other material taxes, assessments and governmental charges or levies imposed upon it or upon its property and (ii) all lawful claims that, if unpaid, might by law become a Lien upon its property; provided, however, that no Borrower nor any of its Subsidiaries shall be required to pay or discharge any such tax, assessment, charge or claim that is being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP are being maintained on the books of the applicable Borrower or such Subsidiary.

(c) Payment of Obligations. Pay, discharge or otherwise satisfy, and cause each of its Subsidiaries to pay, discharge or otherwise satisfy, at or before maturity or before they become delinquent, as the case may be, all its material obligations of whatever nature, or in the case of any trade payable before such trade payable becomes Debt, except where the amount or validity thereof is currently being contested in good faith and by appropriate proceedings and as to which appropriate reserves, if any, to the extent required in accordance with GAAP, are being maintained.

(d) Compliance with Environmental Laws. (i) Comply and cause each of its Subsidiaries to comply, in all material respects, with all Environmental Laws and Environmental Permits that are material to the conduct of the business of the applicable Borrower or any of its Subsidiaries or necessary for their operations and properties, and (ii) obtain and renew, and cause each of its Subsidiaries to obtain and renew, all Environmental Permits that are material to the conduct of the business of the applicable Borrower or any of its Subsidiaries or necessary for their operations and properties; except, with respect to (i) and (ii) above, to the extent that any such Environmental Law or the terms of any Environmental Permit are being contested in good faith and by proper proceedings and as to which appropriate reserves, if any, to the extent required in accordance with GAAP, are being maintained.

(e) Maintenance of Insurance. Maintain, and cause each of its Subsidiaries to maintain, insurance (including self-insurance, in amounts consistent with industry practice and custom) with responsible insurance companies or associations in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which the applicable Borrower or such Subsidiary operates.

(f) Preservation of Corporate Existence, Etc. Preserve and maintain, and cause each of its Subsidiaries to preserve and maintain, its corporate existence, rights (charter and statutory) and franchises; provided, however, that any Borrower and its Subsidiaries may consummate any merger or consolidation permitted under Section 5.03(c) and provided further that no Borrower nor any of its Subsidiaries shall be required to preserve any right or franchise or the corporate existence of any Subsidiary of such Borrower (other than, in the case of Rayonier, TRS and RTOC) if the Board of Directors of such Borrower or such Subsidiary shall

determine that the preservation thereof is no longer desirable in the conduct of the business of such Borrower or such Subsidiary, as the case may be, and that the loss thereof is not disadvantageous in any material respect to Rayonier and its Subsidiaries taken as a whole or the Lenders.

(g) Visitation Rights. At any reasonable time and from time to time, upon reasonable prior notice, permit, and shall cause each of its Subsidiaries to permit, the Administrative Agent or, subject to the proviso hereto, any of the Lenders or Issuing Bank or any agents or representatives thereof to examine and make copies of and abstracts from the records and books of account of, and visit the properties of any Borrower and any of its Subsidiaries, as shall be reasonably requested, and to discuss the affairs, finances and accounts of any Borrower and any of its Subsidiaries with any of their officers and with their independent certified public accountants, provided, that unless (x) an Event of Default has occurred and is continuing or (y) the Public Debt Rating assigned by S&P is lower than BBB- and the Public Debt Rating assigned by Moody's is lower than Baa3, none of the Borrowers shall be required to comply with this subsection (g) with respect to any of the Lenders, Issuing Bank or any agents or representatives thereof (other than the Administrative Agent).

(h) Keeping of Books. Keep, and cause each of its Subsidiaries to keep, proper books of record and account, in which appropriate entries that are correct in all material respects shall be made, of all financial transactions and the assets and business of each Borrower and each such Subsidiary so as to permit preparation of their Consolidated financial statements in accordance with GAAP.

(i) Maintenance of Properties, Etc. Maintain and preserve, and cause each of its Subsidiaries to maintain and preserve, all of its properties that are necessary or, in the reasonable judgment of the applicable Borrower or such Subsidiary, useful in the conduct of its business in good working order and condition, ordinary wear and tear excepted.

(j) Transactions with Affiliates. Conduct, and cause each of its Subsidiaries to conduct, all transactions otherwise permitted under this Agreement with any of their Affiliates on terms that are fair and reasonable and no less favorable to the applicable Borrower or such Subsidiary than it would obtain in a comparable arm's-length transaction with a Person not an Affiliate other than:

- (i) transactions among any Borrower and any of its wholly owned Subsidiaries; and
- (ii) transactions among wholly owned Subsidiaries of any Borrower,

(k) Reporting Requirements. Furnish to the Lenders:

- (i) as soon as available and in any event within 10 days after the date quarterly financial statements would be required to be filed by an "Accelerated Filer" as defined in Rule 12b-2 under the Exchange Act (without giving effect to any extension) in a periodic report with the SEC (and in any event within 50 days after the end of each of the first three Fiscal Quarters in each fiscal year of Rayonier), unaudited Consolidated balance sheets of Rayonier and its Subsidiaries as of the end of such quarter and Consolidated statements of

income and cash flows of Rayonier and its Subsidiaries for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, duly certified (subject to year-end audit adjustments) by the chief financial officer of Rayonier as having been prepared in accordance with GAAP;

(ii) as soon as available and in any event within 10 days after the date annual financial statements would be required to be filed by an “Accelerated Filer” as defined in Rule 12b-2 under the Exchange Act (without giving effect to any extension) in a periodic report with the SEC (and in any event within 90 days after the end of each fiscal year of Rayonier), a copy of the annual audit report for such year for Rayonier and its Subsidiaries, containing Consolidated balance sheets of Rayonier and its Subsidiaries as of the end of such fiscal year and Consolidated statements of income and cash flows of Rayonier and its Subsidiaries for such fiscal year, in each case accompanied by an opinion reasonably acceptable to the Required Lenders by a nationally recognized firm of independent public accountants;

(iii) together with the financial statements required to be delivered in accordance with clauses (i) and (ii) above, (A) a certificate of the chief financial officer of Rayonier stating that no Default has occurred and is continuing or, if a Default has occurred and is continuing, a statement as to the nature thereof and the action that the applicable Borrower has taken and proposes to take with respect thereto and (B) a schedule in form and substance satisfactory to the Administrative Agent of the computations used by Rayonier in determining compliance with the covenants contained in Sections 5.03(h) and 5.05;

(iv) promptly after any Borrower becomes aware of and in any event within five Business Days after becoming aware of each Default, continuing on the date of such statement, a statement of the chief financial officer of Rayonier setting forth details of such Default and the action that Rayonier has taken and proposes to take with respect thereto;

(v) promptly after the sending or filing thereof, copies of all reports that any Borrower sends to any of its public securityholders, and copies of all reports and registration statements that any Borrower or any of its Subsidiaries files with the SEC or any national securities exchange;

(vi) promptly after any Borrower becomes aware of the commencement thereof, notice of all actions and proceedings before any court, governmental agency or arbitrator affecting such Borrower or any of its Subsidiaries of the type described in the first sentence of Section 4.01(g);

(vii) promptly and in any event within 10 days after Rayonier or any of its ERISA Affiliates knows that any ERISA Event has occurred, a statement of the chief financial officer of Rayonier describing such ERISA Event and the action, if any, that Rayonier or such ERISA Affiliate has taken and proposes to take with respect thereto;

(viii) promptly and in any event within three Business Days after receipt thereof by Rayonier or any of its ERISA Affiliates, copies of each notice from the PBGC stating

its intention to terminate any Plan or to have a trustee appointed to administer any such Plan;

(ix) upon the request of the Administrative Agent after the filing thereof with the Internal Revenue Service, copies of each Schedule B (Actuarial Information) to the annual report (Form 5500 Series) with respect to each Plan;

(x) promptly and in any event within five Business Days after receipt thereof by Rayonier or any of its ERISA Affiliates from the sponsor of a Multiemployer Plan, copies of each notice concerning (x) the imposition of Withdrawal Liability by any such Multiemployer Plan, (y) the reorganization or termination, within the meaning of Title IV of ERISA, of any such Multiemployer Plan or (z) the amount of liability incurred, or that may be incurred, by Rayonier or any of its ERISA Affiliates in connection with any event described in clause (x) or (y);

(xi) as soon as practical and in any event promptly after the receipt thereof by any Borrower, copies of all written claims, complaints, notices or inquiries relating to compliance by such Borrower or any of its Subsidiaries with any Environmental Law or Environmental Permit that could reasonably be likely to have a Material Adverse Effect or could reasonably be likely to (x) form the basis of an Environmental Action against such Borrower or any of its Subsidiaries or such property that could reasonably be likely to have a Material Adverse Effect or (y) cause any such property to be subject to any restrictions on ownership, occupancy, use or transferability under any Environmental Law that could reasonably be likely to have a Material Adverse Effect;

(xii) promptly such other information and data with documentation and other information required by bank regulatory authorities under applicable "know your customer" and Anti-Money Laundering rules and regulations (including, without limitation, the USA PATRIOT Act), including, without limitation, evidence satisfactory to the Administrative Agent of (x) the listing of Capital Stock of Rayonier on New York Stock Exchange and (y) Rayonier's ownership of all of the outstanding Capital Stock of TRS and RTOC, as from time to time may be reasonably requested by the Administrative Agent; and

(xiii) such other information respecting the condition or operations, financial or otherwise, of any Borrower or any of its Subsidiaries (including, without limitation, information with respect to the Restructuring) as any Lender or Issuing Bank through the Administrative Agent may from time to time reasonably request.

Information required to be delivered pursuant to this Section 5.01(k) shall be deemed to have been delivered to the Lenders when it has been delivered to the Administrative Agent.

Notwithstanding any of the foregoing, at any time when Rayonier is subject to the reporting requirements of Section 13(a)(2) of the Securities Exchange Act of 1934, Rayonier shall be deemed to have complied with the requirements of clauses (i), (ii) and (vi) above, if Rayonier shall include such information in timely filings made with the SEC by Rayonier.

(l) Subsidiary Guarantees. (i) Cause the RTOC Subsidiary Guarantee Agreement substantially in the form of Exhibit C-2 hereto to be executed and delivered to the Administrative Agent as soon as possible but in any event not later than the REIT Effective Date by a duly authorized officer of each Subsidiary of RTOC to be party thereto (other than Rayland, LLC ("Rayland"); provided that Rayland shall execute the RTOC Subsidiary Guarantee Agreement unless, as a result of the Restructuring, Rayland shall have executed the TRS Subsidiary Guarantee Agreement as a Subsidiary of TRS within three months from the Closing Date) together with (A) such documents and certificates as the Administrative Agent or its counsel may reasonably request, each of which shall be satisfactory to the Administrative Agent and certified as of the date of execution thereof as complete and correct copies thereof by the Secretary or an Assistant Secretary of each Subsidiary of RTOC to be party to the RTOC Subsidiary Guarantee Agreement, relating to (1) the organization, existence and good standing of such RTOC Subsidiary Guarantor, (2) the authorization of the execution, delivery and performance by such RTOC Subsidiary Guarantor of the RTOC Subsidiary Guarantee Agreement, and (3) certificates as to the incumbency and signature of each individual signing the RTOC Subsidiary Guarantee Agreement on behalf of the applicable RTOC Subsidiary Guarantor and (B) with a counterpart for each Lender, the executed legal opinions, each of which shall be satisfactory to the Administrative Agent, of (x) Rayonier's Vice President, Governance and Corporate Secretary, (y) Womble Carlyle Sandridge & Rice, PLLC, special counsel for the Borrowers and (z) Vinson & Elkins L.L.P., special New York counsel for the Borrowers, as to due authorization, execution and enforceability of the RTOC Subsidiary Guarantee Agreement and as to such other matters as any Lender through the Administrative Agent may reasonably request.

(ii) Cause at all times domestic Subsidiaries of RTOC to be party to the RTOC Subsidiary Guarantee Agreement such that as of the date of execution thereof and as of the 60th day after the end of each Fiscal Quarter thereafter (and at any time as a condition precedent to (and after giving effect to) any merger, consolidation, liquidation or other disposition of assets permitted by Section 5.03(c)(ii) or (d)(iii)), (x) the aggregate assets of RTOC and RTOC Subsidiary Guarantors are not less than 90% of the Consolidated Assets of RTOC and its domestic Subsidiaries and (y) the aggregate gross revenues of RTOC and the RTOC Subsidiary Guarantors (calculated as of the last day of RTOC's and such Guarantors' most recently ended Fiscal Quarter for the four consecutive Fiscal Quarters ending with such Fiscal Quarter) do not constitute less than 90% of the aggregate gross revenues of RTOC and its domestic Subsidiaries (calculated as of the last day of RTOC's and its Subsidiaries' most recently ended Fiscal Quarter for the four consecutive Fiscal Quarters ending with such Fiscal Quarter); provided that in the event that any Subsidiary of RTOC guarantees any other Debt of RTOC, such Subsidiary shall promptly execute and deliver a supplement to the RTOC Subsidiary Guarantee Agreement as a supplemental guarantor.

(iii) Cause at all times domestic Subsidiaries of TRS to be party to the TRS Subsidiary Guarantee Agreement such that as of the date of the initial Loan Event with respect to TRS and as of the 60th day after the end of each Fiscal Quarter thereafter (and at any time as a condition precedent to (and after giving effect to) any merger, consolidation, liquidation or other disposition of assets permitted by Section 5.03(c)(i) or (d)(iii)), (x) the aggregate assets of TRS and TRS Subsidiary Guarantors are not less than 90% of the

Consolidated Assets of TRS and its domestic Subsidiaries and (y) the aggregate gross revenues of TRS and the TRS Subsidiary Guarantors (calculated as of the last day of TRS's and such Guarantors' most recently ended Fiscal Quarter for the four consecutive Fiscal Quarters ending with such Fiscal Quarter) do not constitute less than 90% of the aggregate gross revenues of TRS and its domestic Subsidiaries (calculated as of the last day of TRS's and its Subsidiaries' most recently ended Fiscal Quarter for the four consecutive Fiscal Quarters ending with such Fiscal Quarter); provided that in the event that any Subsidiary of TRS guarantees any other Debt of TRS, such Subsidiary shall promptly execute and deliver a supplement to the TRS Subsidiary Guarantee Agreement as a supplemental guarantor.

(iv) In maintaining such guarantees, the guarantees executed by any Subsidiary Guarantors shall promptly be executed and delivered to the Administrative Agent for the benefit of each of the Lenders and Issuing Banks and shall be substantially identical to the guarantees previously executed by each of the other Subsidiary Guarantors, together with such supporting documentation, including corporate resolutions and opinions of counsel with respect to such additional guarantee, as may be reasonably required by the Administrative Agent.

(v) In the event of a sale or other disposition of all or substantially all of the assets of any Subsidiary Guarantor, by way of merger, consolidation or otherwise, or a sale or other disposition of all of the Capital Stock of any Subsidiary Guarantor, then such Subsidiary Guarantor (in the event of a sale or disposition, by way of merger, consolidation or otherwise, of all of the Capital Stock of such Subsidiary Guarantor) or the Person acquiring the property (in the event of a sale or other disposition of all or substantially all of the assets of such Subsidiary Guarantor) will be released and relieved of any obligations under its respective Guarantee, provided that (y) such Subsidiary Guarantor or other Person, as the case may be, is concurrently released and relieved of any obligations it may have with respect to all other guarantees of Debt of such Borrower and (z) after such release Rayonier remains in compliance with Section 5.01(l)(ii) and (iii).

(m) Completion of Restructuring. The Restructuring shall be completed substantially on the terms set forth in the definition thereof as provided herein and on or prior to February 16, 2004.

SECTION 5.02. Additional Rayonier's Affirmative Covenants. In addition to the affirmative covenants set forth in Section 5.01, Rayonier hereby agrees that for so long as any of the Commitments remains in effect, any Revolving Credit Advance remains outstanding and unpaid, any Letter of Credit remains outstanding, or any obligation of any Borrower is owing to any Lender, any Issuing Bank or the Administrative Agent hereunder or under any other Loan Document (other than contingent obligations which pursuant to Section 8.04(d) shall survive payment in full of all amounts referred to in Section 8.04(d)), Rayonier shall:

(a) Public Debt Rating. Maintain at all times a Public Debt Rating by Moody's and S&P.

(b) Maintenance of NYSE Listing. Maintain at all times the listing of its common shares of beneficial interest on New York Stock Exchange and not take any action that results in a proceeding to delist such common shares.

(c) REIT Election; Maintenance of REIT Status. (i) Make a timely and valid election to qualify as a REIT effective on and after the REIT Effective Date in accordance with the applicable provisions of the Internal Revenue Code, and (ii) on and after the REIT Effective Date, maintain material compliance with Section 856 and any other applicable provisions of the Internal Revenue Code necessary to maintain its REIT status.

SECTION 5.03. Negative Covenants. Rayonier hereby agrees that for so long as the Commitments remain in effect, any Revolving Credit Advance remains outstanding and unpaid, any Letter of Credit remains outstanding, or any obligation of any Borrower is owing to any Lender, any Issuing Bank or the Administrative Agent hereunder or under any other Loan Document (other than contingent obligations which pursuant to Section 8.04(d) shall survive payment in full of all amounts referred to in Section 8.04(d)), Rayonier shall not:

(a) Dividends. Declare or pay, or permit any of its Subsidiaries to declare or pay, any dividends or make any other distribution on Capital Stock of Rayonier or any of its Subsidiaries (other than dividends or distributions payable solely in Capital Stock of Rayonier or, in the case of dividends paid to Rayonier or any of its Subsidiaries, Capital Stock of such Subsidiary) or purchase, redeem, defease or otherwise acquire or retire for value, or permit any of its Subsidiaries to purchase, redeem, defease or otherwise acquire or retire for value any of the Capital Stock of Rayonier or any of its Subsidiaries at any time outstanding except as provided in this Section 5.03(a). So long as no Default or Event of Default has occurred and is then continuing, Rayonier and its Subsidiaries shall be permitted to redeem, repurchase or otherwise acquire or retire any of their respective Capital Stock and declare and pay dividends on their respective Capital Stock from time to time in amounts determined by Rayonier or such Subsidiaries; provided, however, that subject to the terms of the next sentence, in no event shall Rayonier declare or pay dividends on its Capital Stock if dividends (other than dividends or distributions payable solely in Capital Stock of Rayonier) paid in, or with respect to, any period of four Fiscal Quarters, in the aggregate, would exceed the sum of (1) 90% of Funds From Operations for such period plus (2) the aggregate amount of dividends permitted pursuant to the foregoing clause (1) in the preceding period of four Fiscal Quarters in excess of the aggregate amount dividends actually paid during such period. Notwithstanding the foregoing (i) unless (A) at the time of such distribution any Event of Default has occurred and is then continuing and (B) so long as the REIT Effective Date shall occur simultaneously or immediately after such distribution and (C) all other conditions except for such distribution were satisfied in order for Rayonier to qualify for status of a REIT in compliance with all applicable provisions of the Internal Revenue Code, Rayonier shall be permitted to declare and pay the REIT Qualifying Distribution, and (ii) after the REIT Effective Date, unless at the time of such distribution any Event of Default has occurred and is then continuing under Section 6.01 (a), Rayonier shall be permitted to declare and pay whatever amount of cash dividends is necessary to maintain its tax status as a REIT.

(b) Liens, Etc. Create or suffer to exist, or permit any of its Subsidiaries to create or suffer to exist, any Lien on or with respect to any of its properties, whether now owned

or hereafter acquired, or assign, or permit any of its Subsidiaries to assign, any right to receive income, other than:

(i) Permitted Liens,

(ii) purchase money Liens upon or in any property acquired or held by Rayonier or any Subsidiary in the ordinary course of business to secure the purchase price of such property or to secure Debt incurred solely for the purpose of financing the acquisition of such property, or Liens existing on such property at the time of its acquisition (other than any such Lien created in contemplation of such acquisition) or extensions, renewals or replacements of any of the foregoing for the same or a lesser amount; provided, however, that no such Lien shall extend to or cover any property other than the property being acquired, and no such extension, renewal or replacement shall extend to or cover any property not theretofore subject to the Lien being extended, renewed or replaced,

(iii) Liens on property of a Person existing at the time such Person is merged into or consolidated with Rayonier or any of its Subsidiaries or becomes a Subsidiary of Rayonier; provided that such Liens were not created in contemplation of such merger, consolidation or acquisition and do not extend to any assets other than those of the Person so merged into or consolidated with Rayonier or such Subsidiary or acquired by Rayonier or such Subsidiary,

(iv) the Liens described on Schedule 5.03(b),

(v) the replacement, extension or renewal of any Lien permitted by clauses (ii), (iii) and (iv) above upon or in the same property theretofore subject thereto or the replacement, extension or renewal (without increase in the amount or change in any direct or contingent obligor) of the Debt secured thereby, and

(vi) other Liens securing Debt; provided that the principal amount of Debt secured pursuant to this clause (vi), together with the principal amount of Debt permitted to be outstanding in accordance with Section 5.03(e)(vii), shall not in the aggregate at any time outstanding exceed 15% of the Consolidated Tangible Net Worth of Rayonier and its Subsidiaries.

(c) Mergers, Etc. Merge or consolidate with or into, or convey, transfer, lease or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its assets (whether now owned or hereafter acquired) to, any Person, or permit any of its Subsidiaries to do so, except that (i) subject to Section 5.01(1), (A) any wholly owned Subsidiary of TRS may merge or consolidate with or into, or dispose of all or substantially all of its assets to, any other wholly owned Subsidiary of TRS or (B) any wholly owned Subsidiary of TRS may merge into or dispose of all or substantially all of its assets to TRS (with TRS being the surviving entity), (ii) subject to Section 5.01(1), (A) any wholly owned Subsidiary of RTOC may merge or consolidate with or into, or dispose of all or substantially all of its assets to, any other wholly owned Subsidiary of RTOC or (B) any wholly owned Subsidiary of RTOC may merge into or dispose of all or substantially all of its assets to RTOC (with RTOC being the

surviving entity), and (iii) Rayonier may merge with any other Person (including TRS and RTOC), provided in each case that no Default shall have occurred and be continuing at the time of such proposed transaction or would result therefrom and, in the case of any merger to which Rayonier is a party, (w) Rayonier is the surviving corporation, (x) after giving effect to the consummation of such merger, Rayonier shall be in compliance with the covenants set forth in Section 5.05 (calculated on a pro forma basis, as of the date of the consummation of such merger), (y) the RTOC Subsidiary Guarantee Agreement (in the event of merger with RTOC) or the TRS Subsidiary Guarantee Agreement (in the event of merger with TRS) shall remain in full force and the respective Subsidiary Guarantors shall continue to guarantee obligations of Rayonier hereunder and under other Loan Documents, and (z) Rayonier and its Subsidiaries shall be in the same line of business as conducted by them immediately prior to such merger.

(d) Sales, Etc. of Assets. Sell, lease, transfer or otherwise dispose of, or permit any of its Subsidiaries to sell, lease, transfer or otherwise dispose of, any assets, or grant any option or other right to purchase, lease or otherwise acquire any assets, except (i) as permitted by Section 5.03(c), (ii) any such sale, lease, transfer or disposition that is made in the ordinary course of its business, (iii) subject to Section 5.01(1), any such sale, lease, transfer or disposition by a Subsidiary of a Borrower to such Borrower or to another wholly owned Subsidiary of such Borrower (whether by dissolution, liquidation or otherwise), (iv) any such sale, lease transfer or disposition to the extent the net book value of any single asset sold, leased, transferred or disposed of from and after the date hereof in any given calendar year pursuant to this clause (iv) is less than \$2,000,000, and the aggregate of all such single assets sold, leased, transferred or disposed of from and after the date hereof in any given calendar year pursuant to this clause (iv) is less than \$10,000,000, (v) any such sale, lease, transfer or disposition to the extent the net book value of all assets sold, leased, transferred or disposed of from and after the date hereof pursuant to this clause (v) does not exceed the greater of (x) in any calendar year an amount equal to the greater of an amount equal to 10% of Consolidated Assets of Rayonier and its Subsidiaries or \$160,000,000 or (y) in the aggregate from and after the date hereof the greater of an amount equal to 25% of Consolidated Assets of Rayonier and its Subsidiaries or \$400,000,000, in each case measured as of the last day of the most recent Fiscal Quarter of Rayonier ended on or prior to such date of determination, (vi) any intercompany sale of accounts receivable from Rayonier to any of its Subsidiaries in the aggregate amount not to exceed \$40,000,000, and (vii) any such sale, lease, transfer or disposition that is made in connection with the Restructuring.

(e) Subsidiary Debt. Permit any of its Subsidiaries to create or suffer to exist, any Debt other than:

(i) Debt created hereunder and under the other Loan Documents,

(ii) Debt owed to Rayonier or any wholly owned Subsidiary of Rayonier,

(iii) Debt existing on the Closing Date and described on Schedule 5.03(e) (including as Debt permitted under this subsection any credit facilities or credit lines of any Subsidiary listed on such Schedule 5.03(e), whether or not such facilities or lines have been drawn upon by such Subsidiary) (the "Existing Subsidiary Debt"), any assumption or assignment of the Existing Subsidiary Debt pursuant to the terms of the Restructuring and

any Debt of the obligor of such Existing Subsidiary Debt (or its parent if such parent is a Borrower) extending the maturity of, or refunding or refinancing, in whole or in part, the Existing Subsidiary Debt, provided that the terms of any such extending, refunding or refinancing Debt, and of any agreement entered into and of any instrument issued in connection therewith, are otherwise permitted by this Agreement and provided further that the principal amount of such Existing Subsidiary Debt shall not be increased above the principal amount thereof outstanding immediately prior to such extension, refunding or refinancing, and the direct and contingent obligors therefor shall not be changed, as a result of or in connection with such extension, refunding or refinancing,

(iv) Debt secured by Liens permitted by Section 5.03(b)(ii) or (iii),

(v) endorsement of negotiable instruments for deposit or collection or similar transactions in the ordinary course of business,

(vi) Debt permitted to be outstanding in accordance with Section 5.03(h), and

(vii) Debt other than Debt described in clauses (i) through (vi) of this Section 5.03(e); provided that the principal amount of Debt permitted to be outstanding pursuant to this clause (vii), together with the principal amount of Debt permitted to be secured pursuant to Section 5.03(b)(vi), shall not in the aggregate at any time outstanding exceed 15% of the Consolidated Tangible Net Worth of Rayonier and its Subsidiaries.

(f) Change in Nature of Business. Make, or permit any of its Subsidiaries to make, any material change in the nature of the business of Rayonier and its Subsidiaries taken as a whole as carried on at the date hereof.

(g) Accounting Changes. Make or permit, or permit any of its Subsidiaries to make or permit, any change in accounting policies or reporting practices that would prevent Rayonier from preparing its Consolidated financial statements in accordance with GAAP

(h) Certain Subsidiary Debt. Permit the aggregate outstanding principal amount of all Debt of RTOC to exceed \$800,000,000 at any time outstanding.

Anything in this Section 5.03 to the contrary notwithstanding, Rayonier and its Subsidiaries shall be permitted to consummate the Restructuring before February 16, 2004 and, for purposes of this Section, the Restructuring shall be deemed to be a permitted exception in each of the foregoing negative covenants (to the extent otherwise applicable).

SECTION 5.04. Additional RTOC's Negative Covenants. In addition to (and without in any way modifying) the covenants set forth in Section 5.03, Rayonier and RTOC hereby agree that for so long as the Commitments remain in effect, any Revolving Credit Advance remains outstanding and unpaid, any Letter of Credit remains outstanding, or any obligation of any Borrower is owing to any Lender, any Issuing Bank or the Administrative Agent hereunder or under any other Loan Document (other than contingent obligations which pursuant to Section 8.04(d) shall survive payment in full of all amounts referred to in Section 8.04(d)), RTOC:

(a) Additional Limitation on Debt. Shall not and shall not permit any of its Restricted Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or in any manner become directly or indirectly liable, contingently or otherwise, for the payment of (in each case, to "incur") any Debt (including, without limitation, Acquired Debt), unless at the time of such incurrence, and after giving pro forma effect to the receipt and application of the proceeds of such Debt, the RTOC Consolidated Fixed Charge Coverage Ratio is greater than 2.50 to 1.00; provided that the foregoing limitation shall not apply to the RTOC Permitted Debt.

(b) Investments and Other Restricted Payments. Shall not and shall not permit any of its Restricted Subsidiaries to, directly or indirectly (i) declare or pay any dividend or make any other distribution or payment on or in respect of Capital Stock of RTOC or any of its Restricted Subsidiaries or any payment made to the direct or indirect holders (in their capacities as such) of Capital Stock of RTOC or any of its Restricted Subsidiaries (other than (A) dividends or distributions payable solely in Capital Stock of RTOC (other than Redeemable Capital Stock of a Restricted Subsidiary) or in options, warrants or other rights to purchase Capital Stock of RTOC (other than Redeemable Capital Stock of a Restricted Subsidiary), (B) the declaration or payment of dividends or other distributions to the extent declared or paid to RTOC or any Restricted Subsidiary, and (C) the declaration or payment of dividends or other distributions by any Restricted Subsidiary to all holders of Capital Stock of such Restricted Subsidiary on a pro rata basis (including, in the case of RTOC, to the Managing General Partner)); (ii) purchase, redeem, defease or otherwise acquire or retire for value any Capital Stock of RTOC or any of its Restricted Subsidiaries (other than any such Capital Stock owned by a Wholly-Owned Restricted Subsidiary); (iii) make any principal payment on, purchase, defease, repurchase, redeem or otherwise acquire or retire for value, prior to any scheduled maturity, scheduled repayment, scheduled sinking fund payment or other Stated Maturity, any Subordinated Debt (other than any such Debt owned by RTOC or a Wholly-Owned Restricted Subsidiary), (iv) make any Investment (other than any RTOC Permitted Investment) in any Person, or (v) make any interest payment on the Rayonier Subordinated Notes (such payments or Investments described in the preceding clauses (i), (ii), (iii) (iv) and (v), collectively, "RTOC Restricted Payments"), unless, at the time of and after giving effect to proposed Restricted Payment (y) no Default or Event of Default shall have occurred and be continuing and (z) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by RTOC and its Restricted Subsidiaries during the Fiscal Quarter during which such Restricted Payment is made, shall not exceed (1) if the RTOC Consolidated Fixed Charge Coverage Ratio shall be greater than 2.00 to 1.00, an amount equal to Available Cash for the immediately preceding Fiscal Quarter, or (2) if the RTOC Consolidated Fixed Charge Coverage Ratio shall be equal to or less than 2.00 to 1.00, an amount equal to the sum of (a) \$75,000,000 over the life of the Installment Note Agreement, plus (b) to the extent not theretofore used as the basis for a Restricted Payment pursuant to clause (ii) or (iii) of the next succeeding paragraph, the aggregate net cash proceeds of any (i) capital contribution to RTOC from any Person (other than a Restricted Subsidiary) or (ii) issuance and sale of shares of Capital Stock (other than Redeemable Capital Stock) of RTOC to any Person (other than to a Restricted Subsidiary), in either such case made after the Closing Date and no later than substantially concurrently with the making of such Restricted Payment, minus (c) the aggregate amount of all Restricted Payments (including such Restricted Payment) made pursuant to this clause (2) after the Closing Date. The amount of any such Restricted Payment, if other than cash, shall be the Fair Market Value (as determined in good faith by Board of Directors of the General Managing Partner) on the date of such Restricted

Payment of the asset(s) proposed to be transferred by RTOC or such Restricted Subsidiary, as the case may be, pursuant to such Restricted Payment.

None of the foregoing provisions of this Section 5.04(b) shall prohibit: (i) the payment of any dividend or distribution within 60 days after the date of its declaration, if at the date of declaration such payment would be permitted by the immediately preceding paragraph; (ii) the redemption, repurchase or other acquisition or retirement of any class of Capital Stock of RTOC or any Restricted Subsidiary in exchange for, or out of the net cash proceeds of, a substantially concurrent (A) capital contribution to RTOC from any Person (other than a Restricted Subsidiary) or (B) issue and sale of other shares of Capital Stock (other than Redeemable Capital Stock of a Restricted Subsidiary) of RTOC to any Person (other than to a Restricted Subsidiary); provided, however, that the amount of any such net cash proceeds that are utilized for any such redemption, repurchase or other acquisition or retirement shall be excluded from the calculation of Available Cash; (iii) any redemption, repurchase or other acquisition or retirement of the Subordinated Debt by exchange for, or out of the net cash proceeds of, a substantially concurrent (A) capital contribution to RTOC from any Person (other than a Restricted Subsidiary) or (B) issue and sale of (y) Capital Stock (other than Redeemable Capital Stock of a Restricted Subsidiary) of RTOC to any Person (other than to a Restricted Subsidiary) or (z) Debt of RTOC issued to any Person (other than a Restricted Subsidiary), so long as such Debt is RTOC Permitted Refinancing Debt; or (iv) any distribution, or redemptions declared or effected by RTOC on or before the Closing Date, whether or not payable on a later date; provided, however, in each case, that the amount of any such net cash proceeds that are utilized for any such redemption, repurchase or other acquisition or retirement shall be excluded from the calculation of Available Cash. In computing the amount of Restricted Payments previously made for purposes of the preceding paragraph, Restricted Payments made under clause (i) of this paragraph shall be included and Restricted Payments made under clauses (ii), (iii) and (iv) shall not be so included.

(c) Limitation on Sale and Leaseback Transactions. Shall not enter, and shall not permit any of its Restricted Subsidiaries to enter, into any Sale and Leaseback Transaction with respect to any property of RTOC or any of its Restricted Subsidiaries. Notwithstanding the foregoing, RTOC and its Restricted Subsidiaries may enter into Sale and Leaseback Transactions with respect to property acquired or constructed after the Closing Date; provided that (i) RTOC or such Restricted Subsidiary would be permitted to incur Debt secured by a Lien on such property in an amount equal to the Attributable Debt with respect to such Sale and Leaseback Transaction, or (ii) the lease in such Sale and Leaseback Transaction is for a term not in excess of the lesser of (A) three years and (B) 60% of the remaining useful life of such property.

(d) Limitation on Timber Harvesting. In the event that RTOC or any of its Restricted Subsidiaries receive any Net Proceeds from one or more Excess Harvests, within 270 days after the date of such receipt (or such longer period as may be required to comply with any agreement in effect on the Closing Date), RTOC, at its option, may apply the amount of such aggregate Net Proceeds (less the amount of any such Net Proceeds previously applied during such fiscal year for the purposes set forth in clause (i) and/or (ii) below) to (i) reduce Senior Debt of RTOC secured as permitted under Section 5.03(b) or Senior Debt of a Restricted Subsidiary (with a permanent reduction of availability in the case of any borrowings by RTOC or any Restricted Subsidiary under the Working Capital Facility or any other facility (other than the

facility provided hereunder) that permits amounts repaid or prepaid to be reborrowed) or (ii) make, or commit, pursuant to a binding written contract (provided that such contract is consummated substantially in accordance with the terms thereof within 30 days after the end of the 270-day period), to make an investment in assets used or useful in the business of RTOC or such Subsidiary. Pending the final application of any such Net Proceeds, RTOC or any Restricted Subsidiary may temporarily reduce borrowings under the Working Capital Facility or otherwise invest such Net Proceeds in any manner that is not prohibited by this Agreement. Any such Net Proceeds that are not applied or invested as provided in the first sentence of this Section 5.04(d) will be deemed to constitute "Excess Harvest Proceeds". When the aggregate amount of Excess Harvest Proceeds exceeds \$100,000,000, RTOC shall make an offer to the holders of the Installment Notes and an offer to all holders of other Senior Debt containing provisions similar to those set forth in this Section 5.04(d) (an "Excess Harvest Offer"), to prepay the aggregate outstanding principal amount of the Installment Notes and such other Senior Debt that may be prepaid out of the Excess Harvest Proceeds. To the extent that the aggregate principal amount of the Installment Notes and other Senior Debt tendered pursuant to an Excess Harvest Offer is less than the Excess Harvest Proceeds, RTOC may use such deficiency for general business purposes. If the aggregate principal amount of the Installment Notes and other Senior Debt offered to be prepaid exceeds the amount of Excess Harvest Proceeds offered to be applied to prepay the same, the offer to prepay the Installment Notes and such other Senior Debt shall be made on a pro rata basis. Upon completion of such Excess Harvest Offer, the amount of Excess Harvest Proceeds shall be reset at zero. It being understood that this Section 5.04(d) does not require RTOC to make an offer to the Lenders when the aggregate amount of Excess Harvest Proceeds exceeds \$100,000,000 and this Section 5.04(d) shall not be deemed to be a provision similar to Section 10.1 of the Installment Note Agreement.

(e) Limitation on Dividends and Other Payment Restrictions Affecting Restricted Subsidiaries. Shall not, and shall not permit any of its Restricted Subsidiaries to, create or otherwise cause or suffer to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Restricted Subsidiary to (i) pay dividends, in cash or otherwise, or make any other distributions on or in respect of its Capital Stock, (ii) pay any Debt owed to RTOC or any other Restricted Subsidiary, (iii) make loans or advances to, or any investment in, RTOC or any other Restricted Subsidiary, or (iv) transfer any of its properties or assets to RTOC or any other Restricted Subsidiary (collectively, "Payment Restrictions"), except for such encumbrances or restrictions existing under or by reason of (A) applicable law, rules or regulations, or any order or ruling by any Governmental Authority; (B) any agreement in effect at or entered into on the Closing Date (including, without limitation, this Agreement, the Installment Note Agreement and other agreements described in Schedule 5.04(e)); (C) customary non-assignment provisions of any contract, license or any lease governing a leasehold interest of RTOC or any Restricted Subsidiary; (D) customary restrictions on cash or other deposits imposed by customers under contracts entered into in the ordinary course of business; (E) purchase money obligations for property acquired in the ordinary course of business that impose restrictions of the nature described in clause (iv) above on the property so acquired; (F) contracts for the sale of assets, including, without limitation, customary restrictions with respect to a Restricted Subsidiary pursuant to an agreement that has been entered into for a sale of all or substantially all the Capital Stock or assets of such Restricted Subsidiary, to the extent such sale is permitted by this Agreement; (G) any agreement or other instrument governing Debt, Preferred Stock or Redeemable Capital Stock of a Person acquired by RTOC or any Restricted

Subsidiary (or of a Restricted Subsidiary of such Person) in existence at the time of such acquisition (but not created in contemplation thereof), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the properties, assets or Subsidiaries of the Person, so acquired; (H) provisions contained in agreements or instruments relating to Debt or Preferred Stock which prohibit the transfer of all or substantially all of the assets of the obligor or issuer thereunder unless the transferee shall assume the obligations of the obligor or issuer under such agreement or instrument; or (I) encumbrances or restrictions contained in any agreement or instrument governing RTOC Permitted Refinancing Debt; provided that the encumbrances or restrictions of the type referred to in clause (i),(ii), (iii) or (iv) above, contained in such agreement governing such RTOC Permitted Refinancing Debt are no more restrictive (taken as a whole) than those contained in the agreement governing the Debt being refinanced.

(f) Limitations on Transactions with Affiliates. Notwithstanding provisions of Section 5.03(d), sell, transfer or otherwise dispose, and shall not permit any of its Subsidiaries to sell, transfer or otherwise dispose, of any of its Timberlands or Timber to any of their Affiliates (other than RTOC and its wholly owned Subsidiaries) unless such transaction is for the Fair Market Value thereof.

Anything in this Section 5.04 to the contrary notwithstanding, RTOC and its Restricted Subsidiaries shall be permitted to consummate the Restructuring before February 16, 2004 and, for purposes of this Section, the Restructuring shall be deemed to be a permitted exception in each of the foregoing negative covenants (to the extent otherwise applicable).

SECTION 5.05. Financial Covenants. Rayonier hereby agrees that for so long as any of the Commitments remains in effect, any Revolving Credit Advance remains outstanding and unpaid, any Letter of Credit remains outstanding, or any obligation of any Borrower is owing to any Lender, any Issuing Bank or the Administrative Agent hereunder or under any other Loan Document (other than contingent obligations which pursuant to Section 8.04(d) shall survive payment in full of all amounts referred to in Section 8.04(d)), Rayonier shall:

(a) Leverage Ratio. Cause, on the last day of each Fiscal Quarter of Rayonier, the ratio of (i) Consolidated Debt of Rayonier and its Subsidiaries on such date of determination to (ii) Consolidated EBITDA of Rayonier and its Subsidiaries for the four Fiscal Quarters ended on such date not to exceed 4.00 to 1.00.

(b) Interest Coverage Ratio. Cause, on the last day of each Fiscal Quarter of Rayonier, the ratio of (i) Consolidated EBITDA of Rayonier and its Subsidiaries for the four Fiscal Quarters ended on such date of determination to (ii) Consolidated interest expense of Rayonier and its Subsidiaries for the four Fiscal Quarters ended on such date not to be less than 2.50 to 1.00.

ARTICLE VI

EVENTS OF DEFAULT

SECTION 6.01. Events of Default. If any of the following events ("Events of Default") shall occur and be continuing:

(a) Any Borrower shall fail to pay any principal of any Revolving Credit Advance or LC Disbursement when the same becomes due and payable or any Borrower shall fail to pay any interest on any Revolving Credit Advance or any fee or make any other payment due in connection with this Agreement, any Note or any other Loan Document within five days after the same becomes due and payable; or

(b) Any representation or warranty made or deemed made by or on behalf of any Loan Party herein or in any other Loan Document or in any notice, report, certificate, financial statement, instrument, agreement or other writing delivered or prepared in connection with this Agreement or any other Loan Document, shall prove to have been incorrect in any material respect when made; or

(c) (i) Any Borrower shall fail to perform or observe any term, covenant or agreement contained in Section 5.01(f), (g) or (k), (ii) Rayonier shall fail to perform or observe any term, covenant or agreement contained in Section 5.02(b), Section 5.03(a), (b), (c), (d), (e), (f) or (h), or Section 5.05, or (iii) any Loan Party shall fail to perform or observe any other term, covenant or agreement contained in this Agreement or any other Loan Document on its part to be performed or observed if, solely in the case of this clause (iii), such failure shall remain unremedied for 30 days after written notice thereof shall have been given to such Loan Party by the Administrative Agent or any Lender; or

(d) (i) Any Borrower or any of its Subsidiaries shall fail to pay any principal of or premium, interest or other amount payable with respect to any Debt that is outstanding in a principal amount of at least \$10,000,000 in the aggregate (but excluding Debt outstanding hereunder or under any other Loan Document) of such Borrower or such Subsidiary (as the case may be), when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Debt; or (ii) any event shall occur or condition shall exist (including, without limitation, any event of the type described in clause (i) above) under any agreement or instrument relating to any Debt that is outstanding in a principal amount of at least \$25,000,000 in the aggregate (but excluding Debt outstanding hereunder or under any other Loan Document) of any Borrower or any of its Subsidiaries (as the case may be) and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event or condition is to accelerate the maturity of such Debt, or any such Debt shall be accelerated, declared to be due and payable, or required to be prepaid or redeemed (other than by a regularly scheduled required prepayment or redemption), purchased or defeased, or an offer to prepay, redeem, purchase or defease such Debt shall be required to be made, in each case prior to the Stated Maturity thereof; or

(e) Any Loan Party shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against any Loan Party seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts, in each such case, under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 60 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its property) shall occur; or any Loan Party shall take any corporate action to authorize any of the actions set forth above in this subsection (e); or

(f) Any judgment or order for the payment of money in excess of \$10,000,000 shall be rendered against any Borrower or any of its Subsidiaries and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order or (ii) there shall be any period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(g) Any non-monetary judgment or order shall be rendered against any Borrower or any of its Subsidiaries that could be reasonably expected to have a Material Adverse Effect, and there shall be any period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, shall not be in effect; or

(h) (i) Any Person or two or more Persons acting in concert shall have acquired beneficial ownership (within the meaning of Rule 13d-3 of the SEC under the Securities Exchange Act of 1934), directly or indirectly, of Voting Stock of Rayonier (or other securities convertible into such Voting Stock) representing 30% or more of the combined voting power of all Voting Stock of Rayonier; or (ii) during any period of up to 24 consecutive months, commencing after the date of this Agreement, individuals who at the beginning of such 24-month period were directors of Rayonier shall cease for any reason (other than due to death or disability) to constitute a majority of the Board of Directors of Rayonier (except to the extent that individuals who at the beginning of such 24-month period were replaced by individuals (x) elected by 66-2/3% of the remaining members of the Board of Directors of Rayonier or (y) nominated for election by a majority of the remaining members of the Board of Directors of Rayonier and thereafter elected as directors by the shareholders of Rayonier); or (iii) any Person or two or more Persons acting in concert shall have acquired by contract or otherwise, or shall have entered into a contract or arrangement that, upon consummation, will result in its or their acquisition of, the power to exercise, directly or indirectly, a controlling influence over the management or policies of Rayonier; or (iv) Rayonier or an Affiliate of Rayonier shall cease to be the managing partner of RTOC or (v) Rayonier shall cease to own beneficially all of the outstanding Capital Stock of TRS or RTOC; or

(i) Any ERISA Event shall have occurred and the sum (determined as of the date of occurrence of such ERISA Event) of the Insufficiency of the Plan with respect to which

such ERISA Event shall have occurred and the Insufficiency of any and all other Plans with respect to which an ERISA Event shall have occurred and then exist (or the liability of any Borrower and its ERISA Affiliates related to any such ERISA Event) exceeds \$10,000,000; or

(j) Any Borrower or any of its ERISA Affiliates shall have been notified by the sponsor of a Multiemployer Plan that it has incurred Withdrawal Liability to such Multiemployer Plan in an amount that, when aggregated with all other amounts required to be paid to Multiemployer Plans by such Borrower and its ERISA Affiliates as Withdrawal Liability (determined as of the date of such notification), exceeds \$10,000,000 or requires payments exceeding \$5,000,000 per annum; or

(k) Any Borrower or any of its ERISA Affiliates shall have been notified by the sponsor of a Multiemployer Plan that such Multiemployer Plan is in reorganization or is being terminated, within the meaning of Title IV of ERISA, and as a result of such reorganization or termination the aggregate annual contributions of such Borrower and its ERISA Affiliates to all Multiemployer Plans that are then in reorganization or being terminated have been or will be increased over the amounts contributed to such Multiemployer Plans for the plan years of such Multiemployer Plans immediately preceding the plan year in which such reorganization or termination occurs by an amount exceeding \$10,000,000; or

(l) The Guarantee Agreement, the RTOC Subsidiary Guarantee Agreement or the TRS Subsidiary Guarantee Agreement shall cease, for any reason, to be, or shall be asserted in writing by any Loan Party not to be, in full force and effect, other than pursuant to the terms thereof and hereof;

then, and in any such event, the Administrative Agent (i) shall at the request, or may with the consent, of the Required Lenders, by notice to each Borrower, declare the obligation of each Lender to make Revolving Credit Advances to be terminated, whereupon the same shall forthwith terminate, and (ii) shall at the request, or may with the consent, of the Required Lenders, by notice to each Borrower, declare the Revolving Credit Advances, all interest thereon and all other amounts payable under this Agreement (including all amounts of LC Exposure, whether or not the beneficiary of the then outstanding Letters of Credit shall have presented the documents required therein) to be forthwith due and payable, whereupon the Revolving Credit Advances, all such interest and all such amounts (including all amounts of LC Exposure, whether or not the beneficiary of the then outstanding Letters of Credit shall have presented the documents required therein) shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by each Borrower; provided, however, that in the event of an actual or deemed entry of an order for relief with respect to any Borrower under the Federal Bankruptcy Code, (A) the obligation of each Lender to make Revolving Credit Advances shall automatically be terminated and (B) the Revolving Credit Advances, all such interest and all such amounts (including all amounts of LC Exposure, whether or not the beneficiary of the then outstanding Letters of Credit shall have presented the documents required therein) shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by each Borrower. With respect to all Letters of Credit with respect to which presentment for honor shall not have occurred at the time of an acceleration pursuant to this paragraph, the applicable Borrower at such time shall have to cash collateralize such Letters of

Credit by way of depositing in a cash collateral account opened by the Administrative Agent an amount equal to the aggregate then undrawn and unexpired amount of such Letters of Credit. Amounts held in such cash collateral account shall be applied by the Administrative Agent to the payment of drafts drawn under such Letters of Credit, and the unused portion thereof after all such Letters of Credit shall have expired or been fully drawn upon, if any, shall be applied to repay other obligations of the applicable Borrower hereunder and under the other Loan Documents. The Administrative Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. Other than any interest earned on the investment of such deposits, which investments shall be made at the option and sole discretion of the Administrative Agent and at the applicable Borrower's risk and expense, such deposits shall not bear interest. Interest or profits, if any, on such investments shall accumulate in such account. After all such Letters of Credit shall have expired or been fully drawn upon, all reimbursement obligations shall have been satisfied and all other obligations of the applicable Borrower hereunder and under the other Loan Documents shall have been paid in full, the balance, if any, in such cash collateral account shall be returned to such Borrower (or such other Person as may be lawfully entitled thereto).

## ARTICLE VII

### THE ADMINISTRATIVE AGENT

SECTION 7.01. Authorization and Action. Each Lender hereby appoints and authorizes the Administrative Agent to take such action as agent on its behalf and to exercise such powers and discretion under this Agreement or the other Loan Documents as are delegated to the Administrative Agent by the terms hereof and thereof, together with such powers and discretion as are reasonably incidental thereto. As to any matters not expressly provided for by this Agreement (including, without limitation, enforcement of any Loan Document or collection of any amounts thereunder), the Administrative Agent shall not be required to exercise any discretion or take any action, but shall be required to act or to refrain from acting (and shall be fully protected in so acting or refraining from acting) upon the instructions of the Required Lenders, and such instructions shall be binding upon all Lenders and all holders of Revolving Credit Advances; provided, however, that the Administrative Agent shall not be required to take any action that exposes the Administrative Agent to personal liability or that is contrary to this Agreement or applicable law. The Administrative Agent agrees to give to each Lender prompt notice of each notice given to it by any Borrower pursuant to the terms of this Agreement.

SECTION 7.02. Administrative Agent's Reliance, Etc. Neither the Administrative Agent nor any of its directors, officers, agents or employees shall be liable for any action taken or omitted to be taken by it or them under or in connection with this Agreement, except for its or their own gross negligence or willful misconduct. Without limitation of the generality of the foregoing, the Administrative Agent: (i) may treat the Lender that made any Revolving Credit Advance and Issuing Bank that issued any Letters of Credit as the holders of the Debt resulting therefrom until, in the case of any such Lender, the Administrative Agent receives and accepts an Assignment and Acceptance entered into by such Lender, as assignor, and an Eligible Assignee, as assignee, as provided in Section 8.07; (ii) may consult with legal counsel (including counsel for the Borrowers), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken in good faith by it

in accordance with the advice of such counsel, accountants or experts; (iii) makes no warranty or representation to any Lender and shall not be responsible to any Lender for any statements, warranties or representations (whether written or oral) made in or in connection with this Agreement; (iv) shall not have any duty to ascertain or to inquire as to the performance, observance or satisfaction of any of the terms, covenants or conditions of this Agreement or any other Loan Documents on the part of any Borrower or the existence at any time of any Default or to inspect the property (including the books and records) of any Borrower; (v) shall not be responsible to any Lender or Issuing Bank for the due execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement, any other Loan Document or any other instrument or document furnished pursuant hereto and thereto; and (vi) shall incur no liability under or in respect of this Agreement or any other Loan Document by acting upon any notice, consent, certificate or other instrument or writing (which may be by telecopier, telegram or telex) believed by it to be genuine and signed or sent by the proper party or parties.

SECTION 7.03. CSFB and Affiliates. With respect to its Commitment, the Revolving Credit Advances made by it and the Note issued to it, CSFB shall have the same rights and powers under this Agreement as any other Lender and may exercise the same as though it were not the Administrative Agent; and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated, include CSFB in its individual capacity. CSFB and its Affiliates may accept deposits from, lend money to, act as trustee under indentures of, accept investment banking engagements from and generally engage in any kind of business with, any Borrower, any of its Subsidiaries and any Person who may do business with or own securities of any Borrower or any such Subsidiary, all as if CSFB were not the Administrative Agent and without any duty to account therefor to the Lenders. The Administrative Agent shall have no duty to disclose information obtained or received by it or any of its Affiliates relating to any Borrower or its Subsidiaries to the extent such information was obtained or received in any capacity other than as Administrative Agent.

SECTION 7.04. Lender Credit Decision. Each Lender and each Issuing Bank acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender or Issuing Bank and based on the financial statements referred to in Section 4.01 and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender and each Issuing Bank also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender or Issuing Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement.

SECTION 7.05. Indemnification. The Lenders agree to indemnify the Administrative Agent and each Issuing Bank (to the extent not reimbursed by the Borrowers) and their respective directors, officers, employees and agents, ratably according to the respective principal amounts of the Revolving Credit Advances and LC Exposure then owed to each of them (or if no Revolving Credit Advances or LC Exposure are at the time outstanding, ratably according to the respective amounts of their Commitments), from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on, incurred by, or asserted against the Administrative Agent or such Issuing Bank in any way relating to or arising out of

this Agreement or any other Loan Document or any action taken or omitted by the Administrative Agent hereunder and thereunder (collectively, the “Indemnified Costs”), provided that no Lender shall be liable for any portion of the Indemnified Costs of an indemnified person resulting from such indemnified person’s gross negligence or willful misconduct. Without limitation of the foregoing, each Lender agrees to reimburse the Administrative Agent promptly upon demand for its ratable share of any out-of-pocket expenses (including counsel fees) incurred by the Administrative Agent in connection with the preparation, execution, delivery, administration, modification, amendment or enforcement (whether through negotiations, legal proceedings or otherwise) of, or legal advice in respect of rights or responsibilities under, this Agreement or any other Loan Document, to the extent that the Administrative Agent is not reimbursed for such expenses by the Borrowers. In the case of any investigation, litigation or proceeding giving rise to any Indemnified Costs, this Section 7.05 applies whether any such investigation, litigation or proceeding is brought by the Administrative Agent, any Lender, any Issuing Bank or a third party.

SECTION 7.06. Successor Administrative Agent. The Administrative Agent may resign at any time by giving written notice thereof to the Lenders and the Borrowers and may be removed at any time with or without cause by the Required Lenders. Upon any such resignation or removal, the Required Lenders shall have the right to appoint a successor Administrative Agent, with the consent of Rayonier (which consent shall not be unreasonably withheld or delayed) if no Event of Default has occurred and is continuing. If no successor Administrative Agent shall have been so appointed by the Required Lenders, and shall have accepted such appointment, within 30 days after the retiring Administrative Agent’s giving of notice of resignation or the Required Lenders’ removal of the retiring Administrative Agent, then the retiring Administrative Agent may, on behalf of the Lenders, appoint a successor Administrative Agent, which shall be a commercial bank organized under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least \$500,000,000. Upon the acceptance of any appointment as Administrative Agent hereunder by a successor Administrative Agent, such successor Administrative Agent shall thereupon succeed to and become vested with all the rights, powers, discretion, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations under this Agreement. After any retiring Administrative Agent’s resignation or removal hereunder as Administrative Agent, the provisions of this Article VII shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement.

SECTION 7.07. Other Administrative Agents. Each Lender hereby acknowledges that neither the documentation agent nor any other Lender designated as any “Agent” on the signature pages hereof has any liability hereunder other than in its capacity as a Lender.

## ARTICLE VIII

### MISCELLANEOUS

SECTION 8.01. Amendments, Etc. No amendment or waiver of any provision of this Agreement, the Notes or any other Loan Document, nor consent to any

departure by any Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Required Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver or consent shall, unless in writing and signed by each of the Lenders directly affected thereby, do any of the following: (a) waive any of the conditions specified in Section 3.01, (b) increase the Commitments of such Lenders or subject such Lenders to any additional obligations, (c) reduce the principal of, or interest on, the Revolving Credit Advances or any fees or other amounts payable hereunder, (d) postpone any date fixed for any payment of principal of (including, without limitation, final maturity), or interest on, the Revolving Credit Advances or any fees or other amounts payable hereunder, (e) change the percentage of the Commitments or of the aggregate unpaid principal amount of the Revolving Credit Advances that shall be required for the Lenders or any of them to take any action hereunder, (f) release Rayonier or TRS from its guarantee obligations under the Guarantee Agreement, (g) release all or substantially all Loan Parties party to RTOC Subsidiary Guarantee Agreement or TRS Subsidiary Guarantee Agreement from their respective guarantee obligations thereunder (other than in accordance with the terms hereof or thereof), (h) change the pro rata distribution of payments and proceeds to the Lenders or (i) amend this Section 8.01; and provided further that no amendment, waiver or consent shall, unless in writing and signed by the Administrative Agent in addition to the Lenders required above to take such action, affect the rights or duties of the Administrative Agent under this Agreement, any Note or any other Loan Document.

SECTION 8.02. Notices, Etc. All notices and other communications provided for hereunder shall be in writing (including telecopier or telegraphic communication) and mailed, telecopied, telegraphed or delivered, if to any Borrowers, at its address at 50 North Laura Street, Suite 1900, Jacksonville, Florida 32202, Attention: Treasurer, Telecopy No.: (904) 357-9818, with a copy to: Corporate Secretary; if to any Lender party to this Agreement as of the date hereof, at its Domestic Lending Office specified opposite its name on Schedule I hereto; if to any other Lender, at its Domestic Lending Office specified in the Assignment and Acceptance pursuant to which it became a Lender; and if to the Administrative Agent, at its address at Eleven Madison Avenue, New York, New York 10010-3629, Attention: Agency Department Manager, Telecopy No.: (212) 325-8304; or, as to any Borrower or the Administrative Agent, at such other address as shall be designated by such party in a written notice to the other parties and, as to each other party, at such other address as shall be designated by such party in a written notice to each Borrower and the Administrative Agent. All such notices and communications shall, when mailed, telecopied or telegraphed, be effective when deposited in the mails, telecopied or delivered to the telegraph company, respectively, except that notices and communications to the Administrative Agent pursuant to Article II, III or VII shall not be effective until received by the Administrative Agent. Delivery by telecopier of an executed counterpart of any amendment or waiver of any provision of this Agreement, the Notes or any other Loan Document or of any Exhibit hereto and thereto to be executed and delivered hereunder and thereunder shall be effective as delivery of a manually executed counterpart thereof. Electronic mail and intranet websites may be used only to distribute routine information such as financial statements and other information as provided in Section 5.01(k), and to distribute Loan Documents for execution by the parties thereto, and may not be used for any other purpose, except as agreed to by the Administrative Agent.

SECTION 8.03. No Waiver; Remedies. No failure on the part of any Lender, any Issuing Bank or the Administrative Agent to exercise, and no delay in exercising, any right hereunder, under any Note or any other Loan Document or shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided are cumulative and not exclusive of any remedies provided by law.

SECTION 8.04. Costs and Expenses. (a) Each Borrower, jointly and severally, agrees to pay on demand all reasonable out-of-pocket costs and expenses of the Administrative Agent in connection with the preparation, execution, delivery, administration, waiver or modification and amendment of this Agreement, the Notes and the other Loan Documents and any other documents to be delivered hereunder and thereunder, including, without limitation, (i) all due diligence, syndication (including, without limitation, printing, distribution and bank meetings), transportation, computer, duplication, appraisal, consultant, and audit expenses and (ii) the reasonable fees, disbursement and other charges of counsel for the Administrative Agent with respect thereto and with respect to advising the Administrative Agent as to its rights and responsibilities under this Agreement or any other Loan Document. Each Borrower, jointly and severally, agrees to pay (A) all reasonable out-of-pocket expenses incurred by any Issuing Bank in connection with the issuance, amendment or extension of any Letter of Credit or any demand for payment thereunder, (B) on demand all reasonable costs and expenses of the Administrative Agent and the Lenders, if any (including, without limitation, reasonable counsel fees and expenses), in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) of this Agreement, the Notes and the other Loan Documents and any other documents to be delivered hereunder and thereunder, including, without limitation, reasonable fees and expenses of counsel for the Administrative Agent and each Lender in connection with the enforcement of rights under this Section 8.04(a), and (C) and indemnify and hold harmless the Administrative Agent, each Lender and each Issuing Bank from, any and all present or future stamp, documentary or excise taxes or similar charges, any and all recording and filing fees, and any and all liabilities with respect thereto, which may be payable or determined to be payable in connection with the execution and delivery of, or consummation or administration of any of the transactions contemplated by, or payment under, or any amendment, supplement or modification of, or any waiver or consent under or in respect of, this Agreement, the Notes, the Letters of Credit, the other Loan Documents and any such other documents.

(b) Each Borrower, jointly and severally, agrees to indemnify, exonerate and hold harmless the Administrative Agent, each Lender, each Issuing Bank and each of their Affiliates and their officers, directors, employees, agents, advisors, representatives and controlling persons (each, an "Indemnified Party") from and against any and all claims, damages, losses, liabilities and expenses (including, without limitation, fees, disbursements and other charges of counsel) incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or by reason of (including, without limitation, in connection with any claim, investigation, litigation or proceeding or preparation of a defense in connection therewith) (i) the Notes, this Agreement, any other Loan Document or any other documents related thereto, any extension of credit hereunder, any of the transactions contemplated herein or the actual or proposed use of the proceeds of the Revolving Credit Advances or (ii) the actual or alleged presence of Hazardous Materials on any property currently or formerly owned or operated by any Borrower or any of its Subsidiaries or any Environmental

Action relating in any way to any Borrower or any of its Subsidiaries, except to the extent such claim, damage, loss, liability or expense is found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence or willful misconduct. In the case of an claim, investigation, litigation or other proceeding to which the indemnity in this Section 8.04(b) applies, such indemnity shall be effective whether or not such investigation, litigation or proceeding is brought by any Borrower, its directors, equityholders or creditors or an Indemnified Party or any other Person, whether or not any Indemnified Party is otherwise a party thereto and whether or not the Transactions or any other transactions contemplated hereby are consummated. Each Borrower, jointly and severally, also agrees not to assert any claim for special, indirect, consequential or punitive damages against the Administrative Agent, any Lender, any of their Affiliates, or any of their respective officers, directors, employees, agents, advisors, representatives and controlling persons, on any theory of liability, arising out of or otherwise relating to (i) the Notes, this Agreement, any other Loan Document or any other documents related thereto, any of the transactions contemplated herein or the actual or proposed use of the proceeds of the Revolving Credit Advances or (ii) the actual or alleged presence of Hazardous Materials on an property of any Borrower or any of its Subsidiaries or any Environmental Action relating in any way to any Borrower or any of its Subsidiaries.

(c) If any payment of principal of, or Conversion of, any Eurodollar Rate Advance is made by any Borrower to or for the account of a Lender other than on the last day of the Interest Period for such Advance, as a result of a payment or Conversion pursuant to Section 2.10(a), 2.10(b)(i) or (ii), 2.11 or 2.13, acceleration of the maturity of the Notes pursuant to Section 6.01 or for any other reason, or by an Eligible Assignee to a Lender other than on the last day of the Interest Period for such Advance upon an assignment of rights and obligations under this Agreement pursuant to Section 8.07 as a result of a demand by any Borrower pursuant to Section 8.07(a), such Borrower shall, upon demand by such Lender (with a copy of such demand to the Administrative Agent), pay to the Administrative Agent for the account of such Lender any amounts required to compensate such Lender for any additional losses, costs or expenses that it may reasonably incur as a result of such payment or Conversion, including, without limitation, any loss (including loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by any Lender to fund or maintain such Advance.

(d) Without prejudice to the survival of any other agreement of any Borrower hereunder, the agreements and obligations of each Borrower contained in Sections 2.12, 2.15 and 8.04 shall survive the payment in full of principal, interest and all other amounts payable hereunder, under the Notes or any other Loan Document.

SECTION 8.05. Right of Set-off. Upon (i) the occurrence and during the continuance of any Event of Default and (ii) the making of the request or the granting of the consent specified by Section 6.01 to authorize the Administrative Agent to declare the Notes due and payable pursuant to the provisions of Section 6.01, each Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender or such Affiliate to or for the credit or the account of any Borrower against any and all of the obligations of such

Borrower now or hereafter existing under this Agreement, the Note held by such Lender or any other Loan Document, whether or not such Lender shall have made any demand under this Agreement, such Note or any other such Loan Document and although such obligations may be unmatured. Each Lender agrees promptly to notify the applicable Borrower after any such set-off and application, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Lender and its Affiliates under this Section are in addition to other rights and remedies (including, without limitation, other rights of set-off) that such Lender and its Affiliates may have.

SECTION 8.06. Binding Effect. This Agreement shall become effective when it shall have been executed by each Borrower and the Administrative Agent and when the Administrative Agent shall have been notified by each Lender party to this Agreement as of the date hereof that such Lender has executed it and the Closing Date shall have occurred and thereafter shall be binding upon and inure to the benefit of each Borrower, the Administrative Agent and each such Lender, Issuing Bank and their respective successors and assigns, except that no Borrower shall have the right to assign its rights or obligations hereunder or any interest herein without the prior written consent of the Lenders.

SECTION 8.07. Assignments and Participations. (a) Each Lender may and, if demanded by any Borrower (following a demand by such Lender pursuant to Section 2.12 or 2.15) upon at least five Business Days' notice to such Lender and the Administrative Agent, will assign to one or more Persons all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment, the Revolving Credit Advances owing to it and the Note or Notes held by it); provided, however, that (i) such Lender shall have obtained the prior written consent of the Administrative Agent, the Issuing Bank and, other than in the case of an assignment to an Affiliate of such Lender, another Lender or its Affiliate, or assignments of the type described in subsection (g) below and unless a Default or an Event of Default has occurred and is continuing, Rayonier, in each case such consent not to be unreasonably withheld or delayed, (ii) each such assignment shall be of a constant, and not a varying, percentage of all rights and obligations under this Agreement, (iii) except in the case of an assignment to a Person that, immediately prior to such assignment, was a Lender or an assignment of all of a Lender's rights and obligations under this Agreement, the amount of the Commitment of the assigning Lender being assigned pursuant to each such assignment (determined as of the date of the Assignment and Acceptance with respect to such assignment) shall in no event be less than \$5,000,000 and shall be an integral multiple of \$1,000,000 unless Rayonier and the Administrative Agent otherwise agree, and if the assigning Lender is assigning less than all of its Commitments after giving effect to such assignment, the amount of the commitment of the assigning Lender shall be equal to or greater than \$5,000,000, (iv) each such assignment shall be to an Eligible Assignee, (v) each such assignment made as a result of a demand by the applicable Borrower pursuant to this Section 8.07(a) shall be arranged by such Borrower after consultation with the Administrative Agent and shall be either an assignment of all of the rights and obligations of the assigning Lender under this Agreement or an assignment of a portion of such rights and obligations made concurrently with another such assignment or other such assignments that together cover all of the rights and obligations of the assigning Lender under this Agreement, (vi) no Lender shall be obligated to make any such assignment as a result of a demand by the applicable Borrower pursuant to this Section 8.07(a) unless and until such Lender shall have received one or more payments from either such Borrower or one or

more Eligible Assignees in an aggregate amount at least equal to the aggregate outstanding principal amount of the Revolving Credit Advances owing to such Lender, together with accrued interest thereon to the date of payment of such principal amount, its proportionate interest in LC Exposure and all other amounts payable to such Lender under this Agreement, (vi) each such assignment shall include an assignment by such Lender of its proportionate interest in LC Exposure, and (vii) the parties to each such assignment shall (y) electronically execute and deliver to the Administrative Agent an Assignment and Acceptance via an electronic settlement system acceptable to the Administrative Agent (which initially shall be ClearPar, LLC) or (z) manually execute and deliver to the Administrative Agent an Assignment and Acceptance together with a processing and recordation fee of \$3,500 (such fee payable by the assignor or assignee, as agreed by the parties), for its acceptance and recording in the Register. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, (x) the assignee thereunder shall be a party hereto and, to the extent that rights and obligations hereunder have been assigned to it pursuant to such Assignment and Acceptance, have the rights and obligations of a Lender hereunder and (y) the Lender assignor thereunder shall, to the extent that rights and obligations hereunder have been assigned by it pursuant to such Assignment and Acceptance, relinquish its rights (other than its rights under Section 2.12, 2.15 and 8.04 to the extent any claim thereunder relates to an event arising prior to such assignment) and be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto).

(b) By executing and delivering an Assignment and Acceptance, the Lender assignor thereunder and the assignee thereunder confirm to and agree with each other and the other parties hereto as follows: (i) other than as provided in such Assignment and Acceptance, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to (A) any statements, warranties or representations made in or in connection with this Agreement or any other Loan Document, (B) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents or any collateral thereunder, (C) the financial condition of any Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (D) the performance or observance by any Borrower, any of its Subsidiaries or Affiliates or any other Person of any of their respective obligations under any Loan Document; (ii) such assignee (A) represents and warrants that (1) it satisfies the requirements, if any, specified in this Agreement that are required to be satisfied by it in order to acquire the Assigned Interest (as defined in such Assignment and Acceptance) and become a Lender, (2) from and after the Effective Date (specified in such Assignment and Acceptance), it shall be bound by the provisions of this Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (3) it has received a copy of this Agreement, together with copies of the most recent financial statements referred to in Section 4.01 or delivered pursuant to Section 5.01, and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance and to purchase the Assigned Interest on the basis of which it has made such analysis and decision independently and without reliance on the Administrative Agent, the assigning Lender or any other Lender, and (4) it is an Eligible Assignee; and (B) agrees that (1) it will, independently and without reliance on the Administrative Agent, the assigning Lender or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action

under the Loan Documents, and (2) it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender.

(c) Upon its receipt of an Assignment and Acceptance executed by an assigning Lender and an assignee representing that it is an Eligible Assignee the Administrative Agent shall, if such Assignment and Acceptance has been completed and is in substantially the form of Exhibit F hereto, (i) accept such Assignment and Acceptance, (ii) record the information contained therein in the Register and (iii) in the event when consent of Rayonier for such Assignment and Acceptance is not required, give notice thereof to Rayonier.

(d) The Administrative Agent shall maintain at its address referred to in Section 8.02 a copy of each Assignment and Acceptance delivered to and accepted by it and a register for the recordation of the names and addresses of each of the Lenders and the Commitment of, and principal amount of the Revolving Credit Advances owing to, each Lender from time to time and proportionate interest of such Lender in LC Exposure (the "Register"). The entries in the Register shall be conclusive and binding for all purposes, absent manifest error, and any Borrower, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register as a Lender hereunder for all purposes of this Agreement. The Register shall be available for inspection by any Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice.

(e) Each Lender may sell participations to one or more banks or other entities (other than any Borrower or any of its Affiliates) in or to all or a portion of its rights and obligations under this Agreement (including, without limitation, all or a portion of its Commitment, the Revolving Credit Advances owing to it and any Notes held by it); provided, however, that (i) such Lender's obligations under this Agreement (including, without limitation, its Commitment to the Borrowers hereunder) shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) such Lender shall remain the holder of any such Note for all purposes of this Agreement, (iv) the Borrowers, the Administrative Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and (v) no participant under any such participation shall have any right to approve any amendment or waiver of any provision of this Agreement, any Note or any other Loan Document, or any consent to any departure by any Borrower therefrom, except to the extent that such amendment, waiver or consent would reduce the principal of, or interest on, the Notes or any fees or other amounts payable hereunder, in each case to the extent subject to such participation, or postpone any date fixed for any payment of principal of, or interest on, the Notes or any fees or other amounts payable hereunder, in each case to the extent subject to such participation.

(f) Any Lender may, in connection with any assignment or participation or proposed assignment or participation pursuant to this Section 8.07, disclose to the assignee or participant or proposed assignee or participant, any information relating to any Borrower furnished to such Lender by or on behalf of such Borrower; provided that, prior to any such disclosure, the assignee or participant or proposed assignee or participant shall agree to preserve

the confidentiality of any Confidential Information relating to such Borrower received by it from such Lender.

(g) Notwithstanding any other provision set forth in this Agreement, any Lender may at any time create a security interest (or any other similar interest) in all or any portion of its rights under this Agreement (including, without limitation, the Revolving Credit Advances owing to it and any Note or Notes held by it) in favor of any Federal Reserve Bank in accordance with Regulation A of the Board of Governors of the Federal Reserve System.

(h) Notwithstanding anything to the contrary contained herein, any Lender (a "Granting Bank") may grant to a special purpose funding vehicle (a "SPC"), identified as such in writing from time to time by the Granting Bank to the Administrative Agent and each Borrower, the option to provide to the Borrowers all or any part of any Revolving Credit Advance that such Granting Bank would otherwise be obligated to make to the Borrowers pursuant to this Agreement; provided that (i) nothing herein shall constitute a commitment by any SPC to make any Revolving Credit Advance, (ii) if a SPC elects not to exercise such option or otherwise fails to provide all or any part of such Revolving Credit Advance, the Granting Bank shall be obligated to make such Revolving Credit Advance pursuant to the terms hereof. The making of a Revolving Credit Advance by a SPC hereunder shall utilize the Commitment of the Granting Bank to the same extent, and as if, such Revolving Credit Advance were made by such Granting Bank. Each party hereto hereby agrees that no SPC shall be liable for any indemnity or similar payment obligation under this Agreement (all liability for which shall remain with the Granting Bank). In furtherance of the foregoing, each party hereto hereby agrees (which agreement shall survive the termination of this Agreement) that, prior to the date that is one year and one day after the payment in full of all outstanding commercial paper or other senior indebtedness of any SPC, it will not institute against, or join any other person in instituting against, such SPC any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings under the laws of the United States or any State thereof. In addition, notwithstanding anything to the contrary contained in this Section, any SPC may (i) with notice to, but without the prior written consent of, each Borrower and the Administrative Agent and without paying any processing fee therefor, assign all or a portion of its interests in any Revolving Credit Advances to the Granting Bank or to any financial institutions (consented to by each Borrower and Administrative Agent) providing liquidity and/or credit support to or for the account of such SPC to support the funding or maintenance of Revolving Credit Advances and (ii) disclose on a confidential basis any non-public information relating to its Revolving Credit Advances to any rating agency, commercial paper dealer or provider of any surety, guarantee or credit or liquidity enhancement to such SPC. This section may not be amended without the written consent of the SPC.

SECTION 8.08. Confidentiality. Neither the Administrative Agent nor any Lender shall disclose any Confidential Information to any other Person without the consent of each Borrower other than (a) to the Administrative Agent's or such Lender's Affiliates and their officers, directors, employees, agents and advisors and, as contemplated by Section 8.07(f), to actual or prospective assignees and participants, and then only on a confidential basis, (b) as required by any law, rule or regulation or judicial process and (c) as requested or required by any state, federal or foreign authority or examiner regulating banks or banking. Notwithstanding anything herein to the contrary, any party hereto (and any employee, representative or other agent of such party) may disclose to any and all persons, without limitation of any kind, the tax

treatment and tax structure of the transactions contemplated by this Agreement and all materials of any kind (including opinions or other tax analyses) that are provided to it relating to such tax treatment and tax structure, except that tax treatment and tax structure shall not include the identity of any existing or future party (or any affiliate of such party) to this Agreement. For this purpose, the tax treatment of the transactions contemplated by this Agreement is the purported or claimed U.S. federal income tax treatment of such transactions and the tax structure of such transactions is any fact that may be relevant to understanding the purported or claimed U.S. federal income tax treatment of such transactions.

SECTION 8.09. Governing Law. THIS AGREEMENT AND THE NOTES AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES UNDER THIS AGREEMENT AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK WITHOUT REGARD TO THE PRINCIPLES OF CONFLICT OF LAWS THEREOF OTHER THAN SECTION 5-1401 OF THE GENERAL OBLIGATIONS LAW OF THE STATE OF NEW YORK.

SECTION 8.10. Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by telecopier shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 8.11. Jurisdiction, Etc. (a) Each of the parties hereto hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of any New York State court or federal court of the United States of America sitting in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement, the Notes or the other Loan Documents to which it is a party, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in any such New York State court or, to the extent permitted by law, in such federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement shall affect any right that any party may otherwise have to bring any action or proceeding relating to this Agreement, the Notes or the other Loan Documents to which it is a party in the courts of any jurisdiction.

(b) Each of the parties hereto irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement, the Notes or the other Loan Documents to which it is a party in any New York State or federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

SECTION 8.12. Waiver of Jury Trial. Each of the Borrowers, the Administrative Agent and the Lenders hereby irrevocably waives all right to trial by jury in any action, proceeding or counterclaim (whether based on contract, tort or otherwise) arising out of or relating to this Agreement, the Notes or the other Loan Documents to which it is a party or the actions of the Administrative Agent or any Lender in the negotiation, administration, performance or enforcement thereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

RAYONIER INC.

By /s/ Gerald J. Pollack

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Name: Gerald J. Pollack  
Title: Senior Vice President and  
Chief Financial Officer

RAYONIER TRS HOLDINGS INC.

By /s/ Gerald J. Pollack

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Name: Gerald J. Pollack  
Title: Senior Vice President and  
Chief Financial Officer

RAYONIER TIMBERLANDS OPERATING COMPANY, L.P.

by RAYONIER TIMBERLANDS MANAGEMENT, INC., its  
Managing General Partner

By /s/ Gerald J. Pollack

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Name: Gerald J. Pollack  
Title: Vice President

*Signature Page to the Three Year Revolving Credit Agreement*

Commitment

Lenders

\$25,000,000

Administrative Agent

CREDIT SUISSE FIRST BOSTON, acting through its Cayman Islands Branch

By /s/ S. WILLIAM FOX

\_\_\_\_\_  
Name: S. WILLIAM FOX  
Title: DIRECTOR

By /s/ JULIA P. KINGSBURY

\_\_\_\_\_  
Name: JULIA P. KINGSBURY  
Title: VICE PRESIDENT

\$25,000,000

BANK OF AMERICA, N.A.

By /s/ KEVIN F. SULLIVAN

\_\_\_\_\_  
Name: KEVIN F. SULLIVAN  
Title: MANAGING DIRECTOR

\$20,000,000

CAPE FEAR FARM CREDIT, ACA

By /s/ Randy T. Pope

\_\_\_\_\_  
Name: Randy T. Pope  
Title: Vice-President

*Signature Page to the Three Year Revolving Credit Agreement*

\$20,000,000

COBANK, ACB

By /s/ S. Richard Dill

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Name: S. Richard Dill  
Title: Vice President

\$20,000,000

JPMORGAN CHASE BANK

By /s/ Illegible

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Name: Illegible  
Title: VP

\$20,000,000

SUNTRUST BANK

By /s/ Karen Copeland

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Name: Karen Copeland  
Title: Vice President

\$20,000,000

THE BANK OF NEW YORK

By /s/ Steven P. Cavaluzzo

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Name: Steven P. Cavaluzzo  
Title: Vice President

*Signature Page to the Three Year Revolving Credit Agreement*

\$20,000,000

WACHOVIA BANK, NATIONAL ASSOCIATION

By /s/ Shawn Janko

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Name: Shawn Janko  
Title: Vice President

\$20,000,000

WASHINGTON MUTUAL BANK

By /s/ Gary Perkins

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Name: Gary Perkins  
Title: Vice President

\$20,000,000

WELLS FARGO BANK, N.A.

By /s/ DAVID GOODE

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Name: DAVID GOODE  
Title: VICE PRESIDENT

\$15,000,000

COMPASS BANK

By /s/ C. French Yarbrough, Jr.

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Name: C. French Yarbrough, Jr.  
Title: Senior Vice President

*Signature Page to the Three Year Revolving Credit Agreement*

\$15,000,000

NORTHWEST FARM CREDIT SERVICES, PCA

By /s/ Jim D. Allen

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Name: Jim D. Allen  
Title: Sr. Vice President

\$10,000,000

THE NORTHERN TRUST COMPANY

By /s/ Russ Rockenbach

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Name: Russ Rockenbach  
Title: Vice President

\$250,000,000 Total of the Commitments

*Signature Page to the Three Year Revolving Credit Agreement*

**RAYONIER INC.**

I, John P. O'Grady, do hereby certify that I am the Senior Vice President, Administration of Rayonier Inc. (the "Company") and that pursuant to the authority granted me in resolutions adopted by the Board of Directors of the Company on February 24, 1994 and December 17, 1999, I adopted the following preambles and resolutions on June 28, 2002.

**WHEREAS**, the Company maintains the Retirement Plan for Salaried Employees of Rayonier Inc. (the "Plan") for the benefit of such of its employees as are eligible thereunder; and

**WHEREAS**, in accordance with the power reserved to it in Article 10.01 of the Plan, the Company may amend the Plan at any time, subject to certain conditions not now relevant; and

**WHEREAS**, the Company deems it advisable to amend the Plan to reflect the relevant provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 and to revise the Plan's mortality assumptions as required in Revenue Ruling 2001-62.

**NOW, THEREFORE**, be it

**RESOLVED**, that the amendments to the Plan, attached hereto as Exhibit A, are hereby adopted; and be it further

**RESOLVED**, that the proper officers of the Company are hereby authorized to take whatever actions are necessary so that the Plan, as amended, remains qualified under Section 401(a) of the Internal Revenue Code of 1986, as amended (the "Code"), and the related trust remains tax-exempt under Section 501(a) of the Code.

Dated: June 28, 2002

/s/ John P. O'Grady

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John P. O' Grady  
Senior Vice President, Administration

**EXHIBIT A**  
**AMENDMENTS TO THE RETIREMENT PLAN FOR SALARIED**  
**EMPLOYEES OF RAYONIER INC. REQUIRED BY EGTRRA**

**PREAMBLE**

1. **Adoption and Effective Date of Amendment.** This amendment of the plan is adopted to reflect certain provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (“EGTRRA”). This amendment is intended as good faith compliance with the requirements of EGTRRA and is to be construed in accordance with EGTRRA and guidance issued thereunder. Except as otherwise provided, this amendment shall be effective as of the first day of the first plan year beginning after December 31, 2001.

2. **Supersession of Inconsistent Provisions.** This amendment shall supersede the provisions of the plan to the extent those provisions are inconsistent with the provisions of this amendment.

**SECTION 1. LIMITATIONS ON BENEFITS**

1. **Effective Date.** This section shall be effective for limitation years ending after December 31, 2001.

2. **Effect on Members.** Benefit increases resulting from the increase in the limitations of Section 415(b) of the Code will be provided to all current and former members (with benefits limited by Section 415(b)) who have an accrued benefit under the plan immediately prior to the effective date of this section (other than an accrued benefit resulting from a benefit increase solely as a result of the increases in limitations under Section 415(b)).

3. **Definitions.**

3.1 **Defined Benefit Dollar Limitation.** The “defined benefit dollar limitation” is \$160,000, as adjusted, effective January 1 of each year, under Section 415(d) of the Code in such manner as the Secretary shall prescribe, and payable in the form of a straight life annuity. A limitation as adjusted under Section 415(d) will apply to limitation years ending with or within the calendar year for which the adjustment applies.

3.2 **Maximum permissible benefit.** The “maximum permissible benefit” is the lesser of the defined benefit dollar limitation or the defined benefit compensation limitation (both adjusted where required, as provided in (a) and, if applicable, in (b) or (c) below):

- (a) If the member has fewer than 10 years of participation in the plan, the defined benefit dollar limitation shall be multiplied by a fraction, (i) the numerator of which is the number of years (or part thereof) of participation in the plan and (ii) the denominator of which is 10. In the case of a member who has fewer than 10 years of service with the employer, the defined benefit compensation limitation shall be multiplied by a fraction, (i) the numerator of which is the number of years (or part thereof) of service with the employer and (ii) the denominator of which is 10.

- (b) If the benefit of a member begins prior to age 62, the defined benefit dollar limitation applicable to the member at such earlier age is an annual benefit payable in the form of a straight life annuity beginning at the earlier age that is the actuarial equivalent of the defined benefit dollar limitation applicable to the member at age 62 (adjusted under (a) above, if required). The defined benefit dollar limitation applicable at an age prior to age 62 is determined as the lesser of (i) the actuarial equivalent (at such age) of the defined benefit dollar limitation computed using the interest rate and mortality table (or other tabular factor) specified in Article 1 of the plan and (ii) the actuarial equivalent (at such age) of the defined benefit dollar limitation computed using a 5 percent interest rate and the applicable mortality table as defined in Article 1 of the plan. Any decrease in the defined benefit dollar limitation determined in accordance with this paragraph (b) shall not reflect a mortality decrement if benefits are not forfeited upon the death of the member. If any benefits are forfeited upon death, the full mortality decrement is taken into account.
- (c) If the benefit of a member begins after the member attains age 65, the defined benefit dollar limitation applicable to the member at the later age is the annual benefit payable in the form of a straight life annuity beginning at the later age that is actuarially equivalent to the defined benefit dollar limitation applicable to the member at age 65 (adjusted under (a) above, if required). The actuarial equivalent of the defined benefit dollar limitation applicable at an age after age 65 is determined as (i) the lesser of the actuarial equivalent (at such age) of the defined benefit dollar limitation computed using the interest rate and mortality table (or other tabular factor) specified in Article 1 of the plan and (ii) the actuarial equivalent (at such age) of the defined benefit dollar limitation computed using a 5 percent interest rate assumption and the applicable mortality table as defined in Article 1 of the plan. For these purposes, mortality between age 65 and the age at which benefits commence shall be ignored.

### **SECTION 2. INCREASE IN COMPENSATION LIMIT**

1. **Increase in Limit.** The annual compensation of each member taken into account in determining benefit accruals in any plan year beginning after December 31, 2001, shall not exceed \$200,000. Annual compensation means compensation during the plan year or such other consecutive 12-month period over which compensation is otherwise determined under the plan (the determination period). For purposes of determining benefit accruals in a plan year beginning after December 31, 2001, compensation for any prior determination period shall be limited to \$200,000.

2. **Cost-of-Living Adjustment.** The \$200,000 limit on annual compensation in Paragraph 1 shall be adjusted for cost-of-living increases in accordance with Section 401(a)(17)(B) of the Code. The cost-of-living adjustment in effect for a calendar year applies to annual compensation for the determination period that begins with or within such calendar year.

### **SECTION 3. MODIFICATION OF TOP-HEAVY RULES**

1. **Effective Date.** This section shall apply for purposes of determining whether the plan is a top-heavy plan under Section 416(g) of the Code for plan years beginning after December 31, 2001, and whether the plan satisfies the minimum benefits requirements of Section 416(c) of the Code for such years. This section amends Article 4.12 of the plan.

## **2. Determination of Top-Heavy Status.**

**2.1 Key Employee.** Key employee means any employee or former employee (including any deceased employee) who at any time during the plan year that includes the determination date was an officer of the employer having annual compensation greater than \$130,000 (as adjusted under Section 416(i)(1) of the Code for plan years beginning after December 31, 2002), a 5 percent owner of the employer, or a 1 percent owner of the employer having annual compensation of more than \$150,000. For this purpose, annual compensation means compensation within the meaning of Section 415(c)(3) of the Code. The determination of who is a key employee will be made in accordance with Section 416(i)(1) of the Code and the applicable regulations and other guidance of general applicability issued thereunder.

**2.2 Determination of Present Values and Amounts.** This Section 2.2 shall apply for purposes of determining the present values of accrued benefits and the amounts of account balances of employees as of the determination date.

**2.2.1 Distributions During Year Ending on the Determination Date.** The present values of accrued benefits and the amounts of account balances of an employee as of the determination date shall be increased by the distributions made with respect to the employee under the plan and any plan aggregated with the plan under Section 416(g)(2) of the Code during the 1-year period ending on the determination date. The preceding sentence shall also apply to distributions under a terminated plan which, had it not been terminated, would have been aggregated with the plan under Section 416(g)(2)(A)(i) of the Code. In the case of a distribution made for a reason other than separation from service, death, or disability, this provision shall be applied by substituting "5-year period" for "1-year period."

**2.2.2 Employees Not Performing Services During Year Ending on the Determination Date.** The accrued benefits and accounts of any individual who has not performed services for the employer during the 1-year period ending on the determination date shall not be taken into account.

**3. Minimum Benefits.** For purposes of satisfying the minimum benefit requirements of Section 416(c)(1) of the Code and the plan, in determining years of service with the employer, any service with the employer shall be disregarded to the extent that such service occurs during a plan year when the plan benefits (within the meaning of Section 410(b) of the Code) no key employee or former key employee.

## **SECTION 4. DIRECT ROLLOVERS OF PLAN DISTRIBUTIONS**

**1. Effective Date.** This section shall apply to distributions made after December 31, 2001.

**2. Modification of Definition of Eligible Retirement Plan.** For purposes of the direct rollover provisions in Article 4.15 of the plan, an eligible retirement plan shall also mean an annuity contract described in Section 403(b) of the Code and an eligible plan under Section 457(b) of the Code which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this plan. The definition of eligible retirement plan shall also apply in the case of a distribution to a surviving spouse, or to a spouse or former spouse who is the alternate payee under a qualified domestic relation order, as defined in Section 414(p) of the Code.

3. **Modification of Definition of Eligible Rollover Distribution to Include After-Tax Employee Contributions.** For purposes of the direct rollover provisions in Article 4.15 of the plan, a portion of a distribution shall not fail to be an eligible rollover distribution merely because the portion consists of after-tax employee contributions which are not includible in gross income. However, such portion may be paid only to an individual retirement account or annuity described in Section 408(a) or (b) of the Code, or to a qualified defined contribution plan described in Section 401(a) or 403(a) of the Code that agrees to separately account for amounts so transferred, including separately accounting for the portion of such distribution which is includible in gross income and the portion of such distribution which is not so includible.

**SECTION 5. APPLICABLE MORTALITY TABLE**

1. **Effective Date.** This section shall apply to distributions with annuity starting dates on or after December 31, 2002.

2. **Applicable Mortality Table.** Notwithstanding any other plan provisions to the contrary, the applicable mortality table used for purposes of adjusting any benefit or limitation under Section 415(b)(2)(B), (C), or (D) of the Code, as set forth in Section 4.08 of the plan, and the applicable mortality table used for purposes of satisfying the requirements of Section 417(e) of the Code, as set forth in Section 4.10(b) of the plan, is the table prescribed in Revenue Ruling 2001-62.

**RAYONIER INC.**

I, John P. O'Grady, do hereby certify that I am the Senior Vice President, Administration of Rayonier Inc. ("Company"), and that pursuant to the authority granted me in resolutions adopted by the Board of Directors of the Company on February 24, 1994, I adopted the following preambles and resolutions on May 16, 2003;

**WHEREAS**, the Company maintains the Retirement Plan for Salaried Employees of Rayonier Inc. (the "Salaried Retirement Plan") for the benefit of such of its employees as are eligible thereunder; and

**WHEREAS**, the Company also maintains the Rayonier Inc. Excess Benefit Plan (the "Excess Plan") for the benefit of such of its employees as are eligible thereunder; and

**WHEREAS**, in accordance with the power reserved to it in Section 10.01 of the Salaried Retirement Plan and Section 4.01 of the Excess Plan, the Company may amend the Salaried Retirement Plan and the Excess Plan at any time, subject to certain conditions not now relevant; and

**WHEREAS**, the Company deems it advisable to amend the Salaried Retirement Plan to clarify that periodic salary continuation payments under a severance plan of the Company is pensionable compensation under the Salaried Retirement Plan and to provide that in the event of a Change in Control, periods of service for which certain lump sum payments from a severance plan are made will be included in benefit service, and that certain other payments from the severance plan are also included in pensionable compensation; and

**WHEREAS**, the Company deems it advisable to amend the Excess Plan to provide that benefits accrued in the event of a Change in Control and described in the preceding clause that cannot be paid from the Salaried Retirement Plan due to the limitations imposed under Section 401(a)(4) of the Internal Revenue Code of 1986, as amended ("Code"), shall be paid from the Excess Plan;

**NOW, THEREFORE**, be it

**RESOLVED**, that the Salaried Retirement Plan is hereby amended as follows:

1. Section 2.01(d)(viii) and Section 2.02(d)(vii) are amended by adding the following phrase to the end thereof:  
“other than the Rayonier Inc. Supplemental Senior Executive Severance Pay Plan (the ‘Supplemental Severance Plan’).”
2. Section 2.02(d) is amended by adding the following sentence at the end thereof:  
“The Compensation of a Member during the period of absence covered by clause (vii) above shall be the amount of periodic salary continuation payments that the Member actually receives during such period.”
3. Section 8.06(d) is amended by adding the following subparagraph (iii) to provide as follows:  
“(iii) In the event of a Change in Control, the Eligibility Service and Benefit Service of any Employee who receives any form of salary continuation under the Supplemental Severance Plan shall be increased by 36 months, and 3 years shall be added to such Employee’s attained age at his date of termination of employment solely for purposes of benefit eligibility and determining the amount of reduction in benefit on account of payment commencing prior to the Employee’s Normal Retirement Date. In addition, the term Compensation shall

include the amounts payable under the Supplemental Severance Plan as Scheduled Severance Pay, as set forth in Section 4 of the Supplemental Severance Plan and payable either as a lump sum in accordance with Section 5 or in periodic payments in accordance with Section 6 thereof, and as Target Bonus Severance, as set forth in Section 4 of the Supplemental Severance Plan. Scheduled Severance Pay shall be treated as base pay paid in equal amounts over the period for which it is to be paid, prior to any election by the Participant to receive it in a lump sum or pursuant to any acceleration election as set forth in Sections 4, 6, or 10 of the Supplemental Plan. In addition, if the Employee's Salary Continuation Period as set forth in Section 4 of the Supplemental Severance Plan is less than 36 months, the Employee's Final Average Compensation shall be equal to the greater of his rate of base pay at the date of his termination of employment or the amount otherwise determined in accordance with Section 1.18 of the Plan. Notwithstanding the foregoing, in the event the Plan would fail to satisfy Section 401(a)(4) of the Code if all benefits to be provided under this Section 8.06(d)(iii) were included in the non-discrimination testing, the Highly Compensated Employees who receive benefits under this Section 8.06(d)(iii) in the highest rate group shall have their benefits reduced (but not below what they would have accrued without regard to this Section 8.06(d)(iii)) so as to cause the aggregate accrual percentages in that rate group to be equal to the aggregate accrual percentages in the next highest rate group. This process will be repeated until the non-discrimination test is passed."

and it is further

**RESOLVED**, that the first sentence of Section 2.02 of the Excess Plan is amended by adding the phrase “without regard to any reduction in a Participant’s benefit on account of Section 401(a)(4) of the Code as described in Section 8.06(d)(iii) of the Retirement Plan,” after the phrase “contained in Section 1.11 of the Retirement Plan,”;

and it is further

**RESOLVED**, that the amendments to the Salaried Retirement Plan and the Excess Plan are effective as of January 1, 2003; and it is further

**RESOLVED**, that the proper officers of the Company be, and they hereby are, authorized and directed to take such action so as to cause such changes to be made in the provisions of the Salaried Retirement Plan, its related trust, and the Excess Plan, as they deem necessary, on the advice of counsel, to effectuate the foregoing resolutions, and so, as amended, the Salaried Retirement Plan continues to qualify under Section 401(a) of the Internal Revenue Code and the related trust continues to be tax-exempt under Section 501(a) of the Code.

Dated May 16, 2003

/s/ John P. O’Grady

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John P. O’Grady  
Senior Vice President, Administration

**RAYONIER INC.**

I, John P. O'Grady, do hereby certify that I am the Senior Vice President, Administration of Rayonier Inc. ("Company"), and that pursuant to the authority granted me in resolutions adopted by the Board of Directors of the Company on February 24, 1994 and December 17, 1999, I adopted the following preambles and resolutions on October 10, 2003;

**WHEREAS**, the Company maintains the Retirement Plan for Salaried Employees of Rayonier Inc. (the "Salaried Retirement Plan") for the benefit of such of its employees as are eligible thereunder; and

**WHEREAS**, in accordance with the power reserved to it in Section 10.01 of the Salaried Retirement Plan the Company may amend such Salaried Retirement Plan at any time, subject to certain conditions not now relevant; and

**WHEREAS**, the Company deems it advisable to amend the Salaried Retirement Plan to reduce the rate of future accruals thereunder;

**NOW, THEREFORE**, be it

**RESOLVED**, that Section 4.01(b) shall hereby be amended, effective January 1, 2004 by deleting it in its entirety and substituting the following in lieu thereof:

"(b) Benefit. Prior to adjustment in accordance with Sections 4.06(a) and 4.07(c), the annual normal retirement allowance payable on a lifetime basis upon retirement at a Member's Normal Retirement Date shall be equal to the sum of (i), (ii) and (iii) where:

(i) equals:

(1) 2 percent of the Member's Final Average Compensation multiplied by the portion of the first 25 years of his or her Benefit Service rendered prior to the Effective Date;

- (2) plus 1 1/2 percent of the Member's Final Average Compensation multiplied by the next 15 years of his or her Benefit Service rendered prior to the Effective Date, to a combined maximum of 40 years of Benefit Service;
  - (3) reduced by 1 1/4 percent of the Social Security Benefit multiplied by the portion of his or her years of Benefit Service rendered prior to the Effective Date, and not in excess of 40 years;
  - (4) reduced, but not below zero, by the annual normal retirement allowance determined under the provisions of Section 4.01(b) of the Prior Salaried Plan prior to the imposition of any limitations under Section 415 of the Code and the application of any offset provisions of the Prior Salaried Plan, with respect to the Member's period of employment rendered prior to the Effective Date which has been credited as Benefit Service hereunder pursuant to the provisions of Section 2.02(f); and
- (ii) equals:
- (1) 2 percent of the Member's Final Average Compensation multiplied by the portion of the first 25 years of his or her Benefit Service rendered on and after the Effective Date but not later than December 31, 2003;
  - (2) plus 1 1/2 percent of the Member's Final Average Compensation multiplied by the portion of the next 15 years of his or her Benefit Service rendered on or after the Effective Date but not later than December 31, 2003, to a combined maximum of 40 years of Benefit Service minus the total number of years of Benefit Service rendered prior to the Effective Date;

- (3) reduced by  $1\frac{1}{4}$  percent of the Social Security Benefit multiplied by the portion of the number of years of his or her Benefit Service rendered on or after the Effective Date but no later than December 31, 2003 not in excess of 40 years minus the total number of years of Benefit Service rendered prior to the Effective Date; and
- (iii) equals:
- (1)  $1\frac{1}{2}$  percent of the Member's Final Average Compensation multiplied by his or her Benefit Service rendered on and after January 1, 2004, to a combined maximum of 40 years of Benefit Service minus the total number of years of Benefit Service rendered prior to January 1, 2004;
  - (2) reduced by  $1\frac{1}{4}$  percent of the Social Security Benefit multiplied by the portion of the number of years of his or her Benefit Service rendered on or after January 1, 2004 not in excess of 40 years minus the total number of years of Benefit Service rendered prior to January 1, 2004.

The combined maximum years of Benefit Service used to compute the amounts under clauses (i), (ii) and (iii) above shall not exceed 40 years.

The annual normal retirement allowance determined prior to reduction to be made on account of the Social Security Benefit shall be an amount not less than the greatest annual early retirement allowance which would have been payable to a Member had he or she retired under Section 4.03 or Section 4.04 at any time before his or her Normal Retirement Date and as such early retirement allowance would have been reduced to commence at such earlier date but without reduction on account of the Social Security

Benefit. The reduction to be made on account of the Social Security Benefit shall in any event be based on the Federal Social Security Act in effect at the time of the Member's actual retirement."

and be it further

**RESOLVED**, that the proper officers of the Company be, and they hereby are, authorized and directed to take such actions including, but not limit to, the preparation and distribution of any notification required by Section 204(h) of the Employee Retirement Income Security Act of 1974, or to make changes in the provisions of the Salaried Retirement Plan and its related trust as they deem necessary, on the advice of counsel, to effectuate the foregoing resolutions, so, as amended, the Salaried Retirement Plan continues to qualify under Section 401(a) of the Internal Revenue Code ("Code") and the related trust continues to be tax-exempt under Section 501(a) of the Code;

and be it further

**RESOLVED**, that the foregoing resolutions are subject to and conditioned upon said resolutions not adversely affecting the continued qualified status of the Salaried Retirement Plan under Section 401(a) of the Code or the tax-exempt status of the related trust under Section 501(a) of the Code.

Dated: October 10, 2003

/s/ John P. O'Grady

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John P. O'Grady  
Senior Vice President, Administration

**RAYONIER INC.**

I, John P. O'Grady, do hereby certify that I am the Senior Vice President, Administration of Rayonier Inc. ("Company"), and that pursuant to the authority granted me in resolutions adopted by the Board of Directors of the Company on February 24, 1994, I adopted the following preambles and resolutions on December 15, 2003;

**WHEREAS**, the Company maintains the Retirement Plan for Salaried Employees of Rayonier Inc. (the "Salaried Retirement Plan") for the benefit of such of its employees as are eligible thereunder; and

**WHEREAS**, in accordance with the power reserved to it in Section 10.01 of the Salaried Retirement Plan and Section 4.01 of the Excess Plan, the Company may amend the Salaried Retirement Plan at any time, subject to certain conditions not now relevant; and

**WHEREAS**, the Company deems it advisable to amend the Salaried Retirement Plan to permit a participant to receive benefits determined as of a date prior to the date a participant receives an explanation of the available benefit options (a "retroactive annuity starting date");

**NOW, THEREFORE**, be it

**RESOLVED**, that the Salaried Retirement Plan is hereby amended, effective January 1, 2004, as follows:

1. Section 4.06(d)(v) is by deleting the third paragraph in its entirety and substituting the following in lieu thereof:

“(v) in the event a member elects an Annuity Starting Date that precedes the date he or she received the notice (the “retroactive Annuity Starting Date”), the following requirements are met:

- (A) the Member’s benefit must satisfy the provisions of Section 415 and 417(e)(3) of the Code, both at the retroactive Annuity Starting Date and at the actual commencement date;
- (B) a payment equal in amount to the payments that would have been received by the Member had his or her benefit actually commenced on his retroactive Annuity Starting Date, plus interest at the IRS Interest Rate, shall be paid to the Member on his or her actual commencement date; and
- (C) Spousal Consent to the retroactive Annuity Starting Date is required for such election to be effective unless:
  - (I) the amount of the survivor annuity payable to the spouse determined as of the retroactive Annuity Starting Date under the form elected by the Member is no less than the amount the spouse would have received under the Qualified Joint and Survivor Annuity if the date payments commence were substituted for the retroactive Annuity Starting Date; or
  - (II) the Member’s spouse on the retroactive Annuity Starting Date is not the spouse on the actual commencement date and is not treated as the spouse under a qualified domestic relations order.”

and it is further

**RESOLVED**, that the proper officers of the Company be, and they hereby are, authorized and directed to take such action so as to cause such changes to be made in the provisions of the Salaried Retirement Plan, its related trust, as they deem necessary, on the advice of counsel, to effectuate the foregoing resolutions, and so, as amended, the Salaried Retirement Plan continues to qualify under Section 401(a) of the Internal Revenue Code and the related trust continues to be tax-exempt under Section 501(a) of the Code.

Dated December 15, 2003

/s/ John P. O'Grady

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John P. O'Grady  
Senior Vice President, Administration

Page 3

RAYONIER INC.

2,500,000 Common Shares

2004 RAYONIER INCENTIVE STOCK  
AND  
MANAGEMENT BONUS PLAN

PLAN INFORMATION

THIS DOCUMENT CONSTITUTES PART OF A PROSPECTUS COVERING SECURITIES  
THAT HAVE BEEN REGISTERED UNDER THE  
SECURITIES ACT OF 1933.

The Prospectus covers such additional securities as may be issuable as a result of anti-dilution provisions contained in the instruments pursuant to which securities covered by the Prospectus are issued.

**THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES  
AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS  
THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES  
COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE  
PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A  
CRIMINAL OFFENSE.**

Additional information about the Plan and its administration may be obtained by writing the Manager of Stock Option Plan Administration, Rayonier Inc., 50 No. Laura Street, Jacksonville, FL 32202, or telephoning the Manager at (904) 357-9100.

Any statement contained in a document incorporated or deemed to be incorporated by reference in the Prospectus shall be deemed to be modified or superseded for purposes of the Prospectus to the extent that a statement contained in the Prospectus or in any other subsequently filed document which also is or is deemed to be incorporated by reference in the Prospectus modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of the Prospectus. Any such document, as well as Rayonier's most recent annual report to shareholders and any other report or communication distributed to Rayonier shareholders generally, may be obtained without charge by written request to W. Edwin Frazier, III, Corporate Secretary, Rayonier Inc., 50 No. Laura Street, Jacksonville, FL 32202, or by telephoning W. Edwin Frazier, III at (904) 357-9100.

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## GENERAL INFORMATION

The 2004 Rayonier Incentive Stock and Management Bonus Plan (the “Plan”) was adopted by the Board of Directors of Rayonier Inc. and approved by its shareholder to be effective January 1, 2004.

The maximum number of common shares of Rayonier Inc. (the “Common Shares”) for which incentive stock options may be issued under the Plan is one million (1,000,000). The total number of shares available under the Plan registered currently on Form S-8 with the Securities & Exchange Commission is two million five hundred thousand (2,500,000).

In addition to non-qualified stock options and incentive stock options, the committee administering the Plan (the “Committee”) may grant stock appreciation rights (“SAR’s”) in connection with options to those employees who are considered directors or executive officers for purposes of Section 16(b) of the Securities Exchange Act of 1934, as amended. The Plan permits the Committee to award performance shares and restricted stock, as well as non-qualified stock options, incentive stock options, SAR’s, Restricted Stock units and senior management bonus awards in stock or in cash. Reference is made to the text of the Plan herein for a complete description of awards permitted under the Plan and the relevant provisions and conditions applicable thereto.

The prospectus does not cover resales of Common Shares acquired pursuant to the provisions of the Plan. Resales may be subject to restrictions or limitations imposed by the Securities Act of 1933 and the Securities Exchange Act of 1934.

The Plan is not subject to any of the provisions of the Employee Retirement Income Security Act of 1974. Furthermore, Section 401 of the Internal Revenue Code relating to certain qualified pension, profit-sharing and stock bonus plans does not apply to the Plan.

Plan participants receive information with respect to their participation, including the date of grant, the exercise price, the amount exercisable and the expiration date, applicable information concerning performance shares or restricted stock and bonus awards that may be relevant to them.

The Plan contains a 650,000 share limitation on the number of shares which may be issued as restricted or performance share awards, as well as an annual limitation on the number of shares which one employee may be awarded annually.

**1. Purpose**

The purpose of the 2004 Rayonier Incentive Stock and Management Bonus Plan is to motivate and reward superior performance on the part of employees of Rayonier and its subsidiaries and to thereby attract and retain employees of superior ability. In addition, the Plan is intended to further opportunities for stock ownership by such employees in order to increase their proprietary interest in Rayonier and, as a result, their interest in the success of the Company. Awards will be made, in the discretion of the Committee, to Key Employees (including officers and directors who are also employees) whose responsibilities and decisions directly affect the performance of any Participating Company and its subsidiaries. Such incentive awards may consist of stock options, stock appreciation rights payable in stock or cash, performance shares, restricted stock, performance bonus awards or any combination of the foregoing, as the Committee may determine.

**2. Definitions**

When used herein, the following terms shall have the following meanings:

“Act” means the Securities Exchange Act of 1934.

“Award” means an award granted to any Key Employee in accordance with the provisions of the Plan in the form of Options, Rights, Performance Shares, Restricted Stock or Performance Bonus Awards, or any combination of the foregoing.

“Award Agreement” means the written agreement evidencing each Award, other than Performance Bonus Awards, granted to a Key Employee under the Plan.

“Beneficiary” means the estate of a Key Employee or such other beneficiary or beneficiaries lawfully designated pursuant to Section 11 to receive the amount, if any, payable under the Plan upon the death of a Key Employee.

“Board” means the Board of Directors of the Company.

“Change in Control” has the meaning specified in the Retirement Plan.

“Code” means the Internal Revenue Code of 1986, as now in effect or as hereafter amended. (All citations to sections of the Code are to such sections as they may from time to time be amended or renumbered.)

“Committee” means the Compensation and Management Development Committee of the Board or such other committee as may be designated by the Board to administer the Plan.

“Company” means Rayonier Inc. and its successors and assigns.

“Fair Market Value”, unless otherwise indicated in the provisions of this Plan, means, as of any date, the composite closing price for one share of Stock on the New York Stock Exchange for the most recently completed trading day or, if no sales of Stock have taken place on such date, the composite closing price on the most recent date on which selling prices were quoted, the determination to be made in the discretion of the Committee.

“GAAP” means U.S. Generally Accepted Accounting Principles.

“Incentive Stock Option” means a stock option qualified under Section 422 of the Code.

“Key Employee” means an employee (including any officer or director who is also an employee) of any Participating Company whose responsibilities and decisions, in the judgment of the Committee, directly affect the performance of the Company and its subsidiaries.

“Limited Stock Appreciation Right” means a stock appreciation right that shall become exercisable automatically upon the occurrence of a Change in Control as described in Section 10 of the Plan.

“Option” means an option awarded under Section 5 of the Plan to purchase Stock of the Company, which option may be an Incentive Stock Option or a non-qualified stock option.

“Participating Company” means the Company or any subsidiary or other affiliate of the Company; provided, however, for Incentive Stock Options only, “Participating Company” means the Company or any corporation that at the time such Option is granted qualifies as a “subsidiary” of the Company under Section 425(f) of the Code.

“Participant” means each Key Employee of the Participating Company selected by the Committee as eligible for a Performance Bonus Award who could potentially be described in Section 162(m)(3) of the Code, as well as, in the discretion of the Committee, the President and Chief Executive Officer and any Key Employee reporting directly to the President and Chief Executive Officer.

“Performance Bonus Award” means the right of a Participant to receive cash following the completion of a Performance Period based upon performance in respect of one or more of the Performance Goals during such Performance Period, as specified in Section 9.

“Performance Goals” means or may be expressed in terms of any, but not limited to, of the following business criteria: (i) net income, (ii) earnings per share, (iii) operating income, (iv) operating cash flow, (v) earnings before income taxes and depreciation, (vi) earnings before interest, taxes, depreciation and amortization, (vii) operating margins (viii) reductions in operating expenses, (ix) sales or return on sales (x) total stockholder return (xi) return on equity, (xii) return on total capital, (xiii) return on invested capital, (xiv) return on assets, (xv) economic value added, (xvi) cost reductions and savings, (xvii) increase in surplus, (xviii) productivity improvements, (xix) an executive’s attainment of personal objectives with respect to any of the foregoing criteria or other criteria such as growth and profitability, customer satisfaction, leadership effectiveness, business development, negotiating transactions and sales or developing long term business goals. A Performance Goal may be measured over a Performance Period on a periodic, annual, cumulative or average basis and may be established on a corporate-wide basis or established with respect to one or more operating units, divisions, subsidiaries, acquired businesses, minority investments, partnerships or joint ventures. Unless otherwise determined by the Committee, the Performance Goals will be determined using GAAP consistently applied during a Performance Period by no later than the earlier of the date that is ninety days after the commencement of the Performance Period or the day prior to the date on which twenty-five percent of the Performance Period has elapsed.

“Performance Objective” means the level or levels of performance required to be attained with respect to specified Performance Goals in order that a Key Employee shall become entitled to specified rights in connection with a Performance Share or Performance Bonus Award.

“Performance Period” means the calendar year, or such other shorter or longer period designated by the Committee, during which performance will be measured in order to determine a Key Employee’s entitlement to receive payment of a Performance Share or Performance Bonus Award, respectively.

“Performance Share” means a performance share awarded under Section 6 of the Plan.

“Plan” means the 2004 Rayonier Incentive Stock and Management Bonus Plan, as the same may be amended, administered or interpreted from time to time.

“Plan Year” means the calendar year.

“Retirement” means eligibility to receive immediate retirement benefits under a Participating Company pension plan.

“Restricted Stock” means Stock awarded under Section 7 of the Plan subject to such restrictions as the Committee deems appropriate or desirable.

“Restricted Stock Unit” has the meaning set forth in Section 6 of the Plan.

“Retirement Plan” means the Retirement Plan for Salaried Employees of Rayonier Inc., as amended effective July 18, 1997, and as the same may be thereafter amended from time to time prior to the occurrence of a Change in Control.

“Right” means a stock appreciation right awarded in connection with an option under Section 5 of the Plan.

“Share Limit” has the meaning set forth in Section 3.

“Stock” means the common shares of the Company.

“Total Disability” means the complete and permanent inability of a Key Employee to perform all of his or her duties under the terms of his or her employment with any Participating Company, as determined by the Committee upon the basis of such evidence, including independent medical reports and data, as the Committee deems appropriate or necessary.

“Voting Securities” means any securities of the Company that vote generally in the election of directors.

### **3. Shares Subject to the Plan**

The aggregate number of shares of Stock that may be awarded under the Plan is 2.5 million.

No more than 650,000 of such total number of shares shall be available for restricted stock and Performance Share Awards. In addition to the foregoing, in no event shall more than one million (1,000,000) shares of Stock be cumulatively available for Awards of incentive stock options under the Plan. For any Plan Year, no individual employee may receive an Award of Options, Performance Shares, Restricted Stock or Rights for more than four percent (4%) of the total number of shares authorized under the Plan (with respect to any Key Employee, his or her “Share Limit”). The number of shares available in each category hereunder shall be subject to adjustment as provided in Section 14 in connection with a Stock split, Stock dividend, or other extraordinary transaction affecting the Stock.

Subject to the above limitations, shares of Stock to be issued under the Plan may be made available from the authorized but unissued shares, or from shares purchased in the open market. For the purpose of computing the total number of shares of Stock available for Awards under the Plan, there shall be counted against the foregoing limitations the number of shares of Stock that equal the maximum number of Performance Share Awards issuable in any outstanding grant, in each case determined as at the dates on which such Awards are granted. If any Awards under the Plan are forfeited, terminated, expire unexercised, are settled in cash in lieu of Stock or are exchanged for other Awards, the shares of Stock that were theretofore subject to such Awards shall again be available for Awards under the Plan to the extent of such

forfeiture or expiration of such Awards. Further, any shares that are exchanged (either actually or constructively) by optionees as full or partial payment to the Company of the purchase price of shares being acquired through the exercise of a stock option granted under the Plan may be available for subsequent Awards.

#### **4. Grant of Awards and Award Agreements**

(a) Subject to the provisions of the Plan, the Committee shall (i) determine and designate from time to time those Key Employees or groups of Key Employees to whom Awards are to be granted; (ii) determine the form or forms of Award to be granted to any Key Employee; (iii) determine the amount or number of shares of Stock subject to each Award; and (iv) determine the terms and conditions of each Award.

(b) Each Award, other than Performance Bonus Awards, granted under the Plan shall be evidenced by a written Award Agreement. Such agreement shall be subject to and incorporate the express terms and conditions, if any, required under the Plan or required by the Committee.

#### **5. Stock Options and Rights**

(a) With respect to Options and Rights, the Committee shall (i) authorize the granting of Incentive Stock Options, non-qualified stock options, or a combination of Incentive Stock Options and non-qualified stock options; (ii) authorize the granting of Rights that may be granted in connection with all or part of any Option granted under this Plan, either concurrently with the grant of the Option or at any time thereafter during the term of the Option; (iii) determine the number of shares of Stock subject to each Option or the number of shares of Stock that shall be used to determine the value of a Right; and (iv) determine the time or times when and the manner in which each Option or Right shall be exercisable and the duration of the exercise period.

(b) Any Option issued hereunder that is intended to qualify as an Incentive Stock Option shall be subject to such limitations or requirements as may be necessary for the purposes of Section 422 of the Code or any regulations and rulings thereunder to the extent and in such form as determined by the Committee in its discretion.

(c) Rights may be granted only to Key Employees who may be considered directors or officers of the Company for purposes of Section 16 of the Act.

(d) The exercise period for a non-qualified stock option and any related Right shall not exceed ten years from the date of grant, and the exercise period for an Incentive Stock Option and any related Right shall not exceed ten years from the date of grant.

(e) The Option price per share shall be determined by the Committee at the time any Option is granted and shall be not less than the Fair Market Value of one share of Stock on the date the Option is granted.

(f) No part of any Option or Right may be exercised until the Key Employee who has been granted the Award shall have remained in the employ of a Participating Company for such period after the date of grant as the Committee may specify, if any, and the Committee may further require exercisability in installments; provided, however, the period during which a Right is exercisable shall commence no earlier than six months following the date the Option or Right is granted.

(g) The purchase price of the shares as to which an Option shall be exercised shall be paid to the Company at the time of exercise either in cash or Stock already owned by the optionee having a total Fair Market Value equal to the purchase price, or a combination of cash and Stock having a total fair market value, as so determined, equal to the purchase price. The Committee shall determine acceptable methods for tendering Stock as payment upon exercise of an Option and may impose such limitations and prohibitions on the use of Stock to exercise an Option as it deems appropriate.

(h) Unless Section 10 shall provide otherwise, Rights granted to a director or officer shall terminate when such person ceases to be considered a director or officer of the Company subject to Section 16 of the Act.

(i) In case of termination of employment, the following provisions shall apply:

(A) If a Key Employee who has been granted an Option shall die before such Option has expired, his or her Option may be exercised in full by the person or persons to whom the Key Employee's rights under the Option pass by will, or if no such person has such right, by his or her executors or administrators, at any time, or from time to time, within five years after the date of the Key Employee's death or within such other period, and subject to such terms and conditions as the Committee may specify, but not later than the expiration date specified in Section 5(d) above.

(B) If the Key Employee's employment by any Participating Company terminates because of his or her Retirement or Total Disability, he or she may exercise his or her Options in full at any time, or from time to time, within five years after the date of the termination of his or her employment or within such other period, and subject to such terms and conditions as the Committee may specify, but not later than the expiration date specified in Section 5(d) above. Any such Options not fully exercisable immediately prior to such optionee's Retirement shall become fully exercisable upon such Retirement unless the Committee, in its sole discretion, shall otherwise determine.

(C) Except as provided in Section 10, if the Key Employee shall voluntarily resign before eligibility for Retirement or he or she is terminated for cause as determined by the Committee, the Options shall be cancelled coincident with the effective date of the termination of employment.

(D) If the Key Employee's employment terminates for any other reason, he or she may exercise his or her Options, to the extent that he or she shall have been entitled to do so at the date of the termination of his or her employment, at any time, or from time to time, within three months after the date of the termination of his or her employment or within such other period, and subject to such terms and conditions as the Committee may specify, but not later than the expiration date specified in Section 5(d) above.

(j) No Option or Right granted under the Plan shall be transferable other than by will or by the laws of descent and distribution. During the lifetime of the optionee, an Option or Right shall be exercisable only by the Key Employee to whom the Option or Right is granted.

(k) With respect to an Incentive Stock Option, the Committee shall specify such terms and provisions as the Committee may determine to be necessary or desirable in order to qualify such Option as an "incentive stock option" within the meaning of Section 422 of the Code.

(l) With respect to the exercisability and settlement of Rights:

(i) Upon exercise of a Right, the Key Employee shall be entitled, subject to such terms and conditions as the Committee may specify, to receive upon exercise thereof all or a portion of the excess of (A) the Fair Market Value of a specified number of shares of Stock at the time of exercise, as determined by the Committee, over (B) a specified amount that shall not, subject to Section 5(e), be less than the Fair Market Value of such specified number of shares of Stock at the time the Right is granted. Upon exercise of a Right, payment of such excess shall be made as the Committee shall specify in cash, the issuance or transfer to the Key Employee of whole shares of Stock with a Fair Market Value at such time equal to any excess, or a combination of cash and shares of Stock with a combined Fair Market Value at such time equal to any such excess, all as determined by the Committee. The Company will not issue a fractional share of Stock and, if a fractional share would otherwise be issuable, the Company shall pay cash equal to the Fair Market Value of the fractional share of Stock at such time.

(ii) For the purposes of Subsection (i) of this Section 5(l), in the case of any

such Right or portion thereof, other than a Right related to an Incentive Stock Option, exercised for cash during a “window period” specified by Rule 16b-3 under the Act, the Fair Market Value of the Stock at the time of such exercise shall be the highest composite daily closing price of the Stock during such window period.

(iii) In the event of the exercise of such Right, the Company’s obligation in respect of any related Option or such portion thereof will be discharged by payment of the Right so exercised.

## **6. Performance Shares**

(a) Subject to the provisions of the Plan, the Committee shall (i) determine and designate from time to time those Key Employees or groups of Key Employees to whom Awards of Performance Shares are to be made, (ii) determine the Performance Period and Performance Objectives applicable to such Awards, (iii) determine the form of settlement of a Performance Share and (iv) generally determine the terms and conditions of each such Award. At any date, each Performance Share shall have a value equal to the Fair Market Value of a share of Stock at such date; provided that the Committee may limit the aggregate amount payable upon the settlement of any Award.

(b) The Committee shall determine a Performance Period of not less than two nor more than five years with respect to the award of Performance Shares. Performance Periods may overlap and Key Employees may participate simultaneously with respect to Performance Shares for which different Performance Periods are prescribed.

(c) The Committee shall determine the Performance Objectives of Awards of Performance Shares. Performance Objectives may vary from Key Employee to Key Employee and between groups of Key Employees and shall be based upon such Performance Goals as the Committee may deem appropriate. The Performance Objective shall be established by the Committee prior to, or reasonably promptly following the inception of, a Performance Period but, to the extent required by Section 162(m) of the Code, by no later than the earlier of the date that is ninety days after the commencement of the Performance Period or the day prior to the date on which twenty-five percent of the Performance Period has elapsed.

(d) Following the completion of each Performance Period, the Committee shall certify in writing, in accordance with the requirements of Section 162(m) of the Code to the extent applicable, whether the Performance Objective and other material terms for paying amounts in respect of each Performance Share Award related to that Performance Period have been achieved or met. Unless the Committee determines otherwise, Performance Share Awards shall not be settled until the Committee has made the certification specified under this Section 6(d).

(e) The Committee is authorized at any time during or after a Performance Period to reduce or eliminate the Performance Share Award of any Key Employee for any reason, including, without limitation, changes in the position or duties of any Key Employee with the Participating Company during or after a Performance Period, whether due to any termination of employment (including death, disability, retirement, voluntary termination or termination with or without cause) or otherwise. In addition, to the extent necessary to preserve the intended economic effects of the Plan to the Participating Company and the Key Employee, the Committee shall adjust Performance Objectives, the Performance Share Awards or both to take into account: (i) a change in corporate capitalization, (ii) a corporate transaction, such as any merger of the Company or any subsidiary into another corporation, any consolidation of the Company or any subsidiary into another corporation, any separation of the Company or any subsidiary (including a spin-off or the distribution of stock or property of the Company or any subsidiary), any reorganization of the Company or any subsidiary or a large, special and non-recurring dividend paid or distributed by the Company (whether or not such reorganization comes within the definition of Section 368 of the Code), (iii) any partial or complete liquidation of the Company or any subsidiary or (iv) a change in accounting or other relevant rules or regulations (any adjustment pursuant to this Clause (iv) shall be subject to the timing requirements of the last sentence of the definition of

Performance Goal set forth in Section 2 of the Plan); provided, however, that no adjustment hereunder shall be authorized or made if and to the extent that the Committee determines that such authority or the making of such adjustment would cause the Performance Bonus Awards to fail to qualify as “qualified performance-based compensation” under Section 162(m) of the Code with respect to a particular Key Employee.

(f) At the beginning of a Performance Period, the Committee shall determine for each Key Employee or group of Key Employees the number of Performance Shares or the percentage of Performance Shares that shall be paid to the Key Employee or member of the group of Key Employees if Performance Objectives are met in whole or in part.

(g) If a Key Employee terminates service with all Participating Companies during a Performance Period because of death, Total Disability, Retirement, or under other circumstances where the Committee in its sole discretion finds that a waiver would be in the best interests of the Company, that Key Employee may, as determined by the Committee, be entitled to an Award of Performance Shares at the end of the Performance Period based upon the extent to which the Performance Objectives were satisfied at the end of such period, which Award, in the discretion of the Committee, may be maintained without change or reduced and prorated for the portion of the Performance Period during which the Key Employee was employed by any Participating Company; provided, however, the Committee may provide for an earlier payment in settlement of such Performance Shares in such amount and under such terms and conditions as the Committee deems appropriate or desirable, but only to the extent consistent with the requirements of Section 162(m) of the Code to the extent applicable in respect of such Key Employee. If a Key Employee terminates service with all Participating Companies during a Performance Period for any other reason, then such Key Employee shall not be entitled to any Award with respect to that Performance Period unless the Committee shall otherwise determine.

(h) Each Award of a Performance Share shall be paid in whole shares of Stock, or cash, or a combination of Stock and cash either as a lump sum payment or in annual installments, all as the Committee shall determine, with payment to commence as soon as practicable after the end of the relevant Performance Period but no earlier than following the determination made in Section 6(d) hereof. Subject to the terms of the applicable program, the Award may also be paid in shares of Stock or Restricted Stock.

(i) With respect to Performance Shares that may be settled through the grant of Stock, a Key Employee shall not be granted Performance Shares for all of the Performance Periods commencing in a calendar year that permit the Key Employee to earn Stock covering more than the Share Limit in respect of such Key Employee. In addition, separate and apart from the limit in the previous sentence, with respect to Performance Share Awards to be settled in cash, a Key Employee shall not be granted Performance Share Awards for all of the Performance Periods commencing in a calendar year that permit the Key Employee in the aggregate to earn a cash payment in excess of the Fair Market Value of the Share Limit as of the first day of the first Performance Period commencing in such calendar year.

(j) Performance Share Awards may be structured in the form of Restricted Stock Units or any substantially similar instrument evidencing the right to receive a share of Stock, or a cash payment equal to the Fair Market Value of a share of Stock, at some future date upon the lapse of the applicable restrictions established by the Committee or upon the satisfaction of any applicable Performance Goals established by the Committee hereunder. To the extent provided for by the Committee, the rules of Section 7 shall apply to Restricted Stock Units payable in Stock.

## **7. Restricted Stock**

(a) Restricted Stock shall be subject to a restriction period (after which restrictions will lapse), which shall mean a period commencing on the date the Award is granted and ending on such date as the Committee shall determine (the “Restriction Period”). The Committee may provide for the lapse of restrictions in installments where deemed appropriate.

(b) Except when the Committee determines otherwise pursuant to Section 7(d), if a Key Employee terminates employment with all Participating Companies for any reason before the expiration of the Restriction Period, all shares of Restricted Stock still subject to restriction shall be forfeited by the Key Employee and shall be reacquired by the Company.

(c) Except as otherwise provided in this Section 7, no shares of Restricted Stock received by a Key Employee shall be sold, exchanged, transferred, pledged, hypothecated or otherwise disposed of during the Restriction Period.

(d) In cases of death, Total Disability or Retirement or in cases of special circumstances, the Committee may, in its sole discretion when it finds that a waiver would be in the best interests of the Company, elect to waive any or all remaining restrictions with respect to such Key Employee's Restricted Stock.

(e) The Committee may require, under such terms and conditions as it deems appropriate or desirable, that the certificates for Stock delivered under the Plan may be held in custody by a bank or other institution, or that the Company may itself hold such shares in custody until the Restriction Period expires or until restrictions thereon otherwise lapse, and may require, as a condition of any Award of Restricted Stock that the Key Employee shall have delivered a stock power endorsed in blank relating to the Restricted Stock.

(f) Nothing in this Section 7 shall preclude a Key Employee from exchanging any shares of Restricted Stock subject to the restrictions contained herein for any other shares of Stock that are similarly restricted.

(g) Subject to Section 7(e) and Section 8, each Key Employee entitled to receive Restricted Stock under the Plan shall be issued a certificate for the shares of Stock. Such certificate shall be registered in the name of the Key Employee, and shall bear an appropriate legend reciting the terms, conditions and restrictions, if any, applicable to such Award and shall be subject to appropriate stop-transfer orders.

## **8. Certificates for Awards of Stock**

(a) The Company shall not be required to issue or deliver any certificates for shares of Stock prior to (i) the listing of such shares on any stock exchange on which the Stock may then be listed and (ii) the completion of any registration or qualification of such shares under any federal or state law, or any ruling or regulation of any government body that the Company shall, in its sole discretion, determine to be necessary or advisable.

(b) All certificates for shares of Stock delivered under the Plan shall also be subject to such stop-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Stock is then listed and any applicable federal or state securities laws, and the Committee may cause a legend or legends to be placed on any such certificates to make appropriate reference to such restrictions. The foregoing provisions of this Section 8(b) shall not be effective if and to the extent that the shares of Stock delivered under the Plan are covered by an effective and current registration statement under the Securities Act of 1933, or if and so long as the Committee determines that application of such provisions is no longer required or desirable. In making such determination, the Committee may rely upon an opinion of counsel for the Company.

(c) Except for the restrictions on Restricted Stock under Section 7, each Key Employee who receives Stock in settlement of an Award of Stock, shall have all of the rights of a shareholder with respect to such shares, including the right to vote the shares and receive dividends and other distributions. No Key Employee awarded an Option, a Right or Performance Share shall have any right as a shareholder with respect to any shares covered by his or her Option, Right or Performance Share prior to the date of issuance to him or her of a certificate or certificates for such shares.

## 9. Management Performance Bonus Awards

(a) Form of Award. The Committee is authorized to grant Awards pursuant to this Section 9. An Award shall represent the conditional right of the Participant to receive cash, or at the discretion of the Committee (and subject to the limitations in Section 3), in whole or in part in shares of stock, based upon achievement of one or more pre-established Performance Objectives during a Performance Period, subject to the terms of this Section 9 and the other applicable terms of the Plan. Awards shall be subject to such conditions, including deferral of settlement, risks of forfeiture, restrictions on transferability and other terms and conditions as shall be specified by the Committee. The Performance Bonus Award hereunder may take the form of a percentage of a bonus pool the magnitude of which shall be determined in a manner consistent with the determination of individual Performance Bonus Awards based on individual Performance Objectives hereunder for all of the members in the pool, with the time period for establishing the magnitude of the pool and the fixing of the applicable percentage available to any individual determined in accordance with the requirements of Section 162(m) of the Code applicable to any such individuals in the pool.

(b) Performance Objectives. The Committee shall establish the Performance Objective for each Performance Bonus Award, consisting of one or more business criteria permitted as Performance Goals hereunder, one or more levels of performance with respect to each such criteria, and the amount or amounts payable or other rights that the Participant will be entitled to upon achievement of such levels of performance. The Performance Objective shall be established by the Committee prior to, or reasonably promptly following the inception of, a Performance Period but, to the extent required by Section 162(m) of the Code, by no later than the earlier of the date that is ninety days after the commencement of the Performance Period or the day prior to the date on which twenty-five percent of the Performance Period has elapsed.

(c) Additional Provisions Applicable to Performance Bonus Awards. More than one Performance Goal may be incorporated in a Performance Objective, in which case achievement with respect to each Performance Goal may be assessed individually or in combination with each other. The Committee may, in connection with the establishment of Performance Objectives for a Performance Period, establish a matrix setting forth the relationship between performance on two or more Performance Goals and the amount of the Performance Bonus Award payable for that Performance Period. The level or levels of performance specified with respect to a Performance Goal may be established in absolute terms, as objectives relative to performance in prior periods, as an objective compared to the performance of one or more comparable companies or an index covering multiple companies, or otherwise as the Committee may determine. Performance Objectives shall be objective and shall otherwise meet the requirements of Section 162(m) of the Code. Performance Objectives may differ for Performance Bonus Awards granted to any one Participant or to different Participants.

(d) Duration of the Performance Period. The Committee shall establish the duration of each Performance Period at the time that it sets the Performance Objectives applicable to that Performance Period. The Committee shall be authorized to permit overlapping or consecutive Performance Periods.

(e) Certification. Following the completion of each Performance Period, the Committee shall certify in writing, in accordance with the requirements of Section 162(m) of the Code, whether the Performance Objective and other material terms for paying amounts in respect of each Performance Bonus Award related to that Performance Period have been achieved or met. Unless the Committee determines otherwise, Performance Bonus Awards shall not be settled until the Committee has made the certification specified under this Section 9(e).

(f) Adjustment. The Committee is authorized at any time during or after a Performance Period to reduce or eliminate the Performance Bonus Award of any Participant for any reason, including, without limitation, changes in the position or duties of any Participant with the Participating Company during or after a Performance Period, whether due to any termination of employment (including death, disability, Retirement, voluntary termination or termination with or without cause) or otherwise. In addition, to the extent necessary to preserve the intended economic effects of the Plan to the Participating Company and the Participants, the Committee shall adjust Performance Objectives, the Performance Bonus Awards or both to

take into account: (i) a change in corporate capitalization, (ii) a corporate transaction, such as any merger of the Company or any subsidiary into another corporation, any consolidation of the Company or any subsidiary into another corporation, any separation of the Company or any subsidiary (including a spin-off or the distribution of stock or property of the Company or any subsidiary), any reorganization of the Company or any subsidiary or a large, special and non-recurring dividend paid or distributed by the Company (whether or not such reorganization comes within the definition of Section 368 of the Code), (iii) any partial or complete liquidation of the Company or any subsidiary or (iv) a change in accounting or other relevant rules or regulations (any adjustment pursuant to this Clause (iv) shall be subject to the timing requirements of the last sentence of the definition of Performance Goal set forth in Section 2 of the Plan); provided, however, that no adjustment hereunder shall be authorized or made if and to the extent that the Committee determines that such authority or the making of such adjustment would cause the Performance Bonus Awards to fail to qualify as “qualified performance-based compensation” under Section 162(m) of the Code.

(g) Timing of Payment. Except as provided below, any amounts payable in respect of Performance Bonus Awards for a Performance Period will generally be paid as soon as practicable following the determination in respect thereof made pursuant to Section 9(e).

(h) Deferral of Payments. Subject to such terms, conditions and administrative guidelines as the Committee shall specify from time to time, a Participant shall have the right to elect to defer receipt of part or all of any payment due with respect to a Performance Bonus Award.

(i) Maximum Amount Payable Per Participant Under This Section 9. A Participant shall not be granted Performance Bonus Awards for all of the Performance Periods commencing in a calendar year that permit the Participant in the aggregate to earn a payment in excess of 200% of the Participant’s base salary in effect at the beginning of such calendar year.

(j) Termination of Employment. In the event a Participant terminates employment for any reason during a Performance Period or prior to the Performance Bonus Award payment, he or she (or his or her Beneficiary, in the case of death) shall not be entitled to receive any Performance Bonus Award for such Performance Period unless the Committee, in its sole and absolute discretion, elects to pay all or any part of a Performance Bonus Award to such Participant.

## **10. Change in Control**

Notwithstanding any provisions in this Plan to the contrary:

(a) Each outstanding Option granted under the Plan shall become immediately exercisable in full for the aggregate number of shares covered thereby and all related Rights shall also become exercisable upon the occurrence of a Change in Control and shall continue to be exercisable in full for cash for a period of 60 calendar days beginning on the date that such Change in Control occurs and ending on the 60th calendar day following that date; provided, however, that no Option or Right shall be exercisable beyond the expiration date of its original term.

(b) Options and Rights shall not terminate and shall continue to be fully exercisable for a period of seven months following the occurrence of a Change in Control in the case of an employee who is terminated other than for just cause or who voluntarily terminates his or her employment because he or she in good faith believes that as a result of such Change in Control he or she is unable effectively to discharge the duties of the position he or she occupied just prior to the occurrence of such Change in Control. For purposes of Section 10 only, termination shall be for “just cause” only if such termination is based on fraud, misappropriation or embezzlement on the part of the employee that results in a final conviction of a felony. Under no circumstances, however, shall any Option or Right be exercised beyond the expiration date of its original term.

(c) Any Right or portion thereof may be exercised for cash within the 60-calendar-day period following the occurrence of a Change in Control with settlement, except in the case of a Right

related to an Incentive Stock Option, based on the "Formula Price" that shall be the highest of (A) the highest composite daily closing price of the Stock during the period beginning on the 60th calendar day prior to the date on which the Right is exercised and ending on the date such Right is exercised, (B) the highest gross price paid for the Stock during the same period of time, as reported in a report on Schedule 13D filed with the Securities and Exchange Commission or (C) the highest gross price paid or to be paid for a share of Stock (whether by way of exchange, conversion, distribution upon merger, liquidation or otherwise) in any of the transactions set forth in the definition of "Change in Control" in the Retirement Plan.

(d) Upon the occurrence of a Change in Control, Limited Stock Appreciation Rights shall automatically be granted as to any Option with respect to which Rights are not then outstanding; provided, however, that Limited Stock Appreciation Rights shall be provided at the time of grant of any Incentive Stock Option subject to exercisability upon the occurrence of a Change in Control. Limited Stock Appreciation Rights shall entitle the holder thereof, upon exercise of such rights and surrender of the related Option or any portion thereof, to receive, without payment to the Company (except for applicable withholding taxes), an amount in cash equal to the excess, if any, of the Formula Price as that term is defined in Section 10 over the exercise price of the Stock as provided in such Option; provided that in the case of the exercise of any such Limited Stock Appreciation Right or portion thereof related to an Incentive Stock Option, the Fair Market Value of the Stock at the time of such exercise shall be substituted for the Formula Price. Each such Limited Stock Appreciation Right shall be exercisable only during the period beginning on the first business day following the occurrence of such Change in Control and ending on the 60th calendar day following such date and only to the same extent the related Option is exercisable. Upon exercise of a Limited Stock Appreciation Right and surrender of the related Option, or portion thereof, such Option, to the extent surrendered, shall not thereafter be exercisable.

(e) The restrictions applicable to Awards of Restricted Stock issued pursuant to Section 7 shall lapse upon the occurrence of a Change in Control and the Company shall issue stock certificates without a restrictive legend. Key Employees holding Restricted Stock on the date of a Change in Control may tender such Restricted Stock to the Company that shall pay the Formula Price as that term is defined in Section 10; provided, such Restricted Stock must be tendered to the Company within 60 calendar days of the Change in Control.

(f) If a Change in Control occurs during the course of a Performance Period applicable to an Award of Performance Shares pursuant to Section 6, then the Key Employee shall be deemed to have satisfied the Performance Objectives and settlement of such Performance Shares shall be based on the Formula Price, as defined in this Section 10.

## **11. Beneficiary**

The Beneficiary of a Key Employee shall be the Key Employee's estate, which shall be entitled to receive the Award, if any, payable under the Plan upon his or her death. A Key Employee may file with the Company a written designation of one or more persons as a Beneficiary in lieu of his or her estate, who shall be entitled to receive the Award, if any, payable under the Plan upon his or her death, subject to the enforceability of the designation under applicable law at that time. A Key Employee may from time-to-time revoke or change his or her Beneficiary designation, with or without the consent of any prior Beneficiary as required by applicable law, by filing a new designation with the Company. Subject to the foregoing, the last such designation received by the Company shall be controlling; provided, however, that no designation, or change or revocation thereof, shall be effective unless received by the Company prior to the Key Employee's death, and in no event shall it be effective as of a date prior to such receipt. If the Committee is in doubt as to the right of any person to receive such Award, the Company may retain such Award, without liability for any interest thereon, until the Committee determines the rights thereto, or the Company may pay such Award into any court of appropriate jurisdiction and such payment shall be a complete discharge of the liability of the Company therefore.

## **12. Administration of the Plan**

(a) Each member of the Committee shall be both a member of the Board, a “non-employee director” within the meaning of Rule 16b-3(b)(3)(i) under the Act or successor rule or regulation and an “outside director “ within the meaning of Section 162(m) of the Code.

(b) All decisions, determinations or actions of the Committee made or taken pursuant to grants of authority under the Plan shall be made or taken in the sole discretion of the Committee and shall be final, conclusive and binding on all persons for all purposes.

(c) The Committee shall have full power, discretion and authority to interpret, construe and administer the Plan and any part thereof, and its interpretations and constructions thereof and actions taken thereunder shall be, except as otherwise determined by the Board, final, conclusive and binding on all persons for all purposes.

(d) The Committee’s decisions and determinations under the Plan need not be uniform and may be made selectively among Key Employees, whether or not such Key Employees are similarly situated.

(e) The Committee may, in its sole discretion, delegate such of its powers as it deems appropriate; provided, however, that the Committee may not delegate its responsibility (i) to make Awards to executive officers of the Company; (ii) to make Awards that are intended to constitute “qualified performance-based compensation” under Section 162(m) of the Code; or (iii) to certify the satisfaction of Performance Objectives pursuant to Sections 6(d) or 9(e) in accordance with Section 162(m) of the Code. The Committee may also appoint agents to assist in the day-to-day administration of the Plan and may delegate the authority to execute documents under the Plan to one or more members of the Committee or to one or more officers of the Company.

(f) If a Change in Control has not occurred and if the Committee determines that a Key Employee has taken action inimical to the best interests of any Participating Company, the Committee may, in its sole discretion, terminate in whole or in part such portion of any Option (including any related Right) as has not yet become exercisable at the time of termination, terminate any Performance Share Award for which the Performance Period has not been completed or terminate any Award of Restricted Stock for which the Restriction Period has not lapsed.

## **13. Amendment, Extension or Termination**

The Board may, at any time, amend or terminate the Plan and, specifically, may make such modifications to the Plan as it deems necessary to avoid the application of Section 162(m) of the Code and the Treasury regulations issued thereunder. However, no amendment shall, without approval by a majority of the Company’s stockholders, (a) alter the group of persons eligible to participate in the Plan, (b) except as provided in Section 14 increase the maximum number of shares of Stock that are available for Awards under the Plan, or (c) except for adjustments pursuant to Section 14 or as otherwise provided for in the Plan, decrease the Option price for any outstanding Option after the date the Option is granted or accept the surrender of any outstanding Option as consideration for the grant of a new Option with a lower price than the Option being surrendered. If a Change in Control has occurred, no amendment or termination shall impair the rights of any person with respect to a prior Award.

## **14. Adjustments in Event of Change in Common Stock**

In the event of any recapitalization, reclassification, split-up or consolidation of shares of Stock or stock dividend, merger or consolidation of the Company or sale by the Company of all or a portion of its assets, the Committee may make such adjustments in the Stock subject to Awards, including Stock subject to purchase by an Option, or the terms, conditions or restrictions on Stock or Awards, including the price payable upon the exercise of such Option, as the Committee deems equitable. With respect to Awards intended to

qualify as “performance-based compensation” under Section 162(m) of the Code, such adjustments shall be made only to the extent that the Committee determines that such adjustments may be made without a loss of deductibility for such Awards under Section 162(m) of the Code.

**15. Forfeiture of Gains on Exercise.** Except following a Change in Control, if the Key Employee terminates employment in breach of any covenants and conditions subsequent set forth in Section 16 and becomes employed by a competitor of the Company within one year after the date of exercise of any Option or the receipt of any Award, the Key Employee shall pay to the Company an amount equal to any gain from the exercise of the Option or the value of the Award other than Options, in each case measured by the amount reported as taxable compensation to the Key Employee by the Company for federal income tax purposes and in the case of Options that are incentive stock options, in an amount equal to the amount that would have been reported as taxable income were such Options not incentive stock options, and in each case without regard to any subsequent fluctuation in the market price of the shares of common stock of the Company. Any such amount due hereunder shall be paid by the Key Employee within thirty days of becoming employed by a competitor. By accepting an Option or other Award hereunder, the Key Employee is authorizing the Company to withhold, to the extent permitted by law, the amount owed to the Company hereunder from any amounts that the Company may owe to the Key Employee in any capacity whatsoever.

**16. Conditions Subsequent.** Except after a Change in Control, the exercise of any Option or Right and the receipt of any Award shall be subject to the satisfaction of the following conditions subsequent: (i) that Key Employee refrain from engaging in any activity that in the opinion of the Committee is competitive with any activity of the Company or any Subsidiary, excluding any activity undertaken upon the written approval or request of the Company, (ii) that Key Employee refrain from otherwise acting in a manner inimical or in any way contrary to the best interests of the Company, and (iii) that the Key Employee furnish the Company such information with respect to the satisfaction of the foregoing conditions subsequent as the Committee shall reasonably request. In addition, except as may otherwise be excused by action of the Committee, the Key Employee by the exercise of the Option or the receipt of the Award agrees to remain in the employ of the Company, unless earlier terminated by the Company or by the Key Employee by reason of his or her death, disability or retirement.

#### **17. Miscellaneous**

(a) Except as provided in Section 10, nothing in this Plan or any Award granted hereunder shall confer upon any employee any right to continue in the employ of any Participating Company or interfere in any way with the right of any Participating Company to terminate his or her employment at any time. No Award payable under the Plan shall be deemed salary or compensation for the purpose of computing benefits under any employee benefit plan or other arrangement of any Participating Company for the benefit of its employees unless the Company shall determine otherwise. No Key Employee shall have any claim to an Award until it is actually granted under the Plan. To the extent that any person acquires a right to receive payments from the Company under this Plan, such right shall be no greater than the right of an unsecured general creditor of the Company. All payments to be made hereunder shall be paid from the general funds of the Company and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts except as provided in Section 7(e) with respect to Restricted Stock.

(b) The Committee may cause to be made, as a condition precedent to the payment of any Award, or otherwise, appropriate arrangements with the Key Employee or his or her Beneficiary, for the withholding of any federal, state, local or foreign taxes.

(c) The Plan and the grant of Awards shall be subject to all applicable federal and state laws, rules, and regulations and to such approvals by any government or regulatory agency as may be required.

(d) The terms of the Plan shall be binding upon the Company and its successors and assigns.

(e) Captions preceding the sections hereof are inserted solely as a matter of convenience and in no way define or limit the scope or intent of any provision hereof.

(f) To the extent Awards issued under the Plan are intended to be exempt from the application of Section 162(m) of the Code, which restricts under certain circumstances the Federal income tax deduction for compensation paid by a public company to named executives in excess of \$1 million per year, the Committee may, without stockholder approval, amend the Plan retroactively or prospectively to the extent it determines necessary in order to comply with any subsequent clarification of Section 162(m) of the Code required to preserve the Company's Federal income tax deduction for compensation paid pursuant to the Plan.

#### **18. Effective Date, Term of Plan and Shareholder Approval**

The effective date of the Plan is January 1, 2004. The Plan will continue in effect for existing Awards as long as any such Award is outstanding. Unless the Company determines otherwise, Section 6 and 9 of the Plan and the definition of "Performance Goal" shall be submitted to the Company's stockholders at the first stockholder meeting that occurs in the fifth year following the year in which the Plan was last approved by stockholders (or any earlier meeting designated by the Board), in accordance with the requirements of Section 162(m) of the Code.

#### **FEDERAL INCOME TAX TREATMENT**

The following is a brief summary of the current Federal income tax rules generally applicable to options, stock appreciation rights, performance shares and restricted stock. Recipients of Awards and Substitute Stock Options should consult their own tax advisors as to the specific Federal, state and local tax consequences applicable to them.

#### **A. Options and Stock Appreciation Rights**

Options granted under the Plan may be either non-qualified options or "incentive stock options" qualifying under Section 422 of the Internal Revenue Code. The Substitute Stock Options are non-qualified options.

##### *Non-qualified Options*

An optionee is not subject to Federal income tax upon grant of a non-qualified option. At the time of exercise, the optionee will realize compensation income (subject to withholding) to the extent that the then fair market value of the stock exceeds the option price. The amount of such income will constitute an addition to the optionee's tax basis in the optioned stock. Sale of the shares will result in capital gain or loss (long-term or short-term depending on the optionee's holding period). Rayonier is entitled to a Federal tax deduction at the same time and to the same extent that the optionee realizes compensation income.

##### *Incentive Stock Options ("ISOs")*

Options under the Plan denominated as ISOs are intended to constitute incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended. An optionee is not subject to Federal income tax upon either the grant or exercise of an ISO. If the optionee holds the shares acquired upon exercise for at least one year after issuance of the optioned shares and until at least two years after grant of the option, then the difference between the amount realized on a subsequent sale or other taxable disposition of the shares and the option price will constitute long-term capital gain or loss. To obtain favorable tax treatment, an ISO must be exercised within three months after termination of employment (other than by retirement, disability, or

death) with Rayonier or subsidiary. To obtain favorable tax treatment, an ISO must be exercised within three months of retirement or within one year of cessation of employment for disability (with no limitation in the case of death), notwithstanding any longer exercise period permitted under the terms of the Plan. Rayonier will not be entitled to a Federal tax deduction with respect to the grant or exercise of the ISO.

If the optionee disposes of the shares acquired under an ISO before the requisite holding period, he or she will be deemed to have made a “disqualifying disposition” of the shares and will realize compensation income in the year of disposition equal to the lesser of the fair market value of the shares at exercise or the amount realized on their disposition over the option price of the shares. (However, if the disposition is by gift or by sale to a related party, the compensation income must be measured by the value of the shares at exercise over the option price.) Any gain recognized upon a disqualifying disposition in excess of the ordinary income portion will constitute either short-term or long-term capital gain. In the event of a disqualifying disposition, Rayonier will be entitled to a Federal tax deduction in the amount of the compensation income realized by the optionee.

The option spread on the exercise of an ISO is an adjustment in computing alternative minimum taxable income. No adjustment is required, however, if the optionee made a disqualifying disposition of the shares in the same year as he or she is taxed on the exercise.

#### *Stock Appreciation Rights (“SARs”)*

SARs may be awarded to officers and directors of Rayonier subject to Section 16(b) of the Securities Exchange Act of 1934 with respect to both incentive stock options and non-qualified options granted under the Plan. An optionee is not taxed upon the grant of SARs. An optionee exercising SARs for cash will realize compensation income (subject to withholding) in the amount of the cash received. Rayonier is entitled to a tax deduction at the same time and to the same extent that the optionee realizes compensation income.

### **B. Performance Shares**

A recipient of performance shares generally will realize compensation income (subject to withholding) when and to the extent that payment is made, whether in the form of cash or shares of Rayonier Common Shares. To the extent that payment is made in the form of stock, income shall be measured by the then fair market value of the shares, which shall constitute an addition to the recipient’s tax basis in such shares. Rayonier will be entitled to a Federal tax deduction for the value of payment at the time of payment.

### **C. Restricted Stock**

A recipient of restricted stock generally will realize compensation income (subject to withholding) when and to the extent that the restrictions on the shares lapse, as measured by the value of the shares at the time of lapse. The recipient’s holding period for the shares will not commence until the date of lapse, and dividends paid during the restriction period will be treated as compensation. The income realized on lapse of the restrictions will constitute an addition to the recipient’s tax basis in the shares.

In lieu of deferred recognition of income, the recipient may file an election with the Internal Revenue Service, within 30 days of award, to realize compensation income at the time of award, as measured by the fair market value of the stock on the date of award determined without regard to the restrictions. The income realized will constitute an addition to the tax basis of the shares. In the case of such election, any appreciation

(or depreciation) on the shares during the restriction period will give rise to capital gain (or capital loss). In the event that the recipient terminates employment during the restriction period and forfeits his or her shares, no deduction may be claimed and the taxes paid on award of the shares shall be forfeited.

Rayonier will be entitled to a Federal tax deduction at the same time and to the same extent that the recipient realizes compensation income.

## [2004 Plan: Form of Non-Qualified Stock Option Award Agreement]

Number: \_\_\_\_\_

**RAYONIER 2004 INCENTIVE STOCK AND MANAGEMENT BONUS PLAN**  
**NON-QUALIFIED STOCK OPTION AWARD AGREEMENT**  
 (Form A – 3-Year Vesting)

THIS AGREEMENT, made as of the \_\_\_\_\_ day of \_\_\_\_\_ 20\_\_, by and between Rayonier Inc. (the “Company”) and the undersigned individual (the “Optionee”), pursuant to the Rayonier 2004 Incentive Stock and Management Bonus Plan (the “Plan”). (Terms not defined herein have the same meaning as in the Plan.)

WHEREAS, the Optionee is a Key Employee of the Company and the Company through the Plan’s Committee has approved the grant of Non-Qualified Stock Options under the Plan to the Optionee.

NOW, THEREFORE, in consideration of the Terms and Conditions of this Agreement and pursuant to the Plan, the parties agree as follows:

1. Grant of Options. The Company hereby grants to the Optionee the right and option to purchase from the Company, at the exercise price set forth in Section 3 below, all or any part of the aggregate number of common shares of the Company, as such Common Shares are presently constituted (the “Common Shares”), set forth in said Section 3.
2. Terms and Conditions. It is understood and agreed that the Option evidenced hereby is subject to the provisions of the Plan (which are incorporated herein by reference) and the following Terms and Conditions:
  - a. Expiration Date. The Option evidenced hereby shall expire on the date specified in Section 3 below.
  - b. Exercise of Option. The Option evidenced hereby shall be exercisable from time to time by submitting an appropriately completed “Notice of Exercise” form referred to below addressed as follows:
 

Rayonier  
 Stock Option Administration  
 50 North Laura Street  
 Jacksonville, Florida 32202  
 Telephone: 1-904-357-9171/9172  
 or send via fax to 1-904-357-9852

    - (1) Cash Only Exercise - submit a “Notice of Cash Exercise”, together with the full cash exercise price; or
    - (2) Cashless Exercise - submit an “Irrevocable Letter of Instruction and Cashless Exercise and Sale Form” authorizing the delivery for sale of the exercised Common Shares (call 1-800-255-8282 to reach the BNY Personal Brokerage Help line); or.
    - (3) Combination - tender a combination (1) and (2) above.
  - c. Withholding Taxes. Without regard to the method of exercise and payment, the Optionee shall pay to the Company, upon notice of the amount due, any withholding taxes payable with respect to such exercise.

[2004 Plan: Form of Non-Qualified Stock Option Award Agreement]

- d. Exercise Schedule - The Option granted hereby shall become exercisable only after one year of the Optionee's continuous employment with the Company immediately after the date of grant and may be exercised thereafter at any time, or from time to time, but only to the extent of one-third of the total number of shares covered by the Option under this Agreement after the first anniversary of such grant, only to the extent of two-thirds of such total number of shares after the second anniversary thereof, and in full only after the third anniversary thereof, and in any event only during the continuance of the Optionee's said employment.
- e. Compliance with Laws and Regulations. The Option evidenced hereby is subject to restrictions imposed at any time on the exercise or delivery of shares in violation of the By-Laws of the Company or of any law or governmental regulation that the Company may find to be valid and applicable.
- f. Interpretation. Optionee acknowledges that this Agreement is governed by the Plan, a copy of which Optionee hereby acknowledges having received, and by such administrative rules and regulations relative to the Plan and not inconsistent therewith, as may be adopted and amended from time by the Committee (the "Rules"). Optionee agrees to be bound by the terms and provisions of the Plan and the Rules, the terms of which are incorporated here in by reference.
- g. Transfer Restrictions. In addition to the restrictions on transferability imposed by the Plan, this Option is not transferable other than by will or the laws of descent and distribution or pursuant to a qualified domestic relations order as defined in the Internal Revenue Code of 1986, as amended, or Title I of the Employee Retirement Income Security Act, or the rules thereunder.

3. Option Data

Optionee's Name	_____
Number of Common Shares Subject to this Option	_____
Exercise Price Per Share	\$____.00
Expiration Date	_____, 20____

- 4. Governing Law. This Agreement is issued, and the Option evidenced hereby is granted, in Jacksonville, Florida, and shall be governed and construed in accordance with the laws of the State of Florida.

IN WITNESS WHEREOF, the Company has caused this instrument to be executed by its authorized officer, the day and year first above written.

Agreed to: Rayonier Inc.

Optionee		By: _____
Date: _____		John P. O'Grady Senior Vice President Administration

**[2004 Plan: Form of Restricted Stock Agreement]****Rayonier 2004 Incentive Stock and Management Bonus Plan  
Restricted Share Award Agreement**

This Award Agreement is entered into by and between Rayonier Inc., a corporation organized under the laws of the State of North Carolina with its principal office at 50 North Laura Street (the "Company"), and the undersigned qualified individual ("Key Employee"), pursuant to the Rayonier 2004 Incentive Stock and Management Bonus Plan (the "Plan").

## W I T N E S S E T H :

WHEREAS, the Compensation and Management Development Committee of the Company's Board of Directors, in its capacity as the Committee under the Plan (the "Committee"), desires to advance the best interests of the Company by recognizing the achievements of the Key Employee and his continued responsibilities and providing him with an additional incentive to remain in the employ of the Company;

WHEREAS, by Resolution dated \_\_\_\_\_, 20\_\_, the Committee has expressed an intention to grant to Key Employee Common Shares of the Company (the "Shares"), with such Shares to vest on \_\_\_\_\_, 20\_\_, provided he remains continuously employed by the Company from the date of this Award Agreement through the vesting date, subject to the provisions hereof and of the Plan; and

WHEREAS, this Award Agreement is being entered into to convey Award of the Shares to Key Employee.

NOW THEREFORE, in consideration of the mutual promises made herein, the parties agree as follows:

**1. Definitions**

All capitalized terms not expressly defined in this Award Agreement and used herein shall have the same meaning set forth in the Plan, a copy of which is attached hereto as Exhibit A.

**2. Award of Shares; Vesting**

(a) Key Employee is hereby awarded the number of Shares identified at Section 6 below, subject to the terms of this Award Agreement, effective \_\_\_\_\_, 20\_\_.

(b) Vesting. Key Employee shall become vested with respect to, and thereupon have a non-forfeitable right to, the Shares granted pursuant to Section 2(a) on \_\_\_\_\_, 20\_\_ (the "Vesting Date"), provided that Key Employee shall have remained continuously in the employ of the Company (or any Participating Company) from the date hereof through the Vesting Date.

(c) Termination of Employment. If Key Employee's employment is terminated for any reason before the Vesting Date, then all of the Shares subject to this Award Agreement shall immediately be forfeited to the Company, and Key Employee shall have no further rights to such Shares from and after the date of such termination.

## [2004 Plan: Form of Restricted Stock Agreement]

(d) Committee Discretion; Death. Notwithstanding the Vesting Date, the Committee may, in its sole discretion, accelerate the time at which any or all of the Shares awarded hereunder shall vest if it deems such action appropriate. In the event of the death of Key Employee on or before the Vesting Date while Key Employee is employed by the Company (or any Participating Company), all of the Shares shall be deemed immediately vested.

### 3. Restricted Shares

(a) Sale; Exchange, etc. Key Employee acknowledges and agrees that prior to the Vesting Date the Shares are subject to a restriction against sale, exchange, hypothecation, assignment, transfer (including by gift), pledge or other encumbrance, without the prior written consent of the Committee, which consent shall require of the proposed transferee an undertaking to be bound by the terms of this Award Agreement, including the forfeiture upon the termination of the employment of Key Employee before the Vesting Date.

(b) Shareholder Rights. Subject to the vesting requirements provided for herein, Key Employee, as the owner of Shares granted hereunder, shall have all the rights of a shareholder, including but not limited to, the right to vote such Shares and, subject to Section 3(c) below, the right to receive all dividends declared or paid on such Shares.

(c) Dividends. All dividends paid on the Shares Granted to Key Employee under this Award Agreement, or on Shares issued as a dividend with respect to the Shares so granted, shall be withheld and accumulated by the Company until such time as Key Employee shall become vested with respect to the granted Shares. Upon the vesting of the Shares granted hereunder, the Company shall pay to Key Employee, within fifteen (15) days thereof, an amount equal to all dividends paid solely or partly in cash and accumulated with respect to the Shares then vesting, together with interest thereon at a rate equal to prime rate as reported in the Wall Street Journal, adjusted and compounded annually. With respect to dividends paid in the form of additional Shares, upon vesting of the Shares granted hereunder, the Company shall deliver to Key Employee certificates representing any such dividended Shares free of the legend described in Section 3(e).

Insofar as this Section 3(c) provides for payments to Key Employee in cash, this obligation shall be unfunded. Although bookkeeping accounts may be established with respect to Key Employee by virtue of the operations of this Section 3(c), any such accounts are merely a bookkeeping convenience. Any liability of the Company to Key Employee shall be based solely upon the contractual obligation arising under this Award Agreement.

(d) Withholding. Upon the vesting of the Shares, or at any other time when withholding is required under the Code, the Company shall have the right to require Key Employee to pay to the Company the amount of taxes that the Company is required to withhold or, in lieu thereof, to retain, or sell without notice, a sufficient number of Shares held by it for Key Employee to cover the amount required to be withheld. The Company may deduct from all dividends paid with respect to Shares granted hereunder the amount of taxes, if any, that the Company is required to withhold with respect to such dividend payments to Key Employee. The Key Employee may make an election to be taxed currently as of the effective date of this Agreement by timely filing an election under Section 83(b) of the Internal Revenue Code of 1986, as amended and providing the Company with a copy of said election.

(e) Escrowed Share Certificates; Legend. Each certificate in respect of Shares granted pursuant to this Award Agreement or paid in dividends on Shares so granted shall be registered in the name of

## [2004 Plan: Form of Restricted Stock Agreement]

Key Employee, but shall be retained by the Company on behalf of Key Employee, together with a stock power endorsed in blank, until such time as the Shares represented thereby have vested. Key Employee (and any consented-to transferee) shall execute such additional stock powers as may be required from time to time hereunder. All certificates representing the Shares shall bear the following legend:

“The transferability of this certificate and the Shares represented hereby are subject to terms and conditions, including forfeiture, contained in a Rayonier 1994 Incentive Stock Plan Restricted Share Award Agreement between the owner hereof and Rayonier Inc. Copies of such Award Agreement are on file in the office of the Secretary of Rayonier Inc.”

The certificates shall be maintained by the Secretary of the Company for safekeeping prior to the Vesting Date. Certificates for Shares shall be delivered to Key Employee, free of the legend described above, within fifteen (15) days after the Vesting Date.

(f) Acceleration Events. The restrictions applicable to the Award of Restricted Shares made pursuant to this Agreement shall lapse upon the occurrence of an Acceleration Event (as described in Section 9 of the Plan), and the Company shall issue stock certificates without a restrictive legend to Key Employee upon the occurrence of such an event.

If Key Employee shall hold Restricted Stock on the date of an Acceleration Event, Key Employee may tender such Restricted Stock to the Company, and the Company shall pay the Formula Price (as defined in Section 9 of the Plan); provided such Restricted Stock shall have been tendered to the Company within sixty (60) calendar days of the Acceleration Event.

(g) Reorganization. Except in the case of an Acceleration Event, in the event of any recapitalization, reclassification, split up or consolidation of Shares, or stock dividend, merger or consolidation of the Company or sale by the Company of all or a portion of its assets, the Committee may make such adjustments in the number of Shares, or the terms, conditions or restrictions on the Shares as the Committee deems equitable.

#### 4. Conformity with Securities Laws

The grant of Shares hereunder (and any transfers thereof) are subject to compliance with all applicable securities laws. Key Employee hereby represents to the Company that Key Employee is acquiring the Shares for investment and not with a view to the distribution thereof and that Key Employee has had full and complete access to the financial statements of the Company and to the Company's senior management. The certificates representing Shares issued by the Company pursuant to this Award Agreement may bear a legend describing the restrictions on resale thereof under applicable securities laws, and stop transfer orders with respect to such certificates may be entered in the stock transfer records of the Company.

#### 5. Miscellaneous

(a) Assignments and Transfers. The rights and interests of Key Employee under this Award Agreement may not be assigned, encumbered or transferred.

**[2004 Plan: Form of Restricted Stock Agreement]**

(b) No Right to Employment. Neither this Award Agreement nor any action taken hereunder shall be construed as giving Key Employee any right to be retained in the employ of any Participating Company.

(c) Applicable Law. The interpretation of the provisions hereof shall be governed by the laws of the State of Florida.

(d) Headings. The headings contained in this Award Agreement are inserted for convenience of reference only and are not intended to be part of or to affect the meaning or interpretation of this Agreement.

(e) Consistency with the Plan. This Award Agreement is subject to all the provisions of the Plan. It is expressly agreed and understood that in the case of any inconsistency between the provisions of this Award Agreement and the Plan, the provisions of the Plan shall control.

**6. Number of Shares**

The number of shares awarded hereunder, and subject to this Award Agreement, is \_\_\_\_\_.

IN WITNESS WHEREOF, the undersigned have caused this Award Agreement to be executed and delivered as of the \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

KEY EMPLOYEE

RAYONIER INC.

By

\_\_\_\_\_

\_\_\_\_\_

Name:  
Address:

W. L. Nutter  
Chairman, President & CEO

**2004 Rayonier Incentive Stock and Management Bonus Plan**RULES ADOPTED BY THE  
COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE  
RELATING TO GRANTING OF PERFORMANCE SHARES

The following are the rules and regulations (the "Rules") adopted by the Compensation and Management Development Committee (the "Committee") of the Board of Directors of Rayonier Inc. ("Rayonier") for the administration of Performance Share Awards under the provisions of the 2004 Rayonier Incentive Stock and Management Bonus Plan (the "Plan"). The Rules have been adopted in accordance with sections 4, 6 and 12(c) of the Plan. Any or all of the Rules may be amended or suspended by the Committee at any time without prior notification to the Plan participants. In the event of any conflict between the provisions of these Rules and the Plan, the Plan shall prevail.

1. Participation in the Performance Share Award program is restricted to select Rayonier executives in Salary Grade 23 and above. At the time of award, the participant will be issued a Notice evidencing the grant of a Performance Share Award and the criteria to be used to calculate the ultimate payment value of the award upon vesting. The amount of the Performance Share Award cited in such Notice shall represent the number of Performance shares awarded and the Share Award Valuation Formula. Such valuation shall be a function of Rayonier Total Shareholder Return ("TSR") as measured against the quintile performance ranking to that of a targeted peer group of companies for the designated performance period. The Committee reserves the right to add, delete or substitute a company in the list of peer group companies at any time, if for any reason it determines that such a change is appropriate to reflect the goals of the Performance Share Award program. Without limiting the scope of the foregoing, the Committee may remove a company from the peer group of companies if the Committee determines that the share price of the stock of that company has become too volatile or reflects unusual activity, such as a tender offer or sale of significant assets or otherwise is inappropriate to continue to be included in the peer group of companies.
2. Only active, full-time continuous service from the date of award through the Vesting Date shall be considered for the purposes of vesting, except that should a grantee die, become totally and permanently disabled or retire after the award, but prior to the Vesting Date, vesting and payment with respect to a particular Class Year award then remaining unvested, shall be prorated, based upon the number of full months lapsed since the date of the Award. Prorata payment of the final Award values, if any, will be based upon the final payment value of the Award applicable for all participants, as determined on the regularly scheduled Vesting Date for the particular Class Year Award.
3. In the event of voluntary termination of employment, other than for death, permanent disability or retirement, as described above, and involuntary termination for other than just cause, the provisions of sections 6(e) and (f) of the Plan, relative to termination events, shall apply.
4. Notwithstanding the foregoing, the Committee, as requested by management, reserves the right to determine vesting and payment in cases involving unusual and special circumstances on an individual basis.

These rules and regulations were adopted by the Committee at their meeting of December 11, 2003 and will apply to all 2004 awards granted and to future awards, and may be changed at any time by the Committee.

**RETENTION AGREEMENT**

This RETENTION AGREEMENT (this "Agreement") is made as of the 31<sup>st</sup> day of December, 2003 by Rayonier Inc., a North Carolina corporation having its principal office at 50 North Laura Street, Jacksonville, Florida 32202-3638 (the "Company"), and Paul G. Boynton (the "Executive").

**WITNESSETH**

**WHEREAS**, the Executive has been and continues to be employed by the Company as a senior executive and has made and is expected to continue to make major contributions to the business of the Company;

**WHEREAS**, in connection with the Company's conversion to a real estate investment trust ("REIT") as of the end of the calendar year, some of the Company's business operations have been transferred to a wholly-owned subsidiary of the Company and the Company may over time have one or more such operating subsidiaries (as defined below, each an "Operating Subsidiary");

**WHEREAS**, the Executive would be eligible for certain payments and benefits under the Company's Supplemental Senior Executive Severance Pay Plan, effective June 1, 1997 (the "Supplemental Severance Plan"), in the event of certain terminations of employment in the event of a Change of Control of the Company which benefits would not be available to Executive were there a termination of his employment in connection with a disposition of an Operating Subsidiary or of the division thereof for which he may be responsible at any time during the Term (as defined below, a "Disposition");

**WHEREAS**, the Company desires to encourage the Executive to remain as an employee of the Company without distraction in circumstances arising from the possibility of a Disposition and to establish certain minimum severance benefits in the event of a termination of his employment in connection with a Disposition in an amount measured by the payments he would have received under the Supplemental Severance Plan were he entitled to benefits thereunder.

**NOW, THEREFORE**, the Company and the Executive agree as follows:

1. Certain Defined Terms. Capitalized terms used herein and not defined shall have the meanings set forth in the Supplemental Severance Plan. In addition to terms elsewhere herein, the following terms shall have the following meanings when used in this Agreement with initial capital letters:

"Board" means the Board of Directors of the Company.

“Cause” and “Good Reason” have the same meaning as in the Supplemental Severance Plan but with respect to the employer of the Executive at the time of the applicable Termination or Qualifying Post-Disposition Termination.

“Company” means Rayonier Inc.

“Company Affiliate” means any person in control of or under common control with or controlled by the Company

“Disposition” means the closing during the Term of (i) a sale or other disposition of all or substantially all of the assets of an Operating Subsidiary, (ii) a sale of all of the Company’s capital stock in an Operating Subsidiary, (iii) a merger or consolidation of the Company or an Operating Subsidiary in which the Company does not retain a majority of the voting power in the surviving corporation, in the case of (i) or (ii) to a person other than a Company Affiliate. In addition, the term “Disposition” includes the commencement of negotiations by the Company or an Operating Subsidiary with any person that eventually conclude with the closing of one or more transactions described in (i), (ii) or (iii) with such person or an affiliate thereof; provided that, no amounts shall be due to the Executive hereunder unless the closing thereof occurs within the Term.

“Operating Subsidiary” means any corporation, limited liability company or operating unit of the Company, whether or not organized as a separate entity under state law, whose results may be separately stated on the Company’s financial statements and that employed the Executive prior to the Disposition.

“Qualifying Post-Disposition Termination” means a termination of the Executive’s employment by the Successor described in Section 3(d) prior to the six month anniversary of the Disposition where there was no prior Termination.

“Successor” means, following a Disposition, the owner of the Operating Subsidiary that employed Executive prior to the Disposition.

“Termination” means the termination of the Executive’s employment with the Company, an Operating Subsidiary or any Company Affiliate during the Term under circumstances where the Executive has not been offered a substantially similar position with the Successor.

2. Term of Agreement. This Agreement shall commence as of December 31, 2003, and shall continue in effect until December 31, 2006 (the “Term”). Upon expiration of the Term, this Agreement shall lapse and be of no further effect; *provided that*, if at the expiration of the Term, the Executive (a) shall be receiving or entitled to receive Retention Severance Benefits as a result of a Disposition, or (b) a Disposition shall have occurred but the period of time for a Qualifying Post-Disposition Termination shall not have lapsed, then this Agreement shall continue in effect until all payments of Retention Severance Benefits due as a result of such Disposition shall have been made.

### 3. Termination Upon a Disposition.

(a) Retention Severance Benefits. In the event of a Termination in connection with a Disposition or a Qualifying Post Disposition Termination, the Executive shall be entitled to an amount equal to the Separation Benefits for a Tier I Executive with at least 15 years of Service, calculated in the manner provided for in the Supplemental Severance Plan and except as otherwise provided in this Agreement, payable as provided therein (collectively the "Retention Severance Benefits"). Separation Benefits include for this purpose Scheduled Severance Pay and Additional Severance, and Additional Severance shall include Target Bonus Severance and Benefits Continuation Amounts, as such terms are defined in the Supplemental Severance Plan. Notwithstanding the foregoing, any and all Awards of Restricted Stock made to Executive pursuant to Section 7 of the 2004 Rayonier Incentive Stock and Management Bonus Plan shall not be included for any purpose in the calculation of Retention Severance Benefits (whether in the calculation of Scheduled Severance Pay or Additional Severance or otherwise).

(b) Coordination with Supplemental Severance Plan. Should the Executive at any time become entitled to benefits under the Supplemental Severance Plan, any amounts payable hereunder shall reduce on a dollar-for-dollar basis the amounts to which the Executive is entitled thereunder, but shall be deemed to have been paid pursuant thereto for all purposes. Except as provided in the previous sentence, amounts paid as Retention Severance Benefits hereunder shall not be deemed paid under the Supplemental Severance Plan for purposes of crediting more than two years of Benefit Service under the Retirement Plan for Salaried Employees of Rayonier Inc. If the Supplemental Severance Plan terminates for any reason during the Term or otherwise while amounts are due to Executive hereunder, the terms of the Supplemental Severance Plan as in effect immediately prior to such termination shall be deemed incorporated herein by reference to the extent applicable hereto.

(c) Salary Continuation Election. If Executive becomes entitled to Retention Severance Benefits and has not continued employment with a Successor, the Executive may elect to receive that portion of the Retention Severance Benefits that correspond to "Scheduled Severance Pay" as calculated under the Supplemental Severance Plan, as "Salary Continuation," to be paid to Executive according to the Company's regular payroll schedule (or at such other intervals elected by the Executive with the approval of the Company). If such election is made, the provisions of Sections 6 and 7 of the Supplemental Severance Plan shall apply as if they were a part of this Agreement, subject to the limitations of the second sentence of Section 3(b) hereof.

(d) Qualifying Post-Disposition Termination. If a Termination has not taken place because the Executive has been offered employment by the Successor and Executive has accepted such employment, then if the employment of the Executive by the Successor is terminated within six months of the date of the Disposition (by the Executive for Good Reason

or by the Successor other than for Cause), the Company shall pay to the Executive the Retention Severance Benefits as if a Termination had taken place on the date of the Disposition; provided that, in the event of such a Qualifying Post-Disposition Termination, the Executive shall not be entitled to make the salary continuation election provided in Section 3(c) above.

(e) No Gross-up. Notwithstanding the provisions of any other plan or agreement of the Company, the Retention Severance Benefit shall not be grossed-up for any tax or other amount, unless and to the extent the amounts paid are treated as Separation Benefits as provided in Section 3(b) and such amounts would otherwise have been subject to gross-up under the provisions of Section 9 of the Supplemental Severance Plan.

4. Termination For Cause. If prior to a Disposition the employment of the Executive is terminated (i) for Cause or otherwise by the Company or an Operating Subsidiary; or (ii) by reason of the Executive's death or Disability, this Agreement shall lapse and be of no further effect, and no Retention Severance Benefits shall be payable hereunder. Nothing herein shall be deemed to be a contract of employment or be deemed to entitle Executive to continued employment by the Company or any Company Affiliate.

5. Release. No amount of the Retention Severance Benefits will be provided under this Agreement unless the Executive executes and delivers to the Company a mutual release, satisfactory to the Company, in which the Executive discharges and releases the Company and the Company's directors, officers, employees, and employee benefit plans from all claims (other than for benefits to which the Executive is entitled under this Agreement or any Company employee benefit plan) arising out of the Executive's employment or Termination and the Company discharges and releases the Executive from any and all claims arising out of the Executive's employment or Termination of Employment with the Company.

6. Confidentiality. Prior to and during the Term, the Company has disclosed and will disclose to the Executive its confidential or proprietary information (as defined in this Section 6) to the extent necessary for the Executive to carry out his duties on behalf of the Company. The Executive hereby covenants and agrees that he will not, without the prior written consent of the Board, during the Term or thereafter disclose to any person not employed by the Company (other than in the good faith performance of his duties on behalf of the Company), or use in connection with engaging in competition with the Company, any confidential or proprietary information of the Company. For purposes of this Agreement, the term "confidential or proprietary information" will include all information of any nature and in any form that is owned by the Company and that is not publicly available or generally known to persons engaged in businesses similar or related to those of the Company. Confidential information will include, without limitation, the Company's financial matters, customers, employees, industry contracts, and all other secrets and all other information of a confidential or proprietary nature. The foregoing obligations imposed by this Section 6 will cease if such confidential or proprietary information will have become, through no fault of the Executive, generally known to the public or the Executive is required by law to make disclosure (after giving the Company notice and an opportunity to contest such requirement).

7. Specific Enforceability. The Executive acknowledges and agrees that the remedy at law available to the Company for breach of any of his post termination obligations under Sections 6 and 8 of this Agreement would be inadequate and that damages flowing from such a breach may not readily be susceptible to being measured in monetary terms. Accordingly, the Executive acknowledges, consents and agrees that, in addition to any other rights or remedies which the Company may have at law, in equity or under this Agreement, upon adequate proof of his violation of any such provision of this Agreement, the Company will be entitled to immediate injunctive relief and may obtain a temporary order restraining any threatened or further breach, without the necessity of proof of actual damage.

8. Post-termination Assistance. The Executive agrees that after his employment with the Company has terminated, he will provide, upon reasonable notice, such information and assistance to the Company as may reasonably be requested by the Company in connection with any audit, governmental investigation or litigation in which it or any of its affiliates is or may become a party; provided, however, that (i) the Company agrees to reimburse the Executive for any related out of pocket expenses, including travel expenses, and to pay the Executive reasonable compensation for his time and (ii) any such assistance may not unreasonably interfere with the then current employment of the Executive.

9. Taxes. The Company may withhold from any amounts payable under this Agreement all federal, state, local or foreign taxes as the Company is required to withhold pursuant to any law, regulation or ruling. The Executive shall bear all expense of, and be solely responsible for, all federal, state, local or foreign taxes due with respect to any payments or benefits received pursuant to this Agreement.

10. Survival. The provisions of Sections 6, 7 and 8 shall survive the termination of this Agreement.

11. Notices. For all purposes of this Agreement, all communications, including, without limitation, notices, consents, requests, or approvals, required or permitted to be given hereunder will be in writing and will be deemed to have been duly given when hand delivered or dispatched by electronic facsimile transmission (with receipt thereof orally confirmed), or two (2) business days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid, or one (1) business day after having been sent by a nationally recognized overnight courier service, addressed to the Company (to the attention of the General Counsel of the Company) at its principal executive office and to the Executive at his principal residence, or to such other address as either party may have furnished to the other in writing and in accordance herewith, except that notices of changes of address will be effective only upon receipt.

12. Governing Law. The validity, interpretation, construction, and performance of this Agreement shall be governed by and construed in accordance with the substantive laws of the State of Florida, without giving effect to the principles of conflict of laws of such State, to the extent not preempted by applicable federal law.

13. Arbitration. Any controversy, dispute, or claim arising out of, in connection with, or in relation to, the interpretation, performance or breach of this Agreement, including, without limitation, the validity, scope, and enforceability of this Section, shall be settled by binding arbitration conducted in Jacksonville, Florida in accordance with the then existing rules for the arbitration of commercial disputes of the American Arbitration Association, or any successor organization. Judgment upon any award rendered by the arbitrator(s) may be entered by the State or Federal Court having jurisdiction thereof. Any of the parties may demand arbitration by written notice to the other and to the American Arbitration Association (“Demand for Arbitration”). Any Demand for Arbitration pursuant to this Section shall be made within 180 days from the date that the dispute upon which the demand is based arose. The arbitrators may only award compensatory damages and are specifically not empowered to award punitive damages. The parties hereto intend that this Agreement to arbitrate be valid, enforceable and irrevocable without the written consent of all the parties hereto.

14. Entire Agreement. The terms of this Agreement are intended by the parties to be the final expression of their agreement with respect to the Executive’s retention and severance benefits and may not be contradicted by evidence of any prior or contemporaneous agreement (including, but not limited to, the Supplemental Severance Plan). Except as specifically provided for herein, any such prior or contemporaneous agreement shall be deemed superseded by this Agreement and shall be considered by the parties hereto as null and void. Except as specifically provided in Sections 3(b) hereof, nothing in this Agreement shall be interpreted to modify the rights and benefits to which Executive may be entitled under the Supplement Severance Plan at any time or from time to time, without regard to the existence of this Agreement. The parties further intend that this Agreement will constitute the complete and exclusive statement of its terms and that no extrinsic evidence whatsoever may be introduced in any judicial, administrative or other legal proceeding to vary the terms of this Agreement. In the event of the termination of the Supplemental Severance Plan, the terms thereof necessary for the calculation of amounts provided for herein shall be deemed incorporated herein by reference for that sole purpose.

15. Severability. Any provision of this Agreement that is deemed invalid, illegal or unenforceable in any jurisdiction will, as to that jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability, without affecting in any way the remaining provisions hereof in such jurisdiction or rendering that or any other provisions of this Agreement invalid, illegal, or unenforceable in any other jurisdiction. If any covenant should be deemed invalid, illegal or unenforceable because its scope (including but not limited to term and geographic area) is considered excessive, such covenant will be modified so that the scope of the covenant is reduced only to the minimum extent necessary to render the modified covenant valid, legal and enforceable.

16. Waiver. Failure by either party hereto to insist upon strict adherence to any one or more of the covenants or terms contained herein, on one or more occasions, shall not be construed to be a waiver nor will it deprive such party of the right to require strict compliance with the same thereafter.

17. Amendments. No amendments hereto, or waivers or releases of obligations or liabilities hereunder, shall be effective unless agreed to in writing by all parties hereto.

18. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument.

**IN WITNESS WHEREOF**, the parties hereto have caused this Agreement to be executed effective as of the date first written above.

**RAYONIER INC.**

By: /s/ John P. O'Grady

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John P. O'Grady  
Senior Vice President, Administration

/s/ Paul G. Boynton

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Paul G. Boynton

**Rayonier Inc. and Subsidiaries**  
**Ratio of Earnings to Fixed Charges**  
(Unaudited, thousands of dollars)

	Year Ended December 31,				
	2003	2002	2001	2000	1999
<b>Earnings:</b>					
Net Income	\$ 49,972	\$ 54,172	\$ 57,598	\$ 78,187	\$ 68,653
<b>Add:</b>					
(Income) / loss from discontinued operations	—	745	(688)	(669)	(84)
Income tax	5,806	14,880	23,747	29,398	29,082
Amortization of capitalized interest	2,501	2,531	2,625	2,578	2,308
	<u>58,279</u>	<u>72,328</u>	<u>83,282</u>	<u>109,494</u>	<u>99,959</u>
<b>Adjustments to earnings for fixed charges:</b>					
Interest and other financial charges	48,742	62,433	70,314	87,199	43,705
Interest factor attributable to rentals	288	823	1,633	1,362	1,367
	<u>49,030</u>	<u>63,256</u>	<u>71,947</u>	<u>88,561</u>	<u>45,072</u>
<b>Earnings as adjusted</b>	<b>\$ 107,309</b>	<b>\$ 135,584</b>	<b>\$ 155,229</b>	<b>\$ 198,055</b>	<b>\$ 145,031</b>
<b>Fixed Charges:</b>					
Fixed charges above	\$ 49,030	\$ 63,256	\$ 71,947	\$ 88,561	\$ 45,072
Capitalized interest	—	—	—	—	314
<b>Total fixed charges</b>	<b>\$ 49,030</b>	<b>\$ 63,256</b>	<b>\$ 71,947</b>	<b>\$ 88,561</b>	<b>\$ 45,386</b>
<b>Ratio of earnings as adjusted to total fixed charges</b>	<b>2.19</b>	<b>2.14</b>	<b>2.16</b>	<b>2.24</b>	<b>3.20</b>
<b>Effective tax rate</b>	<b>10%</b>	<b>21%</b>	<b>29%</b>	<b>28%</b>	<b>30%</b>

Subsidiaries of Rayonier Inc.  
as of 12/31/2003

<u>Name of Subsidiary *</u>	<u>State/Country of Incorporation/Organization</u>
EAM Corporation	Delaware
Forestal Rayonier Chile Ltd	Delaware
RAYAD, Inc.	Delaware
Rayland, LLC	Delaware
Rayonier Australia Pty Ltd.	South Australia
Rayonier Canada Ltd.	Yukon Territory, Canada
Rayonier China Limited	Delaware
Rayonier de Mexico, S.A. de C.V.	Mexico
Rayonier Distribution Corp.	Delaware
Rayonier Far East Ltd.	Delaware
Rayonier Foreign Sales Corporation	U.S. Virgin Islands
Rayonier Forest Management, Inc.	Delaware
Rayonier Forest Operations, LLC	Delaware
Rayonier Forest Properties, LLC	Delaware
The Rayonier Foundation	New York
Rayonier International Financial Services Limited	New Zealand
Rayonier Industries Ltd.	New York
Rayonier Forest Resources, L.P.	Delaware
Rayonier HB Limited	New Zealand
Rayonier MDF New Zealand	New Zealand
Rayonier NZ Holdings Limited	New Zealand
Rayonier NZ Management Limited	New Zealand
Rayonier New Zealand Limited	New Zealand
Rayonier New Zealand Services Company	Delaware
Rayonier Performance Fibers, LLC	Delaware
Rayonier Products and Financial Services Company	Delaware
Rayonier Properties, LLC	Delaware
Rayonier Singapore Limited	Delaware
Rayonier Timberlands, L.P.	Delaware
Rayonier Timberlands Management, LLC	Delaware
Rayonier Wood Procurement, LLC	Delaware
Rayonier Wood Products, LLC	Delaware
REMI Environmental, Inc.	Delaware
RLA Trading Corporation	Delaware
Southern Wood Piedmont Company	Delaware
Taiga, Ltd.	Delaware

\* Each of these subsidiaries may conduct business under the name "Rayonier".

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement No. 333-52857 of Rayonier Inc. and subsidiaries on Form S-3 of our report dated March 2, 2004 appearing in this Annual Report on Form 10-K of Rayonier Inc. and subsidiaries for the year ended December 31, 2003.

DELOITTE & TOUCHE LLP

Jacksonville, Florida

March 8, 2004

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints Hans E. Vanden Noort, Michael R. Herman and W. Edwin Frazier, III his true and lawful attorneys-in-fact, with full power in each to act without the other and with full power of substitution and resubstitution, to sign in the name of such person and in each of his offices and capacities with Rayonier Inc. (the "Company"), the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, together with any amendments thereto, and to file same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission.

Dated: February 19, 2004

/s/ Rand V. Araskog

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Rand V. Araskog

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints Hans E. Vanden Noort, Michael R. Herman and W. Edwin Frazier, III his true and lawful attorneys-in-fact, with full power in each to act without the other and with full power of substitution and resubstitution, to sign in the name of such person and in each of his offices and capacities with Rayonier Inc. (the "Company"), the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, together with any amendments thereto, and to file same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission.

Dated: February 20, 2004

/s/ Ronald M. Gross

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Ronald M. Gross

POWER OF ATTORNEY

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Dated: February 16, 2004

/s/ Paul G. Kirk, Jr.

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Paul G. Kirk, Jr.

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints Hans E. Vanden Noort, Michael R. Herman and W. Edwin Frazier, III her true and lawful attorneys-in-fact, with full power in each to act without the other and with full power of substitution and resubstitution, to sign in the name of such person and in each of her offices and capacities with Rayonier Inc. (the "Company"), the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, together with any amendments thereto, and to file same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission.

Dated: February 20, 2004

/s/ Katherine D. Ortega

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Katherine D. Ortega

POWER OF ATTORNEY

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Dated: February 20, 2004

/s/ Burnell R. Roberts

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Burnell R. Roberts

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints Hans E. Vanden Noort, Michael R. Herman and W. Edwin Frazier, III his true and lawful attorneys-in-fact, with full power in each to act without the other and with full power of substitution and resubstitution, to sign in the name of such person and in each of his offices and capacities with Rayonier Inc. (the "Company"), the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, together with any amendments thereto, and to file same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission.

Dated: February 18, 2004

/s/ Carl S. Sloane

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Carl S. Sloane

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints Hans E. Vanden Noort, Michael R. Herman and W. Edwin Frazier, III his true and lawful attorneys-in-fact, with full power in each to act without the other and with full power of substitution and resubstitution, to sign in the name of such person and in each of his offices and capacities with Rayonier Inc. (the "Company"), the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, together with any amendments thereto, and to file same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission.

Dated: February 19, 2004

/s/ Ronald Townsend

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Ronald Townsend

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints Hans E. Vanden Noort, Michael R. Herman and W. Edwin Frazier, III his true and lawful attorneys-in-fact, with full power in each to act without the other and with full power of substitution and resubstitution, to sign in the name of such person and in each of his offices and capacities with Rayonier Inc. (the "Company"), the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003, together with any amendments thereto, and to file same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission.

Dated: February 15, 2004

/s/ Gordon I. Ulmer

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Gordon I. Ulmer

**CERTIFICATIONS**

I, W. L. Nutter, certify that:

1. I have reviewed this annual report on Form 10-K of Rayonier Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - c. Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 8, 2004

/s/ W. L. NUTTER

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W. L. Nutter

Chairman, President and Chief Executive Officer, Rayonier Inc.

I, Gerald J. Pollack, certify that:

1. I have reviewed this annual report on Form 10-K of Rayonier Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and
  - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 8, 2004

/s/ GERALD J. POLLACK

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Gerald J. Pollack  
Senior Vice President and Chief Financial Officer, Rayonier Inc.

CERTIFICATION OF PERIODIC FINANCIAL REPORTS UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certify that this Form 10-K fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained herein fairly presents, in all material respects, the financial condition and results of operations of Rayonier Inc.

/s/ W. L. NUTTER

/s/ GERALD J. POLLACK

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W. L. Nutter  
Chairman, President and  
Chief Executive Officer

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Gerald J. Pollack  
Senior Vice President and  
Chief Financial Officer

March 8, 2004

A signed original of this written statement required by Section 906 has been provided to Rayonier and will be retained by Rayonier and furnished to the Securities and Exchange Commission or its staff upon request.