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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**  
**FORM 10-Q**

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2014

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number 1-6780**

**RAYONIER INC.**

Incorporated in the State of North Carolina

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

**225 WATER STREET, SUITE 1400**

**JACKSONVILLE, FL 32202**

**(Principal Executive Office)**

**Telephone Number: (904) 357-9100**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  
YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  
YES  NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

YES  NO

As of November 3, 2014, there were outstanding 126,726,146 Common Shares of the registrant.

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**TABLE OF CONTENTS**

<b><u>Item</u></b>		<b><u>Page</u></b>
	<b>PART I - FINANCIAL INFORMATION</b>	
1.	<a href="#">Financial Statements (unaudited)</a>	<a href="#">1</a>
	<a href="#">Consolidated Statements of Income and Comprehensive Income for the Three and Nine Months Ended September 30, 2014 and 2013</a>	<a href="#">1</a>
	<a href="#">Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013</a>	<a href="#">2</a>
	<a href="#">Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2014 and 2013</a>	<a href="#">3</a>
	<a href="#">Notes to Consolidated Financial Statements</a>	<a href="#">4</a>
2.	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">46</a>
3.	<a href="#">Quantitative and Qualitative Disclosures about Market Risk</a>	<a href="#">62</a>
4.	<a href="#">Controls and Procedures</a>	<a href="#">63</a>
	<b>PART II - OTHER INFORMATION</b>	
1A.	<a href="#">Risk Factors</a>	<a href="#">65</a>
2.	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	<a href="#">74</a>
6.	<a href="#">Exhibits</a>	<a href="#">75</a>
	<a href="#">Signature</a>	<a href="#">76</a>

**PART I. FINANCIAL INFORMATION**
**Item 1. Financial Statements**

**RAYONIER INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**AND COMPREHENSIVE INCOME**  
(Unaudited)  
(Dollars in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>SALES</b>	\$ 149,829	\$ 159,261	\$ 456,161	\$ 421,203
Costs and Expenses				
Cost of sales	118,088	129,002	357,083	333,523
Selling and general expenses	8,806	13,104	35,904	41,204
Other operating income, net (Note 20)	(9,144)	(2,814)	(20,908)	(10,587)
	117,750	139,292	372,079	364,140
Equity in income of New Zealand joint venture	—	—	—	562
<b>OPERATING INCOME BEFORE GAIN ON CONSOLIDATION OF NEW ZEALAND JOINT VENTURE</b>	32,079	19,969	84,082	57,625
Gain related to consolidation of New Zealand joint venture (Note 7)	—	—	—	16,098
<b>OPERATING INCOME</b>	32,079	19,969	84,082	73,723
Interest expense	(9,566)	(10,823)	(35,852)	(30,626)
Interest and miscellaneous (expense) income, net	(1,734)	(914)	(7,131)	1,852
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	20,779	8,232	41,099	44,949
Income tax benefit	11,280	6,808	5,319	28,750
<b>INCOME FROM CONTINUING OPERATIONS</b>	32,059	15,040	46,418	73,699
<b>DISCONTINUED OPERATIONS, NET (Note 2)</b>				
Income from discontinued operations, net of income tax expense of \$0, \$18,313, \$21,231 and \$82,223	—	43,327	43,092	220,294
<b>NET INCOME</b>	32,059	58,367	89,510	293,993
Less: Net (loss) income attributable to noncontrolling interest	(642)	1,022	(970)	1,749
<b>NET INCOME ATTRIBUTABLE TO RAYONIER INC.</b>	32,701	57,345	90,480	292,244
<b>OTHER COMPREHENSIVE INCOME</b>				
Foreign currency translation adjustment	(37,877)	24,259	(16,426)	(2,967)
New Zealand joint venture cash flow hedges, net of income tax benefit of \$1,170, \$0, \$1,270 and \$0	(3,494)	3,433	(2,703)	4,209
Net gain from pension and postretirement plans, net of income tax expense of \$150, \$1,579, \$37,025 and \$5,403	2,265	3,639	63,235	12,326
Total other comprehensive (loss) income	(39,106)	31,331	44,106	13,568
<b>COMPREHENSIVE (LOSS) INCOME</b>	(7,047)	89,698	133,616	307,561
Less: Comprehensive (loss) income attributable to noncontrolling interest	(12,426)	8,594	(6,573)	(909)
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.</b>	\$ 5,379	\$ 81,104	\$ 140,189	\$ 308,470
<b>EARNINGS PER COMMON SHARE (Note 4)</b>				
<b>BASIC EARNINGS PER SHARE ATTRIBUTABLE TO RAYONIER INC.</b>				
Continuing Operations	\$ 0.26	\$ 0.11	\$ 0.38	\$ 0.57
Discontinued Operations	—	0.34	0.34	1.76
Net Income	\$ 0.26	\$ 0.45	\$ 0.72	\$ 2.33
<b>DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO RAYONIER INC.</b>				
Continuing Operations	\$ 0.25	\$ 0.11	\$ 0.36	\$ 0.55
Discontinued Operations	—	0.33	0.33	1.68
Net Income	\$ 0.25	\$ 0.44	\$ 0.69	\$ 2.23
<b>Dividends per share</b>	\$ 0.80	\$ 0.49	\$ 1.78	\$ 1.37

See Notes to Consolidated Financial Statements.

**RAYONIER INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited)  
(Dollars in thousands)

ASSETS	September 30, 2014	December 31, 2013
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 182,831	\$ 199,644
Accounts receivable, less allowance for doubtful accounts of \$217 and \$673	28,237	94,956
Inventory		
Finished goods	11,132	115,270
Work in progress	—	3,555
Raw materials	1,307	17,661
Manufacturing and maintenance supplies	—	2,332
Total inventory	12,439	138,818
Deferred tax assets	4,211	39,100
Prepaid and other current assets	23,821	46,576
Total current assets	251,539	519,094
<b>TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION</b>	2,058,381	2,049,378
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land	1,833	20,138
Buildings	8,885	180,573
Machinery and equipment	3,326	1,760,641
Construction in progress	393	19,795
Total property, plant and equipment, gross	14,437	1,981,147
Less — accumulated depreciation	(7,906)	(1,120,326)
Total property, plant and equipment, net	6,531	860,821
<b>OTHER ASSETS</b>	161,108	256,208
<b>TOTAL ASSETS</b>	<b>\$ 2,477,559</b>	<b>\$ 3,685,501</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 23,126	\$ 69,293
Current maturities of long-term debt	130,486	112,500
Accrued taxes	14,954	8,551
Uncertain tax positions	—	10,547
Accrued payroll and benefits	6,338	24,948
Accrued interest	10,136	9,531
Accrued customer incentives	—	9,580
Other current liabilities	26,596	24,327
Current liabilities for dispositions and discontinued operations (Note 14)	—	6,835
Total current liabilities	211,636	276,112
<b>LONG-TERM DEBT</b>	605,162	1,461,724
<b>NON-CURRENT LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS (Note 14)</b>	—	69,543
<b>PENSION AND OTHER POSTRETIREMENT BENEFITS (Note 17)</b>	22,393	95,654
<b>OTHER NON-CURRENT LIABILITIES</b>	27,466	27,225
<b>COMMITMENTS AND CONTINGENCIES (Notes 13 and 15)</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Common Shares, 480,000,000 shares authorized, 126,724,444 and 126,257,870 shares issued and outstanding	700,581	692,100
Retained earnings	820,181	1,015,209
Accumulated other comprehensive income (loss)	3,569	(46,139)
<b>TOTAL RAYONIER INC. SHAREHOLDERS' EQUITY</b>	1,524,331	1,661,170
Noncontrolling interest	86,571	94,073
<b>TOTAL SHAREHOLDERS' EQUITY</b>	1,610,902	1,755,243
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 2,477,559</b>	<b>\$ 3,685,501</b>

See Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2014	2013
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 89,510	\$ 293,993
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, depletion and amortization	92,454	81,668
Non-cash cost of real estate sold	6,507	4,349
Stock-based incentive compensation expense	6,780	8,993
Deferred income taxes	4,435	42,832
Tax benefit of AFMC for CBPC exchange	—	(18,761)
Non-cash adjustments to unrecognized tax benefit liability	(10,547)	3,966
Depreciation and amortization from discontinued operations	37,985	51,696
Amortization of losses from pension and postretirement plans	6,503	16,835
Gain on sale of discontinued operations, net	—	(42,670)
Gain related to consolidation of New Zealand joint venture	—	(16,098)
Loss on early redemption of exchangeable notes	—	3,017
Other	2,946	(8,205)
Changes in operating assets and liabilities:		
Receivables	263	(18,710)
Inventories	2,607	(9,040)
Accounts payable	33,305	13,712
Income tax receivable/payable	756	(2,482)
All other operating activities	12,321	5,863
Payment to exchange AFMC for CBPC	—	(70,311)
Expenditures for dispositions and discontinued operations	(5,096)	(6,411)
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>280,729</b>	<b>334,236</b>
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(105,658)	(122,099)
Purchase of additional interest in New Zealand joint venture	—	(139,879)
Purchase of timberlands	(93,189)	(11,650)
Jesup mill cellulose specialties expansion (gross purchases of \$0 and \$140,820, net of purchases on account of \$0 and \$3,428)	—	(137,392)
Proceeds from disposition of Wood Products business	—	68,063
Change in restricted cash	47,318	3,989
Other	(478)	(224)
<b>CASH USED FOR INVESTING ACTIVITIES</b>	<b>(152,007)</b>	<b>(339,192)</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of debt	1,295,163	607,885
Repayment of debt	(1,173,049)	(453,463)
Dividends paid	(225,877)	(175,079)
Proceeds from the issuance of common shares	4,645	9,205
Excess tax benefits on stock-based compensation	—	8,189
Repurchase of common shares	(1,834)	(11,303)
Debt issuance costs	(12,380)	—
Purchase of timberland deeds for Rayonier Advanced Materials	(12,677)	—
Debt issuance funds distributed to Rayonier Advanced Materials	(924,943)	—
Proceeds from spin-off of Rayonier Advanced Materials	906,200	—
Other	(680)	—
<b>CASH USED FOR FINANCING ACTIVITIES</b>	<b>(145,432)</b>	<b>(14,566)</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>(103)</b>	<b>(336)</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Change in cash and cash equivalents	(16,813)	(19,858)
Balance, beginning of year	199,644	280,596
Balance, end of period	<b>\$ 182,831</b>	<b>\$ 260,738</b>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Cash paid during the period:		
Interest	\$ 38,248	\$ 26,930

Income taxes	10,453	88,024
Non-cash investing activity:		
Capital assets purchased on account	2,310	29,738
Non-cash financing activity:		
Shareholder debt assumed in acquisition of New Zealand joint venture	—	125,532
Conversion of shareholder debt to equity noncontrolling interest	—	(95,961)
Partial conversion of Senior Exchangeable Notes to equity	—	1,497

See Notes to Consolidated Financial Statements.

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

**1. BASIS OF PRESENTATION**

*Basis of Presentation*

The unaudited consolidated financial statements and notes thereto of Rayonier Inc. and its subsidiaries (“Rayonier” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”). In the opinion of management, these financial statements and notes reflect all adjustments (all of which are normal recurring adjustments, except for a cumulative out-of-period adjustment for depletion expense - See Note 3 — *Restatement of Previously Issued Consolidated Financial Statements*) necessary for a fair presentation of the results of operations, financial position and cash flows for the periods presented. These statements and notes should be read in conjunction with the financial statements and supplementary data included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2013, as amended by Amendment No. 1 to the Form 10-K on Form 10-K/A (the “Amended Form 10-K”), as filed with the SEC.

*Reclassifications*

Certain 2013 amounts and amounts previously reported in 2014 have been reclassified to agree with the current presentation, including reclassifications for discontinued operations. Rayonier completed the spin-off of its Performance Fibers business on June 27, 2014 and completed the sale of its Wood Products business on March 1, 2013. Accordingly, the operating results of these business segments are reported as discontinued operations in the Company’s Consolidated Statements of Income and Comprehensive Income for all periods presented. Certain administrative and general costs historically allocated to the businesses that remained with Rayonier are reported in continuing operations.

The December 31, 2013 Consolidated Balance Sheet reports historical information and includes balances for all businesses as reported in the prior year. The September 30, 2014 Consolidated Balance Sheet reports only continuing operations and reflects the contribution of approximately \$1.2 billion of assets, net, and corresponding liabilities and equity to Rayonier Advanced Materials Inc. (“Rayonier Advanced Materials”) in connection with the spin-off of the Performance Fibers business.

The Consolidated Statements of Cash Flows for both 2014 and 2013 have not been restated to exclude Performance Fibers or Wood Products cash flows. Cash flows for the nine months ended September 30, 2014 also reflect transactions related to the Performance Fibers spin-off, including borrowings to arrange the capital structure prior to the separation, proceeds received upon the spin-off and the use of proceeds to pay down debt and pay a special dividend.

See Note 2 — *Discontinued Operations* for additional information regarding the spin-off of the Performance Fibers business and sale of the Wood Products business.

*New Accounting Standards*

In August 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-15, *Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*, to provide guidance on management’s responsibility in evaluating whether there is a substantial doubt about a company’s ability to continue as a going concern. If conditions or events raise substantial doubts about an entity’s ability to continue as a going concern within one year after the date that the financial statements are issued, related footnote disclosures are required. This standard will be effective for Rayonier’s 2016 Form 10-K filing. It is not expected that the standard will have any impact on the Company’s consolidated financial statements.

In May 2014, the FASB and International Accounting Standards Board (“IASB”) jointly issued ASU No. 2014-09, *Revenue from Contracts with Customers*, a comprehensive new revenue recognition standard which will supersede current revenue recognition guidance. The core principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to receive in exchange for those goods or services. The guidance provides a unified model to determine when and how revenue is recognized and will require enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. This standard will be effective for Rayonier beginning January 1, 2017 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

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

In April 2014, the FASB issued ASU No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*. The standard requires a disposal of a component of an entity to be reported in discontinued operations if it represents a strategic shift with a major effect on an entity's operations and financial results. It also removes requirements related to the evaluation of the component's effect on ongoing operations and the entity's continuing involvement with the component. Additional disclosures about discontinued operations are also required under this standard. ASU No. 2014-08 is required to be applied prospectively for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning December 15, 2014. As the Company has not elected early adoption, this standard will be effective for Rayonier's first quarter 2015 Form 10-Q filing. It is not expected that the standard will have any impact on the Company's consolidated financial statements.

*Subsequent Events*

The Company evaluated events and transactions that occurred after the balance sheet date but before financial statements were issued, and one subsequent event was identified that warranted disclosure. On November 7, 2014, the Board of Directors approved a fourth quarter cash dividend of 25 cents per common share. The dividend is payable on December 31, 2014 to shareholders of record on December 17, 2014.

**2. DISCONTINUED OPERATIONS**

***Spin-Off of the Performance Fibers Business***

On June 27, 2014, Rayonier completed the tax-free spin-off of its Performance Fibers business from its Forest Resources and Real Estate segments. The spin-off resulted in two independent, publicly-traded companies, with the Performance Fibers business being spun-off to Rayonier shareholders as a newly formed public company named Rayonier Advanced Materials. On June 27, 2014, the shareholders of record received one share of Rayonier Advanced Materials common stock for every three common shares of Rayonier held as of the close of business on the record date of June 18, 2014.

In connection with the spin-off, Rayonier Advanced Materials distributed \$906.2 million in cash to Rayonier from \$550 million in Senior Notes issued by Rayonier A.M. Products (a wholly-owned subsidiary of Rayonier Advanced Materials), \$325 million in term loans, and \$75 million from a revolving credit facility Rayonier Advanced Materials entered into prior to the spin-off. Pursuant to the terms of the Internal Revenue Service spin-off ruling, \$75 million of this cash was paid to Rayonier's shareholders as dividends in the third quarter. Of this \$75 million, \$63.2 million was paid to shareholders as a special dividend.

In order to effect the spin-off and govern our relationship with Rayonier Advanced Materials after the spin-off, Rayonier and Rayonier Advanced Materials entered into a Separation and Distribution Agreement, an Intellectual Property Agreement, a Tax Sharing Agreement, an Employee Matters Agreement and a Transition Services Agreement.

The Separation and Distribution Agreement governs the spin-off of the Performance Fibers business and the transfer of assets and other matters related to our relationship with Rayonier Advanced Materials. The Separation and Distribution Agreement provides for cross-indemnities between Rayonier and Rayonier Advanced Materials and established procedures for handling claims subject to indemnification and related matters.

The Intellectual Property Agreement governs the allocation of intellectual property rights and assets between Rayonier and Rayonier Advanced Materials.

The Tax Sharing Agreement governs the respective rights, responsibilities and obligations of Rayonier and Rayonier Advanced Materials with respect to taxes, tax attributes, tax returns, tax proceedings and certain other tax matters including assistance and cooperation on tax matters.



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

The Employee Matters Agreement governs the compensation and employee benefit obligations with respect to the current and former employees and non-employee directors of Rayonier and Rayonier Advanced Materials, and generally allocates liabilities and responsibilities relating to employee compensation, benefit plans and programs. The Employee Matters Agreement provides that employees of Rayonier Advanced Materials will no longer participate in benefit plans sponsored or maintained by Rayonier. In addition, the Employee Matters Agreement provides that each of the parties will be responsible for their respective current employees and compensation plans for such current employees. The Employee Matters Agreement further provides that Rayonier Advanced Materials will be responsible for liabilities associated with former employees whose last employment was with the businesses that are to be operated by Rayonier Advanced Materials after the spin-off, including the Performance Fibers business, as well as certain specified former corporate employees, and Rayonier will remain responsible for former employees whose last employment was with the businesses retained by Rayonier following the spin-off and certain specified corporate employees.

The Transition Services Agreement sets forth the terms on which Rayonier will provide to Rayonier Advanced Materials, and Rayonier Advanced Materials will provide to Rayonier, certain services or functions that were shared prior to the spin-off. Transition services include administrative, payroll, human resources, data processing, environmental health and safety, financial audit support, financial transaction support, and other support services, information technology systems and various other corporate services. The agreement provides for the provision of specified transition services, generally for a period of up to 18 months, on a cost basis.

Rayonier will not have significant continuing involvement in the operations of the Performance Fibers business going forward. Accordingly, the operating results of the Performance Fibers business, formerly reported as a separate operating segment, are classified as discontinued operations in the Company's Consolidated Statements of Income and Comprehensive Income for all periods presented. Certain administrative and general costs historically allocated to the Performance Fibers segment are reported in continuing operations.

The following table summarizes the operating results of the Company's discontinued operations related to the Performance Fibers spin-off for the three and nine months ended September 30, 2014 and 2013, as presented in "Income from discontinued operations, net" in the Consolidated Statements of Income and Comprehensive Income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Sales	\$ —	\$ 225,523	\$ 456,180	\$ 766,377
Cost of sales and other	—	(162,515)	(368,868)	(529,098)
Transaction expenses	—	(1,368)	(22,989)	(1,512)
Income from discontinued operations before income taxes	—	61,640	64,323	235,767
Income tax expense	—	(18,313)	(21,231)	(59,950)
Income from discontinued operations, net	\$ —	\$ 43,327	\$ 43,092	\$ 175,817

In accordance with ASC 205-20-S99-3, *Allocation of Interest to Discontinued Operations*, the Company elected to allocate interest expense to discontinued operations where the debt is not directly attributed to the Performance Fibers business. Interest expense has been allocated based on a ratio of net assets to be discontinued to the sum of consolidated net assets plus consolidated debt (other than debt directly attributable to the Forest Resources and Real Estate operations). The following table summarizes the interest expense allocated to discontinued operations for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Interest expense allocated to the Performance Fibers business	\$ —	\$ (2,489)	\$ (4,205)	\$ (6,286)

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

The following table summarizes the depreciation, amortization and capital expenditures of the Company's discontinued operations related to the Performance Fibers business:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Depreciation and amortization	\$ —	\$ 22,340	\$ 37,985	\$ 51,142
Capital expenditures	—	11,357	46,336	81,540
Jesup mill cellulose specialties expansion	—	37,207	—	137,392

The major classes of Performance Fibers assets and liabilities included in the spin-off are as follows:

	June 27, 2014
Accounts receivable, net	\$ 66,050
Inventory	121,705
Prepaid and other current assets	70,092
Property, plant and equipment, net	862,487
Other assets	103,400
<b>Total assets</b>	<b>1,223,734</b>
Accounts payable	65,522
Other current liabilities	51,006
Long-Term debt	950,000
Non-current environmental liabilities	66,434
Pension and other postretirement benefits	102,633
Other non-current liabilities	7,269
Deficit	(19,130)
<b>Total liabilities and equity</b>	<b>\$ 1,223,734</b>

In the third quarter of 2014, the Company made immaterial adjustments to the valuation of certain classes of Performance Fibers assets and liabilities included in the spin-off as the pension and postretirement plans segregation was finalized and tax obligations were updated based upon filing of the 2013 tax returns and allocated based on the Terms of the Tax Sharing Agreement. The effect of these adjustments has been reflected in equity for the period ended September 30, 2014.

Pursuant to a Memorandum of Understanding agreement, Rayonier may provide Rayonier Advanced Materials with up to 120,000 tons of hardwood annually through July 30, 2017. Prior to the spin-off, hardwood purchases were intercompany transactions eliminated in consolidation as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Hardwood purchases	\$ —	\$ 108	\$ 3,935	\$ 458

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

***Sale of Wood Products Business***

On March 1, 2013, Rayonier completed the sale of its Wood Products business (consisting of three lumber mills in Baxley, Swainsboro and Eatonton, Georgia) to International Forest Products Limited (“Interfor”) for \$80 million plus a working capital adjustment. Accordingly, the operating results of the Wood Products business, formerly reported as a separate operating segment, are classified as discontinued operations in the Company’s Consolidated Statements of Income and Comprehensive Income for the nine months ended September 30, 2013.

Rayonier recognized an after-tax gain of \$42.7 million on the sale. The gain is included in “Income from discontinued operations, net” on the Consolidated Statements of Income and Comprehensive Income for the nine months ended September 30, 2013.

The following table summarizes the operating results of the Company’s Wood Products discontinued operations and the related gain for the nine months ended September 30, 2013, as presented in “Income from discontinued operations, net” on the Consolidated Statements of Income and Comprehensive Income:

	<b>Nine Months Ended September 30, 2013</b>
Sales	\$ 16,968
Cost of sales and other	(14,258)
Gain on sale of discontinued operations	<u>64,040</u>
Income from discontinued operations before income taxes	66,750
Income tax expense	<u>(22,273)</u>
Income from discontinued operations, net	<u>\$ 44,477</u>

Cash flows from the Wood Products business are immaterial in the aggregate. As such, they are included with cash flows from continuing operations in the Consolidated Statements of Cash Flows.

The following table reconciles the operating results of both the Performance Fibers and Wood Products discontinued operations, as presented in “Income from discontinued operations, net” on the Consolidated Statements of Income and Comprehensive Income:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Performance Fibers income from discontinued operations, net	\$ —	\$ 43,327	\$ 43,092	\$ 175,817
Wood Products income from discontinued operations, net	—	—	—	44,477
Income from discontinued operations, net	<u>\$ —</u>	<u>\$ 43,327</u>	<u>\$ 43,092</u>	<u>\$ 220,294</u>

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

**3. RESTATEMENT OF PREVIOUSLY ISSUED CONSOLIDATED FINANCIAL STATEMENTS**

Subsequent to the filing of its second quarter 2014 Form 10-Q, the Company identified issues related to its historical timber harvest levels, its estimate of merchantable timber inventory and the effect of such estimate on its calculation of depletion expense in each of the quarterly periods ended March 31, 2014 and June 30, 2014. The Company concluded that it had understated its depletion expense in cost of goods sold (referred to as "Cost of sales" in the Company's consolidated statements of income and comprehensive income) by approximately \$2.0 million for each period. As a result, the financial amounts noted below have been restated from amounts previously reported.

The following tables summarize the effect of these restatements for the periods ended June 30, 2014 and March 31, 2014:

**Consolidated Statements of Income and Comprehensive Income for the  
Three Months Ended June 30, 2014**

	<b>As Previously Reported</b>	<b>Restatement</b>	<b>As Restated</b>
Operating Income	\$ 39,568	\$ (1,991)	\$ 37,577
Income Tax Expense	(13,515)	(42)	(13,557)
Income from Continuing Operations	6,056	(2,032)	4,024
Income from Discontinued Operations, net	12,084	—	12,084
Net Income	18,140	(2,032)	16,108
Net Income Attributable to Rayonier Inc.	18,385	(2,032)	16,353
<b>Basic Earnings Per Share Attributable to Rayonier Inc.</b>			
Continuing Operations	\$ 0.05	\$ (0.02)	\$ 0.03
Discontinued Operations	0.10	—	0.10
Net Income	\$ 0.15	\$ (0.02)	\$ 0.13
<b>Diluted Earnings Per Share Attributable to Rayonier Inc.</b>			
Continuing Operations	\$ 0.05	\$ (0.02)	\$ 0.03
Discontinued Operations	0.09	—	0.09
Net Income	\$ 0.14	\$ (0.02)	\$ 0.12

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

**Consolidated Statements of Income and Comprehensive Income for the Six  
Months Ended June 30, 2014**

	<b>As Previously Reported</b>	<b>Restatement</b>	<b>As Restated</b>
Operating Income	\$ 55,962	\$ (3,959)	\$ 52,003
Income Tax Expense	(5,939)	(22)	(5,961)
Income from Continuing Operations	18,340	(3,981)	14,359
Income from Discontinued Operations, net	43,092	—	43,092
Net Income	61,432	(3,981)	57,451
Net Income Attributable to Rayonier Inc.	61,760	(3,981)	57,779
<b>Basic Earnings Per Share Attributable to Rayonier Inc.</b>			
Continuing Operations	\$ 0.15	\$ (0.03)	\$ 0.12
Discontinued Operations	0.34	—	0.34
Net Income	\$ 0.49	\$ (0.03)	\$ 0.46
<b>Diluted Earnings Per Share Attributable to Rayonier Inc.</b>			
Continuing Operations	\$ 0.14	\$ (0.03)	\$ 0.11
Discontinued Operations	0.33	—	0.33
Net Income	\$ 0.47	\$ (0.03)	\$ 0.44

**Consolidated Balance Sheet  
as of June 30, 2014**

	<b>As Previously Reported</b>	<b>Restatement</b>	<b>As Restated</b>
Prepaid and Other Current Assets	\$ 21,565	\$ (22)	\$ 21,543
Timber and Timberlands, Net of Depletion and Amortization	2,121,614	(3,959)	2,117,655
Retained earnings	891,629	(3,981)	887,648

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

**Consolidated Statements of Income and Comprehensive Income for the  
Three Months Ended March 31, 2014**

	<b>As Previously Reported (a)</b>	<b>Restatement</b>	<b>As Restated (a)</b>
Operating Income	\$ 65,008	\$ (1,969)	\$ 63,039
Income Tax Expense	(7,732)	20	(7,712)
Income from Continuing Operations	43,292	(1,949)	41,343
Net Income	43,292	(1,949)	41,343
Net Income Attributable to Rayonier Inc.	43,375	(1,949)	41,426
Basic Earnings Per Share Attributable to Rayonier Inc.			
Continuing Operations	\$ 0.34	\$ (0.01)	\$ 0.33
Discontinued Operations	—	—	—
Net Income	\$ 0.34	\$ (0.01)	\$ 0.33
Diluted Earnings Per Share Attributable to Rayonier Inc.			
Continuing Operations	\$ 0.34	\$ (0.02)	\$ 0.32
Discontinued Operations	—	—	—
Net Income	\$ 0.34	\$ (0.02)	\$ 0.32

(a) Includes the Performance Fibers business that was spun-off on June 27, 2014.

**Consolidated Balance Sheet  
as of March 31, 2014**

	<b>As Previously Reported</b>	<b>Restatement</b>	<b>As Restated</b>
Prepaid and Other Current Assets	\$ 54,557	\$ 20	\$ 54,577
Timber and Timberlands, Net of Depletion and Amortization	2,069,518	(1,969)	2,067,549
Retained earnings	996,573	(1,949)	994,624

In addition, in reviewing its depletion expense calculations, the Company determined that prior years included immaterial understatements of depletion expense as a result of including, in merchantable timber inventory, certain volumes that should have been excluded. The estimated cumulative effect of these prior year immaterial errors totaled \$2.6 million and was recorded as additional depletion expense in the third quarter of 2014.



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

The Senior Exchangeable Notes due 2012 (the “2012 Notes”) matured in October 2012; however, no additional shares were issued due to offsetting exchangeable note hedges. The warrants sold in conjunction with the 2012 Notes began maturing on January 15, 2013 and matured ratably through March 27, 2013. As a result, 2,037,303 shares were issued through the end of the first quarter of 2013 and 97,918 shares were issued in the first week of April 2013. The dilutive impact of these warrants was calculated based on the length of time they were outstanding before settlement. Rayonier will distribute additional shares upon maturity of the warrants associated with the 2015 Notes if the stock price exceeds \$28.13 per share. The exchange price on the warrants is lower than periods prior to second quarter 2014 as it has been adjusted to reflect the spin-off of the Performance Fibers business. For further information, see Note 13 — *Debt* in the Amended Form 10-K and Note 18 — *Debt* of this Form 10-Q.

## 5. INCOME TAXES

Rayonier is a real estate investment trust (“REIT”). In general, only its taxable REIT subsidiaries, whose businesses include the Company’s non-REIT qualifying activities, and foreign operations, are subject to corporate income taxes. Accordingly, the provision for corporate income taxes relates principally to current and deferred taxes on taxable REIT subsidiaries’ income and foreign operations.

### *Alternative Fuel Mixture Credit (“AFMC”) and Cellulosic Biofuel Producer Credit (“CBPC”)*

The U.S. Internal Revenue Code allowed two credits for taxpayers that produced and used an alternative fuel in the operation of their business through December 31, 2009. The AFMC is a \$.50 per gallon refundable tax credit (which is not taxable), while the CBPC is a \$1.01 per gallon credit that is nonrefundable, taxable and has limitations based on an entity’s tax liability. Prior to the spin-off (See Note 2 — *Discontinued Operations* for additional information), Rayonier produced and used an alternative fuel (“black liquor”) at its Performance Fibers mills, which qualified for both credits. The Company claimed the AFMC on its original 2009 tax return. In the first quarter of 2013, management approved a \$70 million tax payment to exchange approximately 120 million gallons of black liquor previously claimed for the AFMC for the CBPC, resulting in an expected net \$19 million tax benefit, which was recorded in discontinued operations. As a result of the spin-off of the Performance Fibers business in second quarter 2014, the Company recorded a \$16 million valuation allowance in continuing operations as the credits remain with Rayonier after the spin-off, related to its limited potential use of the CBPC prior to its expiration on December 31, 2016. During the third quarter of 2014, the Company reversed \$1 million of the valuation allowance due to an estimated increase in its ability to use the CBPC.

### *Provision for Income Taxes from Continuing Operations*

The Company’s effective tax rate is below the 35 percent U.S. statutory rate due to tax benefits associated with being a REIT and tax benefits from losses at Rayonier’s taxable operations from interest and general administrative expenses not allowed to be allocated to the discontinued operations of the Performance Fibers business.

The tables below reconcile the U.S. statutory rate to the Company’s effective tax rate for each period presented:

	<b>Three Months Ended September 30,</b>			
	<b>2014</b>		<b>2013</b>	
Income tax expense at federal statutory rate	\$ 7,273	35.0 %	\$ 2,881	35.0 %
REIT income, taxable losses and other	(16,673)	(80.2)	(10,094)	(122.6)
Foreign operations	(44)	(0.2)	1,295	15.8
Loss on early redemption of Senior Exchangeable Notes	—	—	288	3.5
Other	99	0.4	(33)	(0.5)
Income tax benefit before discrete items	(9,345)	(45.0)%	(5,663)	(68.8)%
Uncertain tax positions	(1,830)	(8.8)	(800)	(9.7)
CBPC valuation allowance	(990)	(4.8)	—	—
Return to accrual adjustments	885	4.3	—	—
Other	—	—	(345)	(4.2)
Income tax benefit as reported for continuing operations	\$ (11,280)	(54.3)%	\$ (6,808)	(82.7)%



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

	<b>Nine Months Ended September 30,</b>			
	<b>2014</b>		<b>2013</b>	
Income tax expense at federal statutory rate	\$ 14,385	35.0 %	\$ 15,732	35.0 %
REIT income and taxable losses	(30,572)	(74.4)	(41,417)	(92.1)
Foreign operations	(88)	(0.2)	2,812	6.3
Loss on early redemption of Senior Exchangeable Notes	—	—	1,572	3.5
Other	196	0.5	(185)	(0.4)
Income tax benefit before discrete items	(16,079)	(39.1)%	(21,486)	(47.7)%
CBPC valuation allowance	14,584	35.5	—	—
Deferred tax inventory valuations	(3,293)	(8.0)	—	—
Uncertain tax positions	(1,830)	(4.5)	—	—
Spin-off related costs	797	1.9	—	—
Return to accrual adjustments	885	2.2	—	—
Gain related to consolidation of New Zealand joint venture	—	—	(5,634)	(12.5)
Reversal of REIT BIG tax payable	—	—	(485)	(1.1)
Other	(383)	(0.9)	(1,145)	(2.6)
Income tax benefit as reported for continuing operations	<u>\$ (5,319)</u>	<u>(12.9)%</u>	<u>\$ (28,750)</u>	<u>(63.9)%</u>

***Provision for Income Taxes from Discontinued Operations***

On June 27, 2014, Rayonier completed the spin-off of its Performance Fibers business. For the three and nine months ended September 30, 2014, income tax expense related to Performance Fibers discontinued operations was \$0 and \$21.2 million, respectively. For the three and nine months ended September 30, 2013, income tax expense related to Performance Fibers discontinued operations was \$18.3 million and \$59.9 million, respectively.

On March 1, 2013, Rayonier completed the sale of its Wood Products business for \$80 million plus a working capital adjustment. For the nine months ended September 30, 2013, income tax expense related to Wood Products discontinued operations was \$22.3 million (\$21.4 million from the gain on sale).

See Note 2 — *Discontinued Operations* for additional information on the spin-off of the Performance Fibers business and sale of the Wood Products business.

***Unrecognized Tax Benefits***

During the third quarter of 2014, the Company removed a \$5.8 million unrecognized tax benefit liability due to the expiration of the statute of limitations on examination of its 2010 tax return. This resulted in a \$1.8 million income tax benefit and a \$4.0 million reduction of a non-current tax asset. There are no unrecognized tax benefit liabilities remaining as of September 30, 2014.

During second quarter 2014, the Company received a refund from the IRS related to its amended 2009 TRS tax return. As a result, Rayonier reversed the \$4.8 million reserve related to the increased domestic production deduction due to the inclusion of CBPC income. The reserve included a \$0.9 million unrecognized tax benefit, which was recorded in discontinued operations.

***Deferred Taxes***

The spin-off of the Performance Fibers business resulted in the contribution of deferred tax assets and deferred tax liabilities to Rayonier Advanced Materials and impacted the Company's expected future use of remaining deferred tax assets. The Company's current portion of deferred tax assets decreased from \$39.1 million at December 31, 2013 to \$4.2 million as of September 30, 2014. The remaining balance reflects the \$14.6 million valuation allowance related to Rayonier's limited potential use of the CBPC credit.

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

**6. RESTRICTED DEPOSITS**

In order to qualify for like-kind exchange (“LKE”) treatment, the proceeds from real estate sales must be deposited with a third-party intermediary. These proceeds are accounted for as restricted cash until a suitable replacement property is acquired. In the event LKE purchases are not completed, the proceeds are returned to the Company after 180 days and reclassified as available cash. As of September 30, 2014 and December 31, 2013, the Company had \$21.6 million and \$68.9 million, respectively, of proceeds from real estate sales classified as restricted cash within Other Assets, which were deposited with an LKE intermediary.

**7. JOINT VENTURE INVESTMENT**

On April 4, 2013 (the “acquisition date”), the Company acquired an additional 39 percent ownership interest in Matariki Forestry Group, a joint venture (“New Zealand JV”) that owns or leases approximately 0.3 million acres of New Zealand timberlands. As a result of the acquisition, Rayonier is a 65 percent owner of the New Zealand JV and 100 percent of the results of its operations subsequent to April 4, 2013 have been included in the Company’s consolidated financial statements, along with 100 percent of the JV’s assets and liabilities at September 30, 2014 and December 31, 2013. The portions of the consolidated financial position and results of operations attributable to the New Zealand JV’s 35 percent noncontrolling interest are also shown separately. Rayonier New Zealand Limited (“RNZ”), a wholly-owned subsidiary of Rayonier Inc., continues to serve as the manager of the New Zealand JV forests.

Prior to the acquisition date, the Company accounted for its 26 percent interest in the New Zealand JV as an equity method investment. The additional 39 percent interest was acquired for \$139.9 million and resulted in the Company obtaining a controlling financial interest in the New Zealand JV and accordingly, the purchase was accounted for as a step-acquisition. Upon consolidation, the Company recognized a \$10.1 million deferred gain, which resulted from the original sale of its New Zealand operations to the joint venture in 2005 and a \$6 million benefit due to the required fair market value remeasurement of the Company’s equity interest in the New Zealand JV held before the purchase of the additional interest. The acquisition-date fair value of the previous equity interest was \$93.3 million.

The Company’s operating results for the nine months ended September 30, 2013 reflect 26 percent of the New Zealand JV’s income prior to the acquisition date, as reported in “Equity in income of New Zealand joint venture” in the Consolidated Statements of Income and Comprehensive Income. The following represents the pro forma Rayonier consolidated sales and net income for the three and nine months ended September 30, 2013 as if the additional interest in the New Zealand JV had been acquired on January 1, 2013.

	<b>Three Months Ended September 30, 2013</b>	<b>Nine Months Ended September 30, 2013</b>
Sales (a)	\$ 159,261	\$ 455,729
Net Income	\$ 58,367	\$ 292,234

(a) Excludes results from discontinued operations. For additional information, see Note 2 — *Discontinued Operations*.

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

**8. SHAREHOLDERS' EQUITY**

An analysis of shareholders' equity for the nine months ended September 30, 2014 and the year ended December 31, 2013 is shown below (share amounts not in thousands):

	Rayonier Inc. Shareholders Equity					
	Common Shares		Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Non-controlling Interest	Total Shareholders' Equity
	Shares	Amount				
<b>Balance, December 31, 2012</b>	123,332,444	\$ 670,749	\$ 876,634	\$ (109,379)	\$ —	\$ 1,438,004
Net income	—	—	371,896	—	1,902	373,798
Dividends (\$1.86 per share)	—	—	(233,321)	—	—	(233,321)
Issuance of shares under incentive stock plans	1,001,426	10,101	—	—	—	10,101
Stock-based compensation	—	11,710	—	—	—	11,710
Excess tax benefit on stock-based compensation	—	8,413	—	—	—	8,413
Repurchase of common shares	(211,221)	(11,326)	—	—	—	(11,326)
Equity portion of convertible debt upon redemption	—	2,453	—	—	—	2,453
Settlement of warrants	2,135,221	—	—	—	—	—
Net gain from pension and postretirement plans	—	—	—	61,869	—	61,869
Acquisition of noncontrolling interest	—	—	—	—	96,336	96,336
Noncontrolling interest redemption of shares	—	—	—	—	(713)	(713)
Foreign currency translation adjustment	—	—	—	(1,915)	(3,795)	(5,710)
Joint venture cash flow hedges	—	—	—	3,286	343	3,629
<b>Balance, December 31, 2013</b>	126,257,870	\$ 692,100	\$ 1,015,209	\$ (46,139)	\$ 94,073	\$ 1,755,243
Net income (loss)	—	—	90,480	—	(970)	89,510
Dividends (\$1.78 per share)	—	—	(225,175)	—	—	(225,175)
Contribution to Rayonier Advanced Materials	—	(301)	(61,318)	80,749	—	19,130
Adjustments to Rayonier Advanced Materials	—	—	985	(2,556)	—	(1,571)
Issuance of shares under incentive stock plans	512,364	4,645	—	—	—	4,645
Stock-based compensation	—	6,780	—	—	—	6,780
Tax deficiency on stock-based compensation	—	(809)	—	—	—	(809)
Repurchase of common shares	(45,790)	(1,834)	—	—	—	(1,834)
Net losses from pension and postretirement plans	—	—	—	(14,958)	—	(14,958)
Noncontrolling interest redemption of shares	—	—	—	—	(930)	(930)
Foreign currency translation adjustment	—	—	—	(11,770)	(4,656)	(16,426)
Joint venture cash flow hedges	—	—	—	(1,757)	(946)	(2,703)
<b>Balance, September 30, 2014</b>	126,724,444	\$ 700,581	\$ 820,181	\$ 3,569	\$ 86,571	\$ 1,610,902

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

**9. SEGMENT AND GEOGRAPHICAL INFORMATION**

Rayonier operates in two reportable business segments: Forest Resources and Real Estate. Prior to the second quarter of 2014, the Company operated in three reportable business segments, which included Performance Fibers. On June 27, 2014, the Company spun-off its Performance Fibers business and its operations are shown as discontinued operations for all periods presented. See Note 2 — *Discontinued Operations* for additional information.

Forest Resources sales include all activities related to the harvesting of timber and other value-added activities such as the leasing of properties for hunting, mineral extraction and cell towers. Real Estate sales include all property sales, including those designated as higher and better use (“HBU”) and those designated as the sale of non-strategic timberlands. The assets of the Real Estate segment include HBU property held by the Company’s real estate subsidiary, TerraPointe LLC. The Company’s remaining operations, reported as “Other Operations,” include harvesting and selling timber acquired from third parties (log trading). Sales between operating segments are made based on estimated fair market value, and intercompany sales, purchases and profits (losses) are eliminated in consolidation. The Company evaluates financial performance based on the operating income of the segments.

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

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

<b>ASSETS</b>	<b>September 30, 2014</b>	<b>December 31, 2013</b>
Forest Resources	\$ 2,160,615	\$ 2,162,913
Real Estate	110,825	149,001
Other Operations	24,107	37,334
Corporate and other	182,012	257,608
Performance Fibers	—	1,078,645
Total	<u>\$ 2,477,559</u>	<u>\$ 3,685,501</u>

<b>SALES</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Forest Resources	\$ 108,024	\$ 111,260	\$ 313,822	\$ 277,422
Real Estate	26,689	14,088	66,236	51,761
Other Operations	15,116	34,015	80,027	92,472
Intersegment Eliminations	—	(102)	(3,924)	(452)
Total	<u>\$ 149,829</u>	<u>\$ 159,261</u>	<u>\$ 456,161</u>	<u>\$ 421,203</u>

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

OPERATING INCOME	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Forest Resources	\$ 19,191	\$ 23,172	\$ 64,657	\$ 57,317
Real Estate	16,399	7,521	44,888	30,468
Other Operations	2,499	(363)	1,955	1,356
Corporate and other (a)	(6,010)	(10,361)	(27,418)	(15,418)
Total	<u>\$ 32,079</u>	<u>\$ 19,969</u>	<u>\$ 84,082</u>	<u>\$ 73,723</u>

(a) The nine months ended September 30, 2013 included a \$16.1 million gain related to the consolidation of the New Zealand JV.

DEPRECIATION, DEPLETION AND AMORTIZATION	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Forest Resources	\$ 30,112	\$ 28,475	\$ 80,567	\$ 72,210
Real Estate	3,807	2,074	11,140	8,720
Corporate	123	262	747	738
Total	<u>\$ 34,042</u>	<u>\$ 30,811</u>	<u>\$ 92,454</u>	<u>\$ 81,668</u>

#### 10. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to market risk related to potential fluctuations in foreign currency exchange rates, interest rates and fuel prices. The Company's New Zealand JV uses derivative financial instruments to mitigate the financial impact of exposure to these risks.

Accounting for derivative financial instruments is governed by Accounting Standards Codification Topic 815, *Derivatives and Hedging*, ("ASC 815"). In accordance with ASC 815, the Company records its derivative instruments at fair value as either assets or liabilities in the Consolidated Balance Sheets. Changes in the instruments' fair value are accounted for based on their intended use. Gains and losses on derivatives that are designated and qualify for cash flow hedge accounting are recorded as a component of accumulated other comprehensive income ("AOCI") and reclassified into earnings when the hedged transaction materializes. The ineffective portion of any hedge as well as changes in the fair value of derivatives not designated as hedging instruments and those which are no longer effective as hedging instruments, are recognized immediately in earnings. The Company's hedge ineffectiveness was immaterial for all periods presented.

##### *Foreign Currency Exchange and Option Contracts*

The functional currency of the New Zealand JV is the New Zealand dollar. These operations are exposed to foreign currency risk on export sales and ocean freight payments which are predominately denominated in U.S. dollars. The New Zealand JV typically hedges 50 percent to 90 percent of its estimated foreign currency exposure with respect to the following three months forecasted sales and purchases, 50 percent to 75 percent of forecasted sales and purchases for the forward three to 12 months and up to 50 percent of the forward 12 to 18 months.

The fair value of foreign currency exchange contracts is determined by a mark-to-market valuation which estimates fair value by discounting the difference between the contracted forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate. The fair value of foreign currency option contracts is based on a mark-to-market calculation using the Black Scholes option pricing model.

##### *Interest Rate Swaps*

The Company uses interest rate swaps to manage the New Zealand JV's exposure to interest rate movements on its variable rate debt attributable to changes in the New Zealand Bank bill rate. By converting a portion of these borrowings from floating rates to fixed rates the Company has reduced the impact of interest rate changes on its expected future cash outflows. As of September 30, 2014, the Company's long-term interest rate contracts hedged 81 percent of the New Zealand JV's variable rate debt and had maturity dates through January 2020.

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

*Fuel Hedge Contracts*

The Company uses fuel swap contracts to manage its New Zealand JV's exposure to changes in New Zealand's domestic diesel prices. The fuel swaps are quoted by domestic banks in New Zealand dollar price terms. As of September 30, 2014 all of the contracts had maturities of less than one year. The fair value of the fuel swap contracts is determined by a mark-to-market valuation which estimates fair value by discounting the difference between the contracted forward price and the current forward price for the residual maturity of the contract. Due to the low volume of diesel fuel purchases made by the New Zealand JV, the Company decided to no longer hedge its diesel fuel purchases effective November 2013.

The following tables demonstrate the impact of the Company's derivatives on the Consolidated Statements of Income and Comprehensive Income for the three and nine months ended September 30, 2014 and 2013.

	Income Statement Location	Three Months Ended September 30,	
		2014	2013
<b>Derivatives designated as cash flow hedges:</b>			
Foreign currency exchange contracts	Other comprehensive income (loss)	\$ (2,537)	\$ 2,602
	Other operating (income) expense	—	619
Foreign currency option contracts	Other comprehensive income (loss)	(2,227)	832
<b>Derivatives not designated as hedging instruments:</b>			
Foreign currency exchange contracts	Other operating (income) expense	\$ —	\$ (360)
Foreign currency option contracts	Other operating (income) expense	—	(480)
Interest rate swaps	Interest and miscellaneous (expense) income, net	(1,765)	2,079
Fuel hedge contracts	Cost of sales (benefit)	(62)	162

	Income Statement Location	Nine Months Ended September 30,	
		2014	2013
<b>Derivatives designated as cash flow hedges:</b>			
Foreign currency exchange contracts	Other comprehensive income (loss)	\$ (1,868)	\$ 1,093
	Other operating (income) expense	—	619
Foreign currency option contracts	Other comprehensive income (loss)	(2,006)	468
<b>Derivatives not designated as hedging instruments:</b>			
Foreign currency exchange contracts	Other operating (income) expense	\$ 25	\$ (1,786)
Foreign currency option contracts	Other operating (income) expense	7	1,011
Interest rate swaps	Interest and miscellaneous (expense) income, net	(3,628)	4,729
Fuel hedge contracts	Cost of sales (benefit)	163	14

During the next 12 months, the amount of the September 30, 2014 AOCI balance, net of tax, expected to be reclassified into earnings as a result of the maturation of the Company's derivative instruments is a loss of approximately \$1.5 million.

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

The following table contains the notional amounts of the derivative financial instruments recorded in the Consolidated Balance Sheets:

	<b>Notional Amount</b>	
	<b>September 30, 2014</b>	<b>December 31, 2013</b>
<b>Derivatives designated as cash flow hedges:</b>		
Foreign currency exchange contracts	\$ 24,810	\$ 32,300
Foreign currency option contracts	70,500	38,000
<b>Derivatives not designated as hedging instruments:</b>		
Foreign currency exchange contracts	\$ —	\$ 1,950
Foreign currency option contracts	—	4,000
Interest rate swaps	180,858	183,851
Fuel hedge contracts (in thousands of barrels)	1	38

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

The following table contains the fair values of the derivative financial instruments recorded in the Consolidated Balance Sheets:

	<u>Location on Balance Sheet</u>	<u>Fair Value Assets (Liabilities) (a)</u>	
		<u>September 30, 2014</u>	<u>December 31, 2013</u>
<b>Derivatives designated as cash flow hedges:</b>			
Foreign currency exchange contracts	Prepaid and other current assets	\$ —	\$ 915
	Other current liabilities	(696)	—
	Other non-current liabilities	(181)	—
Foreign currency option contracts	Prepaid and other current assets	134	673
	Other assets	89	—
	Other current liabilities	(1,555)	(214)
	Other non-current liabilities	(164)	—
<b>Derivatives not designated as hedging instruments:</b>			
Foreign currency exchange contracts	Prepaid and other current assets	\$ —	\$ 25
Foreign currency option contracts	Prepaid and other current assets	—	8
Interest rate swaps	Other non-current liabilities	(5,519)	(4,659)
Fuel hedge contracts	Prepaid and other current assets	—	160
	Other current liabilities	(3)	—
<b>Total derivative contracts:</b>			
Prepaid and other current assets		\$ 134	\$ 1,781
Other assets		89	—
Total derivative assets		<u>223</u>	<u>1,781</u>
Other current liabilities		(2,254)	(214)
Other non-current liabilities		(5,864)	(4,659)
Total derivative liabilities		<u>\$ (8,118)</u>	<u>\$ (4,873)</u>

(a) See Note 11 — *Fair Value Measurements* for further information on the fair value of our derivatives including their classification within the fair value hierarchy.

*Offsetting Derivatives*

Derivative financial instruments are presented at their gross fair values in the Consolidated Balance Sheets. The Company's derivative financial instruments are not subject to master netting arrangements which would allow the right of offset.



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

**11. FAIR VALUE MEASUREMENTS**
*Fair Value of Financial Instruments*

The Accounting Standards Codification established a three-level hierarchy that prioritizes the inputs used to measure fair value as follows:

*Level 1* — Quoted prices in active markets for identical assets or liabilities.

*Level 2* — Observable inputs other than quoted prices included in Level 1.

*Level 3* — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table presents the carrying amount, estimated fair values and categorization under the fair value hierarchy of financial instruments held by the Company at September 30, 2014 and December 31, 2013, using market information and what management believes to be appropriate valuation methodologies under generally accepted accounting principles:

<b>Asset (liability)</b>	<b>September 30, 2014</b>			<b>December 31, 2013</b>		
	<b>Carrying Amount</b>	<b>Fair Value</b>		<b>Carrying Amount</b>	<b>Fair Value</b>	
		<b>Level 1</b>	<b>Level 2</b>		<b>Level 1</b>	<b>Level 2</b>
Cash and cash equivalents	\$ 182,831	\$ 182,831	\$ —	\$ 199,644	\$ 199,644	\$ —
Restricted cash (a)	21,626	21,626	—	68,944	68,944	—
Current maturities of long-term debt	(130,486)	—	(173,531)	(112,500)	—	(119,614)
Long-term debt	(605,162)	—	(607,139)	(1,461,724)	—	(1,489,810)
Interest rate swaps (b)	(5,519)	—	(5,519)	(4,659)	—	(4,659)
Foreign currency exchange contracts (b)	(877)	—	(877)	940	—	940
Foreign currency option contracts (b)	(1,496)	—	(1,496)	467	—	467
Fuel contracts (b)	(3)	—	(3)	160	—	160

(a) Restricted cash of \$22 million and \$69 million, as of September 30, 2014 and December 31, 2013, respectively, is recorded in “Other Assets” and represents the proceeds from LKE sales deposited with a third-party intermediary.

(b) See Note 10 — *Derivative Financial Instruments and Hedging Activities* for information regarding the Balance Sheet classification of the Company’s derivative financial instruments.

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

*Cash and cash equivalents and restricted cash* — The carrying amount is equal to fair market value.

*Debt* — The fair value of fixed rate debt is based upon quoted market prices for debt with similar terms and maturities. The variable rate debt adjusts with changes in the market rate, therefore the carrying value approximates fair value.

*Interest rate swap agreements* — The fair value of interest rate contracts is determined by discounting the expected future cash flows, for each instrument, at prevailing interest rates.

*Foreign currency exchange contracts* — The fair value of foreign currency exchange contracts is determined by a mark-to-market valuation which estimates fair value by discounting the difference between the contracted forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

*Foreign currency option contracts* — The fair value of foreign currency option contracts is based on a mark-to-market calculation using the Black-Scholes option pricing model.

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

**12. GUARANTEES**

The Company provides financial guarantees as required by creditors, insurance programs, and various governmental agencies. As of September 30, 2014, the following financial guarantees were outstanding:

Financial Commitments	Maximum Potential Payment	Carrying Amount of Associated Liability
Standby letters of credit (a)	\$ 17,355	\$ 15,000
Guarantees (b)	2,254	43
Surety bonds (c)	782	—
Total financial commitments	<u>\$ 20,391</u>	<u>\$ 15,043</u>

- (a) Approximately \$15 million of the standby letters of credit serve as credit support for industrial revenue bonds. The remaining letters of credit support various insurance related agreements, primarily workers' compensation, auto liability, and general liability policy requirements. These letters of credit will expire at various dates during 2014 and 2015 and will be renewed as required.
- (b) In conjunction with a timberland sale and note monetization in the first quarter of 2004, the Company issued a make-whole agreement pursuant to which it guaranteed \$2.3 million of obligations of a special-purpose entity that was established to complete the monetization. At September 30, 2014, the Company has a de minimis liability to reflect the fair market value of its obligation to perform under the make-whole agreement.
- (c) Rayonier issues surety bonds primarily to secure timber harvesting obligations in the State of Washington. These surety bonds expire at various dates during 2015 and are expected to be renewed as required.

**13. COMMITMENTS**

The Company leases certain buildings, machinery, and equipment under various operating leases. The Company also has long-term lease agreements on certain timberlands in the Southern U.S. and New Zealand. U.S. leases typically have initial terms of approximately 30 to 65 years, with renewal provisions in some cases. New Zealand timberland lease terms range between 30 and 99 years. Such leases are generally non-cancellable and require minimum annual rental payments.

At September 30, 2014, the future minimum payments under non-cancellable operating and timberland leases were as follows:

	Operating Leases	Timberland Leases (a)	Purchase Obligations (b)	Total
Remaining 2014	\$ 620	\$ 3,003	\$ 489	\$ 4,112
2015	1,941	9,798	592	12,331
2016	1,464	9,443	204	11,111
2017	884	9,255	170	10,309
2018	575	7,644	1,950	10,169
Thereafter	1,689	133,626	4,063	139,378
	<u>\$ 7,173</u>	<u>\$ 172,769</u>	<u>\$ 7,468</u>	<u>\$ 187,410</u>

- (a) The majority of timberland leases are subject to increases or decreases based on either the Consumer Price Index, Producer Price Index or market rates.
- (b) Purchase obligations include payments expected to be made on derivative financial instruments held in New Zealand.

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

The New Zealand JV has a number of Crown Forest Licenses (“CFL”) with the New Zealand government, which are excluded from the table above. A CFL consists of a license to use public or government owned land to operate a commercial forest. The CFL’s extend indefinitely and may only be terminated upon a 35 year termination notice from the government. If no termination notice is given, the CFLs renew automatically each year for a one year term. As of September 30, 2014, the New Zealand JV has three CFL’s under termination notice, terminating in 2034, 2046 and 2049 and two fixed term CFL’s expiring in 2062. The annual license fee is determined based on current market value, with triennial rent reviews. The total annual license fee on the CFL’s is \$1.9 million per year with CFL’s terminating or expiring of \$0.2 million.

The following table details the Company’s acres under lease as of September 30, 2014 by type of lease and lease expiration:

(acres in 000s)

<u>Location</u>	<u>Type of Lease</u>	<u>Total</u>	<u>2014 - 2024</u>	<u>2025 - 2034</u>	<u>2035 - 2044</u>	<u>Thereafter</u>
Southern U.S.	Fixed Term	260	176	44	40	—
	Fixed Term with Renewal Option	18	18	—	—	—
New Zealand (a)	CFL - Perpetual	60	37	—	—	23
	CFL - Fixed Term	2	—	—	—	2
	CFL - Terminating	21	—	3	—	18
	Forestry Right	60	17	4	24	15
	Lease	32	23	—	—	9
	<i>Total Acres under Long-term Leases</i>	<u>453</u>	<u>271</u>	<u>51</u>	<u>64</u>	<u>67</u>

(a) Represents acres leased by the New Zealand JV, in which Rayonier has a 65 percent interest.

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

An analysis of the liabilities for dispositions and discontinued operations follows:

	<u>September 30,</u>	<u>December 31,</u>
	<u>2014</u>	<u>2013</u>
Balance, beginning of period	\$ 76,378	\$ 81,695
Expenditures charged to liabilities	(5,096)	(8,570)
Increase to liabilities	2,558	3,253
Contribution to Rayonier Advanced Materials	(73,840)	—
Balance, end of period	—	76,378
Less: Current portion	—	(6,835)
Non-current portion	<u>\$ —</u>	<u>\$ 69,543</u>

In connection with the spin-off of the Performance Fibers business, all prior dispositions and discontinued operations were contributed to Rayonier Advanced Materials. As part of the separation agreement, Rayonier has been indemnified, released and discharged from any liability related to these sites. For additional information on the Performance Fibers spin-off, see Note 2 — *Discontinued Operations*.

**15. CONTINGENCIES**

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

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

**16. INCENTIVE STOCK PLANS**

As a result of the spin-off and pursuant to the Employee Matters Agreement, the Company made certain adjustments to the exercise price and number of Rayonier stock-based compensation awards. The adjusted awards are generally subject to the same vesting conditions and other terms that applied to the original Rayonier award immediately before the spin-off, except as otherwise described below.

***Stock Option Awards***

Each Rayonier stock option was converted into an adjusted Rayonier stock option and a Rayonier Advanced Material stock option. The exercise price and number of shares subject to each stock option were adjusted in order to preserve the aggregate value of the original Rayonier stock option as measured immediately before and immediately after the spin-off, subject to rounding.

***Restricted Stock Awards***

Holders of Rayonier restricted stock, including Rayonier non-employee directors, retained those awards and also received restricted stock of Rayonier Advanced Materials, in an amount that reflects the distribution to Rayonier stockholders, by applying the distribution ratio (one share of Rayonier Advanced Materials for every three shares of Rayonier stock held) to Rayonier restricted stock awards as though they were unrestricted Rayonier common shares.

***Performance Share Awards***

Performance share awards outstanding as of the spin-off were treated as follows:

- Performance share awards granted in 2012 (with a 2012-2014 performance period) continue to be subject to the same performance criteria as applied immediately prior to the spin-off, except that total shareholder return at the end of the performance period will be based on the combined stock prices of Rayonier and Rayonier Advanced Materials and any payment earned will be made in shares of Rayonier common stock and shares of Rayonier Advanced Materials common stock.
- Performance share awards granted in 2013 (with a 2013-2015 performance period) were cancelled as of the distribution date and were replaced with time-vested restricted stock of the post-separation employer of each holder (Rayonier or Rayonier Advanced Materials, as the case may be) that will vest 24 months after the distribution date, generally subject to the holder's continued employment. The number of shares of time-vested restricted stock granted were determined in a manner intended to preserve the original value of the performance share award, subject to rounding.
- Performance share awards granted in 2014 (with a 2014-2016 performance period) were cancelled and replaced with performance share awards of the post-separation employer of each holder (Rayonier or Rayonier Advanced Materials, as the case may be), and are subject to the achievement of performance criteria that relate to the post-separation business of the applicable employer during a performance period ending December 31, 2016. The number of shares underlying each such performance share award were determined in a manner intended to preserve the original value of the award, subject to rounding.

The replacement of the 2013 performance share awards with time-vested restricted stock resulted in a \$0.7 million increase in intrinsic value to Rayonier holders. This amount will be expensed over the 2-year vesting period ending in the second quarter of 2016. Overall, the spin-off resulted in lower stock-based compensation expense, which was \$0.8 million for the third quarter of 2014 compared to \$2.9 million in the second quarter of 2014.

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

**17. EMPLOYEE BENEFIT PLANS**

In connection with the spin-off of the Performance Fibers business, Rayonier entered into an Employee Matters Agreement with Rayonier Advanced Materials, see Note 2 — *Discontinued Operations*, which provides that employees of Rayonier Advanced Materials will no longer participate in benefit plans sponsored or maintained by Rayonier. Upon separation, the Rayonier Pension Plans transferred assets and obligations to the Rayonier Advanced Materials Pension Plans resulting in a net decrease in sponsored pension plan obligations of \$99 million after a revaluation of plan obligations using a 4.0 percent discount rate versus 4.6 percent at December 31, 2013. In addition, \$78 million of other comprehensive losses were transferred to Rayonier Advanced Materials Pension Plans after revaluation, net of taxes of \$45 million. In the third quarter of 2014, the Company made adjustments to the assets and obligations transferred to the Rayonier Advanced Materials Pension Plans as the pension and postretirement plans segregation was finalized. The effect of these period adjustments has been reflected in equity for the period ended September 30, 2014.

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

The net pension and postretirement benefit costs that have been recorded are shown in the following tables:

	Pension		Postretirement	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2014	2013	2014	2013
<b>Components of Net Periodic Benefit Cost</b>				
Service cost	\$ 378	\$ 2,011	\$ 3	\$ 330
Interest cost	786	3,953	18	231
Expected return on plan assets	(1,135)	(5,966)	—	—
Amortization of prior service cost	3	322	—	6
Amortization of losses	601	4,792	3	98
<b>Net periodic benefit cost (a)</b>	<b>\$ 633</b>	<b>\$ 5,112</b>	<b>\$ 24</b>	<b>\$ 665</b>

	Pension		Postretirement	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>Components of Net Periodic Benefit Cost</b>				
Service cost	\$ 3,545	\$ 6,441	\$ 328	\$ 828
Interest cost	9,921	12,740	423	711
Expected return on plan assets	(14,123)	(19,356)	—	—
Amortization of prior service cost	572	1,032	8	19
Amortization of losses	5,942	15,308	248	533
Amortization of negative plan amendment	—	—	(267)	—
<b>Net periodic benefit cost (b)</b>	<b>\$ 5,857</b>	<b>\$ 16,165</b>	<b>\$ 740</b>	<b>\$ 2,091</b>

(a) Net periodic benefit cost for the three months ended September 30, 2013 includes \$3.7 million recorded in “Income from discontinued operations, net” on the Consolidated Statements of Income and Comprehensive Income.

(b) Net periodic benefit cost for the nine months ended September 30, 2014 and September 30, 2013 includes \$4.0 million and \$11.2 million, respectively, recorded in “Income from discontinued operations, net” on the Consolidated Statements of Income and Comprehensive Income.

In 2014, the Company has no mandatory pension contribution requirement.

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

**18. DEBT**

As of June 30, 2014, the 2015 Notes were exchangeable at the option of the holders for the calendar quarter ended September 30, 2014. According to the indenture, in order for the notes to become exchangeable, the Company's stock price must exceed 130 percent of the exchange price for 20 trading days during a period of 30 consecutive trading days as of the last day of the quarter. During the nine months ended September 30, 2014, the note holders did not elect to exercise the exchange option. Based upon the average stock price for the 30 trading days ended September 30, 2014, these notes again became exchangeable at the option of the holder for the calendar quarter ending December 31, 2014. The notes mature in September of 2015 and are classified as current maturities of long-term debt as of September 30, 2014.

As part of the spin-off of the Performance Fibers business, Rayonier Advanced Materials, while a subsidiary of Rayonier, incurred \$950 million of new debt. Rayonier Advanced Materials distributed \$906 million from the proceeds of this new debt to the Company prior to the spin-off, including \$75 million restricted to shareholder dividend payments which were made during third quarter 2014. Rayonier used the remainder of the distribution, as well as available cash, to make repayments of \$280 million on its unsecured revolving credit facility, \$500 million on its term credit agreement and \$112.5 million on its installment note due 2014. Additionally, during the third quarter of 2014 the Company prepaid \$10.5 million of principal on the mortgage notes due 2017, the maximum amount allowable without penalty.

Net repayments of \$80 million were made in the first quarter of 2014 on the revolving credit facility. In connection with the spin-off, the revolving credit facility and term credit agreement were amended to reduce the Company's borrowing capacity and related commitment fees effective July 7, 2014. The revolving credit facility capacity was reduced from \$450 million to \$200 million and the term credit agreement was reduced from \$640 million of available capacity to \$100 million. The capacity reductions also resulted in the write-off of \$1.7 million of capitalized debt costs. At September 30, 2014, the Company had available borrowings of \$198 million under the revolving credit facility and additional draws available of \$100 million under the term credit agreement.

Through the nine months ended September 30, 2014, the New Zealand JV paid \$1.2 million on its shareholder loan held with the non-controlling interest party and made net draws on its working capital facility of \$1.3 million. Favorable exchange rates resulted in a \$11.4 million decrease to the New Zealand JV's debt on a U.S. dollar basis. There were no other significant changes to the Company's outstanding debt as reported in Note 13 — *Debt* in the Company's Amended Form 10-K.

Rayonier's debt consisted of the following at September 30, 2014:

	<b>September 30, 2014</b>
Senior Notes due 2022 at a fixed interest rate of 3.75%	\$ 325,000
Senior Exchangeable Notes due 2015 at a fixed interest rate of 4.50% (a)	129,199
Mortgage notes due 2017 at fixed interest rates of 4.35% (b)	53,926
Solid waste bond due 2020 at a variable interest rate of 1.3% at September 30, 2014	15,000
New Zealand JV Revolving Credit Facility due 2016 at a variable interest rate of 4.53% at September 30, 2014	183,394
New Zealand JV Working Capital Facility due 2014 at a variable interest rate of 4.69% at September 30, 2014	1,287
New Zealand JV noncontrolling interest shareholder loan at 0% interest rate	27,842
Total debt	735,648
Less: Current maturities of long-term debt	(130,486)
Long-term debt	\$ 605,162

(a) The Senior Exchangeable Notes maturing in 2015 were discounted by \$1.8 million as of September 30, 2014. Upon maturity the liability will be \$131 million.

(b) The mortgage notes due in 2017 were recorded at a premium of \$1.4 million as of September 30, 2014. Upon maturity, the liability will be \$52.5 million.

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

**19. ACCUMULATED OTHER COMPREHENSIVE INCOME**

The following table summarizes the changes in AOCI by component for the nine months ended September 30, 2014. All amounts are presented net of tax and exclude portions attributable to noncontrolling interest.

	Foreign currency translation gains	New Zealand joint venture cash flow hedges	Unrecognized components of employee benefit plans	Total
Balance as of December 31, 2013	\$ 36,914	\$ (342)	\$ (82,711)	\$ (46,139)
Other comprehensive income before reclassifications	(11,770)	172	57,770 (a)	46,172
Amounts reclassified from accumulated other comprehensive income	—	(1,929)	5,465 (b)	3,536
Net other comprehensive income	(11,770)	(1,757)	63,235	49,708
Balance as of September 30, 2014	<u>\$ 25,144</u>	<u>\$ (2,099)</u>	<u>\$ (19,476)</u>	<u>\$ 3,569</u>

(a) Reflects \$78 million, net of taxes, of additional losses transferred to Rayonier Advanced Materials Pension Plans offset by \$20 million, net of taxes, of additional losses as a result of the revaluation required due to the spin-off. See Note 17 — *Employee Benefit Plans* for additional information.

(b) This accumulated other comprehensive income component is comprised of \$4 million in the computation of net periodic pension cost and \$1 million of deferred tax asset related to the revaluation and transfer of liabilities as a result of the spin-off.

The following table presents details of the amounts reclassified in their entirety from AOCI for the nine months ended September 30, 2014:

Details about accumulated other comprehensive income components	Amount reclassified from accumulated other comprehensive income	Affected line item in the income statement
Realized gain on foreign currency exchange contracts	\$ (3,194)	Other operating income, net
Realized gain on foreign currency option contracts	(1,058)	Other operating income, net
Noncontrolling interest	1,488	Comprehensive loss (income) attributable to noncontrolling interest
Income tax expense on gain from foreign currency contracts	835	Income tax benefit
Net gain on cash flow hedges reclassified from accumulated other comprehensive income	(1,929)	
Income tax expense on pension plan contributed to Rayonier Advanced Materials	843	Income tax benefit
Net gain reclassified from accumulated other comprehensive income	<u>\$ (1,086)</u>	

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

**20. OTHER OPERATING INCOME, NET**

Other operating income, net was comprised of the following:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Lease income, primarily from hunting leases	\$ 5,013	\$ 4,367	\$ 12,015	\$ 9,141
Other non-timber income	817	573	1,503	1,651
Foreign currency income (loss)	4,304	(2,050)	4,292	511
Gain on sale or disposal of property, plant & equipment	66	2	46	287
Gain (loss) on foreign currency exchange contracts	—	221	(32)	156
Bankruptcy claim settlement	—	—	5,779	—
Miscellaneous expense, net	(1,056)	(299)	(2,695)	(1,159)
Total	<u>\$ 9,144</u>	<u>\$ 2,814</u>	<u>\$ 20,908</u>	<u>\$ 10,587</u>



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

**21. CONSOLIDATING FINANCIAL STATEMENTS**

The condensed consolidating financial information below follows the same accounting policies as described in the consolidated financial statements, except for the use of the equity method of accounting to reflect ownership interests in wholly-owned subsidiaries, which are eliminated upon consolidation, and the allocation of certain expenses of Rayonier Inc. incurred for the benefit of its subsidiaries.

In August 2009, Rayonier TRS Holdings Inc. issued \$172.5 million of 4.50% Senior Exchangeable Notes due 2015. The notes are guaranteed by Rayonier Inc. as the Parent Guarantor and Rayonier Operating Company LLC (“ROC”) as the Subsidiary Guarantor. In connection with these exchangeable notes, the Company provides the following condensed consolidating financial information in accordance with SEC Regulation S-X Rule 3-10, *Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered*.

**CONDENSED CONSOLIDATING STATEMENTS OF INCOME  
AND COMPREHENSIVE INCOME  
For the Three Months Ended September 30, 2014**

	Rayonier Inc. (Parent Guarantor)	ROC (Subsidiary Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Non- guarantors	Consolidating Adjustments	Total Consolidated
<b>SALES</b>	\$ —	\$ —	\$ —	\$ 149,829	\$ —	\$ 149,829
Costs and Expenses						
Cost of sales	—	—	—	118,088	—	118,088
Selling and general expenses	—	3,488	—	5,318	—	8,806
Other operating expense (income), net	—	(854)	—	(8,290)	—	(9,144)
	—	2,634	—	115,116	—	117,750
<b>OPERATING (LOSS) INCOME</b>	—	(2,634)	—	34,713	—	32,079
Interest expense	(3,685)	141	(3,122)	(2,900)	—	(9,566)
Interest and miscellaneous income (expense), net	1,799	814	(260)	(4,087)	—	(1,734)
Equity in income from subsidiaries	34,587	36,266	6,259	—	(77,112)	—
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	32,701	34,587	2,877	27,726	(77,112)	20,779
Income tax benefit	—	—	1,234	10,046	—	11,280
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS</b>	32,701	34,587	4,111	37,772	(77,112)	32,059
<b>DISCONTINUED OPERATIONS, NET</b>						
Income from discontinued operations, net of income taxes	—	—	—	—	—	—
<b>NET INCOME (LOSS)</b>	32,701	34,587	4,111	37,772	(77,112)	32,059
Less: Net loss attributable to noncontrolling interest	—	—	—	(642)	—	(642)
<b>NET INCOME (LOSS) ATTRIBUTABLE TO RAYONIER INC.</b>	32,701	34,587	4,111	38,414	(77,112)	32,701
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>						
Foreign currency translation adjustment	(27,317)	(27,318)	(1,441)	(37,738)	55,937	(37,877)
New Zealand joint venture cash flow hedges	(2,270)	(2,271)	(2,272)	(3,494)	6,813	(3,494)
Amortization of pension and postretirement plans, net of income tax	2,265	2,265	(4,120)	(4,120)	5,975	2,265
Total other comprehensive loss	(27,322)	(27,324)	(7,833)	(45,352)	68,725	(39,106)
<b>COMPREHENSIVE INCOME (LOSS)</b>	5,379	7,263	(3,722)	(7,580)	(8,387)	(7,047)
Less: Comprehensive loss attributable to noncontrolling interest	—	—	—	(12,295)	(131)	(12,426)
<b>COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO RAYONIER INC.</b>	\$ 5,379	\$ 7,263	\$ (3,722)	\$ 4,715	\$ (8,256)	\$ 5,379

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

**CONDENSED CONSOLIDATING STATEMENTS OF INCOME**  
**AND COMPREHENSIVE INCOME**  
**For the Three Months Ended September 30, 2013**

	Rayonier Inc. (Parent Guarantor)	ROC (Subsidiary Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Non- guarantors	Consolidating Adjustments	Total Consolidated
<b>SALES</b>	\$ —	\$ —	\$ —	\$ 159,261	\$ —	\$ 159,261
Costs and Expenses						
Cost of sales	—	—	—	129,002	—	129,002
Selling and general expenses	—	2,276	—	10,828	—	13,104
Other operating expense (income), net	—	738	—	(4,213)	661	(2,814)
	—	3,014	—	135,617	661	139,292
Equity in income of New Zealand joint venture	—	—	—	—	—	—
<b>OPERATING (LOSS) INCOME BEFORE GAIN ON CONSOLIDATION OF NEW ZEALAND JOINT VENTURE</b>	—	(3,014)	—	23,644	(661)	19,969
Gain related to consolidation of New Zealand joint venture	—	—	—	—	—	—
<b>OPERATING (LOSS) INCOME</b>	—	(3,014)	—	23,644	(661)	19,969
Interest expense	(3,190)	(162)	(7,115)	(356)	—	(10,823)
Interest and miscellaneous income (expense), net	2,538	770	(4,325)	103	—	(914)
Equity in income from subsidiaries	57,932	58,802	39,544	—	(156,278)	—
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	57,280	56,396	28,104	23,391	(156,939)	8,232
Income tax benefit	65	1,536	3,627	1,642	(62)	6,808
<b>INCOME FROM CONTINUING OPERATIONS</b>	57,345	57,932	31,731	25,033	(157,001)	15,040
<b>DISCONTINUED OPERATIONS, NET</b>						
Income from discontinued operations, net of income taxes	—	—	—	43,327	—	43,327
<b>NET INCOME</b>	57,345	57,932	31,731	68,360	(157,001)	58,367
Less: Net income attributable to noncontrolling interest	—	—	—	1,022	—	1,022
<b>NET INCOME ATTRIBUTABLE TO RAYONIER INC.</b>	57,345	57,932	31,731	67,338	(157,001)	57,345
<b>OTHER COMPREHENSIVE INCOME</b>						
Foreign currency translation adjustment	17,887	17,887	2,084	24,259	(37,858)	24,259
New Zealand joint venture cash flow hedges	2,233	2,231	2,231	3,434	(6,696)	3,433
Amortization of pension and postretirement plans, net of income tax	3,639	3,639	2,747	2,747	(9,133)	3,639
Total other comprehensive income	23,759	23,757	7,062	30,440	(53,687)	31,331
<b>COMPREHENSIVE INCOME</b>	81,104	81,689	38,793	98,800	(210,688)	89,698
Less: Comprehensive income attributable to noncontrolling interest	—	—	—	8,594	—	8,594
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.</b>	\$ 81,104	\$ 81,689	\$ 38,793	\$ 90,206	\$ (210,688)	\$ 81,104

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

**CONSOLIDATING STATEMENTS OF INCOME**  
**AND COMPREHENSIVE INCOME**  
**For the Nine Months Ended September 30, 2014**

	Rayonier Inc. (Parent Guarantor)	ROC (Subsidiary Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Non- guarantors	Consolidating Adjustments	Total Consolidated
<b>SALES</b>	\$ —	\$ —	\$ —	\$ 456,161	\$ —	\$ 456,161
Costs and Expenses						
Cost of sales	—	—	—	357,083	—	357,083
Selling and general expenses	—	8,032	—	27,872	—	35,904
Other operating expense (income), net	—	3,094	—	(24,002)	—	(20,908)
	—	11,126	—	360,953	—	372,079
<b>OPERATING INCOME (LOSS)</b>	—	(11,126)	—	95,208	—	84,082
Interest expense	(10,074)	(327)	(20,794)	(4,657)	—	(35,852)
Interest and miscellaneous income (expense), net	7,230	(1,375)	(2,405)	(10,581)	—	(7,131)
Equity in income (loss) from subsidiaries	93,324	106,315	(16,692)	—	(182,947)	—
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	90,480	93,487	(39,891)	79,970	(182,947)	41,099
Income tax benefit (expense)	—	(163)	8,467	(2,985)	—	5,319
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS</b>	90,480	93,324	(31,424)	76,985	(182,947)	46,418
<b>DISCONTINUED OPERATIONS, NET</b>						
Income from discontinued operations, net of income tax	—	—	—	43,092	—	43,092
<b>NET INCOME (LOSS)</b>	90,480	93,324	(31,424)	120,077	(182,947)	89,510
Less: Net loss attributable to noncontrolling interest	—	—	—	(970)	—	(970)
<b>NET INCOME (LOSS) ATTRIBUTABLE TO RAYONIER INC.</b>	90,480	93,324	(31,424)	121,047	(182,947)	90,480
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>						
Foreign currency translation adjustment	(11,770)	(11,770)	(162)	(16,426)	23,702	(16,426)
New Zealand joint venture cash flow hedges	(1,756)	(1,757)	(1,758)	(2,703)	5,271	(2,703)
Amortization of pension and postretirement plans, net of income tax	63,235	63,235	90,214	90,214	(243,663)	63,235
Total other comprehensive income	49,709	49,708	88,294	71,085	(214,690)	44,106
<b>COMPREHENSIVE INCOME</b>	140,189	143,032	56,870	191,163	(397,638)	133,616
Less: Comprehensive loss attributable to noncontrolling interest	—	—	—	(6,573)	—	(6,573)
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.</b>	\$ 140,189	\$ 143,032	\$ 56,870	\$ 197,736	\$ (397,638)	\$ 140,189

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

**CONSOLIDATING STATEMENTS OF INCOME**  
**AND COMPREHENSIVE INCOME**  
**For the Nine Months Ended September 30, 2013**

	Rayonier Inc. (Parent Guarantor)	ROC (Subsidiary Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Non-guarantors	Consolidating Adjustments	Total Consolidated
<b>SALES</b>	\$ —	\$ —	\$ —	\$ 421,203	\$ —	\$ 421,203
Costs and Expenses						
Cost of sales	—	—	—	333,523	—	333,523
Selling and general expenses	—	7,357	—	33,847	—	41,204
Other operating (income) expense, net	(1,701)	1,187	—	(10,073)	—	(10,587)
	(1,701)	8,544	—	357,297	—	364,140
Equity in income of New Zealand joint venture	—	—	—	562	—	562
<b>OPERATING INCOME (LOSS) BEFORE GAIN ON CONSOLIDATION OF NEW ZEALAND JOINT VENTURE</b>	1,701	(8,544)	—	64,468	—	57,625
Gain related to consolidation of New Zealand joint venture	—	—	—	16,098	—	16,098
<b>OPERATING INCOME (LOSS)</b>	1,701	(8,544)	—	80,566	—	73,723
Interest (expense) income	(9,879)	(680)	(20,730)	663	—	(30,626)
Interest and miscellaneous income (expense), net	6,716	2,403	(5,873)	(1,394)	—	1,852
Equity in income from subsidiaries	293,706	298,802	198,981	—	(791,489)	—
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	292,244	291,981	172,378	79,835	(791,489)	44,949
Income tax benefit	—	1,725	9,164	17,861	—	28,750
<b>INCOME FROM CONTINUING OPERATIONS</b>	292,244	293,706	181,542	97,696	(791,489)	73,699
<b>DISCONTINUED OPERATIONS, NET</b>						
Income from discontinued operations, net of income taxes	—	—	—	220,294	—	220,294
<b>NET INCOME</b>	292,244	293,706	181,542	317,990	(791,489)	293,993
Less: Net income attributable to noncontrolling interest	—	—	—	1,749	—	1,749
<b>NET INCOME ATTRIBUTABLE TO RAYONIER INC.</b>	292,244	293,706	181,542	316,241	(791,489)	292,244
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>						
Foreign currency translation adjustment	237	237	629	(2,967)	(1,103)	(2,967)
New Zealand joint venture cash flow hedges	3,663	3,663	1,014	4,209	(8,340)	4,209
Amortization of pension and postretirement plans, net of income tax	12,326	12,326	9,578	9,578	(31,482)	12,326
Total other comprehensive income	16,226	16,226	11,221	10,820	(40,925)	13,568
<b>COMPREHENSIVE INCOME</b>	308,470	309,932	192,763	328,810	(832,414)	307,561
Less: Comprehensive loss attributable to noncontrolling interest	—	—	—	(909)	—	(909)
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.</b>	<u>\$ 308,470</u>	<u>\$ 309,932</u>	<u>\$ 192,763</u>	<u>\$ 329,719</u>	<u>\$ (832,414)</u>	<u>\$ 308,470</u>

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

**CONDENSED CONSOLIDATING BALANCE SHEETS**  
**As of September 30, 2014**

	Rayonier Inc. (Parent Guarantor)	ROC (Subsidiary Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Non- guarantors	Consolidating Adjustments	Total Consolidated
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 84,283	\$ 3,255	\$ 48,233	\$ 47,060	\$ —	\$ 182,831
Restricted cash	—	—	—	—	—	—
Accounts receivable, less allowance for doubtful accounts	—	—	1,359	26,878	—	28,237
Inventory	—	—	—	12,439	—	12,439
Deferred tax assets	—	—	—	4,211	—	4,211
Prepaid and other current assets	—	1,511	14	22,296	—	23,821
Total current assets	84,283	4,766	49,606	112,884	—	251,539
TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION	—	—	—	2,058,381	—	2,058,381
NET PROPERTY, PLANT AND EQUIPMENT	—	483	—	6,048	—	6,531
INVESTMENT IN SUBSIDIARIES	1,522,406	1,907,075	499,062	—	(3,928,543)	—
INTERCOMPANY NOTES RECEIVABLE	245,898	—	21,279	—	(267,177)	—
OTHER ASSETS	2,860	17,315	1,962	138,971	—	161,108
<b>TOTAL ASSETS</b>	<b>\$ 1,855,447</b>	<b>\$ 1,929,639</b>	<b>\$ 571,909</b>	<b>\$ 2,316,284</b>	<b>\$ (4,195,720)</b>	<b>\$ 2,477,559</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>CURRENT LIABILITIES</b>						
Accounts payable	\$ —	\$ 1,595	\$ 2,052	\$ 19,479	\$ —	\$ 23,126
Current maturities of long-term debt	—	—	129,199	1,287	—	130,486
Accrued taxes	—	41	—	14,913	—	14,954
Uncertain tax positions	—	—	—	—	—	—
Accrued payroll and benefits	—	3,892	—	2,446	—	6,338
Accrued interest	6,116	(3)	1,004	29,098	(26,079)	10,136
Other current liabilities	—	1,113	—	25,483	—	26,596
Total current liabilities	6,116	6,638	132,255	92,706	(26,079)	211,636
LONG-TERM DEBT	325,000	—	14,999	265,163	—	605,162
PENSION AND OTHER POSTRETIREMENT BENEFITS	—	23,078	—	(685)	—	22,393
OTHER NON-CURRENT LIABILITIES	—	6,876	—	20,590	—	27,466
INTERCOMPANY PAYABLE	—	370,641	—	(100,759)	(269,882)	—
<b>TOTAL RAYONIER INC. SHAREHOLDERS' EQUITY</b>	<b>1,524,331</b>	<b>1,522,406</b>	<b>424,655</b>	<b>1,952,698</b>	<b>(3,899,759)</b>	<b>1,524,331</b>
Noncontrolling interest	—	—	—	86,571	—	86,571
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,524,331</b>	<b>1,522,406</b>	<b>424,655</b>	<b>2,039,269</b>	<b>(3,899,759)</b>	<b>1,610,902</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 1,855,447</b>	<b>\$ 1,929,639</b>	<b>\$ 571,909</b>	<b>\$ 2,316,284</b>	<b>\$ (4,195,720)</b>	<b>\$ 2,477,559</b>

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

**CONDENSED CONSOLIDATING BALANCE SHEETS**  
**As of December 31, 2013**

	Rayonier Inc. (Parent Guarantor)	ROC (Subsidiary Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Non- guarantors	Consolidating Adjustments	Total Consolidated
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 130,181	\$ 304	\$ 10,719	\$ 58,440	\$ —	\$ 199,644
Accounts receivable, less allowance for doubtful accounts	—	10	2,300	92,646	—	94,956
Inventory	—	—	—	138,818	—	138,818
Deferred tax assets	—	—	681	38,419	—	39,100
Prepaid and other current assets	—	2,363	6	44,207	—	46,576
Total current assets	130,181	2,677	13,706	372,530	—	519,094
TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION	—	—	—	2,049,378	—	2,049,378
NET PROPERTY, PLANT AND EQUIPMENT	—	2,612	—	858,209	—	860,821
INVESTMENT IN SUBSIDIARIES	1,627,315	1,837,760	1,148,221	—	(4,613,296)	—
INTERCOMPANY NOTES RECEIVABLE	228,032	—	20,659	—	(248,691)	—
OTHER ASSETS	3,689	32,519	3,739	216,261	—	256,208
<b>TOTAL ASSETS</b>	<b>\$ 1,989,217</b>	<b>\$ 1,875,568</b>	<b>\$ 1,186,325</b>	<b>\$ 3,496,378</b>	<b>\$ (4,861,987)</b>	<b>\$ 3,685,501</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>						
<b>CURRENT LIABILITIES</b>						
Accounts payable	\$ —	\$ 1,522	\$ 1,564	\$ 66,207	\$ —	\$ 69,293
Current maturities of long-term debt	—	—	112,500	—	—	112,500
Accrued taxes	—	4,855	—	3,696	—	8,551
Uncertain tax positions	—	5,780	—	4,767	—	10,547
Accrued payroll and benefits	—	11,382	—	13,566	—	24,948
Accrued interest	3,047	538	2,742	22,816	(19,612)	9,531
Accrued customer incentives	—	—	—	9,580	—	9,580
Other current liabilities	—	2,985	—	21,342	—	24,327
Current liabilities for dispositions and discontinued operations	—	—	—	6,835	—	6,835
Total current liabilities	3,047	27,062	116,806	148,809	(19,612)	276,112
LONG-TERM DEBT	325,000	—	847,749	288,975	—	1,461,724
NON-CURRENT LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS	—	—	—	69,543	—	69,543
PENSION AND OTHER POSTRETIREMENT BENEFITS	—	91,471	—	4,183	—	95,654
OTHER NON-CURRENT LIABILITIES	—	11,493	—	15,732	—	27,225
INTERCOMPANY PAYABLE	—	118,227	—	125,921	(244,148)	—
<b>TOTAL RAYONIER INC. SHAREHOLDERS' EQUITY</b>	<b>1,661,170</b>	<b>1,627,315</b>	<b>221,770</b>	<b>2,749,142</b>	<b>(4,598,227)</b>	<b>1,661,170</b>
Noncontrolling interest	—	—	—	94,073	—	94,073
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,661,170</b>	<b>1,627,315</b>	<b>221,770</b>	<b>2,843,215</b>	<b>(4,598,227)</b>	<b>1,755,243</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 1,989,217</b>	<b>\$ 1,875,568</b>	<b>\$ 1,186,325</b>	<b>\$ 3,496,378</b>	<b>\$ (4,861,987)</b>	<b>\$ 3,685,501</b>

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

**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**  
**For the Nine Months Ended September 30, 2014**

	Rayonier Inc. (Parent Guarantor)	ROC (Subsidiary Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Non- guarantors	Consolidating Adjustments	Total Consolidated
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	\$ 219,988	\$ 238,010	\$ —	\$ 54,461	\$ (231,730)	\$ 280,729
<b>INVESTING ACTIVITIES</b>						
Capital expenditures	—	(400)	—	(105,258)	—	(105,658)
Purchase of timberlands	—	—	—	(93,189)	—	(93,189)
Change in restricted cash	—	—	—	47,318	—	47,318
Investment in Subsidiaries	—	—	855,014	—	(855,014)	—
Other	—	—	—	(478)	—	(478)
<b>CASH (USED FOR) PROVIDED BY INVESTING ACTIVITIES</b>	—	(400)	855,014	(151,607)	(855,014)	(152,007)
<b>FINANCING ACTIVITIES</b>						
Issuance of debt	—	—	185,000	1,110,163	—	1,295,163
Repayment of debt	—	—	(1,002,500)	(170,549)	—	(1,173,049)
Dividends paid	(225,877)	—	—	—	—	(225,877)
Proceeds from the issuance of common shares	4,645	—	—	—	—	4,645
Debt issuance costs	—	—	—	(12,380)	—	(12,380)
Repurchase of common shares	(1,834)	—	—	—	—	(1,834)
Purchase of timberland deeds for Rayonier Advanced Materials	(12,677)	—	—	—	—	(12,677)
Debt issuance funds distributed to Rayonier Advanced Materials	(924,943)	—	—	—	—	(924,943)
Proceeds from spin-off of Rayonier Advanced Materials	906,200	—	—	—	—	906,200
Change in restricted cash reserved for dividends	—	—	—	—	—	—
Issuance of intercompany notes	(11,400)	—	—	11,400	—	—
Intercompany distributions	—	(234,659)	—	(852,085)	1,086,744	—
Other	—	—	—	(680)	—	(680)
<b>CASH (USED FOR) PROVIDED BY FINANCING ACTIVITIES</b>	(265,886)	(234,659)	(817,500)	85,869	1,086,744	(145,432)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	—	—	—	(103)	—	(103)
<b>CASH AND CASH EQUIVALENTS</b>						
Change in cash and cash equivalents	(45,898)	2,951	37,514	(11,380)	—	(16,813)
Balance, beginning of year	130,181	304	10,719	58,440	—	199,644
Balance, end of period	<u>\$ 84,283</u>	<u>\$ 3,255</u>	<u>\$ 48,233</u>	<u>\$ 47,060</u>	<u>\$ —</u>	<u>\$ 182,831</u>

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

**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**  
**For the Nine Months Ended September 30, 2013**

	Rayonier Inc. (Parent Guarantor)	ROC (Subsidiary Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Non- guarantors	Consolidating Adjustments	Total Consolidated
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	\$ 389,405	\$ 394,700	\$ 84,000	\$ 291,478	\$ (825,347)	\$ 334,236
<b>INVESTING ACTIVITIES</b>						
Capital expenditures	—	(335)	—	(121,764)	—	(122,099)
Purchase of additional interest in New Zealand joint venture	—	—	—	(139,879)	—	(139,879)
Purchase of timberlands	—	—	—	(11,650)	—	(11,650)
Intercompany purchase of real estate	—	—	—	—	—	—
Jesup mill cellulose specialties expansion	—	—	—	(137,392)	—	(137,392)
Proceeds from disposition of Wood Products business	—	—	—	68,063	—	68,063
Change in restricted cash	—	—	—	3,989	—	3,989
Investment in Subsidiaries	(138,178)	(138,178)	(316,836)	—	593,192	—
Other	—	1,701	—	(1,925)	—	(224)
<b>CASH USED FOR INVESTING ACTIVITIES</b>	<b>(138,178)</b>	<b>(136,812)</b>	<b>(316,836)</b>	<b>(340,558)</b>	<b>593,192</b>	<b>(339,192)</b>
<b>FINANCING ACTIVITIES</b>						
Issuance of debt	175,000	—	375,000	57,885	—	607,885
Repayment of debt	(325,000)	—	(56,527)	(71,936)	—	(453,463)
Dividends paid	(175,079)	—	—	—	—	(175,079)
Proceeds from the issuance of common shares	9,205	—	—	—	—	9,205
Excess tax benefits on stock-based compensation	—	—	—	8,189	—	8,189
Repurchase of common shares	(11,303)	—	—	—	—	(11,303)
Issuance of intercompany notes	(4,000)	—	—	4,000	—	—
Intercompany distributions	—	(256,921)	(84,000)	108,766	232,155	—
<b>CASH (USED FOR) PROVIDED BY FINANCING ACTIVITIES</b>	<b>(331,177)</b>	<b>(256,921)</b>	<b>234,473</b>	<b>106,904</b>	<b>232,155</b>	<b>(14,566)</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(336)</b>	<b>—</b>	<b>(336)</b>
<b>CASH AND CASH EQUIVALENTS</b>						
Change in cash and cash equivalents	(79,950)	967	1,637	57,488	—	(19,858)
Balance, beginning of year	252,888	3,966	19,358	4,384	—	280,596
Balance, end of period	<u>\$ 172,938</u>	<u>\$ 4,933</u>	<u>\$ 20,995</u>	<u>\$ 61,872</u>	<u>\$ —</u>	<u>\$ 260,738</u>



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

In March 2012, Rayonier Inc. issued \$325 million of 3.75% Senior Notes due 2022. The notes are fully and unconditionally guaranteed by ROC and Rayonier TRS Holdings Inc. In connection with these notes, the Company provides the following consolidating financial information in accordance with SEC Regulation S-X Rule 3-10, *Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered*.

**CONDENSED CONSOLIDATING STATEMENTS OF INCOME**  
**AND COMPREHENSIVE INCOME**  
**For the Three Months Ended September 30, 2014**

	Rayonier Inc. (Parent Issuer)	Subsidiary Guarantors	Non- guarantors	Consolidating Adjustments	Total Consolidated
<b>SALES</b>	\$ —	\$ —	\$ 149,829	\$ —	\$ 149,829
Costs and Expenses					
Cost of sales	—	—	118,088	—	118,088
Selling and general expenses	—	3,488	5,318	—	8,806
Other operating income, net	—	(854)	(8,290)	—	(9,144)
	—	2,634	115,116	—	117,750
<b>OPERATING (LOSS) INCOME</b>	—	(2,634)	34,713	—	32,079
Interest expense	(3,685)	(2,981)	(2,900)	—	(9,566)
Interest and miscellaneous income (expense), net	1,799	554	(4,087)	—	(1,734)
Equity in income from subsidiaries	34,587	38,414	—	(73,001)	—
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	32,701	33,353	27,726	(73,001)	20,779
Income tax benefit	—	1,234	10,046	—	11,280
<b>INCOME FROM CONTINUING OPERATIONS</b>	32,701	34,587	37,772	(73,001)	32,059
<b>DISCONTINUED OPERATIONS, NET</b>					
Income from discontinued operations, net of income taxes	—	—	—	—	—
<b>NET INCOME</b>	32,701	34,587	37,772	(73,001)	32,059
Less: Net loss attributable to noncontrolling interest	—	—	(642)	—	(642)
<b>NET INCOME ATTRIBUTABLE TO RAYONIER INC.</b>	32,701	34,587	38,414	(73,001)	32,701
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>					
Foreign currency translation adjustment	(27,317)	(27,317)	(37,738)	54,495	(37,877)
New Zealand joint venture cash flow hedges	(2,270)	(2,272)	(3,494)	4,542	(3,494)
Amortization of pension and postretirement plans, net of income tax	2,265	2,265	(4,120)	1,855	2,265
Total other comprehensive loss	(27,322)	(27,324)	(45,352)	60,892	(39,106)
<b>COMPREHENSIVE INCOME (LOSS)</b>	5,379	7,263	(7,580)	(12,109)	(7,047)
Less: Comprehensive loss attributable to noncontrolling interest	—	—	(12,295)	(131)	(12,426)
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.</b>	\$ 5,379	\$ 7,263	\$ 4,715	\$ (11,978)	\$ 5,379

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

**CONDENSED CONSOLIDATING STATEMENTS OF INCOME**  
**AND COMPREHENSIVE INCOME**  
**For the Three Months Ended September 30, 2013**

	Rayonier Inc. (Parent Issuer)	Subsidiary Guarantors	Non- guarantors	Consolidating Adjustments	Total Consolidated
<b>SALES</b>	\$ —	\$ —	\$ 159,261	\$ —	\$ 159,261
Costs and Expenses					
Cost of sales	—	—	129,002	—	129,002
Selling and general expenses	—	2,276	10,828	—	13,104
Other operating expense (income), net	—	738	(4,213)	661	(2,814)
	—	3,014	135,617	661	139,292
<b>OPERATING (LOSS) INCOME</b>	—	(3,014)	23,644	(661)	19,969
Interest expense	(3,190)	(7,277)	(356)	—	(10,823)
Interest and miscellaneous income (expense), net	2,538	(3,555)	103	—	(914)
Equity in income from subsidiaries	57,932	66,610	—	(124,542)	—
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	57,280	52,764	23,391	(125,203)	8,232
Income tax benefit	65	5,168	1,642	(67)	6,808
<b>INCOME FROM CONTINUING OPERATIONS</b>	57,345	57,932	25,033	(125,270)	15,040
<b>DISCONTINUED OPERATIONS, NET</b>					
Income from discontinued operations, net of income taxes	—	—	43,327	—	43,327
<b>NET INCOME</b>	57,345	57,932	68,360	(125,270)	58,367
Less: Net income attributable to noncontrolling interest	—	—	1,022	—	1,022
<b>NET INCOME ATTRIBUTABLE TO RAYONIER INC.</b>	57,345	57,932	67,338	(125,270)	57,345
<b>OTHER COMPREHENSIVE INCOME</b>					
Foreign currency translation adjustment	17,887	17,887	24,259	(35,774)	24,259
New Zealand joint venture cash flow hedges	2,233	2,231	3,434	(4,465)	3,433
Amortization of pension and postretirement plans, net of income tax	3,639	3,639	2,747	(6,386)	3,639
Total other comprehensive income	23,759	23,757	30,440	(46,625)	31,331
<b>COMPREHENSIVE INCOME</b>	\$ 81,104	\$ 81,689	\$ 98,800	\$ (171,895)	\$ 89,698
Less: Comprehensive income attributable to noncontrolling interest	\$ —	\$ —	\$ 8,594	\$ —	\$ 8,594
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.</b>	\$ 81,104	\$ 81,689	\$ 90,206	\$ (171,895)	\$ 81,104

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

**CONSOLIDATING STATEMENTS OF INCOME  
AND COMPREHENSIVE INCOME  
For the Nine Months Ended September 30, 2014**

	Rayonier Inc. (Parent Issuer)	Subsidiary Guarantors	Non- guarantors	Consolidating Adjustments	Total Consolidated
<b>SALES</b>	\$ —	\$ —	\$ 456,161	\$ —	\$ 456,161
Costs and Expenses					
Cost of sales	—	—	357,083	—	357,083
Selling and general expenses	—	8,032	27,872	—	35,904
Other operating expense (income), net	—	3,094	(24,002)	—	(20,908)
	—	11,126	360,953	—	372,079
<b>OPERATING (LOSS) INCOME</b>	—	(11,126)	95,208	—	84,082
Interest expense	(10,074)	(21,121)	(4,657)	—	(35,852)
Interest and miscellaneous income (expense), net	7,230	(3,780)	(10,581)	—	(7,131)
Equity in income from subsidiaries	93,324	121,047	—	(214,371)	—
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	90,480	85,020	79,970	(214,371)	41,099
Income tax benefit (expense)	—	8,304	(2,985)	—	5,319
<b>INCOME FROM CONTINUING OPERATIONS</b>	90,480	93,324	76,985	(214,371)	46,418
<b>DISCONTINUED OPERATIONS, NET</b>					
Income from discontinued operations, net of income taxes	—	—	43,092	—	43,092
<b>NET INCOME</b>	90,480	93,324	120,077	(214,371)	89,510
Less: Net loss attributable to noncontrolling interest	—	—	(970)	—	(970)
<b>NET INCOME ATTRIBUTABLE TO RAYONIER INC.</b>	90,480	93,324	121,047	(214,371)	90,480
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>					
Foreign currency translation adjustment	(11,770)	(11,770)	(16,426)	23,540	(16,426)
New Zealand joint venture cash flow hedges	(1,756)	(1,758)	(2,703)	3,514	(2,703)
Amortization of pension and postretirement plans, net of income tax	63,235	63,235	90,214	(153,449)	63,235
Total other comprehensive income	49,709	49,707	71,085	(126,395)	44,106
<b>COMPREHENSIVE INCOME</b>	140,189	143,031	191,163	(340,767)	133,616
Less: Comprehensive loss attributable to noncontrolling interest	—	—	(6,573)	—	(6,573)
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.</b>	\$ 140,189	\$ 143,031	\$ 197,736	\$ (340,767)	\$ 140,189

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

**CONSOLIDATING STATEMENTS OF INCOME  
AND COMPREHENSIVE INCOME  
For the Nine Months Ended September 30, 2013**

	Rayonier Inc. (Parent Issuer)	Subsidiary Guarantors	Non- guarantors	Consolidating Adjustments	Total Consolidated
<b>SALES</b>	\$ —	\$ —	\$ 421,203	\$ —	\$ 421,203
Costs and Expenses					
Cost of sales	—	—	333,523	—	333,523
Selling and general expenses	—	7,357	33,847	—	41,204
Other operating (income) expense, net	(1,701)	1,187	(10,073)	—	(10,587)
	(1,701)	8,544	357,297	—	364,140
Equity in income of New Zealand joint venture	—	—	562	—	562
<b>OPERATING INCOME (LOSS) BEFORE GAIN ON CONSOLIDATION OF NEW ZEALAND JOINT VENTURE</b>	1,701	(8,544)	64,468	—	57,625
Gain related to consolidation of New Zealand joint venture	—	—	16,098	—	16,098
<b>OPERATING INCOME (LOSS)</b>	1,701	(8,544)	80,566	—	73,723
Interest (expense) income	(9,879)	(21,410)	663	—	(30,626)
Interest and miscellaneous income (expense), net	6,716	(3,470)	(1,394)	—	1,852
Equity in income from subsidiaries	293,706	316,241	—	(609,947)	—
<b>INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	292,244	282,817	79,835	(609,947)	44,949
Income tax benefit	—	10,889	17,861	—	28,750
<b>INCOME FROM CONTINUING OPERATIONS</b>	292,244	293,706	97,696	(609,947)	73,699
<b>DISCONTINUED OPERATIONS, NET</b>					
Income from discontinued operations, net of income tax	—	—	220,294	—	220,294
<b>NET INCOME</b>	292,244	293,706	317,990	(609,947)	293,993
Less: Net income attributable to noncontrolling interest	—	—	1,749	—	1,749
<b>NET INCOME ATTRIBUTABLE TO RAYONIER INC.</b>	292,244	293,706	316,241	(609,947)	292,244
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>					
Foreign currency translation adjustment	237	237	(2,967)	(474)	(2,967)
New Zealand joint venture cash flow hedges	3,663	3,663	4,209	(7,326)	4,209
Amortization of pension and postretirement plans, net of income tax	12,326	12,326	9,578	(21,904)	12,326
Total other comprehensive income	16,226	16,226	10,820	(29,704)	13,568
<b>COMPREHENSIVE INCOME</b>	308,470	309,932	328,810	(639,651)	307,561
Less: Comprehensive loss attributable to noncontrolling interest	—	—	(909)	—	(909)
<b>COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.</b>	\$ 308,470	\$ 309,932	\$ 329,719	\$ (639,651)	\$ 308,470

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

**CONDENSED CONSOLIDATING BALANCE SHEETS**  
**As of September 30, 2014**

	Rayonier Inc. (Parent Issuer)	Subsidiary Guarantors	Non- guarantors	Consolidating Adjustments	Total Consolidated
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 84,283	\$ 51,488	\$ 47,060	\$ —	\$ 182,831
Restricted cash	—	—	—	—	—
Accounts receivable, less allowance for doubtful accounts	—	1,359	26,878	—	28,237
Inventory	—	—	12,439	—	12,439
Deferred tax asset	—	—	4,211	—	4,211
Prepaid and other current assets	—	1,525	22,296	—	23,821
Total current assets	84,283	54,372	112,884	—	251,539
TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION	—	—	2,058,381	—	2,058,381
NET PROPERTY, PLANT AND EQUIPMENT	—	483	6,048	—	6,531
INVESTMENT IN SUBSIDIARIES	1,522,406	1,981,482	—	(3,503,888)	—
INTERCOMPANY NOTES RECEIVABLE	245,898	21,279	—	(267,177)	—
OTHER ASSETS	2,860	19,277	138,971	—	161,108
<b>TOTAL ASSETS</b>	<b>\$ 1,855,447</b>	<b>\$ 2,076,893</b>	<b>\$ 2,316,284</b>	<b>\$ (3,771,065)</b>	<b>\$ 2,477,559</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	\$ —	\$ 3,647	\$ 19,479	\$ —	\$ 23,126
Current maturities of long-term debt	—	129,199	1,287	—	130,486
Accrued taxes	—	41	14,913	—	14,954
Uncertain tax positions	—	—	—	—	—
Accrued payroll and benefits	—	3,892	2,446	—	6,338
Accrued interest	6,116	1,001	29,098	(26,079)	10,136
Other current liabilities	—	1,113	25,483	—	26,596
Total current liabilities	6,116	138,893	92,706	(26,079)	211,636
LONG-TERM DEBT	325,000	14,999	265,163	—	605,162
PENSION AND OTHER POSTRETIREMENT BENEFITS	—	23,078	(685)	—	22,393
OTHER NON-CURRENT LIABILITIES	—	6,876	20,590	—	27,466
INTERCOMPANY PAYABLE	—	370,641	(100,759)	(269,882)	—
<b>TOTAL RAYONIER INC. SHAREHOLDERS' EQUITY</b>	<b>1,524,331</b>	<b>1,522,406</b>	<b>1,952,698</b>	<b>(3,475,104)</b>	<b>1,524,331</b>
Noncontrolling interest	—	—	86,571	—	86,571
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,524,331</b>	<b>1,522,406</b>	<b>2,039,269</b>	<b>(3,475,104)</b>	<b>1,610,902</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 1,855,447</b>	<b>\$ 2,076,893</b>	<b>\$ 2,316,284</b>	<b>\$ (3,771,065)</b>	<b>\$ 2,477,559</b>

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

**CONDENSED CONSOLIDATING BALANCE SHEETS**  
**As of December 31, 2013**

	Rayonier Inc. (Parent Issuer)	Subsidiary Guarantors	Non- guarantors	Consolidating Adjustments	Total Consolidated
<b>ASSETS</b>					
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	\$ 130,181	\$ 11,023	\$ 58,440	\$ —	\$ 199,644
Accounts receivable, less allowance for doubtful accounts	—	2,310	92,646	—	94,956
Inventory	—	—	138,818	—	138,818
Deferred tax assets	—	681	38,419	—	39,100
Prepaid and other current assets	—	2,369	44,207	—	46,576
Total current assets	130,181	16,383	372,530	—	519,094
TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION	—	—	2,049,378	—	2,049,378
NET PROPERTY, PLANT AND EQUIPMENT	—	2,612	858,209	—	860,821
INVESTMENT IN SUBSIDIARIES	1,627,315	2,764,211	—	(4,391,526)	—
INTERCOMPANY NOTES RECEIVABLE	228,032	20,659	—	(248,691)	—
OTHER ASSETS	3,689	36,258	216,261	—	256,208
<b>TOTAL ASSETS</b>	<b>\$ 1,989,217</b>	<b>\$ 2,840,123</b>	<b>\$ 3,496,378</b>	<b>\$ (4,640,217)</b>	<b>\$ 3,685,501</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>CURRENT LIABILITIES</b>					
Accounts payable	\$ —	\$ 3,086	\$ 66,207	\$ —	\$ 69,293
Current maturities of long-term debt	—	112,500	—	—	112,500
Accrued taxes	—	4,855	3,696	—	8,551
Uncertain tax positions	—	5,780	4,767	—	10,547
Accrued payroll and benefits	—	11,382	13,566	—	24,948
Accrued interest	3,047	3,280	22,816	(19,612)	9,531
Accrued customer incentives	—	—	9,580	—	9,580
Other current liabilities	—	2,985	21,342	—	24,327
Current liabilities for dispositions and discontinued operations	—	—	6,835	—	6,835
Total current liabilities	3,047	143,868	148,809	(19,612)	276,112
LONG-TERM DEBT	325,000	847,749	288,975	—	1,461,724
NON-CURRENT LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS	—	—	69,543	—	69,543
PENSION AND OTHER POSTRETIREMENT BENEFITS	—	91,471	4,183	—	95,654
OTHER NON-CURRENT LIABILITIES	—	11,493	15,732	—	27,225
INTERCOMPANY PAYABLE	—	118,227	125,921	(244,148)	—
<b>TOTAL RAYONIER INC. SHAREHOLDERS' EQUITY</b>	<b>1,661,170</b>	<b>1,627,315</b>	<b>2,749,142</b>	<b>(4,376,457)</b>	<b>1,661,170</b>
Noncontrolling interest	—	—	94,073	—	94,073
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>1,661,170</b>	<b>1,627,315</b>	<b>2,843,215</b>	<b>(4,376,457)</b>	<b>1,755,243</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 1,989,217</b>	<b>\$ 2,840,123</b>	<b>\$ 3,496,378</b>	<b>\$ (4,640,217)</b>	<b>\$ 3,685,501</b>

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

**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**  
**For the Nine Months Ended September 30, 2014**

	Rayonier Inc. (Parent Issuer)	Subsidiary Guarantors	Non- guarantors	Consolidating Adjustments	Total Consolidated
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	\$ 219,988	\$ 238,010	\$ 54,461	\$ (231,730)	\$ 280,729
<b>INVESTING ACTIVITIES</b>					
Capital expenditures	—	(400)	(105,258)	—	(105,658)
Purchase of timberlands	—	—	(93,189)	—	(93,189)
Change in restricted cash	—	—	47,318	—	47,318
Investment in Subsidiaries	—	855,014	—	(855,014)	—
Other	—	—	(478)	—	(478)
<b>CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES</b>	—	854,614	(151,607)	(855,014)	(152,007)
<b>FINANCING ACTIVITIES</b>					
Issuance of debt	—	185,000	1,110,163	—	1,295,163
Repayment of debt	—	(1,002,500)	(170,549)	—	(1,173,049)
Dividends paid	(225,877)	—	—	—	(225,877)
Proceeds from the issuance of common shares	4,645	—	—	—	4,645
Debt issuance costs	—	—	(12,380)	—	(12,380)
Repurchase of common shares	(1,834)	—	—	—	(1,834)
Purchase of timberland deeds for Rayonier Advanced Materials	(12,677)	—	—	—	(12,677)
Debt issuance funds distributed to Rayonier Advanced Materials	(924,943)	—	—	—	(924,943)
Proceeds from spin-off of Rayonier Advanced Materials	906,200	—	—	—	906,200
Change in restricted cash reserved for dividends	—	—	—	—	—
Issuance of intercompany notes	(11,400)	—	11,400	—	—
Intercompany distributions	—	(234,659)	(852,085)	1,086,744	—
Other	—	—	(680)	—	(680)
<b>CASH (USED FOR) PROVIDED BY FINANCING ACTIVITIES</b>	(265,886)	(1,052,159)	85,869	1,086,744	(145,432)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	—	—	(103)	—	(103)
<b>CASH AND CASH EQUIVALENTS</b>					
Change in cash and cash equivalents	(45,898)	40,465	(11,380)	—	(16,813)
Balance, beginning of year	130,181	11,023	58,440	—	199,644
Balance, end of period	\$ 84,283	\$ 51,488	\$ 47,060	\$ —	\$ 182,831

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

**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**  
**For the Nine Months Ended September 30, 2013**

	Rayonier Inc. (Parent Issuer)	Subsidiary Guarantors	Non- guarantors	Consolidating Adjustments	Total Consolidated
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	\$ 389,405	\$ 394,700	\$ 291,478	\$ (741,347)	\$ 334,236
<b>INVESTING ACTIVITIES</b>					
Capital expenditures	—	(335)	(121,764)	—	(122,099)
Purchase of additional interest in New Zealand joint venture	—	—	(139,879)	—	(139,879)
Purchase of timberlands	—	—	(11,650)	—	(11,650)
Intercompany purchase of real estate	—	—	—	—	—
Jesup mill cellulose specialties expansion	—	—	(137,392)	—	(137,392)
Proceeds from disposition of Wood Products business	—	—	68,063	—	68,063
Change in restricted cash	—	—	3,989	—	3,989
Investment in Subsidiaries	(138,178)	(455,014)	—	593,192	—
Other	—	1,701	(1,925)	—	(224)
<b>CASH USED FOR INVESTING ACTIVITIES</b>	<b>(138,178)</b>	<b>(453,648)</b>	<b>(340,558)</b>	<b>593,192</b>	<b>(339,192)</b>
<b>FINANCING ACTIVITIES</b>					
Issuance of debt	175,000	375,000	57,885	—	607,885
Repayment of debt	(325,000)	(56,527)	(71,936)	—	(453,463)
Dividends paid	(175,079)	—	—	—	(175,079)
Proceeds from the issuance of common shares	9,205	—	—	—	9,205
Excess tax benefits on stock-based compensation	—	—	8,189	—	8,189
Repurchase of common shares	(11,303)	—	—	—	(11,303)
Issuance of intercompany notes	(4,000)	—	4,000	—	—
Intercompany distributions	—	(256,921)	108,766	148,155	—
<b>CASH (USED FOR) PROVIDED BY FINANCING ACTIVITIES</b>	<b>(331,177)</b>	<b>61,552</b>	<b>106,904</b>	<b>148,155</b>	<b>(14,566)</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>—</b>	<b>—</b>	<b>(336)</b>	<b>—</b>	<b>(336)</b>
<b>CASH AND CASH EQUIVALENTS</b>					
Change in cash and cash equivalents	(79,950)	2,604	57,488	—	(19,858)
Balance, beginning of year	252,888	23,324	4,384	—	280,596
<b>Balance, end of period</b>	<b>\$ 172,938</b>	<b>\$ 25,928</b>	<b>\$ 61,872</b>	<b>\$ —</b>	<b>\$ 260,738</b>



## **Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

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

Our financial condition and results of operations as of and for the periods ended March 31, 2014 and June 30, 2014 have been restated. All information and disclosures contained in this Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) related to those periods reflect the effects of such restatement. For a more detailed description of the restatement, see Note 3 — Restatement of Previously Issued Consolidated Financial Statements of the Notes to the accompanying unaudited Consolidated Financial Statements and MD&A included in this Quarterly Report on Form 10-Q.

This MD&A is intended to provide a reader of our financial statements with a narrative from the perspective of management on our financial condition, results of operations, liquidity, and certain other factors which may affect future results. Our MD&A should be read in conjunction with the Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (the “Initial Form 10-K”), as amended by Amendment No. 1 to the Form 10-K on Form 10-K/A filed with the SEC concurrently herewith (the Initial Form 10-K, as amended, the “Amended Form 10-K”) and information contained in our subsequent Forms 10-Q, Forms 10-Q/A, Forms 8-K and other reports filed with the SEC.

### **Forward-Looking Statements**

Certain statements in this document regarding anticipated financial outcomes including Rayonier’s earnings guidance, if any, business and market conditions, and outlook, the results of the internal review, expected dividend rate, Rayonier’s realigned business strategy, including expected harvest schedules, timberland acquisitions and sales of non-strategic timberlands, the anticipated benefits of Rayonier’s realigned business strategy, the expected impact of the internal review and restatement on available borrowings, and other similar statements relating to Rayonier’s future events, developments, or financial or operational performance or results, are “forward-looking statements” made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and other federal securities laws. These forward-looking statements are identified by the use of words such as “may,” “will,” “should,” “expect,” “estimate,” “believe,” “intend,” “project,” “anticipate” and other similar language. However, the absence of these or similar words or expressions does not mean that a statement is not forward-looking. While management believes that these forward-looking statements are reasonable when made, forward-looking statements are not guarantees of future performance or events and undue reliance should not be placed on these statements. The risk factors contained in Item 1A — *Risk Factors* in this Quarterly Report on Form 10-Q, among others, could cause actual results or events to differ materially from the Company’s historical experience and those expressed in forward-looking statements made in this document.

Forward-looking statements are only as of the date they are made, and the Company undertakes no duty to update its forward- looking statements except as required by law. You are advised, however, to review any further disclosures the Company makes on related subjects in our subsequent Forms 10-K, Forms 10-Q, Forms 8-K, any amendments thereto and other reports filed with the SEC.

### **Overview**

#### *Our Company*

We are a geographically diverse international land resources company primarily engaged in timberland management and the sale of real estate. As of September 30, 2014, we owned, leased or managed approximately 2.6 million acres of timberlands located in the U.S. and New Zealand.

We operate in two reportable business segments: Forest Resources and Real Estate.

- Our Forest Resources segment sells standing timber (primarily at auction to third parties) and delivered logs. Forest Resources sales include all activities that relate to the harvesting of timber and other value-added activities such as the leasing of properties for hunting, mineral extraction and cell towers.
- Our Real Estate segment manages all property sales, including those designated as higher and better use (“HBU”). We divide our real estate sales into three categories: development HBU, rural HBU (including conservation properties) and non-strategic timberlands.

Our remaining operations, which are combined and reported in “Other Operations,” include the marketing and selling of timber owned or acquired from third parties in New Zealand and Australia (log trading). Prior to the second quarter of 2014, we operated in three reportable business segments, which included Performance Fibers.

*Background*

On June 27, 2014, we spun off our Performance Fibers business to our shareholders as a newly formed publicly traded company named Rayonier Advanced Materials, Inc. (“Rayonier Advanced Materials”). Following the spin-off, new management conducted a review of our operations and business strategies and identified issues related to our historical timber harvest levels, our estimate of merchantable timber inventory and the effect of such estimate on our calculation of depletion expense. At the direction of our Board of Directors, management commenced an internal review into these matters with the assistance of independent counsel, forensic accountants and financial advisers. As a result of this internal review, we made the following determinations:

- We included in the merchantable timber inventory disclosed in our Initial Form 10-K, timber in specially designated parcels located in restricted, environmentally sensitive or economically inaccessible areas. The inclusion of this timber was incorrect, inconsistent with our historical definition of merchantable timber inventory, and a significant change from prior years. We define merchantable timber inventory as an estimate of timber volume beyond a specified age that approximates such timber’s earliest economically harvestable age. Our estimate includes certain timber located in restricted or environmentally sensitive areas based upon an estimate of lawfully recoverable volumes from such areas, but does not include volumes in restricted or environmentally sensitive areas that may not be lawfully harvested or volumes located in economically inaccessible areas. See discussion of merchantable age and merchantable inventory under “—Our Timberlands.” Our revised estimate of merchantable timber inventory, as of December 31, 2013, is set forth below.

(Tons in 000s)	As disclosed in the Initial Form 10-K	As disclosed in the Amended Form 10-K	Percentage Difference
Atlantic	37,121	34,324	(8)%
Gulf	28,534	24,641	(14)%
Northern	9,097	7,370	(19)%
New Zealand	13,792	13,792	— %
<b>Total</b>	<b>88,544</b>	<b>80,127</b>	<b>(10)%</b>

- For roughly a decade, the average rate at which we harvested timber in the U.S. Pacific Northwest exceeded the rate those timberlands could support on a long-term basis. Going forward, we intend to manage our timberlands on a “sustainable yield” basis; that is, we expect to harvest, on average, levels of timber that can be sustained into perpetuity based on our estimates of biological growth and the expected productivity resulting from our reforestation and silvicultural efforts. We estimate that the annual sustainable yield in our timberlands in the U.S. Pacific Northwest is approximately 160 MMBF (or 1.3 million tons), as compared to the average annual harvest level over the past ten years (2004 to 2013) of approximately 228 MMBF (or 1.8 million tons). We anticipate reducing the harvest level in our timberlands in the U.S. Pacific Northwest to 125 MMBF (or 1.0 million tons) annually by 2017 and maintaining that level for approximately five to ten years thereafter in order to allow for inventory replenishment and age class smoothing. We expect that our average annual harvest level in our timberlands in the U.S. Pacific Northwest for 2015 through 2019 will be approximately 140 MMBF (or 1.1 million tons). See discussion of sustainable yield under “—Our Timberlands.”
- We have periodically generated income and cash flow from the sale of non-strategic timberlands. Going forward, we expect to reduce our reliance on planned sales of non-strategic timberlands to augment cash flow generation and instead rely primarily on supporting cash flow from the operation, rather than sale, of our timberlands. We believe that reducing reliance on the sale of such properties to augment cash flow generation will support the sustainability of our timberlands and harvesting activities over the long-term. Over the past five years (2009 to 2013), sales of non-strategic timberlands totaled approximately 157,000 acres and \$233 million (excluding 128,000 acres and \$57 million for the sale of our New York timberlands in 2013). We expect that sales of non-strategic timberlands will be significantly lower going forward.
- On November 7, 2014, our Board of Directors has declared a fourth quarter cash dividend of 25 cents per common share. This represents a 17% reduction from the third quarter dividend of 30 cents per common share, reflecting our expectation of reduced cash available for distribution due to lower expected annual harvest levels as described above, as well as

reduced reliance on sales of non-strategic timberlands to augment cash flow generation, as described under “—Our Strategy.”

- As discussed above, we included in merchantable timber inventory for 2014, timber in specially designated parcels located in restricted, environmentally sensitive or economically inaccessible areas, which was incorrect, inconsistent with our definition of merchantable timber inventory, and a significant change from prior years. As a result, management determined that there was a material weakness in our internal controls related to the merchantable timber inventory, as discussed in Part I, Item 4 of this Quarterly Report on Form 10-Q. In addition, management concluded that we understated depletion expense in cost of goods sold (referred to as “Cost of sales” in our consolidated statements of income and comprehensive income) by approximately \$2.0 million in each of the quarterly periods ended March 31, 2014 and June 30, 2014, which resulted in a corresponding overstatement of income from continuing operations of \$1.9 million and \$2.0 million, respectively, in those periods. In addition, management determined that there was a material weakness in Rayonier’s internal controls related to merchantable timber inventory as of December 31, 2013, March 31, 2014, June 30, 2014 and September 30, 2014. Accordingly, we have filed amendments to our Forms 10-Q for the quarterly periods ended March 31, 2014 and June 30, 2014 and restated our interim consolidated financial statements for those periods. We determined that errors in depletion expense calculated in the years ended December 31, 2013, and 2012 were immaterial and did not require restatement. The cumulative effect of the immaterial errors in depletion expense for these and prior periods are reflected in our financial statements for the third quarter of 2014 as an out-of-period adjustment. Management and the Audit Committee have discussed these matters described above with the Company’s independent registered public accounting firm, Ernst & Young LLP (“E&Y”).

*Our Timberlands*

The following table provides a breakdown of our timberland holdings as of September 30, 2014 and December 31, 2013:

(acres in 000s)	As of September 30, 2014			As of December 31, 2013		
	Owned	Leased	Total	Owned	Leased	Total
<b>Southern</b>						
<u>Atlantic</u>						
Florida	282	105	387	292	105	397
Georgia	576	129	705	566	130	696
Atlantic Subtotal	858	234	1,092	858	235	1,093
<u>Gulf</u>						
Alabama	294	24	318	295	24	319
Arkansas	—	19	19	—	19	19
Louisiana	127	1	128	128	1	129
Mississippi	92	—	92	92	—	92
Oklahoma	92	—	92	92	—	92
Texas	159	—	159	149	—	149
Gulf Subtotal	764	44	808	756	44	800
<b>Northern</b>						
Washington	371	1	372	371	1	372
<b>New Zealand</b>						
	136	175	311	137	177	314
<b>Total</b>	<b>2,129</b>	<b>454</b>	<b>2,583</b>	<b>2,122</b>	<b>457</b>	<b>2,579</b>

We define merchantable timber inventory as an estimate of timber volume beyond a specified age that approximates such timber’s earliest economically harvestable age. Our estimate includes certain timber located in restricted or environmentally sensitive areas based on an estimate of lawfully recoverable volumes from such areas. The estimate does not include volumes in restricted or environmentally sensitive areas that may not be lawfully harvested or volumes located in economically inaccessible areas. Estimates are based on an inventory system that involves periodic statistical sampling. Adjustments are made on the basis

of growth estimates, harvest information and environmental and operational restrictions. The merchantable age (*i.e.*, the age at which timber moves from pre-merchantable to merchantable) is 15 years for our Southern timberlands, excluding Oklahoma, 17 years for Oklahoma, 35 years for our Northern timberlands, and 20 years for radiata pine in our New Zealand timberlands. Our estimated merchantable timber inventory may change over time as timber is harvested, as pre-merchantable timber converts to merchantable timber, as existing merchantable timber inventory grows, and as we periodically update our statistical sampling and growth and yield models.

Merchantable timber inventory is generally expressed in short green tons in our Southern timberlands, in thousand board feet (MBF) or million board feet (MMBF) in our Northern timberlands, and in cubic meters (m<sup>3</sup>) in our New Zealand timberlands. For conversion purposes, one MMBF and one m<sup>3</sup> is equal to approximately 8,000 and 1.13 short green tons, respectively.

We define sustainable yield as the average harvest level that can be sustained into perpetuity based on our estimates of biological growth and the expected productivity resulting from our reforestation and silvicultural efforts. Our estimated sustainable yield may change over time based on changes in silvicultural techniques and resulting timber yields, changes in environmental laws and restrictions, changes in the statistical sampling and estimates of our merchantable timber inventory, acquisitions and dispositions of timberlands, the expiration or renewal of timberland leases, casualty losses, and other factors. Moreover, our harvest level in any given year may deviate from our estimated sustainable yield due to variations in the age class of our timberlands, the product mix of our harvest (*i.e.*, pulpwood versus sawtimber), our deliberate acceleration or deferral of harvest in response to market conditions, our thinning activity (in which we periodically remove smaller trees to enhance long-term sawtimber potential), or other factors.

#### Southern Timberlands

As of December 31, 2013, our Southern timberlands acreage consisted of approximately 66% pine stands and approximately 34% hardwood stands, and our merchantable timber inventory consisted of approximately 36.6 million tons of pulpwood, 12.2 million tons of chip-n-saw, and 10.3 million tons of sawtimber.

For our Southern timberlands, we do not include in merchantable timber inventory volumes in restricted or environmentally sensitive areas that may not be lawfully harvested or volumes located in economically inaccessible areas. In addition, for our Southern timberlands, we do not include in merchantable timber inventory timber that is not of merchantable age (*i.e.*, is less than 15 years old or less than 17 years old in Oklahoma). We estimate that the sustainable yield of our Southern timberlands is approximately 5 million tons annually. We expect that the average annual harvest volume in our Southern timberlands over the next five years (2015 to 2019) will be generally in line with our sustainable yield.

#### Northern Timberlands

As of December 31, 2013, our Northern timberlands consisted of approximately 372,000 acres, of which approximately 286,000 acres were designated as productive acres, meaning land that is capable of growing merchantable timber and where the harvesting of timber is not constrained by physical, environmental or regulatory restrictions.

For our Northern timberlands, we do not include in merchantable timber inventory volumes in restricted or environmentally sensitive areas that may not be lawfully harvested or volumes located in economically inaccessible areas. In addition, for our Northern timberlands, we do not include in merchantable timber inventory timber that is not of merchantable age (*i.e.*, is less than 35 years old). We estimate that the sustainable yield of our Northern timberlands is approximately 160 MMBF (or 1.3 million tons) annually. However, due to historical harvesting in excess of our sustainable yield in the U.S. Pacific Northwest, we anticipate reducing the harvest level in our Northern timberlands to 125 MMBF (or 1.0 million tons) by 2017 and maintaining that level for approximately five to ten years thereafter in order to allow for inventory replenishment and age class smoothing. We expect to gradually reach our long-term sustainable yield of 160 MMBF (or 1.3 million tons) during the course of the next full rotation cycle. We expect that our average annual harvest level in our Northern timberlands for 2015 through 2019 will be approximately 140 MMBF (or 1.1 million tons).

#### New Zealand Timberlands

As of December 31, 2013, our New Zealand timberlands consisted of approximately 314,000 acres, of which approximately 311,000 acres were designated as productive acres, meaning land that is capable of growing merchantable timber and where the harvesting of timber is not constrained by physical, environmental or regulatory restrictions. For our New Zealand timberlands, we do not include in merchantable timber inventory volumes in restricted or environmentally sensitive areas that may not be lawfully harvested or volumes located in economically inaccessible areas. In addition, for our New Zealand timberlands, we do not include in merchantable timber inventory timber that is not of merchantable age (*i.e.*, is less than 20 years old).

## Our Competitive Strengths

We believe that we distinguish ourselves from other timberland owners and managers through the following competitive strengths:

- *Leading Pure-Play Land Resources Company.* We believe that we are the third-largest timber REIT, owning, leasing or managing approximately 2.6 million acres of timberlands located in the U.S. and New Zealand, as of September 30, 2014. Our geographically diverse timberland holdings are strategically located in core softwood producing regions, including the U.S. South, U.S. Pacific Northwest and New Zealand. Our most significant timberland holdings are located in the U.S. South, where economic conditions allow us to obtain favorable pricing. These timberlands are strategically located in close proximity to a variety of established pulp, paper and wood products manufacturing facilities, which provide a steady source of competitive demand for both pulpwood and higher-value sawtimber products. Our Northern and New Zealand timberlands are strategically positioned near ports to capitalize on export markets serving the Asia Pacific region. Our Northern timberlands also benefit from a strong domestic sawmilling market in the U.S. Pacific Northwest.
- *Attractive, Real Estate Assets with HBU Potential.* We own approximately 39,000 acres in Florida and Georgia that currently have land-use entitlements and are well positioned to capture higher sales values per acre as real estate markets strengthen. These properties are part of the approximately 200,000 acres we own in the Florida/Georgia coastal region stretching from Savannah, Georgia to Daytona Beach, Florida. These timberlands provide us with opportunities to continue to add value to our portfolio through land-use entitlements and to periodically sell parcels of such land at favorable valuations relative to timberland values. In addition, we have an established track record of selling rural properties throughout much of our Southern timberlands at a premium to timberland values, and this market has historically been durable through different real estate cycles.
- *Access to Capital for Growth.* We believe that our financial condition will enable us to access the capital markets on favorable terms, which will enable us to execute our realigned business strategy and pursue future timberland growth opportunities.
- *Advantageous REIT Structure.* We are a real estate investment trust, or REIT. Under this structure, we are generally not required to pay federal income taxes on our earnings from timber harvest operations and other REIT-qualifying activities contingent upon meeting applicable distribution, income, asset, shareholder and other tests. Our advantageous REIT structure supports our commitment to maximizing the value of our timberlands in a tax efficient manner and competing with other owners, managers and buyers of timberlands.

## Our Strategy

As a result of our internal review of historical timber harvest levels, our estimate of merchantable timber inventory, and the effect of such estimate on our calculation of depletion expense, we are realigning our strategy to sustainably manage our timberland resources, support long-term sustainable cash generation, effectively allocate capital and create long-term shareholder value. In particular, our realigned business strategy consists of the following key elements:

- *Manage our Timberlands on a Sustainable Yield Basis for Long-term Results.* We generate recurring income and cash flow from the harvest and sale of timber and intend to actively manage our timberlands to maximize net present value over the long term by achieving an optimal balance among biological timber growth, generation of cash flow from harvesting activities, and responsible environmental stewardship. Going forward, our harvesting strategy is designed to produce a long-term, sustainable yield, although we may adjust harvest levels periodically to capitalize on then-current economic conditions in our markets.
- *Increase the Size and Quality of our Timberland Holdings through Acquisitions.* We intend to selectively pursue timberland acquisition opportunities that improve the average productivity of our timberland holdings and support cash flow generation from our annual harvesting activities. We expect there will be an ample supply of attractive timberlands available for sale as a result of anticipated sales from a number of Timberland Investment Management Organizations (“TIMOs”). This acquisition strategy requires a disciplined approach and rigorous adherence to strategic and financial metrics. Generally, we expect to focus our acquisition efforts on the most commercially desirable timber-producing regions of the U.S. South and U.S. Pacific Northwest, particularly on timberlands with an age class profile that complements the age class profile of our existing timberland holdings. We have acquired 46,000 acres of timberland year-to-date in 2014 and acquired 17,000 acres of timberland in 2013, 88,000 acres in 2012, and 308,000 acres in 2011.
- *Optimize Portfolio Value.* We continuously assess potential alternative uses of our timberlands, as some of our properties may become more valuable for development, conservation, recreation or other purposes. We intend to capitalize on the value of our portfolio by opportunistically monetizing such HBU properties. While the majority of our HBU sales involve

rural and recreational land, we also selectively pursue various land-use entitlements on certain properties for residential and industrial development, including mega-site certified industrial and commercial properties, in order to enhance the long-term value potential of such properties. We generally expect that sales of HBU property (*i.e.*, rural HBU and development HBU) will comprise approximately 1% of our Southern timberland holdings on an annual basis.

- *Focus on Timberland Operations to Support Cash Flow Generation.* As described above, we rely primarily on annual harvesting activities and ongoing sales of rural and development HBU to generate cash flow from our timberland holdings. However, we periodically generate income and cash flow from the sale of non-strategic (*i.e.*, non-HBU) timberlands, in particular as we seek to optimize our portfolio by disposing of less desirable properties. Going forward, we expect to reduce our reliance on planned sales of non-HBU timberlands to augment cash flow generation and instead rely primarily on supporting cash flow from the operation, rather than sale, of our timberlands. We believe that reducing reliance on the sale of such properties to augment cash flow generation will support the sustainability of our harvesting activities over the long term.
- *Promote Best-in-Class Disclosure and Responsible Stewardship.* We intend to become an industry leader in transparent disclosure, particularly relating to our timberland holdings and harvest schedules. In addition, we are committed to responsible stewardship and environmentally and economically sustainable forestry. We believe our continued commitment to transparency and the stewardship of our assets and capital will allow us to maintain our timberlands' productivity, more effectively attract and deploy capital and enhance our reputation as a preferred timber supplier.

## Outlook

In Forest Resources, we anticipate full-year results to be comparable to 2013, with stronger prices in the U.S. South offset by lower prices in the U.S. Pacific Northwest and New Zealand largely due to lower export demand in the second half of the year, and by a reduction in fourth quarter Northwest harvest volumes as we implement our new strategy for achieving long-term sustainable yield. In Real Estate, the Company now expects full-year results to be approximately 15% below 2013, based on the anticipated timing of land sale closings originally forecasted for late 2014.

Beyond 2014, we anticipate that U.S. housing will continue its gradual recovery, sawlog prices will continue to strengthen, and demand for logs in Asia will be strong over the long term, benefiting our U.S. Pacific Northwest and New Zealand operations. While we expect these trends to result in stronger product prices over time, the Company's results will be impacted by significantly lower harvest volume in the Northwest and by a planned reduction in sales of non-strategic timberlands, consistent with our new strategy.

For 2015, we anticipate operating income in the \$90 million to \$100 million range and Adjusted EBITDA<sup>1</sup> of approximately \$200 million to \$215 million. Compared with 2014, these lower results primarily reflect the planned reductions in harvest volumes and timberland sales. Looking beyond 2015, we anticipate steadily increasing Adjusted EBITDA<sup>1</sup> as product prices continue to strengthen. We also expect to maintain an active and disciplined timberland acquisition program that, if successfully executed, will contribute to Adjusted EBITDA<sup>1</sup> growth.

<sup>1</sup>For a reconciliation of Adjusted EBITDA to net income, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Performance Indicators."

## Critical Accounting Policies and Use of Estimates

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

## Segments

We operate in two reportable business segments: Forest Resources and Real Estate.

Forest Resources sales include all activities which relate to the harvesting of timber and other value-added activities such as the leasing of properties for hunting, mineral extraction and cell towers. Real Estate sales include all property sales, including those designated as HBU properties and those designated as sales of non-strategic timberlands. The assets of the Real Estate segment include HBU property held by the Company's real estate subsidiary, TerraPointe LLC. Our remaining operations, reported as "Other Operations," include harvesting and selling timber acquired from third parties (log trading). Sales between operating segments are made based on estimated fair market value, and intercompany sales, purchases and profits or losses are eliminated in consolidation.

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

**Results of Operations**

<b>Financial Information (in millions)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
<b>Sales</b>				
Forest Resources				
Atlantic	\$ 22	\$ 16	\$ 62	\$ 53
Gulf States	16	15	41	40
Northern	22	29	80	83
New Zealand	48	51	131	101
<b>Total Forest Resources</b>	<b>108</b>	<b>111</b>	<b>314</b>	<b>277</b>
Real Estate				
Development	2	1	3	3
Rural	25	13	35	24
Non-Strategic Timberlands	—	—	28	25
<b>Total Real Estate</b>	<b>27</b>	<b>14</b>	<b>66</b>	<b>52</b>
Other Operations	15	34	76	92
<b>Total Sales</b>	<b>\$ 150</b>	<b>\$ 159</b>	<b>\$ 456</b>	<b>\$ 421</b>
<b>Operating Income (Loss)</b>				
Forest Resources	\$ 19	\$ 23	\$ 65	\$ 57
Real Estate	16	8	45	30
Other Operations	3	—	2	1
Corporate and other	(6)	(11)	(28)	(14)
<b>Operating Income</b>	<b>32</b>	<b>20</b>	<b>84</b>	<b>74</b>
Interest Expense, Interest Income and Other	(11)	(12)	(43)	(29)
Income Tax Benefit	11	7	5	29
<b>Income from Continuing Operations</b>	<b>32</b>	<b>15</b>	<b>46</b>	<b>74</b>
<b>Discontinued Operations, Net</b>	<b>—</b>	<b>43</b>	<b>43</b>	<b>220</b>
<b>Net Income</b>	<b>32</b>	<b>58</b>	<b>89</b>	<b>294</b>
Less: Net (loss) income attributable to noncontrolling interest	(1)	1	(1)	2
<b>Net Income Attributable to Rayonier Inc.</b>	<b>\$ 33</b>	<b>\$ 57</b>	<b>\$ 90</b>	<b>\$ 292</b>
<b>Diluted Earnings Per Share Attributable to Rayonier Inc.</b>				
Continuing Operations	\$ 0.25	\$ 0.11	\$ 0.36	\$ 0.55
Discontinued Operations	—	0.33	0.33	1.68
<b>Net Income</b>	<b>\$ 0.25</b>	<b>\$ 0.44</b>	<b>\$ 0.69</b>	<b>\$ 2.23</b>



**FOREST RESOURCES**
**Sales (in millions)**

Three Months Ended September 30,	2013	Changes Attributable to:		2014
		Price	Volume/ Mix/Other	
Atlantic	\$ 16	\$ 2	\$ 4	\$ 22
Gulf States	15	—	1	16
Northern	29	1	(8)	22
New Zealand	51	(2)	(1)	48
<b>Total Sales</b>	<b>\$ 111</b>	<b>\$ 1</b>	<b>\$ (4)</b>	<b>\$ 108</b>

**Sales (in millions)**

Nine Months Ended September 30,	2013	Changes Attributable to:		2014
		Price	Volume/ Mix/Other	
Atlantic	\$ 53	\$ 9	\$ —	\$ 62
Gulf States	40	1	—	41
Northern	83	5	(8)	80
New Zealand (a)	101	—	30	131
<b>Total Sales</b>	<b>\$ 277</b>	<b>\$ 15</b>	<b>\$ 22</b>	<b>\$ 314</b>

(a) First quarter 2014 included \$38 million of sales from the consolidation of the New Zealand joint venture (“New Zealand JV”), whereas first quarter 2013 was accounted for on the equity method.

Sales (in thousands of short green tons)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Atlantic	827	743	2,361	2,515
Gulf States	588	572	1,477	1,495
Northern	346	516	1,337	1,483
New Zealand				
Domestic	413	460	1,035	876
Export	248	235	607	435
<b>Total Sales Volume</b>	<b>2,422</b>	<b>2,526</b>	<b>6,817</b>	<b>6,804</b>

**Operating Income (in millions)**

Three Months Ended September 30,	2013	Changes Attributable to:			2014
		Price	Volume/ Mix	Cost/Other	
Atlantic	\$ 4	\$ 2	\$ 2	\$ 1	\$ 9
Gulf States	5	—	—	(1)	4
Northern	9	1	(4)	(2)	4
New Zealand	5	(2)	1	(2)	2
<b>Total Operating Income</b>	<b>\$ 23</b>	<b>\$ 1</b>	<b>\$ (1)</b>	<b>\$ (4)</b>	<b>\$ 19</b>

**Operating Income (in millions)**

Nine Months Ended September 30,	2013	Changes Attributable to:			2014
		Price	Volume/ Mix	Cost/Other	
Atlantic	\$ 15	\$ 9	\$ —	\$ (2)	\$ 22
Gulf States	10	1	—	(1)	10
Northern	24	5	(1)	(2)	26
New Zealand/Other	8	—	(3)	2	7
<b>Total Operating Income</b>	<b>\$ 57</b>	<b>\$ 15</b>	<b>\$ (4)</b>	<b>\$ (3)</b>	<b>\$ 65</b>

In the Atlantic region, 2014 third quarter sales were \$6 million above 2013 and operating income improved by \$5 million. Sales and operating income increased \$9 million and \$7 million, respectively, for the nine months ended September 30, 2014 compared to prior year. Results in 2014 benefited from improved pricing from continued strong pulpwood demand and restricted supply due to wet weather conditions. Pine stumpage prices increased 13 percent and 20 percent for the respective three and nine month periods.

Gulf region sales were slightly favorable for the three months ended September 30, 2014, primarily due to pine stumpage volume increases of 13 percent and higher delivered pine prices. Operating income was below prior period, however, as these increases were offset by lower non-timber income. Year-to-date sales improved slightly, over the comparable 2013 period as stumpage and delivered pine prices increased approximately 3 percent due to strong pulpwood demand. Year-to-date operating income was comparable to the prior year period as higher pine prices were offset by higher depletion expense.

In the Northern region, 2014 third quarter sales and operating income declined compared to 2013 as volumes decreased due to lower export demand and reduced harvesting caused by fire restrictions. The reduction in volume was partially offset by improved stumpage and delivered prices, which increased 7 percent and 4 percent respectively. Third quarter 2014 results were also impacted by \$2 million cumulative out-of-period depletion expense.

On a year-to-date basis, sales declined \$3 million as an 18 percent decrease in delivered volume offset increased stumpage volume and favorable pricing due to an increase in China demand earlier in the year. Also impacting results was the fourth quarter 2013 sale of the New York timberlands, which contributed \$2 million to sales through September 30, 2013. Operating income increased 8 percent compared to the 2013 period, primarily driven by strong pricing.

In April 2013, we acquired an additional 39 percent ownership interest in our New Zealand JV. As a 65 percent owner, we began consolidating 100 percent of the New Zealand JV's results of operations in the second quarter of 2013. Our New Zealand JV's sales and operating results for the nine months ended September 30, 2014 reflect this increased ownership.

In New Zealand, third quarter operating results were below 2013 as prices declined in the export market due to the high China log inventories, while year-to-date results were comparable.

**REAL ESTATE**

**Sales (in millions)**

<b>Three Months Ended September 30,</b>	<b>2013</b>	<b>Changes Attributable to:</b>		<b>2014</b>
		<b>Price</b>	<b>Volume/Mix</b>	
Development	\$ 1	\$ —	\$ 1	\$ 2
Rural	13	5	7	25
Non-Strategic Timberlands	—	—	—	—
<b>Total Sales</b>	<b>\$ 14</b>	<b>\$ 5</b>	<b>\$ 8</b>	<b>\$ 27</b>

**Sales (in millions)**

<b>Nine Months Ended September 30,</b>	<b>2013</b>	<b>Changes Attributable to:</b>		<b>2014</b>
		<b>Price</b>	<b>Volume/Mix</b>	
Development	\$ 3	\$ —	\$ —	\$ 3
Rural	24	6	5	35
Non-Strategic Timberlands	25	(63)	66	28
<b>Total Sales</b>	<b>\$ 52</b>	<b>\$ (57)</b>	<b>\$ 71</b>	<b>\$ 66</b>

**Sales (in acres)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Development	203	122	298	255
Rural	11,685	7,704	15,448	12,710
Non-Strategic Timberlands	234	179	23,781	9,126
<b>Total Acres Sold</b>	<b>12,122</b>	<b>8,005</b>	<b>39,527</b>	<b>22,091</b>

**Operating Income (in millions)**

Three Months Ended September 30,	2013	Changes Attributable to:		2014
		Price	Volume/Mix	
<b>Total Operating Income</b>	\$ 8	\$ 5	\$ 3	\$ 16

**Operating Income (in millions)**

Nine Months Ended September 30,	2013	Changes Attributable to:		2014
		Price	Volume/Mix	
<b>Total Operating Income</b>	\$ 30	\$ (57)	\$ 72	\$ 45

Third quarter sales of \$27 million and operating income of \$16 million increased \$13 million and \$8 million, respectively, compared to the prior year period. Year-to-date, sales and operating income were \$14 million and \$15 million, respectively, above the prior year. The results for the third quarter were primarily driven by increased rural volumes and stronger prices, which included two significant sales in the Southeast totaling 9,700 acres at an average price of \$1,900 per acre. The year-to-date period benefited from higher non-strategic timberland sales, primarily from a 19,500 acre parcel in Florida at \$1,125 per acre, and a \$6 million settlement of a bankruptcy claim related to a 2006 sale.

**OTHER OPERATIONS**

Third quarter and year-to-date 2014 sales from our New Zealand log trading business decreased \$19 million and \$16 million, respectively, compared to 2013 as a result of sales declines resulting from high China log inventories. Operating income for the three and nine months ended September 30, 2014 increased \$3 million and \$1 million, respectively, over the prior year periods primarily due to favorable movements in foreign currency exchange rates in third quarter 2014.

**Corporate and Other Expense/Eliminations**

Corporate and other operating expenses of \$6 million in the third quarter of 2014 decreased \$5 million compared to 2013, primarily due to the Performance Fibers spin-off completed on June 27, 2014. Although all periods have been restated for the discontinued operations of the Performance Fibers business, corporate expenses previously allocated to the Performance Fibers operating results are not permitted to be allocated to discontinued operations under Generally Accepted Accounting Principles in the United States ("GAAP"). Excluding the gain related to the consolidation of the New Zealand JV of \$16 million in the second quarter of 2013, corporate and other operating expenses of \$28 million for the year-to-date 2014 period improved \$2 million over prior year. Going forward, we expect annual corporate expenses to be approximately \$20 million.

**Interest and Other Expense**

Interest and other expenses of \$11 million in the third quarter in 2014 improved \$1 million from the prior year period as lower interest expense on our decreased debt balances was largely offset by unfavorable mark-to-market adjustments on New Zealand interest rate swaps. Interest and other expenses increased \$14 million over the prior year-to-date period primarily due to \$2 million of interest related to early repayment of debt in connection with the spin-off, \$3 million of interest from the New Zealand JV due to its consolidation beginning in the second quarter of 2013 and unfavorable mark-to-market adjustments on New Zealand interest rate swaps.

**Income Tax Expense**

The third quarter 2014 income tax benefit before discrete items was \$9 million compared to an income tax benefit from continuing operations of \$6 million in 2013. The income tax benefit represents tax benefits from losses at Rayonier's taxable operations and interest and general administrative expenses not allowed to be allocated to the discontinued operations of the Performance Fibers business. Including discrete items, the third quarter 2014 income tax benefit from continuing operations was \$11 million compared to an income tax benefit of \$7 million in third quarter 2013.

The year-to-date income tax benefit from continuing operations before discrete items was \$16 million in 2014 compared to \$21 million in the prior year period. Including discrete items, the income tax benefit from continuing operations was \$5 million in 2014, compared to \$29 million in 2013. The current year income tax benefit as reported reflects a \$15 million valuation allowance related to the cellulosic biofuel producer credit ("CBPC"), which was recorded in connection with the spin-off due to Rayonier's limited potential use of the CBPC prior to its expiration on December 31, 2016.

**Liquidity and Capital Resources**

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

**Summary of Liquidity and Financing Commitments**

(millions of dollars)	September 30, 2014	December 31, 2013
Cash and cash equivalents (a)	\$ 183	\$ 200
Total debt	736	1,574
Shareholders' equity	1,611	1,755
Total capitalization (total debt plus equity)	2,347	3,329
Debt to capital ratio	31%	47%

(a) Cash and cash equivalents consisted primarily of time deposits with original maturities of 90 days or less and money market accounts.

**Cash Flows**

The following table summarizes our cash flows from operating, investing and financing activities for the nine months ended September 30. The Consolidated Statements of Cash Flows for both 2014 and 2013 have not been restated to exclude discontinued operations.

(million of dollars)	2014	2013
Cash provided by (used for):		
Operating activities	\$ 281	\$ 334
Investing activities	(152)	(339)
Financing activities	(145)	(15)

**Cash Provided by Operating Activities**

The decline in cash provided by operating activities in 2014 was primarily attributable to lower income from the Performance Fibers business and the spin-off of this segment on June 27, 2014. These results were partially offset by lower working capital requirements as 2013 included a \$70 million payment to exchange AFMC for CBPC.

**Cash Used for Investing Activities**

Cash used for investing activities decreased \$187 million compared to 2013. The prior year period included large cash outlays for the purchase of an additional interest in the New Zealand JV of \$140 million and the Cellulose Specialties Expansion project of \$137 million, partially offset by \$68 million in net proceeds from the sale of our Wood Products business. In 2014, lower capital expenditures and a change in restricted cash totaling \$60 million was more than offset by an \$82 million increase in timberland acquisitions.

**Cash Used for Financing Activities**

Cash used for financing activities increased over the prior year period largely due to transactions related to the spin-off of the Performance Fibers business and a \$51 million increase in dividend payments, which reflects the third quarter 2014 special dividend payment of \$0.50 per Rayonier common share. In addition, net debt borrowings (including debt issuance costs) decreased \$45 million.

**Expected 2014 Expenditures**

We expect capital expenditures to be approximately \$20 million in the fourth quarter of 2014, totaling \$65 million for the full year, excluding strategic acquisitions and Performance Fibers capital expenditures. We do not expect any cash payments for income taxes during the fourth quarter, while dividend payments for the fourth quarter are expected to total approximately \$32 million. We have no mandatory pension contributions in 2014.

### Performance and Liquidity Indicators

The discussion below is presented to enhance the reader's understanding of our operating performance, liquidity, ability to generate cash and satisfy rating agency and creditor requirements. This information includes three measures of financial results: Earnings before Interest, Taxes, Depreciation, Depletion and Amortization ("EBITDA"), Adjusted EBITDA and Adjusted Cash Available for Distribution ("Adjusted CAD"). These measures are not defined by GAAP and the discussion of EBITDA, Adjusted EBITDA and Adjusted CAD is not intended to conflict with or change any of the GAAP disclosures described above. Management considers these measures to be important to estimate the enterprise and shareholder values of the Company as a whole and of its core segments, and for allocating capital resources. In addition, analysts, investors and creditors use these measures when analyzing our operating performance, financial condition and cash generating ability. Management uses EBITDA and Adjusted EBITDA as performance measures and Adjusted CAD as a liquidity measure. EBITDA is defined by the SEC. Adjusted EBITDA and Adjusted CAD as defined, however, may not be comparable to similarly titled measures reported by other companies. We define Adjusted EBITDA as earnings before interest, taxes, depreciation, depletion, amortization, and the non-cash cost basis of real estate sold.

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

	Three Months Ended September 30,		Nine Months Ended September 30,		Forecast
	2014	2013	2014	2013	2015
<b>Net Income to EBITDA Reconciliation</b>					
Net Income	\$ 32	\$ 58	\$ 90	\$ 294	~ \$65 - 75
Interest, net, continuing operations	11	12	39	29	~ \$30
Income tax benefit, continuing operations	(11)	(7)	(5)	(29)	~ (\$5 - 10)
Depreciation, depletion and amortization	34	31	92	82	~ \$105 - \$110
Discontinued operations (a)	—	43	66	133	—
EBITDA	66	137	282	509	~ \$190 - \$210
Non-cash cost of real estate sold	3	2	7	4	~ \$10
Adjusted EBITDA	69	139	289	513	~ \$200 - \$220

(a) Includes income, interest, income tax expense, and depreciation and amortization from discontinued operations.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
<b>EBITDA by Segment</b>				
Forest Resources	\$ 49	\$ 51	\$ 145	\$ 129
Real Estate	20	10	56	39
Other Operations	3	—	2	1
Corporate and other (a)	(6)	76	79	340
EBITDA	\$ 66	\$ 137	\$ 282	\$ 509

(a) Includes EBITDA from the Performance Fibers business of \$0 and \$86 million for the three months ended September 30, 2014 and 2013, respectively. Performance Fibers EBITDA included within "Corporate and other" was \$110 million for the nine months ended September 30, 2014 and \$286 million for the nine months ended September 30, 2013.

Third quarter and year-to-date 2014 EBITDA decreased from 2013 primarily due to the spin-off of the Performance Fiber business in second quarter 2014, partially offset by improved results in our Real Estate segment. In addition, EBITDA for the nine months ended September 30, 2013 included a \$64 million gain on the sale of Wood Products and a \$16 million gain related to the consolidation of the New Zealand JV.

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

	Forest Resources	Real Estate	Other Operations	Corporate and Other	Total
<b>Three Months Ended September 30, 2014</b>					
Operating Income	\$ 19	\$ 16	\$ 3	\$ (6)	\$ 32
Add: Depreciation, depletion and amortization	30	4	—	—	34
Add: Costs related to spin-off of Performance Fibers business	—	—	—	—	—
Add: Discontinued operations (a)	—	—	—	—	—
EBITDA	<u>\$ 49</u>	<u>\$ 20</u>	<u>\$ 3</u>	<u>\$ (6)</u>	<u>\$ 66</u>
<b>Three Months Ended September 30, 2013</b>					
Operating Income	\$ 23	\$ 8	\$ —	\$ (11)	\$ 20
Add: Depreciation, depletion and amortization	28	2	—	1	31
Add: Discontinued operations (a)	—	—	—	86	86
EBITDA	<u>\$ 51</u>	<u>\$ 10</u>	<u>\$ —</u>	<u>\$ 76</u>	<u>\$ 137</u>
<b>Nine Months Ended September 30, 2014</b>					
Operating Income	\$ 65	\$ 45	\$ 2	\$ (28)	\$ 84
Add: Depreciation, depletion and amortization	80	11	—	1	92
Add: Costs related to spin-off of Performance Fibers business	—	—	—	(4)	(4)
Add: Discontinued operations (a)	—	—	—	110	110
EBITDA	<u>\$ 145</u>	<u>\$ 56</u>	<u>\$ 2</u>	<u>\$ 79</u>	<u>\$ 282</u>
<b>Nine Months Ended September 30, 2013</b>					
Operating Income	\$ 57	\$ 30	\$ 1	\$ (14)	\$ 74
Add: Depreciation, depletion and amortization	72	9	—	1	82
Add: Discontinued operations (a)	—	—	—	353	353
EBITDA	<u>\$ 129</u>	<u>\$ 39</u>	<u>\$ 1</u>	<u>\$ 340</u>	<u>\$ 509</u>

(a) Includes income, interest, and depreciation and amortization from discontinued operations.

Adjusted CAD is a non-GAAP measure of cash generated during a period which is available for dividend distribution, repurchase of the Company's common shares, debt reduction and strategic acquisitions. We define CAD as Cash Provided by Operating Activities adjusted for capital spending, strategic divestitures, the change in committed cash, and other items which include cash provided by discontinued operations, excess tax benefits on stock-based compensation and the change in capital expenditures purchased on account. Committed cash represents outstanding checks that have been drawn on our zero balance bank accounts but have not been paid. In compliance with SEC requirements for non-GAAP measures, we reduce CAD by mandatory debt repayments which results in the measure entitled "Adjusted CAD."

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

	Nine Months Ended September 30,	
	2014	2013
Cash provided by operating activities	\$ 281	\$ 334
Capital expenditures (a)	(106)	(122)
Change in committed cash	5	—
Excess tax benefits on stock-based compensation	—	8
Other	4	2
Discontinued operations	(64)	(127)
CAD	<u>120</u>	<u>95</u>
Mandatory debt repayments	—	(32)
Adjusted CAD	<u>\$ 120</u>	<u>\$ 63</u>
Cash used for investing activities	<u>\$ (152)</u>	<u>\$ (339)</u>
Cash used for financing activities	<u>\$ (145)</u>	<u>\$ (15)</u>

(a) Capital expenditures exclude strategic capital of \$93 million for timberland acquisitions during the nine months ended September 30, 2014. Strategic capital totaled \$140 million for the purchase of additional interest in the New Zealand JV and \$12 million for timberland acquisitions for the nine months ended September 30, 2013.

In addition to the impact of the mandatory debt repayment in 2013, adjusted CAD increased in the current year primarily due to lower capital expenditures. Adjusted CAD generated in any period is not necessarily indicative of the amounts that may be generated in future periods.

### **Liquidity Facilities**

As part of the spin-off of the Performance Fibers business, Rayonier Advanced Materials, while a subsidiary of Rayonier, incurred approximately \$950 million of new debt. Rayonier Advanced Materials distributed \$906 million from the proceeds of this new debt to the Company prior to the spin-off, including \$75 million, which was restricted to shareholder dividend payments. Rayonier used the remainder of the distribution, as well as available cash, to make repayments of \$280 million on its unsecured revolving credit facility, \$500 million on its term credit agreement, and \$112.5 million on its installment note due 2014. During third quarter 2014, we also prepaid \$10.5 million of principal on the mortgage notes due 2017, the maximum amount allowable without penalty.

Net repayments of \$80 million were made in the first quarter on the revolving credit facility. The revolving credit facility and term credit agreement were amended to reduce the Company's borrowing capacity and related commitment fees effective third quarter 2014. The revolving credit facility was reduced to \$200 million and the term credit agreement was reduced to \$100 million. The capacity reduction also resulted in the write-off of \$1.7 million of capitalized debt costs. At September 30, 2014, the Company had available borrowings of \$198 million under the revolving credit facility and additional draws available of \$100 million under the term credit agreement.

During the nine months ended September 30, 2014, the New Zealand JV had net borrowings of \$1.3 million on its working capital facility. Additional draws totaling \$17 million remain available. There was no activity on its revolving credit facility. In addition, the New Zealand JV paid \$1.2 million of its shareholder loan held with the non-controlling interest party. Favorable changes in exchange rates through September 30, 2014 resulted in a \$1.5 million and \$9.9 million increase to debt on a US dollar basis for the shareholder loan and revolving facility, respectively.

As of June 30, 2014, the 4.50% Senior Exchangeable Notes due 2015 were exchangeable at the option of the holders for the calendar quarter ending September 30, 2014. According to the indenture, in order for the notes to become exchangeable, the Company's stock price must exceed 130 percent of the exchange price for 20 trading days during a period of 30 consecutive trading days as of the last day of the quarter. During the nine months ended September 30, 2014, the note holders did not elect to exercise the exchange option. These notes are also exchangeable in the fourth quarter of 2014 based upon the average stock price for the 30 trading days ending September 30, 2014. If the note holders exercise their options prior to December 31, 2014, we intend to repay the principal of the notes using cash on hand or by accessing the revolving credit facility. Any excess exchange value will be settled at the option of the Company in either cash or stock of Rayonier. The notes are included in current maturities of long-term debt on the Consolidated Balance Sheets as they are due in September of 2015 and we do not intend to refinance the entirety of the balance on our revolving credit facility.

In connection with our installment note, term credit agreement and credit facility, covenants must be met, including ratios based on the covenant definition of EBITDA, ratios based on consolidated funded debt compared to consolidated net worth, and ratios of subsidiary debt to consolidated net tangible assets. Covenants must also be met in connection with the New Zealand JV's credit facility, including ratios of debt to forestry and land valuations and ratios of operating cash flows to financing costs. As of September 30, 2014, we were in compliance with all applicable financial covenants. In addition to these financial covenants, the mortgage note, term credit agreement and revolving credit facility include customary covenants that limit the incurrence of debt and the disposition of assets, among others.

Both our ability to obtain financing and the related costs of borrowing are affected by our credit ratings, which are periodically reviewed by the rating agencies. In July 2014, Standard & Poor's Ratings Services lowered its ratings on Rayonier, including our corporate credit rating, to "BBB" from "BBB+."

### **Off-Balance Sheet Arrangements**

See Note 12 — *Guarantees* for details on the letters of credit, surety bonds and guarantees as of September 30, 2014.

### Contractual Financial Obligations

In addition to using cash flow from operations, we finance our 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.

The following table aggregates our contractual financial obligations as of September 30, 2014 and anticipated cash spending by period:

Contractual Financial Obligations (in millions)	Total	Payments Due by Period			
		Remaining 2014	2015-2016	2017-2018	Thereafter
Long-term debt (a)	\$ 604	\$ —	\$ 183	\$ 53	\$ 368
Current maturities of long-term debt (b)	132	1	131	—	—
Interest payments on long-term debt (c)	120	7	47	26	40
Operating leases — timberland	173	3	19	17	134
Operating leases — PP&E, offices	7	1	3	1	2
Purchase obligations — derivatives (d)	7	—	1	2	4
Purchase obligations — other	2	—	1	1	—
Total contractual cash obligations	<u>\$ 1,045</u>	<u>\$ 12</u>	<u>\$ 385</u>	<u>\$ 100</u>	<u>\$ 548</u>

- (a) The book value of our long-term debt is currently recorded at \$605.2 million on the Company's consolidated balance sheet, but upon maturity the liability will be \$603.7 million.
- (b) The book value of our current maturities of long-term debt is currently recorded at \$130.5 million on the Company's consolidated balance sheet, but upon maturity the liability will be \$132.3 million.
- (c) Projected interest payments for variable rate debt we calculated based on outstanding principal amounts and interest rates as of September 30, 2014.
- (d) Purchase obligations represent payments expected to be made on derivative instruments held in New Zealand. See Note 10 — *Derivative Financial Instruments and Hedging Activities*.



**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Market and Other Economic Risks**

We are exposed to various market risks, including changes in interest rates, commodity prices and foreign exchange rates. Our objective is to minimize the economic impact of these market risks. We use derivatives in accordance with policies and procedures approved by the Audit Committee of the Board of Directors. Derivatives are managed by a senior executive committee whose responsibilities include initiating, managing and monitoring resulting exposures. We do not enter into financial instruments for trading or speculative purposes.

As of September 30, 2014 we had \$15 million of U.S. long-term variable rate debt which is subject to interest rate risk. At this borrowing level, a hypothetical one-percentage point increase/decrease in interest rates would result in a corresponding increase/decrease of approximately \$0.2 million in interest payments and expense over a 12 month period. Our primary interest rate exposure on variable rate debt results from changes in LIBOR.

As of September 30, 2014, our New Zealand JV had \$183 million of long-term variable rate debt. This debt is subject to interest rate risk resulting from changes in the 90 day New Zealand Bank bill rate. However, the New Zealand JV uses interest rate swaps to manage its exposure to interest rate movements on its bank loan by swapping a portion of these borrowings from floating rates to fixed rates. The notional amount of the outstanding long-term interest rate swap contracts at September 30, 2014 was \$148 million, or 81 percent of the variable rate debt. The long-term interest rate swap contracts have maturities extending through January 2020. We also have short-term interest rate swap contracts with a notional amount of \$33 million.

The fair market value of our long-term fixed interest rate debt is also subject to interest rate risk. However, we intend to hold most of our debt until maturity. The estimated fair value of our long-term fixed-rate debt at September 30, 2014 was \$409 million compared to the \$405 million principal amount. We use interest rates of debt with similar terms and maturities to estimate the fair value of our debt. Generally, the fair market value of fixed-rate debt will increase as interest rates fall and decrease as interest rates rise. A hypothetical one-percentage point increase/decrease in prevailing interest rates at September 30, 2014 would result in a corresponding decrease/increase in the fair value of our fixed-rate debt of approximately \$23 million.

The functional currency of the Company's New Zealand-based operations and New Zealand JV is the New Zealand dollar. Through these operations and our ownership in the New Zealand JV, we are exposed to foreign currency risk on cash held in foreign currencies and on foreign export sales and ocean freight payments that are predominantly denominated in U.S. dollars. To mitigate these risks, the New Zealand JV routinely enters into foreign currency exchange contracts and foreign currency option contracts to hedge a portion of the New Zealand JV's foreign exchange exposure. At September 30, 2014, the New Zealand JV had foreign currency exchange contracts with a notional amount of \$25 million and foreign currency option contracts with a notional amount of \$71 million outstanding.

#### **Item 4. CONTROLS AND PROCEDURES**

##### *Disclosure Controls and Procedures*

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

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

Based on an evaluation of our disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q, our management, including the Chief Executive Officer and Chief Financial Officer, concluded the design and operation of the disclosure controls and procedures were not effective as of September 30, 2014.

On June 27, 2014, the Company spun off its Performance Fibers business to its shareholders as a newly formed publicly traded company named Rayonier Advanced Materials Inc. Following the spin-off, new management conducted a review of the Company’s operations and business strategies and identified issues related to its historical timber harvest levels, its estimate of merchantable timber inventory and the effect of such estimate on its calculation of depletion expense in each of the quarterly periods ended March 31, 2014 and June 30, 2014. At the direction of the Company’s Board of Directors, management commenced an internal review into these matters with the assistance of independent counsel, forensic accountants and financial advisers. As a result of the internal review, the Company concluded that it included in merchantable timber inventory, timber in specially designated parcels located in restricted, environmentally sensitive or economically inaccessible areas, which was incorrect, inconsistent with the Company’s definition of merchantable timber inventory, and a significant change from prior years. As a result, management concluded that the Company understated depletion expense in cost of goods sold (referred to as “Cost of sales” in the Company’s consolidated statements of income and comprehensive income) by approximately \$2.0 million in each of the quarterly periods ended March 31, 2014 and June 30, 2014, which resulted in a corresponding overstatement of income from continuing operations of \$1.9 million and \$2.0 million, respectively, in those periods. Management determined that errors in depletion expense calculated in the years ended December 31, 2013, and 2012 were immaterial and did not require restatement. The cumulative effect of the immaterial errors in depletion expense for these and prior periods are reflected in the Company’s financial statements for the third quarter of 2014 as an out-of-period adjustment. The Company has filed amendments to its Forms 10-Q for the quarterly periods ended March 31, 2014 and June 30, 2014 and restated its interim consolidated financial statements for those periods.

Management and E&Y originally concluded that there was not a material weakness in the Company’s internal control over financial reporting as of December 31, 2013, and this conclusion was reflected in the Company’s Initial Form 10-K. Subsequent to the filing of the Initial Form 10-K and in connection with the restatement discussed above, under the direction of the Chief Executive Officer and Chief Financial Officer, management conducted a reevaluation of the effectiveness of the Company’s internal control over financial reporting. After extensive consultation with E&Y and the Company’s forensic accountants, management has now concluded that the Company did not maintain effective control, as of December 31, 2013, over the accounting for depletion expense. Specifically, the Company’s controls related to the preparation and review of the annual depletion calculation which commenced in 2013 were not adequate to ensure that the changes in depletion rate estimates used to recognize depletion expense in 2014 were in accordance with accounting principles generally accepted in the United States of America. Further, these controls relied, in part, on electronic data from information technology systems with ineffective user access and program change management general controls. Accordingly, management has now concluded that the Company’s internal control over financial reporting was ineffective at December 31, 2013 based on the aggregation of these deficiencies. E&Y has reached the same conclusion.

In addition, because this material weakness was not adequately remediated as of March 31, 2014, June 30, 2014 or September 30, 2014, the Company’s internal control over financial reporting was ineffective at those dates as well. There were no other changes in our internal control over financial reporting that occurred during the quarterly period ended September 30, 2014 that materially affected, or are likely to materially affect, the Company’s internal control over financial reporting.

*Remediation Plan*

The Company has initiated a plan to remediate the material weakness described above. The implementation of this plan began in the third quarter of 2014 and consists of the following main elements:

- enhancing senior finance management supervision and review of the depletion rate estimates and coordination with the Company's technical and operations personnel as to volumes of merchantable timber included in the calculation of depletion expense,
- instituting more formal procedures around the review and approval of changes to the estimate of merchantable timber inventory and its effect on the calculation of depletion expense, and
- implementing controls over user access and changes to system data used in the depletion rate estimates.

Prior to the remediation of the material weakness, there is a risk that material misstatements in our interim or annual financial statements may occur. We can give no assurance that the measures we take will remediate the material weakness that we have identified or that additional material weaknesses will not arise in the future. We will continue to monitor the effectiveness of these and other processes, procedures, and controls and will make any further changes management determines to be appropriate.

## **PART II. OTHER INFORMATION**

### **Item 1A. Risk Factors**

Our operations are subject to a number of risks. When considering an investment in our securities, you should carefully read and consider these risks, together with all other information in this Quarterly Report on Form 10-Q. If any of the events described in the following risk factors actually occur, our business, financial condition or operating results, as well as the market price of our securities, could be materially adversely affected. The information presented below updates the risk factors set forth in Part I, "Item 1A. Risk Factors," of the Amended Form 10-K.

#### **Business and Operating Risks**

*There are risks to the Company associated with the recently completed spin-off of our Performance Fibers business.*

The Company faces a number of risks related to the spin-off of our Performance Fibers business on June 27, 2014, including the following:

- *Risks of Not Obtaining Benefits from the Spin-Off.* After the spin-off, we believe that we will be able to, among other things, better focus our financial and operational resources on, and design and implement corporate strategies and policies targeted toward our specific business, growth profile and strategic priorities, implement and maintain a capital structure designed to meet our specific needs and more effectively respond to industry dynamics. However, the Company may not achieve some or all of the expected benefits of the spin-off, and the spin-off could lead to disruption of our operations, loss of, or inability to recruit or retain, key personnel needed to operate and grow our business, weakening of our internal standards, controls or procedures and impairment of our key customer relationships. If we fail to achieve some or all of the benefits that we expect to achieve as a standalone company, or do not achieve them in a timely or cost-effective manner, our business, financial condition and results of operations could be materially and adversely affected.
- *Risks Relating to Less Diversification.* Our operational and financial profile has changed as a result of the spin-off of the Performance Fibers business. As a result, our diversification of revenue sources has diminished, and it is possible that our results of operations, cash flows, working capital and financing requirements may be subject to increased volatility. If we are unable to manage that volatility, our business, financial condition and results of operations could be materially and adversely affected.
- *Risks Relating to Benefits of Scale.* We may not enjoy all of the benefits of scale that we enjoyed prior to the spin-off of the Performance Fibers business, when all of our businesses were held in one corporate structure. Prior to the spin-off, our businesses shared benefits of scope and scale in costs, human capital and vendor and customer relationships. The loss of these benefits of scale as a consequence of the spin-off could materially and adversely affect each of the Forest Resources and Real Estate business segments, and our financial condition and results of operations.

*The markets in which we operate are subject to factors beyond our control.*

The end markets for our Forest Resources and Real Estate business segments are influenced by a variety of factors beyond our control. For example, the demand for real estate can be affected by availability of capital, changes in interest rates, availability and terms of financing, local economic conditions, employment rates, new housing starts, population growth and demographics. The level of new residential and commercial construction activity is the primary driver of sawtimber demand. The supply of timber and logs has historically increased during favorable pricing environments, which then causes downward pressure on prices. Both our Real Estate and Forest Resources business segments have been negatively impacted by the global financial crisis, primarily due to the decline in housing starts, excess supply of existing housing inventory, historically elevated levels of unemployment and the tightening of credit availability for real estate and construction related projects. Although conditions affecting both business segments have begun to improve as the economy continues its gradual recovery, macroeconomic factors impacting our operations are beyond our control and could have a material adverse effect on our business.

*The industries in which we operate are highly competitive.*

The competitive pressures relating to our Forest Resources segment are primarily driven by quantity of product supply and quality of the timber offered by competitors in the domestic and export markets, each of which may impact pricing. With respect to our Real Estate business, we compete with other owners of entitled and unentitled properties. Each property has unique attributes, but overall quantity of supply and price for residential, commercial, industrial and rural properties in the geographic areas in which we operate are the most significant competitive drivers.

***We are exposed to the cyclicity of the business of certain of our customers, which may adversely affect our business and results of operations.***

Some of the industries in which our end-use customers participate, such as the construction and home building industries, the global pulp and paper industries and the real estate industry, are cyclical in nature, exposing us to risks beyond our control. The industries in which these customers participate are highly competitive and may experience overcapacity or reductions in demand, all of which may affect demand for and pricing of our products. The consequences of such costs could include the reduction, delay or cancellation of customer orders, and bankruptcy of customers, suppliers or other creditors. The occurrence of any of these events may adversely affect our business, financial condition and results of operation.

***Our business will be adversely affected if we are unable to make acquisitions or access the capital markets to finance our growth.***

We have pursued, and intend to continue to pursue, acquisitions of timberland and real estate properties that meet our investment criteria and achieve our strategic goals of growing the size and average quality of our land base. The ability to grow through acquisitions or other investments depends upon our ability to identify, negotiate, complete and integrate suitable acquisitions or joint venture partnerships. In particular, our future success and growth depend upon our ability to make acquisitions that increase merchantable timber inventory and complement the existing age class structure of our ownership. If we are unable to make acquisitions on acceptable terms or that do not support our strategic goals, our revenues and cash flows may stagnate or decline.

Our ability to acquire additional land or make other acquisitions is dependent in part on our ability to access the capital markets. We cannot be certain that debt financing or the issuance of additional equity will be available or available on acceptable terms. If such financing is not available when needed, or is available only on unfavorable terms, we may be unable to complete acquisitions or otherwise take advantage of business opportunities or respond to competitive pressures, any of which could have a material adverse effect on our business and results of operations. In addition, if we fail to successfully integrate acquisitions into our existing business, our business, financial condition and results of operations could be adversely affected.

***Our success depends on our ability to achieve a long-term sustainable yield.***

As of September 30, 2014, we owned, leased or managed approximately 2.6 million acres of timberlands in nine states in the U.S. and throughout New Zealand. To maintain or increase our revenues, we must maximize harvest yields while appropriately expanding our working forests through acquisitions and managing our working forests through forecast models that provide for a sustainable yield and timber supply. If we are unable to balance economically sustainable forestry with customer demand in a cost-effective manner, our financial performance and results of operations may be adversely affected.

***Our estimates of timber growth rates may be inaccurate, which would impair our ability to realize expected revenues.***

We rely upon estimates of timber growth rates and end-product yields when acquiring and managing working forests. These estimates are central to forecasting our anticipated timber revenues and expected cash flows. Growth rates and end-product yield estimates are developed in conjunction with industry research cooperatives and by in-house forest biometricians using measurements of trees in research plots spread across our timberland holdings. The growth equations predict the rate of height and diameter growth of trees so that foresters can estimate the volume of timber that may be present in the tree stand at a given age. Tree growth varies by soil type, geographic area, and climate. Inappropriate application of growth equations in forest management planning may lead to inaccurate estimates of future volumes. If these estimates are inaccurate, our ability to manage our timberlands in a sustainable or profitable manner may be diminished, which may cause our results of operations to be adversely affected.

***Weather and other natural conditions may limit our timber harvest and sales.***

Weather conditions, timber growth cycles and restrictions on access (for example, due to prolonged wet conditions) and other factors, including damage by fire, insect infestation, disease, prolonged drought and natural disasters such as wind storms and hurricanes, may limit harvesting of our timberlands. The volume and value of timber that can be harvested from our timberlands may be reduced by any such fire, insect infestation, disease, severe weather, prolonged drought, natural disasters and other causes beyond our control. These and other factors beyond our control could reduce our timber inventory and accordingly, our sustainable yield, thereby adversely affecting our financial results and cash flows. As is typical in the forestry industry, we do not maintain insurance for any loss to our timber, including losses due to fire and these other causes.

***A significant portion of the timberland that we own, lease or manage is concentrated in limited geographic areas.***

We own, lease or manage approximately 2.6 million acres of timberlands located primarily in the U.S. and New Zealand. Approximately 69 percent of our U.S. timberlands are located in four states: Alabama, Florida, Georgia, and Washington. Accordingly, a substantial decline in the level of production from these forests, or a substantial decline in demand for timber in those regions, could have a material adverse effect on our overall production levels and revenues.

***Changes in energy and fuel costs could affect our results of operations and financial condition.***

Energy costs are a significant operating expense for our logging and hauling contractors and for the contractors who support the customers of our standing timber. Energy costs can be volatile and are susceptible to rapid and substantial increases due to factors beyond our control, such as changing economic conditions, political unrest, instability in energy-producing nations, and supply and demand considerations. Although the price of oil has recently decreased, increases in the price of oil could adversely affect our business, financial condition and results of operations. In addition, an increase in fuel costs, and its impact on the cost and availability of transportation for our products, both domestically and internationally, and the cost and availability of third party logging and hauling contractors, could have a material adverse effect on the operating costs of our contractors and our standing timber customers as well as in defining economically accessible timber stands. Such factors could in turn have a material adverse effect on our business, financial condition and results of operations, especially our Forest Resources segment.

***We depend on third parties for transportation services and increases in the costs and availability of transportation could adversely affect our business.***

Our Forest Resources segment depends on transportation services provided by third parties, both domestically and internationally, including by railroad, trucks, or ships. If any of our transportation providers were to fail to deliver timber supply to our customers in a timely manner, or were to damaged timber supply during transport, we may be unable to sell it at full value, or at all. Any significant failure of third-party transportation providers could harm our reputation, negatively affect our customer relationships and adversely affect our business. In addition, increases in transportation rates or fuel costs could adversely affect our financial condition and results of operations.

***We are subject to risks associated with doing business outside of the United States.***

Although the majority of our customers are in the U.S., a portion of our sales are to end markets outside of the U.S., including China, South Korea, Japan, India and the European Union. The export of our products into international markets results in risks inherent in conducting business pursuant to international laws, regulations and customs. We expect that international sales will continue to contribute to future growth. The risks associated with our business outside the U.S. include:

- changes in and reinterpretations of the laws, regulations and enforcement priorities of the countries in which our products are sold;
- responsibility to comply with anti-bribery laws such as the U.S. Foreign Corrupt Practices Act and similar anti-bribery laws in other jurisdictions;
- trade protection laws, policies and measures and other regulatory requirements affecting trade and investment, including loss or modification of exemptions for taxes and tariffs, imposition of new tariffs and duties and import and export licensing requirements;
- difficulty in establishing, staffing and managing non-U.S. operations;
- product damage or losses incurred during shipping;
- potentially negative consequences from changes in or interpretations of tax laws;
- economic or political instability, inflation, recessions and interest rate and exchange rate fluctuations; and
- uncertainties regarding non-U.S. judicial systems, rules and procedures.

These risks could adversely affect our business, financial condition and results of operations.

***Our businesses are subject to extensive environmental laws and regulations that may restrict or adversely affect our ability to conduct our business.***

*Environmental laws and regulations are constantly changing and are generally becoming more restrictive.* Laws, regulations and related judicial decisions and administrative interpretations affecting our business are subject to change, and new laws and regulations are frequently enacted. These changes may adversely affect our ability to harvest and sell timber, remediate contaminated properties and/or entitle real estate. These laws and regulations may relate to, among other things, the protection of timberlands and endangered species, recreation and aesthetics, protection and restoration of natural resources, wastewater discharges, receiving water quality, timber harvesting practices, and remedial standards for contaminated property and groundwater. Over time, the complexity and stringency of these laws and regulations have increased and the enforcement of these laws and regulations has intensified. Moreover, environmental policies of the current U.S. administration are more restrictive in the aggregate for industry and landowners than those of the previous administration. For example, the U.S. Environmental Protection Agency (“EPA”) has pursued a number of initiatives that, if implemented, could impose additional operational and pollution control obligations on industrial facilities like those of Rayonier’s customers, especially in the area of air emissions and wastewater and stormwater control. In addition, as a result of certain judicial rulings and EPA initiatives, including some that would require timberland operators to obtain permits to conduct certain ordinary course forestry activities, silvicultural practices on our timberlands could be impacted in the future. Environmental laws and regulations will likely continue to become more restrictive and over time could adversely affect our business, financial condition and results of operations.

*If regulatory and environmental permits are delayed, restricted or rejected, a variety of our operations could be adversely affected.* We are required to seek permission from government agencies in the states and countries in which we operate to perform certain activities related to our properties. Any of these agencies could delay review of, or reject, any of our filings. In our Forest Resources segment, any delay associated with a filing could result in a delay or restriction in replanting, thinning, insect control, fire control or harvesting, any of which could have an adverse effect on our operating results. For example, in Washington State, we are required to file a Forest Practice Application for each unit of timberland to be harvested. These applications may be denied, conditioned or restricted by the regulatory agency. Actions by the regulatory agencies could delay or restrict timber harvest activities pursuant to these permits. Delays or harvest restrictions on a significant number of applications could have an adverse effect on our operating results. Delays in obtaining these environmental permits could have an adverse effect on our results of operations.

*Environmental groups and interested individuals may seek to delay or prevent a variety of operations.* We expect that environmental groups and interested individuals will intervene with increasing frequency in the regulatory processes in the states and countries where we own, lease or manage timberlands. For example, in Washington State, environmental groups and interested individuals may appeal individual forest practice applications or file petitions with the Forest Practices Board to challenge the regulations under which forest practices are approved. These and other challenges could materially delay or prevent operations on our properties. For example, interveners at times may bring legal action in Florida in opposition to entitlement and change of use of timberlands to commercial, industrial or residential use. Delays or restrictions due to the intervention of environmental groups or interested individuals could adversely affect our operating results. In addition to intervention in regulatory proceedings, interested groups and individuals may file or threaten to file lawsuits that seek to prevent us from obtaining permits, implementing capital improvements or pursuing operating plans. Any threatened or actual lawsuit could delay harvesting on our timberlands, affect how we operate or limit our ability to modify or invest in our real estate. Among the remedies that could be enforced in a lawsuit is a judgment preventing or restricting harvesting on a portion of our timberlands.

*The impact of existing regulatory restrictions on future harvesting activities may be significant.* U.S. federal, state and local laws and regulations, as well as those of other countries, which are intended to protect threatened and endangered species, as well as waterways and wetlands, limit and may prevent timber harvesting, road building and other activities on our timberlands. Restrictions relating to threatened and endangered species apply to activities that would adversely impact a protected species or significantly degrade its habitat. The size of the restricted area varies depending on the protected species, the time of year and other factors, but can range from less than one acre to several thousand acres. A number of species that naturally live on or near our timberlands, including, among others, the northern spotted owl, marbled murrelet, several species of salmon and trout in the Northwest, and the red cockaded woodpecker, Red Hills salamander and flatwoods salamander in the Southeast, are protected under the Federal Endangered Species Act (the “ESA”) or similar U.S. federal and state laws. A significant number of other species, such as the gopher tortoise and long-eared bat are currently under review for possible protection under the ESA. As we gain additional information regarding the presence of threatened or endangered species on our timberlands, or if other regulations, such as those that require buffers to protect water bodies, become more restrictive, the amount of our timberlands subject to harvest restrictions could increase.

*We formerly owned or operated or may own or acquire timberlands or properties that may require environmental remediation or otherwise be subject to environmental and other liabilities. We owned or operated manufacturing facilities and discontinued operations that we do not currently own, and we may currently own or may acquire timberlands and other properties in the future that are subject to environmental liabilities, such as remediation of soil, sediment and groundwater contamination and other existing or potential liabilities. In connection with the spin-off of our Performance Fibers business, and pursuant to the related Separation and Distribution Agreement between us and Rayonier Advanced Materials, Rayonier Advanced Materials has assumed any environmental liability of ours in connection with the manufacturing facilities and discontinued operations related to the Performance Fibers business and has agreed to indemnify and hold us harmless in connection with such environmental liabilities. However, in the event we seek indemnification from Rayonier Advanced Materials, we cannot provide any assurance that a court will enforce our indemnification right if challenged by Rayonier Advanced Materials or that Rayonier Advanced Materials will be able to fund any amounts for indemnification owed to us. In addition, the cost of investigation and remediation of contaminated timberlands and properties that we currently own or acquire in the future could increase operating costs and adversely affect financial results. We could also incur substantial costs, such as civil or criminal fines, sanctions and enforcement actions (including orders limiting our operations or requiring corrective measures, installation of pollution control equipment or other remedial actions), clean-up and closure costs, and third-party claims for property damage and personal injury as a result of violations of, or liabilities under, environmental laws and regulations related to such timberlands or properties.*

***Entitlement and development of real estate entail a lengthy, uncertain and costly approval process.***

Entitlement and development of real estate entail extensive approval processes involving multiple regulatory jurisdictions. It is common for a project to require multiple approvals, permits and consents from U.S. federal, state and local governing and regulatory bodies. For example, in Florida, real estate projects must generally comply with the provisions of the Community Planning Act and local land use, zoning and development regulations. In addition, development projects in Florida that exceed certain specified regulatory thresholds (and are not located in a jurisdiction classified as a dense urban land area) require approval of a comprehensive Development of Regional Impact (“DRI”) application. Compliance with these and other regulations and the DRI process is usually lengthy and costly, and significant conditions can be imposed on a developer with respect to a particular project. In addition, development of properties containing delineated wetlands may require one or more permits from the U.S. federal government and/or state and local governmental agencies. Any of these issues can materially affect the cost, timing and economic viability of our real estate projects.

The real estate entitlement process is frequently a political one, which involves uncertainty and often extensive negotiation and concessions in order to secure the necessary approvals and permits. In the U.S., a significant amount of our development property is located in counties in which local governments face challenging issues relating to growth and development, including zoning and future land use, public services, water availability, transportation and other infrastructure, and funding for same, and the requirements of state law, especially in the case of Florida under the Community Planning Act and DRI process. In addition, anti-development groups are active, especially in Florida, in filing litigation to oppose particular entitlement activities and development projects, and in seeking legislation and other anti-development limitations on real estate development activities. We expect this type of anti-development activity to continue in the future.

Issues affecting real estate development also include the availability of potable water for new development projects. For example, the Georgia Legislature enacted the Comprehensive Statewide Watershed Management Planning Act, which, among other things, created a governmental entity called the Georgia Water Council which was charged with preparing a comprehensive water management plan for the state and presenting it to the Georgia Legislature. It is unclear at this time how the plan will affect the cost and timing of real estate development along the southern Georgia coast, where the Company has significant real estate holdings. Concerns about the availability of potable water also exist in certain Florida counties, which could impact growth.

Changes in the laws, or interpretation or enforcement thereof, regarding the use and development of real estate, changes in the political composition of state and local governmental bodies, and the identification of new facts regarding our properties could lead to new or greater costs and delays and liabilities that could materially adversely affect our business, profitability or financial condition.

***Changes in demand for our real estate and delays in the timing of real estate transactions may affect our revenues and operating results.***

A number of factors, including changes in demographics, tightening of credit, high unemployment and a slowing of commercial or residential real estate development, particularly along the Florida and Georgia coasts, could reduce the demand for our properties and negatively affect our results of operations.



In addition, there are inherent uncertainties in the timing of real estate transactions. Delays in the completion of transactions or the termination of potential transactions can be caused by factors beyond our control. These events have in the past and may in the future adversely affect our operating results.

***The impacts of climate-related initiatives, at the international, U.S. federal and state levels, remain uncertain at this time.***

There continue to be numerous international, U.S. federal and state-level initiatives and proposals to address domestic and global climate issues. Within the U.S., most of these proposals would regulate and/or tax the production of carbon dioxide and other “greenhouse gases” to facilitate the reduction of carbon compound emissions into the atmosphere, and provide tax and other incentives to produce and use “cleaner” energy.

In late 2009, the EPA issued an “endangerment finding” under the Clean Air Act with respect to certain greenhouse gases, leading to the regulation of carbon dioxide as a pollutant under the Clean Air Act and having significant ramifications for Rayonier and the industry in general. In this regard, the EPA has published various regulations, affecting the operation of existing and new industrial facilities that emit carbon dioxide. As a result of the EPA’s decision to regulate greenhouse gases under the Clean Air Act, states will now have to consider them in permitting new or modified facilities.

Overall, it is reasonably likely that legislative and regulatory activity in this area will in some way affect Rayonier and the U.S. customers of our Forestry Resources segment, but it is unclear at this time what the nature of the impact will be. We continue to monitor political and regulatory developments in this area, but their overall impact on Rayonier, from a cost, benefit and financial performance standpoint remains uncertain at this time. In addition, the EPA has yet to finalize the treatment of biomass under greenhouse gas regulatory schemes leaving Rayonier’s biomass customers in a position of uncertainty.

***Investment returns on pension assets may be lower than expected or interest rates may decline, requiring us to make significant additional cash contributions to our benefit plans.***

We sponsor defined benefit pension plans, which cover a portion of our salaried and hourly employees. The Federal Pension Protection Act of 2006 requires that certain capitalization levels be maintained in each of these benefit plans. Because it is unknown what the investment return on pension assets will be in future years or what interest rates may be at any point in time, we cannot provide any assurance that applicable law will not require us to make future material plan contributions. Any such contributions could adversely affect our financial condition.

See Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Use of Estimates in our Amended Form 10-K for additional information about these plans, including funding status.

***Our joint venture partners may have interests that differ from ours and may take actions that adversely affect us.***

We participate in a joint venture in New Zealand, and may enter into other joint venture projects; for example, as part of our real estate strategy. A joint venture involves potential risks such as:

- not having voting control over the joint venture;
- the venture partners at any time may have economic or business interests or goals that are inconsistent with ours;
- the venture partners may take actions contrary to our instructions or requests, or contrary to our policies or objectives with respect to the investment; and
- the venture partners could experience financial difficulties.

Actions by our venture partners may subject property owned by the joint venture to liabilities greater than those contemplated by the joint venture agreement or may lead to other adverse consequences.

***We are dependent upon attracting and retaining key personnel, the loss of whom could adversely affect our business.***

We believe that our success depends, to a significant extent, upon our ability to attract and retain key senior management and operations management personnel. Our failure to recruit and retain these key personnel could adversely affect our business, financial condition or results of operations.

***Increases in market interest rates may adversely affect the price of our common shares.***

One of the factors that may influence the price of our common shares is our annual dividend yield as compared to yields on other financial instruments. Thus, an increase in market interest rates will result in higher yields on other financial instruments, which could adversely affect relative attractiveness of an investment in the Company and, accordingly, the price of our common shares.

***We have identified a material weakness in our internal control over financial reporting. Our failure to establish and maintain effective internal control over financial reporting could result in material misstatements in our financial statements, and our failure to meet our reporting and financial obligations, which in turn could have a negative impact on our financial condition.***

Maintaining effective internal control over financial reporting is necessary for us to produce reliable financial statements. As more fully disclosed in Part I, Item 4, "Controls and Procedures," subsequent to the filing of the Initial Form 10-K and in connection with the restatement discussed elsewhere in this Form 10-Q, under the direction of our Chief Executive Officer and Chief Financial Officer, management conducted a reevaluation of the effectiveness of our internal control over financial reporting. After extensive consultation with E&Y and Rayonier's forensic accountants, management has now concluded that we did not maintain effective control, as of December 31, 2013, over the accounting for depletion expense. Accordingly, our internal control over financial reporting was ineffective at December 31, 2013 based on the aggregation of these deficiencies. E&Y has reached the same conclusion. We have now concluded that certain material weaknesses existed in our internal control over financial reporting as of December 31, 2013. In addition, because this material weakness was not adequately remediated as of March 31, 2014, June 30, 2014 or September 30, 2014, the Company's internal control over financial reporting was ineffective at those dates as well.

Under standards established by the PCAOB, a material weakness is defined as a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis. Under the criteria set forth in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework), a material weakness in the design of monitoring controls indicates that we have not sufficiently developed and/or documented (*i.e.*, designed) internal controls by which management can review and oversee (*i.e.*, monitor) our financial information to detect and correct material errors or that the personnel responsible for performing the review did not have the sufficient skill set or knowledge of the subject matter to perform a proper assessment.

We have initiated a plan to remediate the material weakness described above, the implementation of which began in the third quarter of 2014. However, we can give no assurance that the measures we take will remediate the material weaknesses or that additional material weaknesses will not arise in the future. Any failure to remediate the material weaknesses, or the development of new material weaknesses in our internal control over financial reporting, could result in material misstatements in our financial statements and cause us to fail to meet our reporting and financial obligations, which in turn could have a negative impact on our financial condition.

***The restatement of our unaudited condensed financial statements may result in litigation or U.S. government enforcement actions, any of which would likely harm our business, prospects, financial condition and results of operations.***

In connection with the internal review conducted by management at the direction of the Board of Directors, the Company concluded that we understated our depletion expense in cost of goods sold (referred to as "Cost of sales" in our consolidated statements of income), which resulted in an overstatement of income from continuing operations in the three-month periods ended March 31, 2014 and June 30, 2014. The understatement of depletion expense in 2014 was a result of including as part of merchantable timber inventory, timber in specially designated parcels located in restricted, environmentally sensitive or economically inaccessible areas. The inclusion of this timber was incorrect, inconsistent with our historical definition of merchantable timber inventory, and a significant change from prior years. As a result, management determined that there was a material weakness in the Company's internal controls related to the merchantable timber inventory, as discussed in Part I, Item 4 of this Quarterly Report on Form 10-Q. We have filed amendments to our Forms 10-Q for the quarterly periods ended March 31, 2014 and June 30, 2014 and restated our interim consolidated financial statements for those periods. The restatement of our unaudited condensed financial statements may expose us to risks associated with litigation, regulatory proceedings and U.S. government enforcement actions. In addition, we may be subject to securities class action litigation, which has often been brought against companies that have been unable to provide current public information or that have restated previously filed financial statements. Any of these actions could result in substantial costs, divert management's attention and resources, and harm our business, prospects, results of operation and financial condition.

***Failure to maintain our credit ratings could adversely affect our business, competitive position and access to capital markets.***

Both our ability to obtain financing and the related costs of borrowing are affected by our credit ratings, which are periodically reviewed by the rating agencies. Our credit ratings depend on the evaluations of major debt rating agencies, which are based on a number of factors, including financial strength, transparency with rating agencies and timeliness of financial reporting. In July 2014, Standard & Poor's Ratings Services lowered our credit ratings, including our corporate credit rating, to "BBB" from "BBB+." As of September 30, 2014, our credit ratings from Standard and Poor's Ratings Service (S&P) and Moody's Investors Service (Moody's) were BBB and Baa2, respectively. We cannot assure that we will be able to maintain our credit ratings and failure to do so could adversely affect our business, liquidity, competitive position and access to capital markets.

***We have a substantial amount of debt and may be able to incur substantially more debt.***

As of September 30, 2014, we had approximately \$736 million of debt outstanding. The payment schedule of our long-term debt obligations is disclosed elsewhere in this Form 10-Q. We expect that existing cash, cash equivalents, cash provided from operations and our bank credit facilities will be sufficient to meet ongoing cash requirements. In this regard, the terms of bank credit facilities and indentures may allow us to incur additional debt. If new debt is added to our current debt levels, the risks that we could face with respect to its substantial indebtedness would be magnified. In addition, the failure to generate sufficient cash as our debt becomes due, or to renew bank credit facilities prior to their expiration, may adversely affect our business, financial condition, operating results and cash flow.

***Our bank credit facilities impose certain operating and financial restrictions on us and our subsidiaries, which may prevent us from capitalizing on business opportunities and taking some actions.***

The agreements that govern the terms of our existing debt, including our bank credit facilities, impose certain operating and financial restrictions on us. As a result of these covenants and restrictions, we are limited in how we conduct our business, and we may be unable to raise additional debt or equity financing to compete effectively or to take advantage of new business opportunities. The terms of any future indebtedness we may incur could include more restrictive covenants. A breach of any of these covenants could result in a default in respect of the related indebtedness. If a default occurs, the relevant lenders could elect to declare the indebtedness, together with accrued interest and other fees, to be due and payable immediately and proceed against any collateral securing that indebtedness. Furthermore, there are limitations on our ability to borrow the full amount of commitments under our bank credit agreements, including certain financial and other covenants. A breach of these financial covenants or with any other covenants in these bank credit facilities, could result in a default, which could impact our ability to incur additional debt or renew credit lines prior to their expiration, which may adversely affect our business, financial condition, operating results and cash flow.

**REIT and Tax-Related Risks**

***If we fail to remain qualified as a REIT, we will have reduced funds available for distribution to our shareholders because our REIT income will be subject to taxation.***

We intend to continue to operate in accordance with REIT requirements pursuant to the Internal Revenue Code of 1986, as amended (the "Code"), and related U.S. Treasury regulations and administrative guidance. Qualification as a REIT involves the application of highly technical and complex provisions of the Code, which are subject to change, perhaps retroactively, and which are not within our control. We cannot assure that we will remain qualified as a REIT or that new legislation, U.S. Treasury regulations, administrative interpretations or court decisions will not significantly affect our ability to remain qualified as a REIT or the U.S. federal income tax consequences of such qualification.

We continually monitor and test our compliance with all REIT requirements. In particular, we regularly test our compliance with the REIT "asset tests," which require generally that, at the close of each calendar quarter, (1) at least 75 percent of the market value of our total assets must consist of REIT-qualifying interests in real property (such as timberlands), including leaseholds and options to acquire real property and leaseholds, as well as cash and cash items and certain other specified assets and (2) no more than 25 percent of the market value of our total assets may consist of the securities of one or more "taxable REIT subsidiaries" or other assets that are not qualifying assets for purposes of the 75 percent test in clause (1) above.

If in any taxable year we fail to qualify as a REIT, we will not be allowed a deduction for dividends paid to shareholders in computing our taxable income and we will be subject to U.S. federal income tax on our taxable income. In addition, we will be disqualified from treatment as a REIT for the four taxable years following the year during which the qualification was lost, unless

we are entitled to relief under certain provisions of the Code. As a result, our net income and the cash available for distribution to our shareholders could be reduced for up to five years or longer.

As of June 30, 2014, Rayonier is in compliance with the asset tests described above. A failure to comply with the asset tests ultimately could cause us to fail to qualify as a REIT and to lose the associated benefits of REIT status, which could have a material adverse effect on our financial condition.

If we fail to remain qualified as a REIT, we may need to borrow funds or liquidate some investments or assets to pay any resulting additional tax liability. Accordingly, cash available for distribution to our shareholders would be reduced.

***Lack of shareholder ownership and transfer restrictions in our articles of incorporation may affect our ability to qualify as a REIT.***

In order to qualify as a REIT, an entity cannot have five or fewer individuals who own, directly or indirectly after applying attribution of ownership rules, 50 percent or more of the value of its outstanding shares during the last six months in each calendar year. Although it is not required by law or the REIT provisions of the Code, almost all REITs have adopted ownership and transfer restrictions in their articles of incorporation or organizational documents which seek to assure compliance with that rule. While we are not in violation of the ownership rules, we do not have, nor do we have any current plans to adopt, share ownership and transfer restrictions. As such, the possibility exists that five or fewer individuals could acquire 50 percent or more of the value of our outstanding shares, which could result in our disqualification as a REIT.

***Certain of our business activities are potentially subject to prohibited transactions tax.***

As a REIT, we will be subject to a 100 percent tax on any net income from “prohibited transactions.” In general, prohibited transactions are sales or other dispositions of property to customers in the ordinary course of business. Sales of logs, and dealer sales of timberlands or other real estate, constitute prohibited transactions.

We intend to avoid the 100 percent prohibited transactions tax by conducting activities that would otherwise be prohibited transactions through one or more taxable REIT subsidiaries. We may not, however, always be able to identify timberland properties that become part of our “dealer” real estate sales business. Therefore, if we sell timberlands which we incorrectly identify as property not held for sale to customers in the ordinary course of business or which subsequently become properties held for sale to customers in the ordinary course of business, we may be subject to the 100 percent prohibited transactions tax.

***Our cash dividends are not guaranteed and may fluctuate.***

Generally, REITs are required to distribute 90 percent of their ordinary taxable income, but not their net capital gains income. Accordingly, we do not generally believe that we are required to distribute material amounts of cash since substantially all of our taxable income is generally treated as capital gains income. However, a REIT must pay corporate level tax on its undistributed capital gains.

Our Board of Directors, in its sole discretion, determines the amount of quarterly dividends to be paid to our shareholders based on consideration of a number of factors. These factors include, but are not limited to, our results of operations, cash flow and capital requirements, economic conditions, tax considerations, borrowing capacity and other factors, including debt covenant restrictions that may impose limitations on cash payments, future acquisitions and divestitures, harvest levels, changes in the price and demand for our products and general market demand for timberlands, including those timberland properties that have higher and better uses. Consequently, our dividend levels may fluctuate.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds****Issuer Purchases of Equity Securities**

The following table provides information regarding our purchases of Rayonier common stock during the quarter ended September 30, 2014:

<b>Period</b>	<b>Total Number of Shares Purchased (a)</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</b>
July 1 to July 31	2,250	\$ 35.24	—	3,828,927
August 1 to August 31	—	—	—	3,828,927
September 1 to September 30	—	—	—	3,828,927
Total	<u>2,250</u>		<u>—</u>	<u>3,828,927</u>

(a) Repurchased to satisfy the minimum tax withholding requirements related to the vesting of restricted shares under the Rayonier Incentive Stock Plan.

See Item 5 — *Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities* in our Amended Form 10-K for additional information regarding our Common Share repurchase program.

**Item 6. Exhibits**

10.1	Trust Agreement for the Rayonier Inc. Legal Resources Trust*	Filed herewith
10.2	Amendment to Trust Agreement for the Rayonier Inc. Executive Severance Plan*	Filed herewith
10.3	Trust Agreement for the Rayonier Inc. Executive Severance Pay Plan*	Incorporated by reference to Exhibit 10.26 to the Registrant's December 31, 2001 Form 10-K
31.1	Chief Executive Officer's Certification Pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	Chief Financial Officer's Certification Pursuant to Rule 13a-14(a)/15d-14(a) and pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32	Certification of Periodic Financial Reports Under Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
101	The following financial information from our Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2014, formatted in Extensible Business Reporting Language ("XBRL"), includes: (i) the Consolidated Statements of Income and Comprehensive Income for the Three and Nine Months Ended September 30, 2014 and 2013; (ii) the Consolidated Balance Sheets as of September 30, 2014 and December 31, 2013; (iii) the Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2014 and 2013; and (iv) the Notes to Consolidated Financial Statements	Filed herewith

\* Management contract or compensatory plan.

**SIGNATURE**

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

RAYONIER INC.

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(Registrant)

By: /S/ H. EDWIN KIKER

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H. Edwin Kiker

*Senior Vice President and Chief Financial Officer*

*(Duly Authorized Officer, Principal Financial Officer and Principal Accounting Officer)*

Date: November 10, 2014

**TRUST AGREEMENT  
FOR THE  
RAYONIER INC.  
*LEGAL RESOURCES TRUST***



This amended and restated trust Agreement is made this 28<sup>th</sup> day of June 2014, by and between Rayonier Inc. (the "Company") and Wells Fargo Bank, National Association, a national banking association, as trustee hereunder ( "Trustee"). This Agreement replaces the original Trust Agreement for the Rayonier Inc. Legal Resources Trust dated the 31st day of December 2001.

WHEREAS, the Company has adopted the nonqualified deferred compensation plans and entered into the other benefits agreements (collectively, the "Benefits Arrangements") listed on Appendix A, including the Executive Severance Pay Plan (the "Executive Severance Plan"), and, for this purpose, the right to have had deposited with the trustee under the Trust Agreement for Rayonier Inc. Executive Severance Plan (the "Executive Severance Trust") amounts in respect thereof;

WHEREAS, the Company has incurred or expects to incur liability under the terms of the Benefits Arrangements with respect to the executives and key employees and participating in the Benefits Arrangements and identified at any time on Tier I and Tier II under the Executive Severance Plan as amended and updated from time to time (herein each, an "Executive" and together, the "Executives");

WHEREAS, the Company wishes to establish a Legal Resources Trust (hereinafter called this "Trust") and to contribute to it assets that shall be held therein, subject to the claims of the Company's creditors in the event of the Company's Insolvency, as herein defined, until paid to or for the benefit of the Executives and their beneficiaries to pay certain litigation and similar expenses as may be incurred in connection with the collection of any amounts due to them under the Benefits Arrangements or the enforcement of any rights they may have thereunder (as hereinafter defined, "Contest Payments"); and

WHEREAS, it is the intention of the Company to make contributions to this Trust to provide itself with a source of funds to provide Contest Payments as herein provided.

WHEREAS, it is the intention of the parties that this Trust shall constitute an unfunded arrangement and shall not affect the status of each of the Benefits Arrangements as an unfunded arrangement maintained for the purpose of providing deferred compensation for a select group of management or highly compensated employees for purposes of Title I of the Employee Retirement Income Security Act of 1974.

NOW, THEREFORE, the parties do hereby establish this Trust and agree that this Trust shall be comprised, held and disposed of as follows:

Section 1. Establishment of Trust.

(a) The Company hereby deposits with Trustee in trust the amounts listed in Appendix B, which shall be the principal of this Trust to be held, administered and disposed of by Trustee as provided in this Agreement.

(b) The Trust hereby established shall be irrevocable.

(c) This Trust is intended to be a grantor trust, of which the Company is the grantor, within the meaning of subpart E, part I, subchapter J, chapter 1, subtitle A of the Internal Revenue Code of 1986, as amended (the "Code"), and shall be construed accordingly.

(d) The principal of this Trust, and any earnings thereon, shall be held separate and apart from other funds of the Company and, subject to Section 8 below, shall be used exclusively for the uses and purposes of the Executives and general creditors, as herein set forth. The Executives and their beneficiaries shall have no preferred claim on, or any beneficial ownership interest in, any assets of this Trust. Any rights created under the Benefits Arrangements and this Agreement shall be mere unsecured contractual rights of the Executives and their beneficiaries against the Company. Any assets held by this Trust will be subject to the claims of the Company's general creditors under federal and state law in the event of Insolvency, as defined in Section 5 below.

(e) Without limiting the mandatory contribution provision of Section 2, the Company, in its sole discretion, may at any time, or from time to time, make additional deposits of cash or other property in trust with Trustee to augment the principal to be held, administered and disposed of by Trustee as provided in this Agreement. Neither Trustee nor any Executive or beneficiary shall have any right to compel such additional deposits.

(f) Of the amounts deposited with Trustee, upon a Change in Control an amount equal to \$250,000 shall be set aside as a reserve, \$150,000 shall be released upon receipt of the written notice provided for in Section 4(c) or applied as provided therein following a Change in Control, and \$100,000 of which shall be set aside as a reserve for expenses of Trustee under Sections 10(d) and 11(a) incurred following a Change in Control.

Section 2. Additional Contributions/Addition or Removal of Executives.

(a) For all purposes of this Agreement, "Change in Control" has the meaning referenced in the Executive Severance Plan, and as the same may be amended from time to time prior to the occurrence of a Change in Control. The amounts set aside with the Trustee shall be a pool of funds to be applied as provided for herein and shall not constitute a separate entitlement of an Executive to any particular amount hereunder.

(b) At any time prior to a Change in Control, the Company may remove individuals or include additional individuals as Executives covered by the Executive Severance Plan, and upon such action, shall provide written notice to Trustee which notice in the case of an additional Executive, shall include the required information in respect of such additional Executive. Subject to the provisions of Section 13(c) below, the Company has agreed that from and after a Change in Control it shall not be entitled to remove the name of any Executive covered hereunder prior to the time that all amounts due in respect of such Executive under the applicable Benefits Arrangement shall have been fully paid to such Executive or his or her beneficiaries.

Section 3. Covered Payments.

(a) On the effective date hereof, no less frequently than annually thereafter, at the time any additional Executive is added hereunder and at the time of a Change in Control, the Company shall deliver to Trustee a payment schedule (the "Payment Schedule") that indicates the amounts payable in respect of each Executive (and his or her beneficiaries), that provides a formula or other instructions acceptable to Trustee for determining the amounts so payable, the form in which such amount is to be paid (as provided for or available under the Benefits Arrangements), and the time of commencement for payment of such amounts.

(b) Prior to a Change in Control (and following a Change in Control, absent obvious mistake), the entitlement of an Executive or his or her beneficiaries to benefits under the Benefits Arrangements shall be determined by the Company or such party as it shall designate under the Benefits Arrangements, and, in any event, any claim for benefits shall be considered and reviewed under the procedures set out in the Benefits Arrangements.

(c) The Company shall make payment of benefits directly to an Executive as they

(d) become due under the terms of the Benefits Arrangements. The Company shall notify Trustee of its payment of benefits at the time amounts are payable to participants or their beneficiaries. Upon any such payment, the Company shall provide Trustee with a new Payment Schedule reflecting the payments made by the Company.

(e) Nothing in this Agreement shall serve to relieve the obligations of the Company to make payments under the Benefits Arrangements in respect of an Executive prior to the time that any payment has been made to an Executive or his or her beneficiary. The Company shall make each such payment as it falls due.

Section 4. Payment of Legal and Related Expenses.

(a) *Company's Obligation to Pay Legal and Related Expenses.* The Company agrees to pay, to the full extent permitted by law, all legal fees and expenses that the Executive or his or her beneficiaries may reasonably incur in pursuing in good faith payment of any amount due to the Executive or such beneficiaries under any Benefit Arrangement, or as a result of any contest by the Company or others of the validity or enforceability of, or liability under, any provision of any Benefits Arrangement or any guarantee of performance thereof (collectively, "Contest Payments"), plus in each case such interest as may be provided for under the applicable Benefits Arrangement but not less than the highest applicable Federal long-term rate in effect as of the date of the Change in Control determined as provided for in Sections 7872(f)(2)(B) and 1274(d)(1)(A) of the Internal Revenue Code of 1986, as amended, without regard to whether or not the Executive or such beneficiaries prevail, in full or in part, in any such matter and without regard to the duration of the delay in time of payment.

(b) *Trustee's Disbursement of Contest Payments.* Provided that this Agreement has not been earlier terminated pursuant to Section 11 hereto, then pursuant to the Claims Procedure specified on Schedule 1 hereto, as amended from time to time as hereinafter provided (the "Claims Procedure"), Trustee shall advance Contest Payments on behalf of any Executive requesting that payment be made to his or her Legal Representative up to \$150,000 or, if less, up to the balance remaining in trust exclusive of reserves; provided that, if Contest Payments are sought on behalf of three or more Executives arising from substantially the same circumstances, the Trustee shall aggregate the Contest Payments for the benefit of all participants hereunder. The timing and manner of payment of Contest Payments shall be made in the sole and reasonable discretion of the Trustee in accordance with the Claims Procedure. The Claims Procedures may be modified by the Company, with the reasonable agreement of Trustee prior to a Change in Control, and may be reasonably amended by the Trustee thereafter; provided that, no such Claims Procedure shall be inconsistent with making the full resources in Trust available to expedite payment of benefits to the Executives and their beneficiaries under the Benefits Arrangements and to avoid Executives being required to advance any amounts whatsoever for the payment of legal fees in connection therewith. A written copy of the Claims Procedure, as it may be amended from time to time, shall be provided to each Executive upon a Change in Control.

(c) *Trustee's Written Notification Requirements.* If within 15 days of a Change in Control the Trustee has not received written notice from the trustee under the Executive Severance Trust of the receipt by such trustee of the amounts required to be deposited with such trustee upon a Change in Control in respect of each Executive (other than an Executive who shall have received not less than the full Cash Portion to which such Executive is entitled under the Severance Arrangements, as such term is defined in the Executive Severance Trust), together with a copy of the current payment schedule provided for under the Executive Severance Trust, there shall be presumed to be a claim under the Claims Procedure and the Trustee shall transfer an amount of not less than \$150,000 as a retainer to the law firm designated pursuant to the Claims Procedure within five business days thereafter.

Section 5. Trustee Responsibility Regarding Payments to Trust Beneficiary When The Company Is Insolvent.

(a) Trustee shall cease payments hereunder if the Company is Insolvent. The Company shall be considered "Insolvent" for purposes of this Agreement if (i) the Company is unable to pay its debts as they become due, or (ii) the Company is subject to a pending proceeding as a debtor under the United States Bankruptcy Code.

(b) At all times during the continuance of this Trust, as provided in Section 1(d) hereof, the principal and income of this Trust shall be subject to claims of general creditors of the Company under federal and state law as set forth below.

(1) The Board of Directors and the Chief Executive Officer of the Company shall have the duty to inform Trustee in writing of the Company's Insolvency. If a person claiming to be a creditor of the Company alleges in writing to Trustee that the Company has become Insolvent, Trustee shall determine whether the Company is Insolvent and, pending such determination, Trustee shall discontinue payment of benefits to Executives or their beneficiaries.

(2) Unless Trustee has actual knowledge of the Company's Insolvency, or has received notice from the Company or a person claiming to be a creditor alleging that the Company is Insolvent, Trustee shall have no duty to inquire whether the Company is Insolvent. Trustee may in all events rely on such evidence concerning the Company's solvency as may be furnished to Trustee and that provides Trustee with a reasonable basis for making a determination concerning the Company's solvency.

(3) If at any time Trustee has determined that the Company is Insolvent, Trustee shall discontinue payments hereunder and shall hold the assets of this Trust for the benefit of the Company's general creditors. Nothing in this Agreement shall in any way diminish any rights of Executives or their beneficiaries to pursue their rights as general creditors of the Company with respect to benefits due under the Benefits Arrangements or otherwise.

(4) Trustee shall resume the payments in accordance with Section 4 of this Agreement only after Trustee has determined that the Company is not Insolvent (or is no longer Insolvent).

(c) Provided that there are sufficient assets, if Trustee discontinues the payment from this Trust pursuant to Section 5 hereof and subsequently resumes such payments, the first payment following such discontinuance shall include the aggregate amount of all payments due under the terms hereof for the period of such discontinuance, less the aggregate amount, if any, paid directly to Executives or their beneficiaries by the Company in lieu of the payments provided for hereunder during any such period of discontinuance.

Section 6. Payments to the Company.

Except as provided in Section 5 hereof, after a Change in Control, the Company shall have no right or power to direct Trustee to return to the Company or to divert to others any of this Trust assets before all payment of benefits have been made to Executives and their beneficiaries pursuant to the terms of the Benefits Arrangements.

Section 7. Investment Authority.

(a) In no event may Trustee invest in securities (including stock or rights to acquire stock) or obligations issued by the Company, other than a *de minimis* amount held in common investment vehicles in which Trustee invests. All rights associated with assets of this Trust shall be exercised by Trustee or the person designated by Trustee and shall in no event be exercisable by or rest with the Executives.

(b) The Trustee shall invest the principal of this Trust and any earnings thereon in (i) U.S. Government Securities, (ii) time deposits and certificates of deposit of any institution that is a member of the Federal Reserve System having capital of not less than \$500 million, and (iii) money market, mutual, or similar funds that invest in such securities referred to in (i) and (ii) above as chosen by the Trustee in the prudent exercise of its fiduciary duty hereunder, or in such other manner as may be directed by the Company in writing prior to a Change in Control; provided that, if at any time prior to a Change in Control the corpus of the Trust shall decline below \$1,250,000 as a result of investments made pursuant to the direction of the Company, then promptly upon notice to the Company from the Trustee, the Company shall transfer additional funds to the Trustee to cause the corpus to be equal to \$1,250,000.

(c) The Company shall have the right, at anytime, and from time to time in its sole discretion, to substitute marketable securities of equal fair market value for any asset held by this Trust; provided that, following a Change in Control, such substitution of assets shall be subject to the acceptance of Trustee.

Section 8. Disposition of Income.

During the term of this Trust prior to a Change in Control, all Distributable Income received by this Trust, net of expenses and taxes, shall be distributed to the Company no less frequently than semi-annually, unless otherwise directed by the Company, and from and after a Change in Control shall be accumulated and reinvested. "Distributable Income" shall mean gain or income actually realized on the amounts held in Trust but only to the extent that the aggregate fair market value of the assets held in Trust following the distribution of such amounts and payment of all expenses of this Trust paid or accrued as of the distribution date not otherwise satisfied by the Company, would equal or exceed the principal amounts deposited by the Company with Trustee under Section 2(a).

Section 9. Accounting by Trustee.

Trustee shall keep accurate and detailed records of all investments, receipts, disbursements, and all other transactions required to be made, including such specific records as shall be agreed upon in writing between the Company and Trustee. Within 30 days following the close of each calendar year and within 30 days after the removal or resignation of Trustee, Trustee shall deliver to the Company a written account of its administration of this Trust during such year or during the period from the close of the last preceding year to the date of such removal or resignation, setting forth all investments, receipts, disbursements and other transactions effected by it, including a description of all securities and investments purchased and sold with the cost or net proceeds of such purchases or sales (accrued interest paid or receivable being shown separately), and showing all cash, securities and other property held in this Trust at the end of such year or as of the date of such removal or resignation, as the case may be.

Section 10. Responsibility of Trustee.

(a) Trustee shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, provided, however, that Trustee shall incur no liability to any person for any action taken pursuant to a direction, request or approval given by the Company which is contemplated by, and in conformity with, the terms of the Benefits Arrangements or this Trust and is given in writing by the Company. In the event of a dispute between the Company and a party, Trustee may apply to a court of competent jurisdiction to resolve the dispute.

(b) The Company hereby indemnifies Trustee against losses, liabilities, claims, costs and expenses in connection with the administration of this Trust, unless resulting from the gross negligence or willful misconduct of Trustee. To the extent the Company fails to make any payment on account of an indemnity provided in this Section 10(b), in a reasonably timely manner, Trustee may obtain payment from this Trust. If Trustee undertakes or defends any litigation arising in connection with this Trust or to protect an Executive's or a beneficiary's rights under the Benefits Arrangements, the Company agrees to advance to Trustee, and to indemnify Trustee against Trustee's costs, reasonable expenses and liabilities (including, without limitation, attorneys' fees and expenses) relating thereto and to be primarily liable for such payments. If the Company does not pay such costs, expenses and liabilities in a reasonably timely manner, Trustee may obtain payment from this Trust.

(c) Trustee may consult with legal counsel (who may also be counsel for the Company generally) with respect to any of its duties or obligations hereunder. Following a Change in Control, Trustee may select independent legal counsel (which can include its in-house counsel) and may consult with counsel or other experts with respect to its duties and with respect to the rights of Executives and their beneficiaries under the Benefits Arrangements.

(d) Trustee may hire agents, accountants, actuaries, investment advisors, financial consultants or other professionals to assist it in performing any of its duties or obligations hereunder and in good faith may rely on any determinations made by such agents and information provided to it by the Company.

(e) Trustee shall have, without exclusion, all powers conferred on trustees by applicable law, unless expressly provided otherwise herein.

(f) Notwithstanding any powers granted to Trustee pursuant to this Agreement or to applicable law, Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of section 301.7701-2 of the Procedure and Administrative Regulations promulgated pursuant to the Code.

Section 11. Compensation and Expenses of Trustee Resignation and Removal of Trustee.

(a) The Company shall timely pay all administrative and Trustee's fees and expenses. If not so paid, the fees and expenses shall be paid from this Trust.

(b) Prior to a Change in Control, Trustee may resign at any time by written notice to the Company, which shall be effective sixty (60) days after receipt of such notice unless the Company and Trustee agree otherwise. Following a Change in Control, Trustee may resign only after the appointment of a successor Trustee reasonably acceptable to a majority of the Executives hereunder. If Trustee resigns within two years after a Change in Control or if the Company fails to act within a reasonable period of time following such resignation, Trustee shall apply, at the expense of the Company, to a court of competent jurisdiction for the appointment of a successor Trustee or for instructions.

(c) Trustee may be removed by the Company on sixty (60) days notice or upon shorter notice accepted by Trustee prior to a Change in Control. Following a Change in Control, Trustee may only be removed by the Company with the consent of a majority of the Executives hereunder and upon appointment of a qualified successor Trustee hereunder reasonably acceptable to the majority of the Executives hereunder.

(d) Upon resignation or removal of Trustee and appointment of a successor Trustee, all assets shall subsequently be transferred to the successor Trustee. The transfer shall be completed with sixty (60) days after receipt of acceptance of an appointment as trustee by a successor trustee, unless the Company extends the time limit.

(e) If Trustee resigns or is removed, a successor shall be appointed by the Company, in accordance with Section 12 hereof, by the effective date of resignation or removal under this Section 11. If no such appointment has been made, Trustee may apply to a court of competent jurisdiction for appointment of a successor or for instructions. All expenses of Trustee in connection with the proceeding shall be allowed as administrative expenses of this Trust.

(f) Any Trustee of any trust created hereunder shall be an institution having total assets under management of at least ten billion dollars (\$10,000,000,000) at the time of appointment and at all times thereafter (the "Minimum Assets Requirement"). Should Trustee cease to have total assets of at least ten billion dollars (\$10,000,000,000) under management or cease to be so selected, Trustee shall be removed and a successor Trustee appointed in accordance with the provisions of Sections 10 and 11 hereof.

Section 12. Appointment of Successor.

(a) If Trustee resigns or is removed in accordance with Section 11 hereof, the Company may appoint any bank trust department or other party that may be granted corporate trustee powers under state law who meets the Minimum Assets Requirement, as a successor to replace Trustee upon resignation or removal (a "Qualified Trustee"); provided that, following a Change in Control, if Trustee resigns or is removed in accordance with Section 11 the successor trustee shall be reasonably acceptable to a majority of the Executives hereunder at the time. In any such event, the appointment shall be effective when accepted in writing by the new Trustee, who shall have all of the rights and powers of the former Trustee, including ownership rights in this Trust. The former Trustee shall execute any instrument necessary or reasonably requested by the Company or the successor Trustee to evidence the transfer.

(b) The successor Trustee need not examine the records and acts of any prior Trustee and may retain or dispose of existing Trust assets, subject to Sections 9 and 10 hereof. The successor Trustee shall not be responsible for and the Company shall indemnify and defend the successor Trustee from any claim or liability resulting from any action or inaction of any prior Trustee or from any other past event, or any condition existing at the time it becomes successor Trustee.

(c) The Company shall provide the name of the successor Trustee to each Executive, or if applicable, his or her beneficiaries receiving benefits at the time of the appointment of Trustee.

(d) The Company shall execute such indemnification or other agreement with Trustee as may be reasonably requested and customary for trustees performing services of this kind.

Section 13. Amendment or Termination.

(a) This Agreement may be amended by a written instrument executed by Trustee and the Company. Notwithstanding the foregoing, no such amendment shall conflict with the terms of the Benefits Arrangements or shall make this Trust revocable after it has become irrevocable in accordance with Section 1 hereof.

(b) Except as provided in Section 13(c), this Trust shall not terminate until the date on which each Executive and their beneficiaries are no longer entitled to benefits pursuant to the terms of the Benefits Arrangements and all fees and expenses of this Trust have been paid.

(c) Upon written approval of all Executives and beneficiaries entitled to payment of benefits pursuant to the terms of the Benefits Arrangements, the Company may terminate this Trust prior to the time all benefit payments under the Benefits Arrangements have been made.

(d) This Agreement may not be amended or terminated by the Company for two (2) years following a Change in Control without the written consent of a majority of the Executives then covered by this Agreement except, if in the opinion of Review Counsel (as such term is defined in Schedule 3 hereto), such amendment is necessary to maintain the tax status of this Trust, the deferred compensation status of the Benefits Arrangements, or status of this Trust under the Employee Retirement Income Security Act of 1974 as amended to this Trust.

(e) Upon termination of this Trust any assets remaining in this Trust, after payment of all expenses of this Trust, shall be returned to the Company.

Section 14. Miscellaneous.

(a) Any provision of this Agreement prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions hereof.

(b) Benefits payable to any Executive and his or her beneficiaries under this Agreement may not be anticipated, assigned (either at law or in equity), alienated, pledged, encumbered or subjected to attachment, garnishment, levy, execution or other legal or equitable process.

(c) This Agreement shall be governed by and construed in accordance with the laws of the State of North Carolina, to the extent not preempted by applicable federal law.

Section 15. Effective Date.

The effective date of this Agreement shall be the date and year first above written.

RAYONIER INC.

By: /s/ SHELBY L. PYATT  
Shelby L. Pyatt  
Its: Vice President,  
Human Resources

WELLS FARGO BANK, NATIONAL ASSOCIATION

By: /s/ ALAN C. FRAZIER  
Alan C. Frazier  
Its: Senior Vice President  
Managing Director

**APPENDIX A**  
**BENEFITS ARRANGEMENTS**

1. Rayonier Inc. Excess Benefit Plan
2. Rayonier Inc. Excess Savings and Deferred Compensation Plan
3. Rayonier Inc. Executive Severance Pay Plan
4. Rayonier Inc. Executive Severance Trust

**APPENDIX B**  
**COMPANY DEPOSITS WITH TRUSTEE**

As soon as practicable following the establishment of the Rayonier Advanced Materials Inc. Legal Resources Trust, Wells Fargo Bank, National Association will transfer \$1,979,670 from the Rayonier Inc. Legal Resources Trust, representing approximately sixty percent (60%) of the Rayonier Inc Legal Resource Trust assets, to the Rayonier Advanced Materials Inc Legal Resources Trust. The remaining balance shall become the principal of the Rayonier Inc. Legal Resources Trust.



## Schedule 1

### Claims Procedure for Contest Payments and Interest Claims

The following is the Claims Procedure referenced in Section 4 of the Trust Agreement for the **Rayonier Inc.** Legal Resources Trust, dated as of **June 28, 2014** (the "Agreement"). Terms not otherwise defined herein have the same meaning as in the Agreement.

#### I. General

**A. Categories of Contest Payments.** Trustee shall promptly pay Contest Payments and Interest Claims (defined below) from the Trust upon satisfaction of the requirements set forth in this Claims Procedure, as it may be amended from time to time in accordance with the Agreement. Contest Payments shall be classified by the Trustee hereunder as (1) Individual Contest Payments Claims, (2) Group Contest Payments Claims and (3) Interest Claims, and processed pursuant to the procedures outlined below (each a "Claim" and collectively, "Claims").

**B. Information on Claims and Disbursements.** The Trustee shall promptly notify all Executives of any Claims made hereunder. The Trustee shall promptly inform the Company and each Executive of all Contest Payments and amounts paid on Interest Claims made hereunder.

**C. Preliminary Approval.** Prior to incurring expenses that may become Contest Payments, an Executive may, but shall not be required to, seek a preliminary approval from the Trustee as to whether Trustee reasonably expects to approve such expenses as Contest Payments hereunder. Trustee shall seek to respond to such request expeditiously and shall consult with Review Counsel (defined below) as Trustee deems appropriate. Submission of a request for preliminary approval shall not bar the submission of an Individual Contest Payments Claim or Interest Claim and any preliminary approval shall not bind the Trustee.

**C. Finality of Determinations.** All determinations of the Trustee made in good faith are final. Except as provided below with respect to certain retainer payments made to pursuant to a Retention Agreement or Lead Counsel Agreement, neither the Executive nor anyone else receiving Contest Payments shall be required to account to the Trustee, to any other Executive, to the Company or otherwise in respect thereof once the Contest Payments have been made hereunder.

#### II. Administration of Claims

##### A. Individual Contest Payments Claim.

(1) Submission of Claim to Trustee. Except as provided below for Group Contest Payments Claims or Interest Claims, an Executive seeking payment or advance of Contest Payments, shall submit a request to the Trustee in writing (an "Individual Contest Payments Claim") setting forth the following:

- (a) the nature and amount of the payments that have not been, or were not timely, received from the Company;
- (b) the terms of the applicable Benefits Arrangement(s);
- (c) if applicable, a copy of a retention agreement or other writing from a lawyer (i) setting forth the amount of any advance or retainer requested, (ii) stipulating that the attorney's fees and expenses shall be limited to matters reasonably related to the Benefits to which the Executive is entitled, and (iii) undertaking to transfer any excess retainer remaining unearned at the end of the engagement (x) to the Trustee after the Executive has received all of the Benefits to which he or she may be entitled pursuant to the Benefits Arrangements or earlier as may be directed by the Executive or (y) to any successor lawyer designated by the Executive at any time who makes substantially the same undertakings provided for herein (a "Retention Agreement");
- (d) if applicable, invoices or other evidence of incurred or anticipated expenses (including, for example, amounts in respect of anticipated disbursements for actuarial experts or other consultants);
- (e) the amount of the Contest Payments requested, together with any other information that the Executive believes would be useful to Trustee in payment of the Contest Payments, and

(f) a certificate signed by the Executive (or applicable beneficiary or the legal representative of such Executive or beneficiary) certifying to Trustee that the Company is in default in paying the amount specified in (a) above.

(g)

(2) **Submission and Review of Claim; Payment.** Trustee shall provide a copy of the Individual Contest Payments Claim to the Company within three (3) business days of receipt thereof. If within five (5) business days thereafter, Trustee has not received confirmation satisfactory to Trustee of payment to or for the benefit of Executive of the full amount identified by Executive as owed under Section II.A(1)(a) above, Trustee shall promptly make the requested Contest Payments or, in its sole discretion, may submit the Individual Contest Claim to Review Counsel (as provided in Section II.D, below), together with any response received from the Company with respect to such Claim (a copy of which shall also be provided to the Executive) and a copy of the Payment Schedule in respect of such Executive at the time of a Change in Control (and a copy of any update provided by the Company thereafter). Upon receipt of the Review Counsel Authorization, as provided below, the Trustee promptly shall make the Contest Payments or advise the Executive in writing of its determination that the Claim is either denied or adjusted based upon Trustee's determination in light of the Review Counsel Authorization and the other provisions of this Claims procedure and the Agreement and shall include in reasonable detail the basis of its determination.

#### **B. Interest Claim.**

(1) **Submission of Claim to Trustee.** An Executive seeking payment of interest pursuant to the last sentence of Section 4(c) of the Agreement shall submit a request to the Trustee in writing (an "Interest Claim") setting forth the following:

- (a) the nature and amount of the payment(s) that have not been, or were not timely, received from the Company with respect to which the Interest Claim is being made;
- (b) the terms of the applicable Benefits Arrangement(s);
- (c) the calculation of the amount of the interest payable, and
- (d) a certificate signed by the Executive (or applicable beneficiary or the legal representative of such Executive or beneficiary) certifying to Trustee that the Company has not paid the interest amounts requested.

(2) **Submission and Review of Claim and Payment.** Trustee shall provide a copy of the Interest Claim to the Company within three (3) business days of receipt thereof. If within five (5) business days thereafter, Trustee has not received confirmation satisfactory to Trustee of payment to or for the benefit of Executive of the full amount identified by Executive as owed under Section II.B(1)(a) above, Trustee shall promptly make the requested interest payment or, in its sole discretion, may submit the Interest Claim to Review Counsel (as provided in Section II.D, below), together with any response received from the Company with respect to such Claim (a copy of which shall also be provided to the Executive) and a copy of the Payment Schedule in respect of such Executive at the time of a Change in Control (and a copy of any update provided by the Company thereafter). Upon receipt of the Review Counsel Authorization, as provided below, the Trustee promptly shall pay the Interest Claim or advise the Executive in writing of its determination that the Interest Claim is either denied or adjusted based upon Trustee's determination in light of the Review Counsel Authorization and the other provisions of this Claims procedure and the Agreement, and shall include in reasonable detail the basis of its determination.

**C. Group Contest Payments Claim.** Upon (a) the request of a majority of all of the Executives under the Agreement after a Change in Control, or (b) receipt by the Trustee of three or more Individual Contest Payments Claims that in the opinion of Review Counsel present common issues of law and fact, or (c) the lapse of the period provided for in Section 4(c) without receipt of notice of the required deposits, a Group Contest Payments Claim shall be deemed to have been made. Upon the existence of a Group Contest Payments Claim, Individual Contest Payments Claims and Interest Claims shall be suspended and the following procedures shall apply.

(1) **Appointment of Executive Group Committee.** The Trustee shall promptly advise each of the Executives of the existence of the Group Contest Payments Claim and shall provide for the selection of an Executive Group Committee, which shall be comprised of three of the Executives potentially eligible for benefits under the Agreement with the following characteristics, to the extent feasible: (a) at least one of whom shall not be a present employee of the Company; (b) at least two of whom shall be or at one time have been a Tier I Executive, and (c) at least one of whom shall be or at one time have been a Tier II Executive. While the method of selection shall be in the discretion of the Trustee, it is anticipated that the Trustee shall provide a mechanism for the Executives to select the Executive Group Committee with the indicated characteristics, by majority vote of the Executives covered by the Agreement; provided that, if selection in this fashion cannot, in the sole judgment of the Trustee, be made expeditiously in a timely manner under the circumstances, the Trustee shall appoint the members of the Executive Group Committee. Any Executive may recuse himself or herself from service on the Executive

Group Committee by notice to the Trustee. In the event of a vacancy on the Executive Group Committee, the Trustee shall appoint a replacement in a manner consistent with the desired composition of the Executive Group Committee and may provide for selection by the remaining Executives or by the remaining members of the Executive Group Committee itself, in the Trustee's discretion. If one or more openings exist on the Executive Group Committee because no eligible Executive is able or willing to serve, the Trustee shall be the second and/or third member of the Executive Group Committee or may appoint any third party unrelated to the present employees of the Company to assume that role. If there are no eligible Executives able and willing to serve, the Trustee shall act as the Executive Group Committee. Except as the Executive Group Committee may decide by unanimous vote of its members, all decisions of the Executive Group Committee shall be made by majority vote.

(2) Function of the Executive Group Committee. The Executive Group Committee shall select a law firm or law firms ("Lead Counsel") to represent the Executives in an action against the Company for Benefits, which selection may be made in consultation with the Trustee, but whose selection is in the sole discretion of the Executive Group Committee. The Executive Group Committee shall enter into the Lead Counsel Agreement (defined below), to which the Trustee shall also be a party for the limited purposes provided for below.

(3) Lead Counsel Retention Agreement.

(a) As a condition to payment of the Contest Payments to Lead Counsel, Lead Counsel and the Executive Group Committee shall enter into a retention agreement (the "Lead Counsel Agreement") that shall provide, among other things, that amounts transferred to Lead Counsel shall be used for the principal purpose of securing benefits under the Benefits Arrangements as provided under the Agreement and that any amounts remaining unexpended at the conclusion of the representation shall be returned to the Trustee solely for distribution pro rata to the Executives and their beneficiaries based upon the aggregate amount shown on the Payment Schedules of all Executives as of the date of the Change in Control and such amounts shall not be returned to the Company. The Lead Counsel may retain other counsel or experts as it deems appropriate pursuant to the instructions of the Executive Group Committee.

(b) Lead Counsel Retainer. Subject to the Conflicts of Interest provisions of the following subsection, the Lead Counsel Agreement shall provide for a retainer of not less than \$150,000 and not more than 75% of the remaining value of the Trust, with such excess over \$150,000 determined by the Trustee in consultation with Review Counsel. The amount of the retainer shall be replenished upon request of the Executive Group Committee, as determined by the Trustee in its sole and reasonable judgment taking into account the purposes of the Trust. For this purpose, a Group Contest Payments Claim shall be given preference over any Individual Contest Payments Claim up to 75% of the value of the Trust and over any Interest Claim.

(c) Conflicts of Interest. The Lead Counsel Agreement shall provide that in the event Lead Counsel, in the exercise of its professional judgment, believes at any time that it cannot reasonably represent the interests of all of the Executives entitled to benefit from the Agreement because of an inherent conflict in their interests that has not otherwise been waived or that is not in the judgment of Lead Counsel susceptible of waiver, Lead Counsel shall, upon notice to the Trustee and all of the Executives, divide the remaining amount of the Retainer so as to provide a per capital portion thereof to new counsel selected by each group of Executives whose interests cannot be represented by Lead Counsel and to the Executives, if any, that Lead Counsel shall continue to represent. Any such new counsel shall be required to enter into a retention agreement substantially similar to the Lead Counsel Agreement.

**D. Review Counsel Authorization.**

(1) Review Counsel. "Review Counsel" shall be the in-house counsel of Trustee where Trustee has in-house counsel and in no event shall be counsel to the Executive making the Claim or to the Company.

(2) Claims Review Process. Within five (5) business days of receipt of an Interest Claim or Individual Contest Payments Claim and related documentation from Trustee, Review Counsel shall approve a request for Contest Payments, unless, in the sole and reasonable judgment of Review Counsel, it concludes that all or a portion of the Claim for the requested Contest Payments should be denied because, pursuant to the underlying Benefits Arrangement(s) and/or the Agreement, (i) the Executive is not eligible to receive Contest Payments, (ii) there is no colorable argument of any kind to support the claim for Benefits underlying the Claim, or (iii) the advance or payment reimbursement requested is excessive in light of the nature and magnitude of the Claim, the likelihood of success on the merits or the available funds in the Trust. In the case of a determination under (iii), Review Counsel shall recommend an amount of the Contest Payments to be paid by Trustee.

(3) Review Counsel Authorization. Review Counsel shall notify Trustee promptly in writing of its decision with respect to any Claim brought to Review Counsel hereunder (a "Review Counsel Authorization"), and

Trustee may rely on the Review Counsel Authorization for all purposes of the Agreement. The decision by Trustee based upon a Review Counsel Authorization shall be final and not subject to appeal. Denial or modification of a Claim for Contest Payments shall not bar a subsequent Claim by Executive for Contest Payments.

### III. Miscellaneous

**A. Submissions and Notices.** All submissions and notices or other communications hereunder shall be in writing and shall be given by hand, by nationally recognized overnight courier or by Express, registered or certified mail, postage prepaid, return receipt requested, at the addresses set forth in the records provided to Trustee by the Company from time to time. Notices shall be deemed to have been received upon the earlier of actual receipt thereof or, with respect to delivery by overnight courier or Express mail, the day following delivery to such overnight courier or the U.S. Postal Service and, with respect to delivery by registered or certified mail, the third day following such delivery to the U.S. Postal Service. Notices may also be given in writing by facsimile transmission to the parties at the facsimile numbers set forth in this section, and such notices shall be deemed to have been received when confirmed in writing, whether by manual or electronic re-transmission of receipt, by the party for whom the transmission is intended. Any person may change its notice address or facsimile number by written notice to Trustee and the Company. The notice address of the Trustee is as follows:

Wells Fargo Institutional Retirement and Trust  
Attn: Plan Administration Committee  
MAC: D4000-051  
One West Fourth Street  
Winston-Salem, NC 27101

#### **B. Permitted Delays in Payment.**

(1) Except in the case of the initial \$150,000 payment pursuant to a Group Contest Payments Claim, upon recommendation of Review Counsel, payment of all or a portion of any Claims may be delayed for a reasonable time in anticipation of receipt by Trustee of additional Claims from Executives and their beneficiaries anticipated to be in an amount in excess of \$50,000 per Executive or 50% of the value of the Trust in the aggregate, or in anticipation of a Group Contest Payments Claim that may subsume the individual Claims.

(2) Except for the payment required pursuant to Section 4(c) upon failure of the Trustee to receive the required written notice, to the extent payments hereunder may be made only from funds held in the form of a deposit or obligation, such payments may be postponed until such deposit or obligation shall have matured.

**C. Timeliness of Claim.** A Claim for payment hereunder must be made not later than 180 days after the date on which the applicable bill, invoice or other statement setting forth expenses incurred and reimbursable as Contest Payments was rendered.

**D. Timing of Payments/Interest of Fairness.** Subject to subsection E below, payments and determinations shall be made by the Trustee in such manner and in such order as the Trustee shall determine consistent with the intentions of the Trust and Trustee's good faith determination of fairness, and need not be made in the order in which Claims are made hereunder.

**E. Maximum Individual Benefit.** Notwithstanding any other provision of this Agreement, unless a majority of the Executives consent in writing and prescribe a different limitation, the aggregate amount paid to or in respect of an Executive under the Agreement in respect of an Individual Contest Payments Claim and Interest Claim shall not exceed \$100,000 in the aggregate unless and until all payments required under the Executive Severance Trust in respect of all of the Severance Agreements of Executives thereunder shall have been paid.

**F. Withholding Taxes.** The Trustee may rely on reasonable instructions from the Company and/or Review Counsel as to any required government withholdings with respect to payment of Contest Payments and payments on Interest Claims, provided that no amount shall be withheld in respect of advances for legal fees.

**G. Beneficiaries.** References to action by or on behalf of an Executive hereunder shall include an action by or on behalf of a beneficiary of such Executive and if the Executive is no longer able to act by reason of death or mental defect, any action by the Executive hereunder may be taken by such Executive's legal representative, the Executive's beneficiaries or their legal representatives; provided that, for purposes of the Agreement, the Trustee may rely on the opinion of Review Counsel in making distinctions between conflicting interests of an Executive's beneficiaries.

*Adopted Effective June 28, 2014*

Executive Severance Trust Amendment  
(Effective as of Separation Date)

**THIS AMENDMENT** to that certain trust agreement made the 31st day of December 2001 (as subsequently amended, the “Trust Agreement” and the irrevocable trust created thereby, sometimes referred to herein as the “Trust”), by and between Rayonier Inc. (the “Company”) and Wells Fargo Bank, National Association, a national banking association, as successor trustee thereunder (“Trustee”), is made and entered as of the Separation Date (defined below). (Capitalized terms not otherwise defined here have the same meaning as in the Trust Agreement.)

WHEREAS, the Company created the Trust in order to provide certain benefits to Executives designated in the Company’s Executive Severance Pay Plan (the “Plan”) in the event of a Change in Control of the Company in certain circumstances;

WHEREAS, the Company has announced that it will distribute shares of stock of its wholly owned subsidiary, Rayonier Advanced Materials Company (“RYAM”) to the Company’s shareholders on the Separation Date, at which time certain Executives now covered by the Plan and the Trust will cease to be Executives under the Plan and will no longer be entitled to any benefits under the Trust;

WHEREAS, the Company has advised that RYAM intends to establish an executive severance pay plan and an irrevocable trust substantially similar to the Plan and the Trust that will cover certain RYAM executives, including some of the Executives who will cease to be covered by the Plan and this Trust;

WHEREAS, pursuant to the Plan, the Company is permitted (a) to eliminate the benefits of the Trust to any particular Executive at any time prior to a Change in Control by removing the name of that individual as a designated Executive under the Plan and (b) to terminate the Plan at any time prior to a Change in Control, in its discretion, at which time the Trust would terminate and any assets remaining distributed to the Company;

WHEREAS, the Company desires to transfer assets to RYAM for the purpose of funding a trust substantially similar to the Trust on the Separation Date, the Trustee is prepared to facilitate the distribution of Trust assets for this purpose, and the Company and the Trustee have agreed to amend the Trust Agreement to expressly provide for this result.

NOW, THEREFORE, the Company and the Trustee agree that the Trust Agreement shall be amended as follows, effective as of the Separation Date (defined below).

1. Division of Trust Assets and Transfer of Excess Assets.

Section 13 of the Trust Agreement is hereby amended by adding new subsections (f) and (g) as follows:

“(f) The Company hereby advises the Trustee that:

- i. The Company will distribute to its shareholders shares of stock of its wholly owned subsidiary, Rayonier Advanced Materials Company (“RYAM”), which is anticipated to occur on or about June 27, 2014 (the date of such distribution is referred to herein as the “Separation Date”);
- ii. Six (6) Executives will be leaving the Company as of the closing of the Separation Date and will cease to be Executives under the Executive Severance Plan at that time (the “Departing Executives”), representing sixty percent (60%) of the Executives covered by the Trust immediately prior to the Separation Date, but the Benefits to which such Departing Executives could be entitled to under the Plan were a Change in Control to occur immediately before the Separation Date represent sixty seven percent (67%) of the total Benefits to all covered Executives in such event;
- iii. In the Company’s judgment, \$907,000, representing sixty seven percent (67%) of the Trust assets, is reasonably attributed to the benefit for the Departing Executives (the “Excess Assets” and the “Excess Assets Percentage,” respectively); and
- iv. RYAM has established a plan substantially similar to the Executive Severance Plan (the “RYAM Plan”) and (y) a trust (the “RYAM Executive Severance Trust”) substantially similar to this Trust has been created, in each case to be effective as of the Separation Date.”

“(g) Effective as of the Separation Date, the Trustee will transfer the Excess Assets (and the Excess Assets Percentage of additional assets that may be in the Trust as of the Separation Date not included in the Excess Assets, if any) to the RYAM Executive Severance Trust.”

2. Additional and Conforming Amendments

A. From and after the Separation Date, subsection (a) of Section 1 the Trust Agreement is hereby amended in its entirety to read as follows:

“(a) The Company has caused the Trustee to hold in trust the sum of not less than four hundred thirty nine thousand five hundred dollars (\$439,500), which together with the additional amounts to be deposited with the Trustee as provided below, is the principal of this Trust to be held, administered and disposed of by Trustee as provided in this Agreement. Terms not otherwise defined herein shall have the meaning set forth in the Supplemental Severance Plan.”

B. From and after the Separation Date, (w) the reference to “Wachovia Bank NA” as Trustee is replaced with “Wells Fargo Bank, National Association,” (x) references to the “Supplemental Senior Executive Severance Pay Plan” and the defined term “Supplemental Severance Plan” are hereby revised to refer to the “Executive Severance Pay Plan” and to the defined term “Executive Severance Plan” throughout the Trust Agreement, (y) all references to “Schedule 3” are amended to refer to “Schedule 1” and (z) all references to the Change in Control Agreement for Lee Nutter, which has lapsed and is no longer in effect, and to Lee Nutter, individually, are hereby deleted along with Appendix C in its entirety.

C. From and after the Separation Date, the following additional changes to the text of the Trust Agreement shall become effective:

1) Section 3(a) is amended by deleting the text after the defined term “(the “Payment Schedule”)” replacing it with the following:

“(i) that indicates the Scheduled Severance Pay and Additional Severance (as such terms are defined in the Supplemental Severance Plan and together herein; (the “Cash Portion”) payable in respect of each Executive (and his or her beneficiaries) under the Supplemental Severance Plan determined as if there had been a Qualifying Termination for each Executive on the date of a recent date specified in such submission (or as of the end of the prior fiscal year) or if a Change of Control has occurred, on the date of such Change in Control, as applicable, provided that in the event of a Change in Control, such submission shall be adjusted thereafter each 90 days as if the Qualifying Termination occurred on that date (excluding an Executive for whom a Qualifying Termination has occurred prior to such date) (each a “Calculation Adjustment Date”) and (ii) that provides a formula or other instructions acceptable to Trustee for determining the amounts so payable, the form in which such amount is to be paid (as provided for or available under the Supplemental Severance Plan), and (iii) that indicates the time of commencement for payment of such amounts. Upon the effective date hereof, and as necessary or appropriate thereafter, the Company shall deliver to the Trustee a full and complete copy of the Supplemental Severance Plan as it may be in effect from time to time.”

2) The last sentence of Section 3(b) is amended by replacing the words “the 100% rate” and replacing them with “target” and by adding the following text at the end thereof:

“The foregoing amounts shall be provided to Trustee together with a schedule in reasonable detail specifying how the amounts were calculated and accompanied by a certificate signed by the Company’s chief financial officer or other named executive officer of the Company, certifying that the calculation has been made in accordance with the terms of the Supplemental Severance Plan and is accurate to the best knowledge of the person executing the certificate, following reasonable inquiry. On each Calculation Adjustment Date thereafter, the Company shall make such additional deposits as may be required to cause the Trustee to have sufficient funds to cover the liability as if the Change in Control occurred on such date and accompanied with the schedule and certificate as required at the time of the Change in Control.”

3) Section 4 is amended (x) in the first clause thereof by inserting the words “as provided in Section 3” after “Supplemental Severance Plan”, (y) and in the last sentence by replacing “change in control” with the defined term “Change in Control” and by deleting the clause “, in the case of any Executive,” before the reference to “within two years thereafter.”

4) The text of Section 7(b) shall be deleted and replaced in its entirety with the following:

“(b) The Trustee shall invest the principal of this Trust and any earnings thereon in (i) U.S. Government Securities, (ii) time deposits and certificates of deposit of any institution that is a member of the Federal Reserve System having capital of not less than \$500 million, and (iii) money market, mutual, or similar funds that invest in such securities referred to in (i) and (ii) above, as chosen by the Trustee in the prudent exercise of its fiduciary duty hereunder, or in such other manner



**TRUST AGREEMENT  
FOR THE  
RAYONIER INC.  
EXECUTIVE  
SEVERANCE PAY PLAN**



THIS AGREEMENT is made this 31st day of December , 2001, by and between Rayonier Inc., a North Carolina corporation (the "Company"), and Wells Fargo & Trust, a national banking association, as trustee hereunder ("Trustee").

WHEREAS, the Company adopted the Rayonier Inc. Supplemental Senior Executive Severance Pay Plan effective March 1, 1994 (as amended July 21, 2006, the "Supplemental Severance Plan");

WHEREAS, the Company has incurred or expects to incur liability under the terms of the Supplemental Severance Plan with respect to the Tier I and Tier II executives (each referred to herein as "Executive" and together, the "Executives") participating in the Supplemental Severance Plan as identified on Appendix A thereto as it may be amended from time to time (a current copy of which is attached hereto));

WHEREAS, the Company wishes to establish an Executive Severance Trust (hereinafter called this "Trust") and to contribute to it assets that shall be held therein, subject to the claims of the Company's creditors in the event of the Company's Insolvency, as herein defined, until paid to or for the benefit of the Executives and their beneficiaries to pay any amounts due to them under the Supplemental Severance Plan (as hereinafter defined, "Severance Payments");

WHEREAS, it is the intention of the Company to make contributions to this Trust to provide itself with a source of funds to provide Severance Payments as herein provided; and

WHEREAS, it is the intention of the parties that this Trust shall constitute an unfunded arrangement and shall not affect the status of the Supplemental Severance Plan as an unfunded arrangement maintained for the purpose of providing deferred compensation for a select group of management or highly compensated employees for purposes of Title I of the Employee Retirement Income Security Act of 1974.

NOW, THEREFORE, the parties do hereby establish this Trust and agree that this Trust shall be comprised, held and disposed of as follows:

Section 1. Establishment of Trust.

(a) The Company hereby deposits with Trustee in trust the amount of [one million dollars (\$1,000,000)], which together with the additional amounts to be deposited as provided below, shall become the principal of this Trust to be held, administered and disposed of by Trustee as provided in this Agreement. Terms not otherwise defined herein shall have the meaning set forth in the Supplemental Severance Plan.

(b) The Trust hereby established shall be irrevocable.

(c) This Trust is intended to be a grantor trust, of which the Company is the grantor, within the meaning of subpart E, part I, subchapter J, chapter 1, subtitle A of the Internal Revenue Code of 1986, as amended (the "Code"), and shall be construed accordingly.

(d) The principal of this Trust, and any earnings thereon, shall be held separate and apart from other funds of the Company and, subject to Section 8 below, shall be used exclusively for the uses and purposes of the Executives and general creditors, as herein set forth. The Executives and their beneficiaries shall have no preferred claim on, or any beneficial ownership interest in, any assets of this Trust. Any rights created under the Supplemental Severance Plan and this Agreement shall be mere unsecured contractual rights of the Executives and their beneficiaries against the Company. Any assets held by this Trust will be subject to the claims of the Company's general creditors under federal and state law in the event of Insolvency, as defined in Section 5 below.

(e) Without limiting the mandatory contribution provision of Section 3, the Company, in its sole discretion, may at any time, or from time to time, make additional deposits of cash or other property in trust with Trustee to augment the principal to be held, administered and disposed of by Trustee as provided in this Agreement. Neither Trustee nor any Executive or beneficiary shall have any right to compel such additional deposits.

Section 2. Addition or Removal of Executives.

(a) At any time prior to a Change in Control, the Company may remove individuals or include additional individuals as Executives hereunder upon written notice to Trustee together with an amended copy of Appendix A to the Supplemental Severance Plan. Subject to the provisions of Section 13(c) below, the Company has agreed that from and after a Change in Control it shall not be entitled to remove the name of any Executive covered hereunder prior to the time that all amounts due in respect of such Executive under the Supplemental Severance Plan shall have been fully paid to such Executive or his or her beneficiaries.

Section 3. Covered Payments/Additional Contributions.

(a) On the effective date hereof, and no less frequently than annually on or before January 15 of each year thereafter, and at the time of any additional contribution hereunder, the Company shall deliver to Trustee a payment schedule (the "Payment Schedule") (i) that indicates the Scheduled Severance Pay and Additional Severance (as such terms are defined in the Supplemental Severance Plan and together herein (the "Cash Portion") payable in respect of each Executive (and his or her beneficiaries) under the Supplemental Severance Plan determined as if there had been a Qualifying Termination for each Executive on the date of a recent date specified in such submission (or as of the end of the prior fiscal year) or if a Change of Control has occurred, on the date of such Change in Control, as applicable, provided that in the event of a Change in Control, such submission shall be adjusted thereafter each 90 days as if the Qualifying Termination occurred on that date (excluding an Executive for whom a Qualifying Termination has occurred prior to such date) (each a "Calculation Adjustment Date") and (ii) that provides a formula or other instructions acceptable to Trustee for determining the amounts so payable, the form in which such amount is to be paid (as provided for or available under the Supplemental Severance Plan), and (iii) that indicates the time of commencement for payment of such amounts. Upon the effective date hereof, and as necessary or appropriate thereafter, the Company shall deliver to the Trustee a full and complete copy of the Supplemental Severance Plan as it may be in effect from time to time.

(b) Not later than the effective time of a Change in Control pursuant to the terms of the Supplemental Severance Plan, the Company shall make additional deposits with the Trustee under this Trust in immediately available funds, in an amount equal to the full maximum amount of the Cash Portion to which each Executive may become entitled in the event of a termination of employment under the Supplemental Severance Plan, together with all the additional payments in respect of tax gross up provided for under Section 7 of the Supplemental Severance Plan, computed on the assumption that all amounts when payable thereunder are parachute payments under Sections 280G and 4999 of the Code. For this purpose, the maximum amount of the Cash Portion shall be computed on the assumption that the bonus payments for the current year will become payable at target and that a like amount is earned as a bonus in each subsequent year, as applicable under the Supplemental Severance Plan. The foregoing amounts shall be provided to Trustee together with a schedule in reasonable detail specifying how the amounts were calculated and accompanied by a certificate signed by the Company's chief financial officer or other named executive officer of the Company, certifying that the calculation has been made in accordance with the terms of the Supplemental Severance Plan and is accurate to the best knowledge of the person executing the certificate, following reasonable inquiry. On each Calculation Adjustment Date thereafter, the Company shall make such additional deposits as may be required to cause the Trustee to have sufficient funds to cover the liability as if the Change in Control occurred on such date and accompanied with the schedule and certificate as required at the time of the Change in Control.

(c) Prior to a Change in Control (and following a Change in Control, absent obvious mistake), the entitlement of an Executive or his or her beneficiaries to benefits under the Supplemental Severance Plan shall be determined by the Company or such party as it shall designate under the Supplemental Severance Plan, and, in any event, any claim for benefits shall be considered and reviewed under the procedures set out in the Supplemental Severance Plan.

(d) The Company may make payment of benefits directly to an Executive as they become due under the terms of the Supplemental Severance Plan. The Company shall notify Trustee of its payment of benefits at the time amounts are payable to participants or their beneficiaries. Upon any such payment, the Company shall provide Trustee with a new Payment Schedule reflecting the payments made by the Company.

(e) Nothing in this Agreement shall serve to relieve the obligations of the Company to make payments under the Supplemental Severance Plan in respect of an Executive prior to the time that any payment has been made to an Executive or his or her beneficiary. If the principal of this Trust, and any earnings thereon, are not sufficient to make payments of benefits in accordance with the terms of the Supplemental Severance Plan, the company shall make the balance of each such payment as it falls due. Trustee shall notify the Company where principal and earnings are not sufficient.

(f) Immediately upon receipt of deposits hereunder, the Trustee shall send written notice thereof to the trustee under the Rayonier Inc. Legal Resources Trust of such deposit, together with a copy of the then current Payment Schedule in respect of each Executive. The Trustee shall advise the trustee of the Rayonier Inc. Legal Resources Trust as amounts are paid under this Trust and as notice is received from the Company of payments made to Executives covered by this Trust of amounts that could otherwise be payable from this Trust.

Section 4. Payment of Severance Payments to Executives.

Pursuant to the terms of the payment schedules delivered to the Trustee in respect of the Supplemental Severance Plan as provided for in Section 3, the Trustee shall direct payment of any Cash Portion due to an Executive or his or her beneficiaries from the assets held in this Trust. Such payments shall be reduced by any payments made directly to an Executive by the Company as provided in Section 3 (c) hereof. The termination of the employment of an Executive following the effective time of a Change in Control and, within two years thereafter shall be deemed conclusive evidence of entitlement of such Executive to the Cash Portion of the Severance Payment.

Section 5. Trustee Responsibility Regarding Payments to Trust Beneficiary When the Company Is Insolvent.

(a) Trustee shall cease payments hereunder if the Company is Insolvent. The Company shall be considered "Insolvent" for purposes of this Agreement if (i) the Company is unable to pay its debts as they become due, or (ii) the Company is subject to a pending proceeding as a debtor under the United States Bankruptcy Code.

(b) At all times during the continuance of this Trust, as provided in Section 1(d) hereof, the principal and income of this Trust shall be subject to claims of general creditors of the Company under federal and state law as set forth below.

(1) The Board of Directors and the Chief Executive Officer of the Company shall have the duty to inform Trustee in writing of the Company's Insolvency. If a person claiming to be a creditor of the Company alleges in writing to Trustee that the Company has become Insolvent, Trustee shall determine whether the Company is Insolvent and, pending such determination, Trustee shall discontinue Severance Payments to Executives or their beneficiaries.

(2) Unless Trustee has actual knowledge of the Company's Insolvency, or has received notice from the Company or a person claiming to be a creditor alleging that the Company is Insolvent, Trustee shall have no duty to inquire whether the Company is Insolvent. Trustee may in all events rely on such evidence concerning the Company's solvency as may be furnished to Trustee and that provides Trustee with a reasonable basis for making a determination concerning the Company's solvency.

(3) If at any time Trustee has determined that the Company is Insolvent, Trustee shall discontinue payments hereunder and shall hold the assets of this Trust for the benefit of the Company's general creditors. Nothing in this Agreement shall in any way diminish any rights of Executives or their beneficiaries to pursue their rights as general creditors of the Company with respect to severance payments due under the Supplemental Severance Plan or otherwise.

(4) Trustee shall resume the payments in accordance with Section 3 of this Agreement only after Trustee has determined that the Company is not Insolvent (or is no longer Insolvent).

(c) Provided that there are sufficient assets, if Trustee discontinues the payment from this Trust pursuant to this Section 5 and subsequently resumes such payments, the first payment following such discontinuance shall include the aggregate amount of all payments due under the terms hereof for the period of such discontinuance, less the aggregate amount, if any, paid directly to Executives or their beneficiaries by the Company in lieu of the payments provided for hereunder during any such period of discontinuance.

Section 6. Payments to the Company.

Except as provided in Section 5 hereof, after a Change in Control, the Company shall have no right or power to direct Trustee to return to the Company or to divert to others any of this Trust assets before all payment of benefits have been made to Executives and their beneficiaries pursuant to the terms of the Supplemental Severance Plan.

Notwithstanding the preceding sentence, in the event of a deposit by the Company with the Trustee under Section 3 as a result of a Change-in-Control based upon a change in the ownership of voting securities of the Company, where a Change-in-Control as a result of a change in the composition of the Board of Directors has not occurred within two years thereafter (or such longer time period during which Severance Payments could become payable under the Supplemental Severance Plan following a Change-in-Control), the Trustee shall return to the Company any amounts deposited with the Trustee in respect of the Change-in-Control; provided that, no one shall have become entitled to any Severance Payment under Section 4 during such time period. Upon any such return of funds to the Company, the Company shall again be obligated to deposit funds under Section 3 upon the occurrence of a subsequent Change-in-Control.

Section 7. Investment Authority.

(a) In no event may Trustee invest in securities (including stock or rights to acquire stock) or obligations issued by the Company, other than a *de minimis* amount held in common investment vehicles in which Trustee invests. All rights associated with assets of this Trust shall be exercised by Trustee or the person designated by Trustee and shall in no event be exercisable by or rest with the Executives.

(b) The Trustee shall invest the principal of this Trust and any earnings thereon in (i) U.S. Government Securities, (ii) time deposits and certificates of deposit of any institution that is a member of the Federal Reserve System having capital of not less than \$500 million, and (iii) money market, mutual, or similar funds that invest in such securities referred to in (i) and (ii) above, as chosen by the Trustee in the prudent exercise of its fiduciary duty hereunder, [or in such other manner as may be directed by the Company in writing] prior to a Change in Control and following a Change in Control, as the Trustee shall determine in its sole discretion.

(c) The Company shall have the right, at anytime, and from time to time in its sole discretion, to substitute marketable securities of equal fair market value for any asset held by this Trust; provided that, following a Change in Control, such substitution of assets shall be subject to the acceptance of Trustee.

Section 8. Disposition of Income.

During the term of this Trust prior to a Change in Control, all Distributable Income received by this Trust, net of expenses and taxes, shall be distributed to the Company no less frequently than semi-annually, unless otherwise directed by the

Company, and from and after a Change in Control shall be accumulated and reinvested. "Distributable Income" shall mean gain or income actually realized on the amounts held in Trust but only to the extent that the aggregate fair market value of the assets held in Trust following the distribution of such amounts and payment of all expenses of this Trust paid or accrued as of the distribution date not otherwise satisfied by the Company, would equal or exceed the principal amounts deposited by the Company with Trustee under Section 1(a).

Section 9. Accounting by Trustee.

Trustee shall keep accurate and detailed records of all investments, receipts, disbursements, and all other transactions required to be made, including such specific records as shall be agreed upon in writing between the Company and Trustee. Within 30 days following the close of each calendar year and within 30 days after the removal or resignation of Trustee, Trustee shall deliver to the Company a written account of its administration of this Trust during such year or during the period from the close of the last preceding year to the date of such removal or resignation, setting forth all investments, receipts, disbursements and other transactions effected by it, including a description of all securities and investments purchased and sold with the cost or net proceeds of such purchases or sales (accrued interest paid or receivable being shown separately), and showing all cash, securities and other property held in this Trust at the end of such year or as of the date of such removal or resignation, as the case may be.

Section 10. Responsibility of Trustee.

(a) Trustee shall act with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, provided, however, that Trustee shall incur no liability to any person for any action taken pursuant to a direction, request or approval given by the Company which is contemplated by, and in conformity with, the terms of the Supplemental Severance Plan or this Trust and is given in writing by the Company. In the event of a dispute between the Company and a party, Trustee may apply to a court of competent jurisdiction to resolve the dispute.

(b) The Company hereby indemnifies Trustee against losses, liabilities, claims, costs and expenses in connection with the administration of this Trust, unless resulting from the gross negligence or willful misconduct of Trustee. To the extent the Company fails to make any payment on account of an indemnity provided in this Section 10(b), in a reasonably timely manner, Trustee may obtain payment from this Trust. If Trustee undertakes or defends any litigation arising in connection with this Trust or to protect an Executive's or beneficiary's rights under the Supplemental Severance Plan, the Company agrees to advance to Trustee, and to indemnify Trustee against Trustee's costs, reasonable expenses and liabilities (including, without limitation, attorneys' fees and expenses) relating thereto and to be primarily liable for such payments. If the Company does not pay such costs, expenses and liabilities in a reasonably timely manner, Trustee may obtain payment from this Trust.

(c) Trustee may consult with legal counsel (who may also be counsel for the Company generally) with respect to any of its duties or obligations hereunder. Following a Change in Control, Trustee may select independent legal counsel (which can include its in-house counsel) and may consult with counsel or other experts with respect to its duties and with respect to the rights of Executives and their beneficiaries under the Supplemental Severance Plan.

(d) Trustee may hire agents, accountants, actuaries, investment advisors, financial consultants or other professionals to assist it in performing any of its duties or obligations hereunder and in good faith may rely on any determinations made by such agents and information provided to it by the Company.

(e) Trustee shall have, without exclusion, all powers conferred on trustees by applicable law, unless expressly provided otherwise herein.

(f) Notwithstanding any powers granted to Trustee pursuant to this Agreement or to applicable law, Trustee shall not have any power that could give this Trust the objective of carrying on a business and dividing the gains therefrom, within the meaning of section 301.7701-2 of the Procedure and Administrative Regulations promulgated pursuant to the Code.

Section 11. Compensation and Expenses of Trustee and Resignation and Removal of Trustee.

(a) The Company shall timely pay all administrative and Trustee's fees and expenses. If not so paid, the fees and expenses shall be paid from this Trust.

(b) Prior to a Change in Control, Trustee may resign at any time by written notice to the Company, which shall be effective sixty (60) days after receipt of such notice unless the Company and Trustee agree otherwise. Following a Change in Control, Trustee may resign only after the appointment of a successor Trustee reasonably acceptable to a majority of the Executives hereunder. If Trustee resigns within two years after a Change in Control or if the Company fails to act within a reasonable period of time following such resignation, Trustee shall apply, at the expense of the Company, to a court of competent jurisdiction for the appointment of a successor Trustee or for instructions.

(c) Trustee may be removed by the Company on sixty (60) days notice or upon shorter notice accepted by Trustee prior to a Change in Control. Following a Change in Control, Trustee may only be removed by the Company with the consent of a majority of the Executives hereunder and upon appointment of a qualified successor Trustee hereunder reasonably acceptable to the majority of the Executives hereunder.

(d) Upon resignation or removal of Trustee and appointment of a successor Trustee, all assets shall subsequently be transferred to the successor Trustee. The transfer shall be completed with sixty (60) days after receipt of acceptance of an appointment as trustee by a successor trustee, unless the Company extends the time limit.

(e) If Trustee resigns or is removed, a successor shall be appointed by the Company, in accordance with Section 12 hereof, by the effective date of resignation or removal under this Section 11. If no such appointment has been made, Trustee may apply to a court of competent jurisdiction for appointment of a successor or for instructions. All expenses of Trustee in connection with the proceeding shall be allowed as administrative expenses of this Trust.

(f) Any Trustee of any trust created hereunder shall be an institution having total assets under management of at least ten billion dollars (\$10,000,000,000) at the time of appointment and at all times thereafter (the "Minimum Assets Requirement"). Should Trustee cease to have total assets of at least ten billion million dollars (\$10,000,000,000) under management or cease to be so selected, Trustee shall be removed and a successor Trustee appointed in accordance with the provisions of Sections 10 and 11 hereof.

Section 12. Appointment of Successor.

(a) If Trustee resigns or is removed in accordance with Section 11 hereof, the Company may appoint any bank trust department or other party that may be granted corporate trustee powers under state law who meets the Minimum Assets Requirement, as a successor to replace Trustee upon resignation or removal (a "**Qualified Trustee**"); provided that, following a Change in Control, if Trustee resigns or is removed in accordance with Section 11 the successor trustee shall be reasonably acceptable to a majority of the Executives hereunder at the time. In any such event, the appointment shall be effective when accepted in writing by the new Trustee, who shall have all of the rights and powers of the former Trustee, including ownership rights in this Trust. The former Trustee shall execute any instrument necessary or reasonably requested by the Company or the successor Trustee to evidence the transfer.

(b) The successor Trustee need not examine the records and acts of any prior Trustee and may retain or dispose of existing Trust assets, subject to Sections 9 and 10 hereof. The successor Trustee shall not be responsible for and the Company shall indemnify and defend the successor Trustee from any claim or liability resulting from any action or inaction of any prior Trustee or from any other past event, or any condition existing at the time it becomes successor Trustee.

(c) The Company shall provide the name of the successor Trustee to each Executive, or if applicable, his or her beneficiaries receiving benefits at the time of the appointment of Trustee.

(d) The Company shall execute such indemnification or other agreement with Trustee as may be reasonably requested and customary for trustees performing services of this kind.

Section 13. Amendment or Termination.

(a) This Agreement may be amended by a written instrument executed by Trustee and the Company. Notwithstanding the foregoing, no such amendment shall conflict with the terms of the Supplemental Severance Plan or shall make this Trust revocable after it has become irrevocable in accordance with Section 1 hereof.

(b) Except as provided in Section 13(c), this Trust shall not terminate until the date on which each Executive and their beneficiaries are no longer entitled to benefits pursuant to the terms of the Supplemental Severance Plan and all fees and expenses of this Trust have been paid.

(c) Upon written approval of all Executives and beneficiaries entitled to payment of benefits pursuant to the terms of the Supplemental Severance Plan, the Company may terminate this Trust prior to the time all benefit payments under the Supplemental Severance Plan have been made.

(d) This Agreement may not be amended or terminated by the Company for two (2) years following a Change in Control without the written consent of a majority of the Executives then covered by this Agreement except, if in the opinion of counsel to the Trustee (which may be its inside counsel), such amendment is necessary to maintain the tax status of this Trust, the deferred compensation status of the Supplemental Severance Plan, or status of this Trust under the Employee Retirement Income Security Act of 1974 as amended to this Trust.

(e) Upon termination of this Trust any assets remaining in this Trust, after payment of all expenses of this Trust, shall be returned to the Company.

(f) The Company hereby advises the Trustee that:

- i. The Company will distribute to its shareholders shares of stock of its wholly owned subsidiary, Rayonier Advanced Materials Company ("RYAM"), which is anticipated to occur on or about June 30, 2014 (the date of such distribution is referred to herein as the "Separation Date");
- ii. Six (6) Executives will be leaving the Company as of the closing of the Separation Date and will cease to be Executives under the Executive Severance Plan at that time (the "Departing Executives"), representing sixty percent (60%) of the Executives covered by the Trust immediately prior to the Separation Date, but the Benefits to which such Departing Executives could be entitled to under the Plan were a Change in Control to occur immediately before the Separation Date represent sixty seven percent (67%) of the total Benefits to all covered Executives in such event;
- iii. In the Company's judgment, \$907,000, representing sixty seven percent (67%) of the Trust assets, is reasonably attributed to the benefit for the Departing Executives (the "Excess Assets" and the "Excess Assets Percentage," respectively); and
- iv. RYAM has established a plan substantially similar to the Executive Severance Plan (the "RYAM Plan") and (y) a trust (the "RYAM Executive Severance Trust") substantially similar to this Trust has been created, in each case to be effective as of the Separation Date."

(g) Effective as of the Separation Date, the Trustee will transfer the Excess Assets (and the Excess Assets Percentage of additional assets that may be in the Trust as of the Separation Date not included in the Excess Assets, if any) to the RYAM Executive Severance Trust.

Section 14. Miscellaneous.

(a) Any provision of this Agreement prohibited by law shall be ineffective to the extent of any such prohibition, without invalidating the remaining provisions hereof.

(b) Benefits payable to any Executive and his or her beneficiaries under this Agreement may not be anticipated, assigned (either at law or in equity), alienated, pledged, encumbered or subjected to attachment, garnishment, levy, execution or other legal or equitable process.

(c) This Agreement shall be governed by and construed in accordance with the laws of the State of North Carolina, without regard to its conflicts of laws rules, to the extent not preempted by applicable federal law.

Section 15. Effective Date.

The effective date of this Agreement shall be the date and year first above written.

RAYONIER INC.

By: \_\_\_\_\_

Name:

Title:

WELLS FARGO & COMPANY, as Trustee

By:

Name:

Its authorized representative:

[Appendices and Schedules omitted]



## CERTIFICATION

I, David L. Nunes, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 Rule 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. 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
  - d. 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: November 10, 2014

/s/ DAVID L NUNES

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David L. Nunes

*President and Chief Executive Officer, Rayonier Inc.*

## CERTIFICATION

I, H. Edwin Kiker, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 Rule 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f) and 15d-15(f)) 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. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. 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
  - d. 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: November 10, 2014

/s/ H. EDWIN KIKER

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H. Edwin Kiker

Senior Vice President and Chief Financial Officer, Rayonier Inc.

**CERTIFICATION**

The undersigned hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to our knowledge:

1. The quarterly report on Form 10-Q of Rayonier Inc. (the "Company") for the period ended September 30, 2014 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

November 10, 2014

/s/ DAVID L. NUNES

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David L. Nunes

*President and Chief Executive Officer, Rayonier Inc.*

/s/ H. EDWIN KIKER

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H. Edwin Kiker

*Senior Vice President and  
Chief Financial Officer, Rayonier Inc.*