UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K/A

(Amendment No. 1)

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

DATE OF REPORT (DATE OF EARLIEST EVENT REPORTED)

May 7, 2020

COMMISSION FILE NUMBER 1-6780 (Rayonier Inc.)
COMMISSION FILE NUMBER: 333-237246 (Rayonier, L.P.)

RAYONIER INC.

Incorporated in the State of North Carolina
I.R.S. Employer Identification Number 13-2607329

RAYONIER, L.P.

Incorporated in the State of Delaware
I.R.S. Employer Identification Number 91-1313292

1 Rayonier Way
Wildlight, Florida 32097
(Principal Executive Office)

Telephone Number: (904) 357-9100

Check the appropriate box below if the form 8-K filing is intended to simultaneously satisfy the filing obligations of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Trading Symbol	Exchange
COMMON STOCK, $0.00 PAR VALUE	RYN	New York Stock Exchange

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Rayonier Inc.:	Emerging growth company	☐
Rayonier, L.P.:	Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Rayonier Inc.:	☐
Rayonier, L.P.:	☐

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EXPLANATORY NOTE

This current report on Form 8-K/A (this "Amendment") combines disclosure in respect of Rayonier Inc., a North Carolina corporation ("Rayonier"), and Rayonier, L.P., a Delaware limited partnership ("Rayonier, L.P." or "Operating Partnership"). Rayonier has elected to be taxed as a real estate investment trust, or REIT, under the Internal Revenue Code of 1986, as amended, commencing with its taxable year ended December 31, 2004. Rayonier is structured as an umbrella partnership REIT under which substantially all of its business shall be conducted through Rayonier, L.P. Rayonier is the general partner of the Operating Partnership. Rayonier and Rayonier, L.P. are operated as one business. The management of Rayonier, L.P. consists of the same members as the management of Rayonier. As general partner with control of Rayonier, L.P., Rayonier will consolidate Rayonier, L.P. for financial reporting purposes, and Rayonier will have no material assets or liabilities other than its investment in Rayonier, L.P.

On May 13, 2020, Rayonier and Rayonier, L.P. filed a Current Report on Form 8-K (the "Initial Report") with the Securities and Exchange Commission (the "SEC") to report the completion of Rayonier, L.P.'s acquisition of Pope Resources, a Delaware Limited Partnership ("Pope"), pursuant to the Agreement and Plan of Merger, dated as of January 14, 2020, as amended by Amendment No. 1, dated as of April 1, 2020 (as amended, the "Merger_Agreement"), by and among Rayonier, Rayonier, L.P., Rayonier Operating Company LLC, Rayonier Operating Company Holdings, LLC, Pacific GP Merger Sub I, LLC, Pacific GP Merger Sub II, LLC, Pacific LP Merger Sub III, LLC, Pope, Pope EGP, Inc. and Pope MGP, Inc.

This Current Report on Form 8-K/A amends the Initial Report to include the historical financial statements and pro forma financial information required by Item 9.01 of Form 8-K that were previously omitted from the Initial Report as permitted by Item 9.01(a)(4).

The pro forma financial information included in this Current Report on Form 8-K/A has been presented for informational purposes only and is not necessarily indicative of the combined financial position or results of operations that would have been realized had the Merger occurred as of the dates indicated, nor is it meant to be indicative of any anticipated combined financial position or future results of operations that Rayonier and Rayonier, L.P. will experience after the Merger.

This Current Report on Form 8-K/A should be read in connection with the Initial Report, which provides a more complete description of the Merger.

ITEM 8.01. Other Events.

Rayonier, L.P.'s Management's Discussion and Analysis of Financial Condition and Results of Operations as of March 31, 2020 and for the three month periods ended March 31, 2020 and 2019 is filed herewith and attached hereto as Exhibits 99.1 and incorporated herein by reference.

ITEM 9.01.

Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired.

The audited financial statements of Pope as of and for the years ended December 31, 2019 and 2018, and the unaudited consolidated financial statements as of March 31, 2020 and for the three months ended March 31, 2020 and 2019, are filed herewith as Exhibits 99.2 and 99.3, respectively, and are incorporated herein by reference. The consent of KPMG LLP, Pope's independent registered public accounting firm, is attached as Exhibit 23.1 to this Current Report on Form 8-K/A.

(b) Pro Forma Financial Information.

The unaudited pro forma condensed combined financial statements of Rayonier and Rayonier Operating Company LLC, as predecessor-in-interest to Rayonier, L.P. as of and for the three months ended March 31, 2020 and for the year ended December 31, 2019, filed herewith and attached hereto as Exhibit 99.6 and Exhibit 99.7, respectively, are incorporated herein by reference.

(d) Exhibits.

Exhibit No.	**Exhibit Description**
23.1	Consent of KPMG LLP
23.2	Consent of Ernst & Young LLP (in respect of Rayonier Operating Company LLC, as predecessor-in-interest to Rayonier, L.P.)
99.1	Management's Discussion and Analysis of Financial Condition and Results of Operations of the Rayonier Operating Company LLC as of March 31, 2020 and for the three months ended March 31, 2020 and 2019.
99.2	Audited consolidated financial statements of Pope Resources as of and for the years ended December 31, 2019 and 2018 (incorporated by reference to Pope Resources' Form 10-K filed February 28, 2020).
99.3	Unaudited consolidated financial statements of Pope Resources as of March 31, 2020 and for the three months ended March 31, 2020 and 2019 (incorporated by reference to Pope Resources' Form 10-Q filed May 6, 2020).
99.4	Audited consolidated financial statements of Rayonier Operating Company LLC as of and for the years ended December 31, 2019 and 2018.
99.5	Unaudited consolidated financial statements of Rayonier Operating Company as of March 31, 2020 and for the three months ended March 31, 2020 and 2019.
99.6	Unaudited pro forma combined financial statements of Rayonier Inc. as of March 31, 2020 and for the three months ended March 31, 2020.
99.7	Unaudited pro forma combined financial statements of Rayonier Operating Company LLC as of March 31, 2020 and for the three months ended March 31, 2020.
99.8	Unaudited pro forma combined financial statements of Rayonier Inc. as of and for the year ended December 31, 2019.
99.9	Unaudited pro forma combined financial statements of Rayonier Operating Company LLC as of and for the year ended December 31, 2019.
104	Cover Page Interactive Data File (embedded within the Inline XBRL document).

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of l934, the registrant has duly caused this Report to be signed on its behalf by the undersigned hereunto duly authorized.

RAYONIER INC.

BY: /s/ MARK R. BRIDWELL

Mark R. Bridwell

Vice President, General Counsel and Corporate Secretary

RAYONIER, L.P.

BY: /s/ MARK R. BRIDWELL

Mark R. Bridwell

Vice President, General Counsel and Corporate Secretary

July 17, 2020

EXHIBIT 23.1

Consent of Independent Registered Public Accounting Firm

Pope Resources:

We consent to the use of our reports dated February 28, 2020, with respect to the consolidated balance sheets of Pope Resources, A Delaware Limited Partnership, and subsidiaries (the Partnership) as of December 31, 2019 and 2018, the related consolidated statements of comprehensive income (loss), partners' capital, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes, and the effectiveness of internal control over financial reporting incorporated herein by reference.

Our report on the consolidated financial statements refers to a change in the method of accounting for revenue recognition effective January 1, 2018 due to the adoption of ASC 606 *Revenue from Contracts with Customers*.

/s/ KPMG LLP

Seattle, Washington
July 17, 2020

EXHIBIT 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

1) Registration Statement (Form S-3 No. 333–225530) of Rayonier, Inc.,

2) Registration Statement (Form S-4 No. 333–114858) of Rayonier Inc.,

3) Registration Statement (Form S-8 No. 333–129175) pertaining to the Rayonier 1994 Incentive Stock Plan,

4) Registration Statement (Form S-8 No. 333–129176) pertaining to the 2004 Rayonier Incentive Stock and Management Bonus Plan,

5) Registration Statement (Form S-8 No. 333–152505) pertaining to the Rayonier Investment and Savings Plan for Salaried Employees,

6) Registration Statement (Form S-4 No. 333–237246) pertaining to the registration of Rayonier shares and Rayonier L.P. units issued to Pope unitholders, and

7) Registration Statement (Form S-8 No. 333–238097) pertaining to the Pope Resources 2005 Unit Incentive Plan;

of our report dated March 17, 2020, with respect to the consolidated financial statements and schedule of Rayonier Operating Company LLC, included in this Current Report on Form 8-K.

/s/ Ernst & Young LLP

Jacksonville, Florida
July 17, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ("MD&A")

EXPLANATORY NOTE

References to "we", "our" and "us" refer to Rayonier Operating Company LLC and its wholly owned subsidiaries. References to "Rayonier Operating Company" or "the Company," mean Rayonier Operating Company LLC and its consolidated subsidiaries. References to "Parent," and "Rayonier," mean Rayonier Inc. and its consolidated subsidiaries. References herein to "Notes to Financial Statements" or "Note" refer to the Notes to the Consolidated Financial Statements of Rayonier Operating Company LLC included in Exhibit 99.5 of the Company's Amendment No. 1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission ("SEC") on July 17, 2020.

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 our unaudited consolidated financial statements as of March 31, 2020 and for the three month periods ended March 31, 2020 and 2019 included in Exhibit 99.5 of the Company's Amendment No. 1 to the Current Report on Form 8-K filed with the SEC on July 17, 2020 and our audited consolidated financial statements as of and for the years ended December 31, 2019, 2018 and 2017 included in Exhibit 99.4 of the Company's Amendment No. 1 to the Current Report on Form 8-K filed with the SEC on July 17, 2020.

FORWARD-LOOKING STATEMENTS

Certain statements in this document regarding anticipated financial outcomes, including Rayonier Operating Company's earnings guidance, if any, business and market conditions, outlook, Rayonier Operating Company's business strategies, including expected harvest schedules, timberland acquisitions and dispositions, the anticipated benefits of the Company's business strategies, and other similar statements relating to the Company'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 Rayonier's Annual Report on Form 10-K for the year ended December 31, 2019, Rayonier's Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 and similar discussions included in other reports that we may subsequently file with the SEC, 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 subsequent disclosures the Company makes on related subjects in its subsequent reports filed with the SEC.

CHANGE IN REPORTING ENTITY AND THIRD SUPPLEMENTAL INDENTURE

On May 7, 2020, Rayonier Inc. contributed its 100% ownership interest in Rayonier Operating Company LLC (the "Contribution") to Rayonier, L.P., a Delaware limited partnership ("Rayonier, L.P." or "Operating Partnership"). As a result of the Contribution, which constituted the transfer of all or substantially all of Rayonier's assets under the terms of the Indenture, dated March 5, 2012 (as supplemented and amended from time to time, the "Indenture"), between Rayonier, as issuer, the subsidiary guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., as trustee, Rayonier, L.P. expressly assumed all the obligations of Rayonier under the Indenture, including obligations with respect to the outstanding $325,000,000 in aggregate principal amount of 3.750% Senior Notes due 2022 (the "2022 Notes") issued thereunder.

On May 7, 2020, Rayonier, Rayonier, L.P., the subsidiary guarantors party thereto and the Trustee entered into the Third Supplemental Indenture, pursuant to which (1) Rayonier, L.P. succeeded to and became substituted for the Company under the Indenture and 2022 Notes and expressly assumed all the obligations of the Company under the Indenture, including obligations with respect to the 2022 Notes, and (2) Rayonier agreed to irrevocably, fully and unconditionally guarantee, jointly and severally, the obligations of Rayonier, L.P. under Indenture, including, the 2022 Notes.

MERGER WITH POPE RESOURCES

On May 8, 2020, Rayonier, L.P. acquired Pope Resources, a Delaware Limited Partnership ("Pope"), and became the general partner of Pope. The acquisition occurred pursuant to a series of mergers (the "Mergers") provided for in an Agreement and Plan of Merger, dated as of January 14, 2020, as amended by Amendment No. 1, dated as of April 1, 2020 (as amended, the "Merger Agreement"), by and among Rayonier, Rayonier, L.P., Rayonier Operating Company LLC, Rayonier Operating Company Holdings, LLC, Pacific GP Merger Sub I, LLC, Pacific GP Merger Sub II, LLC, Pacific LP Merger Sub III, LLC, Pope, Pope EGP, Inc. and Pope MGP, Inc. Following the Mergers, Rayonier holds an approximate 96.5% ownership interest in Rayonier, L.P., with the remaining 3.5% ownership interest owned by limited partners of Rayonier, L.P. that are former Pope Resources unitholders. As the sole general partner of the Operating Partnership, Rayonier will have exclusive control of the day-to-day management of Rayonier, L.P..

The audited financial statements and notes included in Exhibit 99.4 and the unaudited consolidated financial statements and notes included in Exhibit 99.5 of the Company's Amendment No. 1 to the Current Report on Form 8-K filed with the SEC on July 17, 2020 do not give effect to the change in reporting entity, the Contribution or Mergers.

NON-GAAP MEASURES

To supplement Rayonier Operating Company's financial statements presented in accordance with generally accepted accounting principles in the United States ("GAAP"), the Company uses certain non-GAAP financial measures, including "cash available for distribution," and "Adjusted EBITDA," which are defined and further explained in *Performance and Liquidity Indicators* below. Reconciliation of such measures to the nearest GAAP measures can also be found in *Performance and Liquidity Indicators* below. The Company's definitions of these non-GAAP measures may differ from similarly titled measures used by others. These non-GAAP measures should be considered supplemental to, and not a substitute for, financial information prepared in accordance with GAAP.

OUR COMPANY

Rayonier Operating Company LLC is a Delaware limited liability company organized on June 3, 2010 as a wholly owned subsidiary of Rayonier Inc., the sole member of Rayonier Operating Company. Rayonier Inc. is a North Carolina corporation with shares publicly traded on the NYSE under the symbol "RYN". On July 29, 2010, Rayonier contributed to Rayonier Operating Company, and its successors, all interest of Rayonier including all properties and assets in exchange for the assumption of all liabilities related to the contributed assets. Following the Contribution, substantially all of Rayonier assets are held by, and Rayonier operations are conducted through Rayonier Operating Company. Rayonier Operating Company currently does not have any publicly traded equity.

We are a subsidiary of Rayonier Inc., a leading timberland real estate investment trust ("REIT") with assets located in some of the most productive softwood timber growing regions in the United States and New Zealand. We invest in timberlands and actively manage them to provide current income and attractive long-term returns to our unitholders. Our revenues, operating income and cash flows are primarily derived from the following core business segments: Southern Timber, Pacific Northwest Timber, New Zealand Timber, Real Estate and Trading. As of March 31, 2020, we owned or leased under long-term agreements approximately 2.6 million acres of timberlands located in the U.S. South (1.8 million acres), U.S. Pacific Northwest (384,000 acres) and New Zealand (415,000 gross acres or 295,000 net plantable acres). Our New Zealand operations are conducted by Matariki Forestry Group, a joint venture (the "New Zealand subsidiary"), in which we maintain a 77% ownership interest.

As a subsidiary of Rayonier Inc., Rayonier Operating Company is treated as a disregarded entity for federal income tax purposes. However, the Company has elected to allocate, based on the tax attributes and filings of the taxable subsidiaries, the Rayonier consolidated amount of current and deferred tax expense to Rayonier Operating Company.

SEGMENT INFORMATION

The Southern Timber, Pacific Northwest Timber and New Zealand Timber segments include all activities related to the harvesting of timber and other non-timber income activities, such as the licensing of properties for hunting, the leasing of properties for mineral extraction and cell towers, and carbon credit sales.

The Real Estate segment includes all U.S. and New Zealand land or leasehold sales disaggregated into five sales categories: Improved Development, Unimproved Development, Rural, Timberlands & Non-Strategic and Large Dispositions.

The Trading segment primarily reflects the log trading activities that support our New Zealand operations. The Trading segment complements the New Zealand Timber segment by providing added market intelligence, increasing the scale of export operations and achieving cost savings that directly benefit the New Zealand Timber segment. It also provides additional market intelligence that benefits our Southern and Pacific Northwest export log marketing.

INDUSTRY AND MARKET CONDITIONS

The demand for timber is directly related to the underlying demand for pulp, paper, packaging, lumber and other wood products. The significant majority of timber sold in our Southern Timber segment is consumed domestically. With a higher proportion of pulpwood, our Southern Timber segment relies heavily on downstream markets for pulp and paper, and to a lesser extent wood pellet markets. Our Pacific Northwest Timber segment relies primarily on domestic customers but also exports a significant volume of timber, particularly to China. Both the Southern and Pacific Northwest Timber segments rely on the strength of U.S. lumber markets as well as underlying housing starts. Our New Zealand Timber segment sells timber to domestic New Zealand wood products mills and also exports a significant portion of its volume to markets in China, South Korea and India. In addition to market dynamics in the Pacific Rim, the New Zealand Timber segment is subject to foreign exchange fluctuations, which can impact the operating results of the segment in U.S. dollar terms.

There are many uncertainties regarding the current novel coronavirus (COVID-19) pandemic, including the expected duration of the pandemic and the extent of economic disruption it may cause. During the first quarter, the spread of COVID-19 led to a lockdown in China as well as the shutdown of forestry activities in New Zealand, which resulted in an immediate reduction in volumes and prices of exports to China. On March 19, 2020, the U.S. Department of Homeland Security issued a memorandum identifying the forest products industry as a “critical infrastructure industry,” which is expected to continue operating through the duration of the pandemic. Domestic impacts in our U.S. Timber segments have been relatively modest thus far; however, prolonged stay-at-home orders and the continued shutdown of businesses deemed non-essential could cause significant damage to the underlying economy, which would likely impact the strength of U.S. timber markets. COVID-19 is a rapidly evolving situation that the Company will continue to monitor going forward.

The Company is also subject to the risk of price fluctuations in its major cost components. The primary components of the Company's cost of sales are the cost basis of timber sold (depletion), the cost basis of real estate sold and logging and transportation costs (cut and haul). Depletion includes the amortization of capitalized costs (site preparation, planting and fertilization, real estate taxes, timberland lease payments and certain payroll costs). Other costs include amortization of capitalized costs related to road and bridge construction and software, depreciation of fixed assets and equipment, road maintenance, severance and excise taxes, fire prevention and real estate commissions and closing costs.

For additional information on market conditions impacting our business, see Results of Operations.

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 Note 1 — Summary of Significant Accounting Policies in our audited consolidated financial statements as of and for the years ended December 31, 2019, 2018 and 2017 included in Exhibit 99.4 of the Company’s Amendment No. 1 to the Current Report on Form 8-K filed with the SEC on July 17, 2020.

DISCUSSION OF TIMBER INVENTORY AND SUSTAINABLE YIELD

See Item 1 — *Business* — *Discussion of Timber Inventory and Sustainable Yield* in Rayonier's Annual Report on Form 10-K for the year ended December 31, 2019.

OUR TIMBERLANDS

Our timber operations are disaggregated into three geographically distinct segments: Southern Timber, Pacific Northwest Timber and New Zealand Timber. The following table provides a breakdown of our timberland holdings as of March 31, 2020 and December 31, 2019:

(acres in 000s)	As of March 31, 2020			As of December 31, 2019		
	Owned	Leased	Total	Owned	Leased	Total
Southern						
Alabama	226	14	240	226	14	240
Arkansas	—	7	7	—	7	7
Florida	331	63	394	331	63	394
Georgia	628	77	705	628	77	705
Louisiana	140	—	140	128	—	128
Mississippi	—	—	—	67	—	67
Oklahoma	92	—	92	92	—	92
South Carolina	18	—	18	18	—	18
Texas	184	—	184	184	—	184
	1,619	161	1,780	1,674	161	1,835
Pacific Northwest						
Oregon	61	—	61	61	—	61
Washington	323	—	323	318	—	318
	384	—	384	379	—	379
New Zealand (a)	185	230	415	185	229	414
Total	2,188	391	2,579	2,238	390	2,628

(a) Represents legal acres owned and leased by the New Zealand subsidiary, in which Rayonier Operating Company owns a 77% interest. As of March 31, 2020, legal acres in New Zealand consisted of 295,000 plantable acres and 120,000 non-productive acres.

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The following tables detail activity for owned and leased acres in our timberland holdings by state from December 31, 2019 to March 31, 2020:

(acres in 000s)	Acres Owned				
	December 31, 2019	Acquisitions	Sales	Other (a)	March 31, 2020
Southern					
Alabama	226	—	—	—	226
Florida	331	—	—	—	331
Georgia	628	—	—	—	628
Louisiana	128	12	—	—	140
Mississippi	67	—	(67)	—	—
Oklahoma	92	—	—	—	92
South Carolina	18	—	—	—	18
Texas	184	—	—	—	184
	1,674	12	(67)	—	1,619
Pacific Northwest					
Oregon	61	—	—	—	61
Washington	318	—	—	5	323
	379	—	—	5	384
New Zealand (b)	185	—	—	—	185
Total	2,238	12	(67)	5	2,188

(a) Includes adjustments for land mapping reviews.
(b) Represents legal acres owned by the New Zealand subsidiary, in which Rayonier Operating Company has a 77% interest.

(acres in 000s)	Acres Leased				
	December 31, 2019	New Leases	Sold/Expired Leases (a)	Other	March 31, 2020
Southern					
Alabama	14	—	—	—	14
Arkansas	7	—	—	—	7
Florida	63	—	—	—	63
Georgia	77	—	—	—	77
	161	—	—	—	161
New Zealand (b)	229	1	—	—	230
Total	390	1	—	—	391

(a) Includes acres previously under lease that have been harvested and activity for the relinquishment of leased acres.
(b) Represents legal acres leased by the New Zealand subsidiary, in which Rayonier Operating Company has a 77% interest.

RESULTS OF OPERATIONS

CONSOLIDATED RESULTS

The following table provides key financial information by segment and on a consolidated basis:

Financial Information (in millions)	Three Months Ended March 31, 2020	2019
Sales		
Southern Timber	$53.0	$60.8
Pacific Northwest Timber	31.1	20.5
New Zealand Timber	37.5	57.1
Real Estate		
Improved Development	—	0.3
Unimproved Development	—	1.0
Rural	2.4	12.7
Timberlands & Non-Strategic	—	6.9
Other (a)	0.1	0.1
Large Dispositions	116.0	—
Total Real Estate	118.5	21.0
Trading	19.0	32.1
Total Sales	$259.1	$191.5
Operating Income (Loss)		
Southern Timber	$15.1	$21.5
Pacific Northwest Timber	(0.9)	(3.7)
New Zealand Timber	5.4	15.7
Real Estate (b)	26.8	10.0
Trading	—	0.5
Corporate and Other	(7.8)	(5.5)
Operating Income	38.6	38.5
Interest expense, interest income and other	(4.9)	(2.8)
Income tax expense	(3.7)	(4.3)
Net Income	30.0	31.4
Less: Net income attributable to noncontrolling interest	(0.5)	(3.0)
Net Income Attributable to Rayonier Operating Company LLC	$29.4	$28.4
Adjusted EBITDA (c)		
Southern Timber	$33.3	$41.2
Pacific Northwest Timber	9.8	3.1
New Zealand Timber	10.2	22.0
Real Estate	(1.1)	17.4
Trading	—	0.5
Corporate and Other	(5.0)	(5.2)
Total Adjusted EBITDA	$47.1	$79.0

(a) Includes marketing fees and deferred revenue adjustments related to Improved Development sales.
(b) The three months ended March 31, 2020 include $28.7 million from a Large Disposition.
(c) Adjusted EBITDA is a non-GAAP measure defined and reconciled in Performance and Liquidity Indicators.

Southern Timber Overview	Three Months Ended March 31, 2020	2019
Sales Volume (in thousands of tons)		
Pine Pulpwood	1,133	1,122
Pine Sawtimber	680	744
Total Pine Volume	1,813	1,865
Hardwood	30	70
Total Volume	1,843	1,935
Percentage Delivered Sales	32 %	27 %
Percentage Stumpage Sales	68 %	73 %
Net Stumpage Pricing (dollars per ton)		
Pine Pulpwood	$16.05	$17.94
Pine Sawtimber	26.67	26.38
Weighted Average Pine	$20.03	$21.31
Hardwood	12.74	13.80
Weighted Average Total	$19.91	$21.03
Summary Financial Data (in millions of dollars)		
Timber Sales	$47.5	$51.0
Less: Cut, Haul & Freight	(10.8)	(10.3)
Net Stumpage Sales	$36.7	$40.7
Non-Timber Sales	5.5	9.8
Total Sales	$53.0	$60.8
Operating Income	$15.1	$21.5
(+) Depreciation, depletion and amortization	18.2	19.7
Adjusted EBITDA (a)	$33.3	$41.2
Other Data		
Period-End Acres (in thousands)	1,780	1,803

(a) Adjusted EBITDA is a non-GAAP measure defined and reconciled in Performance and Liquidity Indicators.

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Pacific Northwest Timber Overview	Three Months Ended March 31, 2020	2019
Sales Volume (in thousands of tons)		
Pulpwood	82	62
Sawtimber	393	220
Total Volume	476	283
Sales Volume (converted to MBF)		
Pulpwood	7,789	5,933
Sawtimber	50,406	28,945
Total Volume	58,194	34,878
Percentage Delivered Sales	78 %	100 %
Percentage Sawtimber Sales	83 %	78 %
Delivered Log Pricing (in dollars per ton)		
Pulpwood	$38.11	$45.15
Sawtimber	75.40	78.47
Weighted Average Log Price	$68.29	$71.11
Summary Financial Data (in millions of dollars)		
Timber Sales	$30.6	$20.1
Less: Cut and Haul	(14.2)	(12.0)
Net Stumpage Sales	$16.4	$8.1
Non-Timber Sales	0.5	0.4
Total Sales	$31.1	$20.5
Operating Loss	($0.9)	($3.7)
(+) Depreciation, depletion and amortization	10.7	6.8
Adjusted EBITDA (a)	$9.8	$3.1
Other Data		
Period-End Acres (in thousands)	384	379
Sawtimber (in dollars per MBF)	$611	$609
Estimated Percentage of Export Volume	2 %	16 %

(a) Adjusted EBITDA is a non-GAAP measure defined and reconciled in Performance and Liquidity Indicators.

New Zealand Timber Overview	Three Months Ended March 31, 2020	2019
Sales Volume (in thousands of tons)		
Domestic Pulpwood (Delivered)	101	113
Domestic Sawtimber (Delivered)	147	195
Export Pulpwood (Delivered)	16	41
Export Sawtimber (Delivered)	216	255
Total Volume	481	604
Delivered Log Pricing (in dollars per ton)		
Domestic Pulpwood	$33.84	$39.23
Domestic Sawtimber	69.97	83.42
Export Sawtimber	94.86	116.24
Weighted Average Log Price	$74.16	$90.49
Summary Financial Data (in millions of dollars)		
Timber Sales	$35.6	$54.6
Less: Cut and Haul	(15.2)	(20.2)
Less: Port and Freight Costs	(8.0)	(9.7)
Net Stumpage Sales	$12.4	$24.7
Non-Timber Sales / Carbon Credits	1.9	2.5
Total Sales	$37.5	$57.1
Operating Income	$5.4	$15.7
(+) Depreciation, depletion and amortization	4.8	6.3
Adjusted EBITDA (a)	$10.2	$22.0
Other Data		
New Zealand Dollar to U.S. Dollar Exchange Rate (b)	0.6500	0.6831
Net Plantable Period-End Acres (in thousands)	295	291
Export Sawtimber (in dollars per JAS m^3)	$110.29	$135.15
Domestic Sawtimber (in $NZD per tonne)	$118.41	$134.33

(a) Adjusted EBITDA is a non-GAAP measure defined and reconciled in Performance and Liquidity Indicators.

(b) Represents the period average rate.

Real Estate Overview	Three Months Ended March 31, 2020	2019
Sales (in millions of dollars)		
Improved Development	—	$0.3
Unimproved Development	—	1.0
Rural	2.4	12.7
Timberlands & Non-Strategic - U.S.	—	6.9
Large Dispositions (a)	116.0	—
Other (b)	0.1	0.1
Total Sales	$118.5	$21.0
Acres Sold		
Improved Development	—	1.2
Unimproved Development	—	7
Rural	624	3,338
Timberlands & Non-Strategic - U.S.	—	2,333
Large Dispositions (a)	66,946	—
Total Acres Sold	67,570	5,679
Gross Price per Acre (dollars per acre)		
Improved Development	—	$291,880
Unimproved Development	—	145,773
Rural	3,842	3,794
Timberlands & Non-Strategic - U.S.	—	2,972
Large Dispositions (a)	1,733	—
Weighted Average (Total) (c)	$3,842	$3,687
Weighted Average (Adjusted) (d)	$3,842	$3,628
Sales (Excluding Large Dispositions)	$2.5	$21.0
Operating Income	$26.8	$10.0
(+) Depreciation, depletion and amortization - U.S.	0.4	3.3
(+) Non-cash cost of land and improved development - U.S.	0.4	4.0
(–) Large Dispositions (a)	(28.7)	—
Adjusted EBITDA (e)	($1.1)	$17.4

(a) Large Dispositions are defined as transactions involving the sale of timberland that exceed $20 million in size and do not have a demonstrable premium relative to timberland value. In March 2020, the Company completed a disposition of approximately 67,000 acres located in Mississippi for a sales price and gain of approximately $116.0 million and $28.7 million, respectively.

(b) Includes marketing fees and deferred revenue adjustments related to Improved Development sales.

(c) Excludes Large Dispositions.

(d) Excludes Improved Development and Large Dispositions.

(e) Adjusted EBITDA is a non-GAAP measure defined and reconciled in Performance and Liquidity Indicators.

Capital Expenditures By Segment (in millions of dollars)	Three Months Ended March 31, 2020	2019
Timber Capital Expenditures		
Southern Timber		
Reforestation, silviculture and other capital expenditures	$7.1	$2.8
Property taxes	1.7	1.8
Lease payments	1.1	1.6
Allocated overhead	1.3	1.2
Subtotal Southern Timber	$11.1	$7.4
Pacific Northwest Timber		
Reforestation, silviculture and other capital expenditures	2.3	2.8
Property taxes	0.2	0.2
Allocated overhead	0.8	0.8
Subtotal Pacific Northwest Timber	$3.3	$3.8
New Zealand Timber		
Reforestation, silviculture and other capital expenditures	1.5	1.7
Property taxes	0.2	0.2
Lease payments	0.4	0.3
Allocated overhead	0.6	0.7
Subtotal New Zealand Timber	$2.7	$2.9
Total Timber Segments Capital Expenditures	$17.1	$14.1
Real Estate	0.1	—
Total Capital Expenditures	$17.2	$14.1
Timberland Acquisitions		
Southern Timber	$24.1	$1.8
Pacific Northwest Timber	—	3.6
New Zealand Timber	—	6.9
Subtotal Timberland Acquisitions	$24.1	$12.3
Real Estate Development Investments	$1.7	$1.7

The following tables summarize sales, operating income (loss) and Adjusted EBITDA variances for March 31, 2020 versus March 31, 2019 (millions of dollars):

Sales	Southern Timber	Pacific Northwest Timber	New Zealand Timber	Real Estate	Trading	Intersegment Eliminations	Total
Three Months Ended March 31, 2019	$60.8	$20.5	$57.1	$21.0	$32.1	—	$191.5
Volume	(1.9)	5.5	(10.9)	(18.6)	(8.4)	—	(34.3)
Price	(2.1)	2.8	(7.4)	0.1	(4.8)	—	(11.4)
Non-timber sales	(4.3)	0.1	(0.5)	—	0.1	—	(4.6)
Foreign exchange (a)	—	—	(1.1)	—	—	—	(1.1)
Other	0.5 (b)	2.2 (b)	0.3 (c)	116.0 (d)	—	—	119.0
Three Months Ended March 31, 2020	$53.0	$31.1	$37.5	$118.5	$19.0	—	$259.1

(a) Net of currency hedging impact.
(b) Includes variance due to stumpage versus delivered sales.
(c) Includes variance due to domestic versus export sales.
(d) Includes $116.0 million of sales from a Large Disposition.

Operating Income (Loss)	Southern Timber	Pacific Northwest Timber	New Zealand Timber	Real Estate	Trading	Corporate and Other	Total
Three Months Ended March 31, 2019	$21.5	($3.7)	$15.7	$10.0	$0.5	($5.5)	$38.5
Volume	(0.9)	(0.4)	(4.0)	(11.6)	—	—	(16.9)
Price	(2.1)	2.8	(7.4)	0.1	—	—	(6.6)
Cost	0.3	(0.4)	(0.7)	(0.6)	(0.6)	0.2	(1.8)
Non-timber income	(4.3)	0.1	(0.4)	—	0.1	—	(4.5)
Foreign exchange (a)	—	—	0.7	—	—	—	0.7
Depreciation, depletion & amortization	0.6	0.7	0.1	0.1	—	—	1.5
Non-cash cost of land and improved development	—	—	—	0.1	—	—	0.1
Other (b)	—	—	1.4	28.7	—	(2.5)	27.6
Three Months Ended March 31, 2020	$15.1	($0.9)	$5.4	$26.8	—	($7.8)	$38.6

(a) Net of currency hedging impact.
(b) Real Estate includes $28.7 million of operating income from a Large Disposition. Corporate and Other includes $2.5 million in costs related to the merger with Pope Resources.

Adjusted EBITDA (a)	Southern Timber	Pacific Northwest Timber	New Zealand Timber	Real Estate	Trading	Corporate and Other	Total
Three Months Ended March 31, 2019	$41.2	$3.1	$22.0	$17.4	$0.5	($5.2)	$79.0
Volume	(1.8)	4.2	(5.1)	(18.0)	—	—	(20.7)
Price	(2.1)	2.8	(7.4)	0.1	—	—	(6.6)
Cost	0.3	(0.4)	(0.7)	(0.6)	(0.6)	0.2	(1.8)
Non-timber income	(4.3)	0.1	(0.4)	—	0.1	—	(4.5)
Foreign exchange (b)	—	—	1.8	—	—	—	1.8
Three Months Ended March 31, 2020	$33.3	$9.8	$10.2	($1.1)	—	($5.0)	$47.1

(a) Adjusted EBITDA is a non-GAAP measure defined and reconciled in Performance and Liquidity Indicators below.
(b) Net of currency hedging impact.

SOUTHERN TIMBER

First quarter sales of $53.0 million decreased $7.8 million, or 13%, versus the prior year period primarily due to lower net stumpage prices, lower volumes and lower pipeline easement revenue. Harvest volumes decreased 5% to 1.84 million tons versus 1.94 million tons in the prior year period. Average pine sawtimber stumpage prices increased 1% to $26.67 per ton versus $26.38 per ton in the prior year period due to geographic mix. Average pine pulpwood stumpage prices decreased 11% to $16.05 per ton versus $17.94 per ton in the prior year period primarily due to an increase in available log supply resulting from drier ground conditions in the current quarter versus the prior year period. Overall, weighted-average stumpage prices (including hardwood) decreased 5% to $19.91 per ton versus $21.03 per ton in the prior year period. Operating income of $15.1 million decreased $6.4 million versus the prior year period as lower non-timber income ($4.3 million), lower net stumpage prices ($2.1 million), lower volumes ($0.9 million) and higher indirect and overhead expenses ($0.5 million) were partially offset by lower lease-related expenses ($0.8 million) and lower depletion rates ($0.6 million). First quarter Adjusted EBITDA of $33.3 million was $7.9 million below the prior year period.

PACIFIC NORTHWEST TIMBER

First quarter sales of $31.1 million increased $10.6 million, or 51%, versus the prior year period. Harvest volumes increased 68% to 476,000 tons versus 283,000 tons in the prior year period due to a significant increase in lump-sum stumpage sales and higher delivered volumes to meet improved market demand. Average delivered sawtimber prices decreased 4% to $75.40 per ton versus $78.47 per ton in the prior year period due to a higher mix of chip-n-saw volume in the current quarter coupled with reduced demand as the COVID-19 pandemic led to production curtailments at many domestic sawmills toward the end of the quarter. However, the announcement of temporary relief from tariffs in China coupled with reduced exports from Europe and New Zealand led to increasing China demand for export logs toward the end of the quarter. Average delivered pulpwood prices decreased 16% to $38.11 per ton versus $45.15 per ton in the prior year period, driven primarily by excess chip supply in the market. Operating loss of $0.9 million decreased $2.8 million versus the prior year period as higher net stumpage prices ($2.8 million), lower depletion rates ($0.7 million) and higher non-timber income ($0.1 million) were partially offset by higher overhead costs ($0.4 million) and an increase in other variable costs ($0.4 million). First quarter Adjusted EBITDA of $9.8 million was $6.7 million above the prior year period.

NEW ZEALAND TIMBER

First quarter sales of $37.5 million decreased $19.6 million, or 34%, versus the prior year period. Harvest volumes decreased 20% to 481,000 tons versus 604,000 tons in the prior year period, as the COVID-19 pandemic began disrupting export markets in January and ultimately resulted in a government-mandated shutdown of all non-essential activity (including the harvesting and transport of logs) in New Zealand by late March. Average delivered prices for export sawtimber decreased 18% to $94.86 per ton versus $116.24 per ton in the prior year period, while average delivered prices for domestic sawtimber decreased 16% to $69.97 per ton versus $83.42 per ton in the prior year period. The decrease in export sawtimber prices was driven primarily by lower demand and challenging freight logistics resulting from the COVID-19 lockdown in China. The decrease in domestic sawtimber prices (in U.S. dollar terms) was driven in part by the fall in the NZ$/US$ exchange rate (US$0.65 per NZ$1.00 versus US$0.68 per NZ$1.00). Excluding the impact of foreign exchange rates, domestic sawtimber prices decreased 12% versus the prior year period, generally following the negative trend in the export market. Operating income of $5.4 million decreased $10.3 million versus the prior year period as a result of lower net stumpage prices ($7.4 million), lower volumes ($4.0 million), higher roading costs ($0.5 million), lower non-timber income ($0.4 million) and higher overhead costs ($0.2 million), partially offset by favorable foreign exchange impacts ($2.1 million) and lower depreciation and software amortization expenses ($0.1 million). First quarter Adjusted EBITDA of $10.2 million was $11.8 million below the prior year period.

REAL ESTATE

First quarter sales of $118.5 million increased $97.5 million versus the prior year period, while operating income of $26.8 million increased $16.7 million versus the prior year period. First quarter sales and operating income included $116.0 million and $28.7 million, respectively, from Large Dispositions. Excluding this item, pro forma sales were $2.5 million, while pro forma operating loss was $1.9 million due to fewer acres sold (624 acres sold versus 5,679 acres sold in the prior year period), partially offset by an increase in weighted-average prices ($3,842 per acre versus $3,687 per acre in the prior year period).

There were no Improved Development sales in the first quarter. This compares to prior year period sales of $0.3 million, which consisted of eight residential lots ($42,688 per lot or $292,000 per acre) in the Wildlight development project north of Jacksonville, Florida.

There were no Unimproved Development sales in the first quarter. This compares to prior year period sales of $1.0 million, which consisted of a 7 acre tract in Bryan County, Georgia for $145,773 per acre.

Rural sales of $2.4 million consisted of 624 acres at an average price of $3,842 per acre. This compares to prior year period sales of $12.7 million, which consisted of 3,338 acres at an average price of $3,794 per acre.

There were no Timberland and Non-Strategic sales in the first quarter. This compares to prior year period sales of $6.9 million, which consisted of 2,333 acres at an average price of $2,972 per acre.

Large Disposition sales of $116.0 million were comprised of 66,946 acres in Mississippi at an average price of $1,733 per acre.

First quarter Adjusted EBITDA of ($1.1) million was $18.5 million below the prior year period.

TRADING

First quarter sales of $19.0 million decreased $13.1 million versus the prior year period due to lower volumes and prices resulting from the impacts of the COVID-19 pandemic on key export markets. Sales volumes decreased 26% to 207,000 tons versus 282,000 tons in the prior year period. The Trading segment generated breakeven results versus operating income of $0.5 million in the prior year period.

OTHER ITEMS

CORPORATE AND OTHER EXPENSE / ELIMINATIONS

First quarter corporate and other operating expenses of $7.8 million increased $2.3 million versus the prior year period, primarily due to costs related to the Pope Resources merger ($2.5 million), partially offset by lower overhead costs ($0.2 million).

INTEREST EXPENSE

First quarter interest expense of $5.1 million increased $0.5 million versus the prior year period due to higher outstanding debt.

INTEREST AND OTHER MISCELLANEOUS (EXPENSE) INCOME, NET

First quarter non-operating income of $0.2 million includes favorable mark-to-market adjustments on carbon options ($0.5 million), guarantee fee income ($0.5 million), interest income ($0.1 million) and dividend income ($0.1 million), partially offset by unfavorable mark-to-market adjustments on marketable equity securities ($1.0 million).

INCOME TAX EXPENSE

First quarter income tax expense of $3.7 million decreased $0.6 million versus the prior year period as a result of lower taxable income. The New Zealand subsidiary is the primary driver of income tax expense.

COVID 19 RESPONSE & REVISED OUTLOOK

At Rayonier Operating Company, our first priority is the health and safety of our employees and contractors. We are currently working hard to balance this priority with the designation of the U.S. forest products industry as an essential critical infrastructure industry in order to keep our business running while observing the necessary social distancing and safety protocols to mitigate the further spread of COVID-19. To this end, we have implemented a work-from-home model for office employees and instituted enhanced safety guidelines for field employees. Overall, we believe that these arrangements are working well and are allowing our company and industry to continue to supply essential forest products in the U.S. while optimizing workplace safety. In New Zealand, we are currently in the process of restarting operations following the government-mandated lockdown, while employing similar safety procedures.

Despite the significant challenges being experienced by global economies as a result of the COVID-19 pandemic, Rayonier Operating Company believes it is well-positioned to weather this storm. The forest products industry has been designated as a critical infrastructure industry by the U.S. Department of Homeland Security, and Rayonier Operating Company has therefore been able to maintain our U.S. forestry operations in order to continue to supply fiber for the manufacturing of essential products, including tissue paper, cardboard boxes and structural lumber. As a pure-play timberland REIT, we enjoy strong margins and substantially less volatility than downstream manufacturing businesses, and we have a geographically diverse portfolio that further mitigates our exposure to any single region or product category. We expect that the diversity and optionality of our portfolio will be further enhanced when we close the Pope Resources merger transaction in the second quarter, pending the successful vote of Pope's unitholders.

LIQUIDITY AND CAPITAL RESOURCES

Our principal source of cash is cash flow from operations, primarily the harvesting of timber and sales of real estate. As a wholly owned REIT subsidiary of Rayonier Inc., our main use of cash is distribution to Rayonier Inc. for the payment of dividends. We also use cash to maintain the productivity of our timberlands through replanting and silviculture. Our operations have generally produced consistent cash flow and required limited capital resources. Short-term borrowings have helped fund working capital needs while acquisitions of timberlands generally require funding from external sources or Large Dispositions.

SUMMARY OF LIQUIDITY AND FINANCING COMMITMENTS

(millions of dollars)	March 31, 2020	December 31, 2019
Cash and cash equivalents	$126.3	$68.4
Total debt (a)	732.7	732.8
Member's equity	1,723.9	1,864.6
Total capitalization (total debt plus member's equity)	2,456.6	2,597.4
Debt to capital ratio	30 %	28 %

(a) Total debt as of March 31, 2020 and December 31, 2019 is presented gross of deferred financing costs of $1.7 million and $1.9 million, respectively.

CASH FLOWS

The following table summarizes our cash flows from operating, investing and financing activities for the three months ended March 31, 2020 and 2019:

(millions of dollars)	2020	2019
Cash provided by (used for):		
Operating activities	$29.6	$71.4
Investing activities	74.7	(25.8)
Financing activities	(45.0)	(54.6)

CASH PROVIDED BY OPERATING ACTIVITIES

Cash provided by operating activities decreased $41.8 million primarily due to lower operating results.

CASH PROVIDED BY INVESTING ACTIVITIES

Cash provided by investing activities increased $100.5 million versus the prior year period primarily due to the proceeds from a Large Disposition ($115.7 million), partially offset by an increase in timberland acquisitions ($11.8 million), higher capital expenditures ($3.1 million) and other investing activities ($0.3 million).

CASH USED FOR FINANCING ACTIVITIES

Cash used for financing activities decreased $9.6 million from the prior year period due to a decrease in net distributions to Rayonier Inc. ($6.7 million) and a decrease in minority shareholder distributions ($2.9 million).

EXPECTED 2020 EXPENDITURES

Capital expenditures in 2020 are expected to be between $60 million and $64 million, excluding any strategic timberland acquisitions we may make. Capital expenditures are expected to primarily consist of seedling planting, fertilization and other silvicultural activities, property taxes, lease payments, allocated overhead and other capitalized costs. Aside from capital expenditures, we may also acquire timberland as we actively evaluate acquisition opportunities.

We had previously anticipated real estate development investments in 2020 to be between $12 million and $15 million, net of reimbursements from community development bonds. Expected real estate development investments include approximately $2 million of committed spending primarily related to Wildlight, our mixed-use community development project located north of Jacksonville, Florida and our Richmond Hill mixed-use development project located south of Savannah, Georgia. Uncommitted real estate developments can be managed as market conditions change. We are continuing to monitor the impacts of the COVID-19 pandemic on our real estate development business and expect to periodically adjust our 2020 real estate development investments based on end market conditions and the anticipated timing of improved development sales.

Cash tax payments in 2020 are expected to be approximately $2 million, primarily related to the New Zealand subsidiary.

PERFORMANCE AND LIQUIDITY INDICATORS

The discussion below is presented to enhance the reader's understanding of our operating performance, liquidity, and ability to generate cash and creditor requirements. This information includes two measures of financial results: Adjusted Earnings before Interest, Taxes, Depreciation, Depletion and Amortization ("Adjusted EBITDA") and Cash Available for Distribution ("CAD"). These measures are not defined by Generally Accepted Accounting Principles ("GAAP"), and the discussion of Adjusted EBITDA and CAD is not intended to conflict with or change any of the GAAP disclosures described above.

Management uses CAD as a liquidity measure. CAD is a non-GAAP measure of cash generated during a period that is available for parent distributions, distributions to the New Zealand minority shareholder, debt reduction, timberland acquisitions and real estate development investments. CAD is defined as cash provided by operating activities adjusted for capital spending (excluding timberland acquisitions and real estate development investments) and working capital and other balance sheet changes. CAD is not necessarily indicative of the CAD that may be generated in future periods.

Management uses Adjusted EBITDA as a performance measure. Adjusted EBITDA is a non-GAAP measure that management uses to make strategic decisions about the business and that investors can use to evaluate the operational performance of the assets under management. It removes the impact of specific items that management believes do not directly reflect the core business operations on an ongoing basis. We define Adjusted EBITDA as earnings before interest, taxes, depreciation, depletion, amortization, the non-cash cost of land and improved development, non-operating income and expense, costs related to the merger with Pope Resources and Large Dispositions.

We reconcile Adjusted EBITDA to Net Income for the consolidated Company and to Operating Income (Loss) for the segments, as those are the most comparable GAAP measures for each. The following table provides a reconciliation of Net Income to Adjusted EBITDA for the respective periods (in millions of dollars):

	Three Months Ended March 31,	
	2020	2019
Net Income to Adjusted EBITDA Reconciliation		
Net income	$30.0	$31.4
Interest, net and miscellaneous income	4.5	3.1
Income tax expense	3.7	4.3
Depreciation, depletion and amortization	34.3	36.5
Non-cash cost of land and improved development	0.4	4.0
Non-operating expense (income)	0.3	(0.3)
Costs related to the merger with Pope Resources (a)	2.5	—
Large Dispositions (b)	(28.7)	—
Adjusted EBITDA	$47.1	$79.0

(a) Costs related to the merger with Pope Resources include legal, accounting and due diligence, consulting and other costs related to the previously announced definitive merger agreement with Pope Resources, which is expected to close on May 8, 2020.

(b) Large Dispositions are defined as transactions involving the sale of timberland that exceed $20 million in size and do not have a demonstrable premium relative to timberland value. In March 2020, the Company completed a disposition of approximately 67,000 acres located in Mississippi for a sales price and gain of approximately $116.0 million and $28.7 million, respectively.

The following tables provide a reconciliation of Operating Income (Loss) by segment to Adjusted EBITDA by segment for the respective periods (in millions of dollars):

Three Months Ended	Southern Timber	Pacific Northwest Timber	New Zealand Timber	Real Estate	Trading	Corporate and Other	Total
March 31, 2020							
Operating income (loss)	$15.1	($0.9)	$5.4	$26.8	—	($7.8)	$38.6
Depreciation, depletion and amortization	18.2	10.7	4.8	0.4	—	0.3	34.3
Non-cash cost of land and improved development	—	—	—	0.4	—	—	0.4
Costs related to the merger with Pope Resources (a)	—	—	—	—	—	2.5	2.5
Large Dispositions (b)	—	—	—	(28.7)	—	—	(28.7)
Adjusted EBITDA	$33.3	$9.8	$10.2	($1.1)	—	($5.0)	$47.1
March 31, 2019							
Operating income (loss)	$21.5	($3.7)	$15.7	$10.0	$0.5	($5.5)	$38.5
Depreciation, depletion and amortization	19.7	6.8	6.3	3.3	—	0.3	36.5
Non-cash cost of land and improved development	—	—	—	4.0	—	—	4.0
Adjusted EBITDA	$41.2	$3.1	$22.0	$17.4	$0.5	($5.2)	$79.0

(a) Costs related to the merger with Pope Resources include legal, accounting and due diligence, consulting and other costs related to the previously announced definitive merger agreement with Pope Resources, which is expected to close on May 8, 2020.

(b) Large Dispositions are defined as transactions involving the sale of timberland that exceed $20 million in size and do not have a demonstrable premium relative to timberland value. In March 2020, the Company completed a disposition of approximately 67,000 acres located in Mississippi for a sales price and gain of approximately $116.0 million and $28.7 million, respectively.

The following table provides a reconciliation of Cash Provided by Operating Activities to Adjusted CAD (in millions of dollars):

	Three Months Ended March 31, 2020	2019
Cash provided by operating activities	$29.6	$71.4
Capital expenditures (a)	(17.2)	(14.1)
Working capital and other balance sheet changes	14.8	4.9
CAD	27.2	62.2
Mandatory debt repayments	—	—
CAD after mandatory debt repayments	27.2	62.2
Cash provided by (used for) investing activities	$74.7	($25.8)
Cash used for financing activities	($45.0)	($54.6)

(a) Capital expenditures exclude timberland acquisitions.

The following table provides supplemental cash flow data (in millions):

	Three Months Ended March 31, 2020	2019
Purchase of timberlands	($24.1)	($12.3)
Real Estate Development Investments	(1.7)	(1.7)
Distributions to New Zealand minority shareholder	(0.7)	(3.6)

LIQUIDITY FACILITIES

2020 DEBT ACTIVITY

See Note 6 — Debt for additional information.

OFF-BALANCE SHEET ARRANGEMENTS

We utilize off-balance sheet arrangements to provide credit support for certain suppliers and vendors in case of their default on critical obligations, and collateral for outstanding claims under the Company's previous workers' compensation self-insurance programs. These arrangements consist of standby letters of credit and surety bonds. As part of our ongoing operations, we also periodically issue guarantees to third parties. Off-balance sheet arrangements are not considered a source of liquidity or capital resources and do not expose us to material risks or material unfavorable financial impacts. See Note 11 — Guarantees for details on the letters of credit and surety bonds as of March 31, 2020.

CONTRACTUAL FINANCIAL OBLIGATIONS

In addition to using cash flow from operations and proceeds from Large Dispositions, 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 Consolidated Balance Sheets, 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 March 31, 2020 and anticipated cash spending by period:

		Payments Due by Period			
Contractual Financial Obligations (in millions)	**Total**	**Remaining 2020**	**2021-2022**	**2023-2024**	**Thereafter**
Long-term debt (a)	$732.0	$82.0	—	$350.0	$300.0
Interest payments on long-term debt (b)	107.3	14.0	41.9	37.5	13.9
Operating leases — timberland (c)	162.3	5.8	14.8	13.4	128.3
Operating leases — PP&E, offices (c)	7.2	1.6	2.1	1.5	2.0
Commitments — derivatives (d)	36.4	8.4	8.2	8.3	11.5
Commitments — other (e)	11.8	6.9	1.6	0.5	2.8
Total contractual cash obligations	$1,057.0	$118.7	$68.6	$411.2	$458.5

(a) The book value of long-term debt, net of deferred financing costs, is currently recorded at $731.0 million on the Company's Consolidated Balance Sheet, but upon maturity the liability will be $732.0 million. See Note 6 — Debt for additional information.

(b) Projected interest payments for variable rate debt were calculated based on outstanding principal amounts and interest rates as of March 31, 2020.

(c) Excludes anticipated renewal options.

(d) Commitments — derivatives represents payments expected to be made on derivative financial instruments (foreign exchange contracts, interest rate swaps, interest rate swap locks and forward-starting interest rate swaps). See Note 12 — Derivative Financial Instruments and Hedging Activities.

(e) Commitments — other includes pension contribution requirements based on actuarially determined estimates and IRS minimum funding requirements, payments expected to be made on the Company's Wildlight and Richmond Hill development projects, payments made on timberland deeds and other purchase obligations.

RAYONIER OPERATING COMPANY LLC AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017

RAYONIER OPERATING COMPANY LLC AND SUBSIDIARIES

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of Rayonier Inc., the sole member of Rayonier Operating Company LLC.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Rayonier Operating Company LLC. and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of income and comprehensive income, member's equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedule (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

Adoption of ASU No. 2016-02, Leases (Topic 842), as amended

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for leases in 2019 due to the adoption of ASU No. 2016-02, Leases (Topic 842), as amended.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2019.

Jacksonville, Florida
March 17, 2020

RAYONIER OPERATING COMPANY LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
For the Years Ended December 31,
(Thousands of dollars)

	2019	2018	2017
SALES (NOTE 2)	$711,556	$816,138	$819,596
Costs and Expenses			
Cost of sales	(558,350)	(605,259)	(568,253)
Selling and general expenses	(41,646)	(41,951)	(40,245)
Other operating (expense) income, net (Note 17)	(4,533)	1,152	4,393
	(604,529)	(646,058)	(604,105)
OPERATING INCOME	107,027	170,080	215,491
Interest expense	(19,160)	(27,498)	(32,548)
Interest and other miscellaneous income, net	7,134	5,904	3,194
INCOME BEFORE INCOME TAXES	95,001	148,486	186,137
Income tax expense (Note 10)	(12,940)	(25,236)	(21,681)
NET INCOME	82,061	123,250	164,456
Less: Net income attributable to noncontrolling interest	(8,573)	(15,114)	(12,737)
NET INCOME ATTRIBUTABLE TO RAYONIER OPERATING COMPANY	73,488	108,136	151,719
OTHER COMPREHENSIVE (LOSS) INCOME			
Foreign currency translation adjustment, net of income tax effect of $0, $0 and $0	963	(22,759)	9,114
Cash flow hedges, net of income tax effect of $664, $1,270 and $594	(30,482)	5,029	5,693
Actuarial change and amortization of pension and postretirement plan liabilities, net of income tax effect of $0, $711 and $0	(1,350)	(1,630)	(208)
Total other comprehensive (loss) income	(30,869)	(19,360)	14,599
COMPREHENSIVE INCOME	51,192	103,890	179,055
Less: Comprehensive income attributable to noncontrolling interest	(9,146)	(8,931)	(14,775)
COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER OPERATING COMPANY	$42,046	$94,959	$164,280

See Notes to Consolidated Financial Statements.

RAYONIER OPERATING COMPANY LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31,
(Thousands of dollars)

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$68,434	$148,013
Accounts receivable, less allowance for doubtful accounts of $24 and $8	27,127	26,151
Inventory (Note 18)	14,518	15,703
Prepaid logging roads	12,128	11,976
Prepaid expenses	2,600	5,040
Other current assets	867	609
Total current assets	125,674	207,492
TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION	2,482,047	2,401,327
HIGHER AND BETTER USE TIMBERLANDS AND REAL ESTATE DEVELOPMENT INVESTMENTS (NOTE 7)	81,791	85,609
PROPERTY, PLANT AND EQUIPMENT		
Land	4,131	4,131
Buildings	23,095	22,503
Machinery and equipment	4,339	3,534
Construction in progress	348	567
Total property, plant and equipment, gross	31,913	30,735
Less—accumulated depreciation	(9,662)	(7,984)
Total property, plant and equipment, net	22,251	22,751
RESTRICTED CASH (NOTE 19)	1,233	8,080
RIGHT-OF-USE ASSETS (NOTE 4)	99,942	—
OTHER ASSETS (NOTE 20)	47,757	55,044
TOTAL ASSETS	$2,860,695	$2,780,303
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	$18,160	$18,019
Current maturities of long-term debt (Note 6)	82,000	—
Accrued taxes	3,032	3,178
Accrued payroll and benefits	8,869	10,416
Accrued interest	2,162	1,959
Deferred revenue	11,440	10,447
Other current liabilities	22,480	16,474
Total current liabilities	148,143	60,493
LONG-TERM DEBT, NET OF DEFERRED FINANCING COSTS (NOTE 6)	648,958	648,764
PENSION AND OTHER POSTRETIREMENT BENEFITS (NOTE 15)	25,311	29,800
LONG-TERM LEASE LIABILITY (NOTE 4)	90,481	—
OTHER NON-CURRENT LIABILITIES	83,247	60,208
COMMITMENTS AND CONTINGENCIES (NOTES 9 and 11)		
MEMBER'S EQUITY		
Equity	1,798,096	1,883,122
Accumulated other comprehensive (loss) income (Note 21)	(31,202)	239
TOTAL CONTROLLING INTEREST MEMBER'S EQUITY	1,766,894	1,883,361
Noncontrolling interest	97,661	97,677
TOTAL MEMBER'S EQUITY	1,864,555	1,981,038
TOTAL LIABILITIES AND MEMBER'S EQUITY	$2,860,695	$2,780,303

See Notes to Consolidated Financial Statements.

RAYONIER OPERATING COMPANY LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF MEMBER'S EQUITY
(Thousands of dollars)

	Member's Equity	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total Member's Equity
Balance, December 31, 2016	$1,367,834	$856	$85,142	$1,453,832
Cumulative-effect adjustment due to adoption of ASU No. 2016-16	(14,365)	—	—	(14,365)
Net income	151,719	—	12,737	164,456
Distributions to Rayonier Inc.	(6,602)	—	—	(6,602)
Actuarial change and amortization of pension and postretirement plan liabilities	—	(208)	—	(208)
Foreign currency translation adjustment	—	7,416	1,698	9,114
Cash flow hedges	—	5,353	340	5,693
Balance, December 31, 2017	$1,498,586	$13,417	$99,917	$1,611,920
Cumulative-effect adjustment due to adoption of ASU No. 2018-02	711	(711)	—	—
Net income	108,136	—	15,114	123,250
Capital contribution through forgiveness of debt and accrued interest from Rayonier Inc.	375,923	—	—	375,923
Distributions to Rayonier Inc.	(100,234)	—	—	(100,234)
Actuarial change and amortization of pension and postretirement plan liabilities	—	(919)	—	(919)
Foreign currency translation adjustment	—	(17,329)	(5,430)	(22,759)
Cash flow hedges	—	5,781	(752)	5,029
Distribution to minority shareholder	—	—	(11,172)	(11,172)
Balance, December 31, 2018	$1,883,122	$239	$97,677	$1,981,038
Net income	73,488	—	8,573	82,061
Distributions to Rayonier Inc.	(158,514)	—	—	(158,514)
Actuarial change and amortization of pension and postretirement plan liabilities	—	(1,350)	—	(1,350)
Foreign currency translation adjustment	—	784	179	963
Cash flow hedges	—	(30,875)	393	(30,482)
Distribution to minority shareholder	—	—	(9,161)	(9,161)
Balance, December 31, 2019	$1,798,096	($31,202)	$97,661	$1,864,555

See Notes to Consolidated Financial Statements.

RAYONIER OPERATING COMPANY LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31,
(Thousands of dollars)

	2019	2018	2017
OPERATING ACTIVITIES			
Net income	$82,061	$123,250	$164,456
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation, depletion and amortization	128,235	144,121	127,566
Non-cash cost of land and improved development	12,565	23,553	13,684
Stock-based incentive compensation expense	6,904	6,428	5,396
Deferred income taxes	11,314	22,832	21,980
Amortization of losses from pension and postretirement plans	449	675	465
Gain on sale of large disposition of timberlands	—	—	(66,994)
Other	(7,195)	(4,809)	(2,912)
Changes in operating assets and liabilities:			
Receivables	(849)	765	(6,362)
Inventories	1,224	1,773	(1,384)
Accounts payable	(1,554)	(4,626)	3,435
Income tax receivable/payable	—	—	(434)
All other operating activities	(6,714)	7,846	9,101
CASH PROVIDED BY OPERATING ACTIVITIES	226,440	321,808	267,997
INVESTING ACTIVITIES			
Capital expenditures	(63,996)	(62,325)	(65,345)
Real estate development investments	(6,803)	(9,501)	(15,784)
Purchase of timberlands	(142,287)	(57,608)	(242,910)
Net proceeds from large disposition of timberlands	—	—	95,243
Rayonier Operating Company office building under construction	—	—	(6,084)
Other	(6,304)	(3,421)	(373)
CASH USED FOR INVESTING ACTIVITIES	(219,390)	(132,855)	(235,253)
FINANCING ACTIVITIES			
Issuance of debt	82,000	1,014	63,389
Issuance of intercompany debt	—	—	32,000
Repayment of debt	—	(54,416)	(100,157)
Distributions to Rayonier, Inc.	(164,618)	(94,675)	(40,928)
Proceeds from shareholder distribution hedge	135	2,025	—
Distribution to minority shareholder	(9,161)	(11,172)	—
Debt issuance costs	(132)	—	—
CASH USED FOR FINANCING ACTIVITIES	(91,776)	(157,223)	(45,696)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(1,700)	571	580
CASH, CASH EQUIVALENTS AND RESTRICTED CASH			
Change in cash, cash equivalents and restricted cash	(86,426)	32,301	(12,372)
Balance, beginning of year	156,093	123,792	136,164
Balance, end of year	$69,667	$156,093	$123,792

See Notes to Consolidated Financial Statements.

RAYONIER OPERATING COMPANY LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
For the Years Ended December 31,
(Thousands of dollars)

	2019	2018	2017
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION			
Cash paid during the year:			
Interest (a)	$20,595	$20,933	$23,854
Income taxes	1,691	2,150	514
Non-cash investing activity:			
Capital assets purchased on account	3,568	2,001	3,809
Non-cash financing activity:			
Capital contribution through forgiveness of debt and accrued interest from Rayonier Inc.	—	375,923	—

(a) Interest paid is presented net of patronage payments received of $4.0 million, $4.1 million and $3.0 million for the years ended December 31, 2019, 2018 and 2017, respectively. For additional information on patronage payments, see Note 6 — Debt.

See Notes to Consolidated Financial Statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Rayonier Operating Company is a single-member limited liability company organized under the laws of the state of Delaware, with Rayonier Inc. as the sole member. The liability of Rayonier Inc. is limited to the balance in the member's equity account. The Company will continue indefinitely, unless dissolved pursuant to the terms of the Company's operating agreement.

The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). These statements include the accounts of Rayonier Operating Company and its subsidiaries, in which it has a majority ownership or controlling interest. As of March 2016, the Company maintains a 77% ownership interest in the New Zealand subsidiary, and, as such, consolidates its results of operations and Balance Sheet. The Company records a noncontrolling interest in its consolidated financial statements representing the minority ownership interest (23%) of the New Zealand subsidiary's results of operations and equity. All intercompany balances and transactions are eliminated.

USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and to disclose contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. There are risks inherent in estimating and therefore actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand and other highly liquid investments with original maturities of three months or less.

ACCOUNTS RECEIVABLE

Accounts receivable are primarily amounts due to the Company for the sale of timber and are presented net of an allowance for doubtful accounts.

INVENTORY

HBU real estate properties that are expected to be sold within one year are included in inventory at the lower of cost or net realizable value. HBU properties that are expected to be sold after one year are included in a separate balance sheet line entitled "Higher and Better Use Timberlands and Real Estate Development Investments." See below for additional information.

Inventory also includes logs available to be sold by the Trading segment. Log inventory is recorded at the lower of cost or net realizable value and expensed to cost of sales when sold to third-party buyers. See Note 18 — Inventory for additional information.

PREPAID LOGGING ROADS

Costs for roads built in the Pacific Northwest and New Zealand to access particular tracts to be harvested in the upcoming 24 months to 60 months are recorded as prepaid logging roads. The Company charges such costs to expense as timber is harvested using an amortization rate determined annually as the total cost of prepaid roads divided by the estimated tons of timber to be accessed by those roads. The prepaid balance is classified as short-term or long-term based on the upcoming harvest schedule. See Note 20 — Other Assets for additional information.

DEFERRED FINANCING COSTS

Deferred financing costs related to revolving debt are capitalized and amortized to interest expense over the term of the revolving debt using a method that approximates the effective interest method. See Note 20 — Other Assets for additional information on deferred financing costs related to revolving debt. See Note 6 — Debt for additional information on deferred financing costs related to term debt.

CAPITALIZED SOFTWARE COSTS

Software costs are capitalized and amortized over a period not exceeding five years using the straight-line method.

TIMBER AND TIMBERLANDS

Timber is stated at the lower of cost or net realizable value. Costs relating to acquiring, planting and growing timber including real estate taxes, site preparation and direct support costs relating to facilities, vehicles and supplies, are capitalized. A portion of timberland lease payments are capitalized based on the proportion of acres with merchantable timber volume remaining to be harvested under the lease term and the residual portion of the lease payments are expensed as incurred. Payroll costs are capitalized for time spent on timber growing activities, while interest or any other intangible costs are not capitalized. An annual depletion rate is established for each particular region by dividing merchantable inventory cost by standing merchantable inventory volume, which is estimated annually. The Company charges accumulated costs attributed to merchantable timber to depletion expense (cost of sales) at the time the timber is harvested or when the underlying timberland is sold.

Upon the acquisition of timberland, the Company makes a determination on whether to combine the newly acquired merchantable timber with an existing depletion pool or to create a new, separate pool. This determination is based on the geographic location of the new timber, the customers/markets that will be served and the species mix. If the acquisition is similar, the cost of the acquired timber is combined into an existing depletion pool and a new depletion rate is calculated for the pool. This determination and depletion rate adjustment normally occurs in the quarter following the acquisition.

HIGHER AND BETTER USE TIMBERLANDS AND REAL ESTATE DEVELOPMENT INVESTMENTS

HBU timberland is recorded at the lower of cost or net realizable value. These properties are managed as timberlands until sold or developed, with sales and depletion expense related to the harvesting of timber accounted for within the respective timber segment. At the time of sale, the cost basis of any unharvested timber is recorded as depletion expense, a component of cost of sales, within the Real Estate segment.

Real estate development investments include capitalized costs for targeted infrastructure improvements, such as roadways and utilities. HBU timberland and real estate development investments expected to be sold within twelve months are recorded as inventory. See Note 7 — Higher and Better Use Timberlands and Real Estate Development Investments for additional information.

PROPERTY, PLANT, EQUIPMENT AND DEPRECIATION

Property, plant and equipment additions are recorded at cost, including applicable freight, interest, construction and installation costs. The Company generally depreciates its assets, including office and transportation equipment, using the straight-line depreciation method over 3 to 25 years. Buildings and land improvements are depreciated using the straight-line method over 15 to 35 years and 5 to 30 years, respectively.

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

LEASES

At inception, the Company determines if an arrangement is a lease and whether that lease meets the classification criteria of a finance or operating lease. Operating leases are included in right-of-use (“ROU”) assets, other current liabilities, and long-term lease liability in the Consolidated Balance Sheets.

ROU assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, the Company generally uses its incremental borrowing rate based on the estimated rate of interest for collateralized borrowing over a similar term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

RIGHT-OF-USE ASSETS IMPAIRMENT

Operating lease right-of-use assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset group to which the operating lease is assigned may not be recoverable. Recoverability of the asset group is evaluated based on forecasted undiscounted cash flows. If the carrying amount of the asset group is not recoverable, the fair value of the asset group is compared to its carrying amount and an impairment charge is recognized for the amount by which the carrying amount exceeds the fair value. A discounted cash flow approach using market participant assumptions of the expected cash flows and discount rate are used to estimate the fair value of the asset group.

INVESTMENTS

Investments at December 31, 2019 consisted of marketable equity securities. Investments are carried at fair value based on quoted prices in their active market with both the realized and unrealized gains and losses as well as interest and dividends reported in "Interest and other miscellaneous income, net."

FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. A three-level hierarchy that prioritizes the inputs used to measure fair value was established 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, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

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. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

GOODWILL

Goodwill represents the excess of the acquisition cost of the New Zealand Timber segment over the fair value of the net assets acquired. Goodwill is not amortized, but is periodically reviewed for impairment. An impairment test for this reporting unit's goodwill is performed annually and whenever events or circumstances indicate that the value of goodwill may be impaired. The Company compares the fair value of the New Zealand Timber segment, using an independent valuation for the New Zealand forest assets, to its carrying value including goodwill. The independent valuation of the New Zealand forest assets is based on discounted cash flow models where the fair value is calculated using cash flows from sustainable forest management plans. The fair value of the forest assets is measured as the present value of cash flows from one growth cycle based on the productive forest land, taking into consideration environmental, operational, and market restrictions. These cash flow valuations involve a number of estimates that require broad assumptions and significant judgment regarding future performance. The annual impairment test was performed as of October 1, 2019; the estimated fair value of the New Zealand Timber segment exceeded its carrying value and no impairment was recorded. Except for changes in the New Zealand foreign exchange rate, there have been no adjustments to the carrying value of goodwill since the initial recognition. Note 20 — Other Assets for additional information.

FOREIGN CURRENCY TRANSLATION AND REMEASUREMENT

The functional currency of the Company's New Zealand-based operations is the New Zealand dollar. All assets and liabilities are translated into U.S. dollars at the exchange rate in effect at the respective balance sheet dates. Translation gains and losses are recorded as a separate component of Accumulated Other Comprehensive Income ("AOCI"), within Member's Equity.

U.S. denominated transactions of the New Zealand subsidiary are remeasured into New Zealand dollars at the exchange rate in effect on the date of the transaction and recognized in earnings, net of related cash flow hedges. All income statement items of the New Zealand subsidiary are translated into U.S. dollars for reporting purposes using monthly average exchange rates with translation gains and losses being recorded as a separate component of AOCI, within Member's Equity.

REVENUE RECOGNITION

The Company recognizes revenues when control of promised goods or services ("performance obligations") is transferred to customers, in an amount that reflects the consideration expected in exchange for those goods or services ("transaction price"). The Company generally satisfies performance obligations within a year of entering into a contract and therefore has applied the disclosure exemption found under ASC 606-10-50-14. Unsatisfied performance obligations as of December 31, 2019 are primarily due to advances on stumpage contracts and unearned hunt license revenue. These performance obligations are expected to be satisfied within the next twelve months. The Company generally collects payment within a year of satisfying performance obligations and therefore has elected not to adjust revenues for a financing component.

TIMBER SALES

Revenue from the sale of timber is recognized when control passes to the buyer. The Company utilizes two primary methods or sales channels for the sale of timber – a stumpage/standing timber model and a delivered log model. The sales method the Company employs depends upon local market conditions and which method management believes will provide the best overall margins.

Under the stumpage model, standing timber is sold primarily under pay-as-cut contracts, with a specified duration (typically one year or less) and fixed prices, whereby revenue is recognized as timber is severed and the sales volume is determined. The Company also sells stumpage under lump-sum contracts for specified parcels where the Company receives cash for the full agreed value of the timber prior to harvest and control passes to the buyer upon signing the contract. The Company retains interest in the land, slash products and the use of the land for recreational and other purposes. Any uncut timber remaining at the end of the contract period reverts to the Company. Revenue is recognized for lump-sum timber sales when payment is received, the contract is signed and control passes to the buyer. A third type of stumpage sale the Company utilizes is an agreed-volume sale, whereby revenue is recognized using the output method, as periodic physical observations are made of the percentage of acreage harvested.

Under the delivered log model, the Company hires third-party loggers and haulers to harvest timber and deliver it to a buyer. Sales of domestic logs generally do not require an initial payment and are made to third-party customers on open credit terms. Sales of export logs generally require a letter of credit from an approved bank. Revenue is recognized when the logs are delivered and control has passed to the buyer. For domestic log sales, control is considered passed to the buyer as the logs are delivered to the customer's facility. For export log sales (primarily in New Zealand), control is considered passed to the buyer upon delivery onto the export vessel.

The following table summarizes revenue recognition and general payment terms for timber sales:

Contract Type	Performance Obligation	Timing of Revenue Recognition	General Payment Terms
Stumpage Pay-as-Cut	Right to harvest a unit (i.e. ton, MBF, JAS m3) of standing timber	As timber is severed (point-in-time)	Initial payment between 5% and 20% of estimated contract value; collection generally within 10 days of severance
Stumpage Lump Sum	Right to harvest an agreed upon acreage of standing timber	Contract execution (point-in-time)	Full payment due upon contract execution
Stumpage Agreed Volume	Right to harvest an agreed upon volume of standing timber	As timber is severed (over-time)	Payments made throughout contract term at the earlier of a specified harvest percentage or time elapsed
Delivered Wood (Domestic)	Delivery of a unit (i.e. ton, MBF, JAS m3) of timber to customer’s facility	Upon delivery to customer’s facility (point-in-time)	No initial payment and on open credit terms; collection generally within 30 days of invoice
Delivered Wood (Export)	Delivery of a unit (i.e. ton, MBF, JAS m3) onto export vessel	Upon delivery onto export vessel (point-in-time)	Letter of credit from an approved bank; collection generally within 30 days of delivery

NON-TIMBER SALES

Non-timber sales are primarily comprised of hunting and recreational licenses. Such sales and any related costs are recognized ratably over the term of the agreement and included in “Sales” and “Cost of sales”, respectively. Payment is generally due upon contract execution.

LOG TRADING

Log trading revenue is generally recognized when procured logs are delivered to the buyer and control has passed. For domestic log trading, control is considered passed to the buyer as the logs are delivered to the customer’s facility. For export log trading, control is considered passed to the buyer upon delivery onto the export vessel. The Trading segment also includes sales from log agency contracts, whereby the Company acts as an agent managing export services on behalf of third parties. Revenue for log agency fees are recognized net of related costs.

REAL ESTATE

The Company recognizes revenue on sales of real estate generally at the point in time when cash has been received, the sale has closed and control has passed to the buyer. A deposit of 5% is generally required at the time a purchase and sale agreement is executed, with the balance due at closing. On sales of real estate containing future performance obligations, revenue is recognized using the input method based on costs incurred to date relative to the total costs expected to fulfill the performance obligations in the contract with the customer.

COST OF SALES

Cost of sales associated with timber operations primarily include the cost basis of timber sold (depletion) and logging and transportation costs (cut and haul). Depletion includes the amortization of capitalized costs (site preparation, planting and fertilization, real estate taxes, timberland lease payments and certain payroll costs). Other costs include amortization of capitalized costs related to road and bridge construction and software, depreciation of fixed assets and equipment, road maintenance, severance and excise taxes and fire prevention.

Cost of sales associated with real estate sold includes the cost of the land, the cost of any timber on the property that was conveyed to the buyer, any real estate development costs and any closing costs including sales commissions that may be borne by the Company. The Company expenses closing costs, including sales commissions, when incurred for all real estate sales with future performance obligations expected to be satisfied within one year.

When developed residential or commercial land is sold, the cost of sales includes actual costs incurred and estimates of future development costs benefiting the property sold through completion. Costs are allocated to each sold unit or lot based upon the relative sales value. For purposes of allocating development costs, estimates of future revenues and development costs are re-evaluated periodically throughout the year, with adjustments being allocated prospectively to the remaining units available for sale.

EMPLOYEE BENEFIT PLANS

The determination of expense and funding requirements for Rayonier Operating Company's defined benefit pension plan, its unfunded excess pension plan and its postretirement life insurance plan are largely based on a number of actuarial assumptions. The key assumptions include discount rate, return on assets, salary increases, mortality rates and longevity of employees. See Note 15 — Employee Benefit Plans for assumptions used to determine benefit obligations, and the net periodic benefit cost for the year ended December 31, 2019.

Periodic pension and other postretirement expense is included in "Cost of sales," "Selling and general expenses" and "Interest and other miscellaneous income, net" in the Consolidated Statements of Income and Comprehensive Income. The service cost component of net periodic benefit cost is included in "Cost of sales" and "Selling and general expenses" while the other components of net periodic benefit cost (interest cost, expected return on plan assets and amortization of losses or gains) are presented outside of income from operations in "Interest and other miscellaneous income, net." At December 31, 2019 and 2018, the Company's pension plans were in a net liability position (underfunded) of $23.8 million and $28.6 million, respectively. The estimated amount to be paid in the next 12 months is recorded in "Accrued payroll and benefits" on the Consolidated Balance Sheets, with the remainder recorded as a long-term liability in "Pension and Other Postretirement Benefits." Changes in the funded status of the Company's plans are recorded through other comprehensive (loss) income in the year in which the changes occur. The Company measures plan assets and benefit obligations as of the fiscal year-end. See Note 15 — Employee Benefit Plans for additional information.

INCOME TAXES

As a wholly owned subsidiary of Rayonier Inc., Rayonier Operating Company is treated as a disregarded entity for U.S. federal income tax purposes. However, the Company has elected to allocate the Rayonier consolidated amount of current and deferred tax expense to Rayonier Operating Company.

Rayonier uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, operating loss carryforwards and tax credit carryforwards. Deferred tax assets and liabilities are measured pursuant to tax laws using rates expected to apply to taxable income in the years in which the temporary differences are expected to be recovered or settled. The Company recognizes the effect of a change in income tax rates on deferred tax assets and liabilities in the Consolidated Statements of Income and Comprehensive Income in the period that includes the enactment date of the rate change. The Company records a valuation allowance to reduce the carrying amounts of deferred tax assets if it is more-likely-than-not that such deferred tax assets will not be realized.

In determining the provision for income taxes, Rayonier computes an annual effective income tax rate based on annual income by legal entity, permanent differences between book and tax, and statutory income tax rates by jurisdiction. Inherent in the effective tax rate is an assessment of the ultimate outcome of current period uncertain tax positions. Rayonier adjusts its annual effective tax rate as additional information on outcomes or events becomes available. Discrete items such as taxing authority examination findings or legislative changes are recognized in the period in which they occur.

Rayonier's income tax returns are subject to audit by U.S. federal, state and foreign taxing authorities. In evaluating the tax benefits associated with various tax filing positions, the Company records a tax benefit for an uncertain tax position if it is more-likely-than-not to be realized upon ultimate settlement of the issue. The Company records a liability for an uncertain tax position that does not meet this criterion. The Company adjusts its liabilities for uncertain tax benefits in the period in which it is determined the issue is settled with the taxing authorities, the statute of limitations expires for the relevant taxing authority to examine the tax position or when new facts or information become available. See Note 10 — Income Taxes for additional information.

(Dollar amounts in thousands unless otherwise stated)

RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

The Company adopted Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842), on January 1, 2019 and elected to apply the standard as of that day.

The Company applied the following practical expedients in the transition to the new standard as allowed under ASC 842-10-65-1:

Practical Expedient	Description
Reassessment of expired or existing contracts	The Company elected not to reassess, at the application date, whether any expired or existing contracts contained leases, the lease classification for any expired or existing leases, and the accounting for initial direct costs for any existing leases.
Use of hindsight	The Company elected to use hindsight in determining the lease term (that is, when considering options to extend or terminate the lease and to purchase the underlying asset) and in assessing impairment of right-of-use assets.
Reassessment of existing or expired land easements	The Company elected not to evaluate existing or expired land easements that were not previously accounted for as leases under ASC 840, as allowed under the transition practical expedient. Going forward, new or modified land easements will be evaluated under ASU No. 2016-02.

The Company adopted ASU No. 2017-12, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities* in the first quarter ended March 31, 2019 with no material impact on the consolidated financial statements.

The Company adopted ASU No. 2018-07, Compensation-Stock Compensation (Topic 718): *Improvements to Non-employee Share-Based Payment Accounting* in the first quarter ended March 31, 2019 with no impact on the consolidated financial statements.

NEW ACCOUNTING PRONOUNCEMENTS

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments-Credit Losses (Topic 326),* which requires companies to utilize a new impairment model known as the current expected credit loss ("CECL") model to estimate the lifetime "expected credit loss" and record an allowance that, when deducted from the amortized cost basis of the financial asset, presents the net amount expected to be collected on the financial asset. The CECL model applies to all financial assets, including trade receivables. ASU No. 2016-13 is effective for annual periods beginning after December 15, 2019, and interim periods within those annual periods. The Company does not expect a material impact on the Company's Consolidated Financial Statements.

SUBSEQUENT EVENTS

Pope Resources Acquisition

On January 14, 2020, the Company entered into a definitive merger agreement under which Rayonier will acquire all of the outstanding limited partnership units of Pope Resources, A Delaware Limited Partnership for consideration consisting of equity and cash. Pursuant to the terms of the agreement, elections of cash versus equity will be subject to proration to ensure that the ratio of cash and equity would be equal to the amounts issued as if every Pope Resources unit received 2.751 Rayonier common shares or Rayonier Operating Company operating partnership units and $37.50 in cash. The merger agreement also provides for Rayonier to acquire the general partner entities of Pope Resources, Pope MGP, Inc. and Pope EGP, Inc., for consideration consisting of $10 million of cash. This transaction is expected to close in mid-2020.

(Dollar amounts in thousands unless otherwise stated)

2. REVENUE

Adoption of ASC 606

The Company adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, on January 1, 2018. The Company elected to apply the modified retrospective method to contracts that were not completed at the date of adoption. The Company also elected not to retrospectively restate contracts modified prior to January 1, 2018. A cumulative effect of adoption adjustment to the opening balance of retained earnings was not recorded as there was no accounting impact to any contracts with customers not completed at the date of adoption.

Contract Balances

The timing of revenue recognition, invoicing and cash collections results in accounts receivable and deferred revenue (contract liabilities) on the Consolidated Balance Sheets. Accounts receivable are recorded when the Company has an unconditional right to consideration for completed performance under the contract. Contract liabilities relate to payments received in advance of performance under the contract. Contract liabilities are recognized as revenue as (or when) the Company performs under the contract.

The following table summarizes revenue recognized during the years ended December 31, 2019 and 2018 that was included in the contract liability balance at the beginning of each year:

	Year Ended December 31,	
	2019	2018
Revenue recognized from contract liability balance at the beginning of the year (a)	$10,039	$9,004

(a) Revenue recognized was primarily from hunting licenses and the use of advances on pay-as-cut timber sales.

(Dollar amounts in thousands unless otherwise stated)

The following tables present the Company's revenue from contracts with customers disaggregated by product type for the years ended December 31, 2019, 2018 and 2017:

Year Ended	Southern Timber	Pacific Northwest Timber	New Zealand Timber	Real Estate	Trading	Elim.	Total
December 31, 2019							
Pulpwood	$86,537	$10,350	$32,925	—	$13,351	—	$143,163
Sawtimber	67,360	72,377	198,481	—	101,255	—	439,473
Hardwood	5,259	—	—	—	—	—	5,259
Total Timber Sales	159,156	82,727	231,406	—	114,606	—	587,895
License Revenue, Primarily From Hunting	18,270	717	361	—	—	—	19,348
Other Non-Timber/Carbon Revenue	16,685	1,970	10,094	—	—	—	28,749
Agency Fee Income	—	—	—	—	677	—	677
Total Non-Timber Sales	34,955	2,687	10,455	—	677	—	48,774
Improved Development	—	—	—	5,882	—	—	5,882
Unimproved Development	—	—	—	19,476	—	—	19,476
Rural	—	—	—	29,852	—	—	29,852
Timberlands & Non-Strategic	—	—	—	19,133	—	—	19,133
Other	—	—	—	544	—	—	544
Total Real Estate Sales	—	—	—	74,887	—	—	74,887
Revenue from Contracts with Customers	194,111	85,414	241,861	74,887	115,283	—	711,556
Intersegment	—	—	—	—	155	(155)	—
Total Revenue	$194,111	$85,414	$241,861	$74,887	$115,438	($155)	$711,556
December 31, 2018							
Pulpwood	$80,134	$14,305	$28,737	—	$13,771	—	$136,947
Sawtimber	60,295	92,166	213,206	—	134,299	—	499,966
Hardwood	3,433	—	—	—	—	—	3,433
Total Timber Sales	143,863	106,471	241,943	—	148,070	—	640,347
License Revenue, Primarily from Hunting	16,285	709	401	—	—	—	17,395
Other Non-Timber/Carbon Revenue	9,847	2,652	6,670	—	—	—	19,169
Agency Fee Income	—	—	—	—	652	—	652
Total Non-Timber Sales	26,132	3,361	7,071	—	652	—	37,216
Improved Development	—	—	—	8,336	—	—	8,336
Unimproved Development	—	—	—	8,621	—	—	8,621
Rural	—	—	—	22,689	—	—	22,689
Timberlands & Non-Strategic	—	—	—	98,872	—	—	98,872
Other	—	—		57	—	—	57
Total Real Estate Sales	—	—	—	138,575	—	—	138,575
Revenue from Contracts with Customers	169,995	109,832	249,014	138,575	148,722	—	816,138
Intersegment	—	—	—	—	92	(92)	—
Total Revenue	$169,995	$109,832	$249,014	$138,575	$148,814	($92)	$816,138
December 31, 2017							
Pulpwood	$67,836	$11,242	$24,934	—	$13,352	—	$117,364
Sawtimber	50,891	77,477	197,521	—	137,854	—	463,743
Hardwood	3,912	—	—	—	—	—	3,912
Total Timber Sales	122,639	88,719	222,455	—	151,206	—	585,019
License Revenue, Primarily from Hunting	16,004	646	227	—	—	—	16,877
Other Non-Timber/Carbon Revenue	5,867	2,512	617	—	—	—	8,996
Agency Fee Income	—	—	—	—	1,378	—	1,378
Total Non-Timber Sales	21,871	3,158	844	—	1,378	—	27,251
Improved Development	—	—	—	6,889	—	—	6,889
Unimproved Development	—	—	—	16,405	—	—	16,405
Rural	—	—	—	18,632	—	—	18,632
Timberlands & Non-Strategic	—	—	—	70,590	—	—	70,590
Large Dispositions	—	—	—	95,351	—	—	95,351
Other	—	—	—	(541)	—	—	(541)
Total Real Estate Sales	—	—	—	207,326	—	—	207,326
Revenue from Contracts with Customers	144,510	91,877	223,299	207,326	152,584	—	819,596
Total Revenue	$144,510	$91,877	$223,299	$207,326	$152,584	—	$819,596

(Dollar amounts in thousands unless otherwise stated)

The following tables present the Company's timber sales disaggregated by contract type for the years ended December 31, 2019, 2018 and 2017:

Year Ended	Southern Timber	Pacific Northwest Timber	New Zealand Timber	Trading	Total
December 31, 2019					
Stumpage Pay-as-Cut	$71,943	—	—	—	$71,943
Stumpage Lump Sum	7,428	2,749	—	—	10,177
Total Stumpage	79,371	2,749	—	—	82,120
Delivered Wood (Domestic)	71,054	79,978	80,974	5,488	237,494
Delivered Wood (Export)	8,731	—	150,432	109,118	268,281
Total Delivered	79,785	79,978	231,406	114,606	505,775
Total Timber Sales	$159,156	$82,727	$231,406	$114,606	$587,895
December 31, 2018					
Stumpage Pay-as-Cut	$72,385	—	—	—	$72,385
Stumpage Lump Sum	4,988	11,854	—	—	16,842
Total Stumpage	77,373	11,854	—	—	89,227
Delivered Wood (Domestic)	60,931	94,617	90,631	6,141	252,320
Delivered Wood (Export)	5,559	—	151,312	141,929	298,800
Total Delivered	66,490	94,617	241,943	148,070	551,120
Total Timber Sales	$143,863	$106,471	$241,943	$148,070	$640,347
December 31, 2017					
Stumpage Pay-as-Cut	$71,120	—	—	—	$71,120
Stumpage Lump Sum	9,093	10,628	—	—	19,721
Stumpage Agreed Volume	—	1,234	—	—	1,234
Total Stumpage	80,213	11,862	—	—	92,075
Delivered Wood (Domestic)	42,426	76,857	84,221	6,044	209,548
Delivered Wood (Export)	—	—	138,234	145,162	283,396
Total Delivered	42,426	76,857	222,455	151,206	492,944
Total Timber Sales	$122,639	$88,719	$222,455	$151,206	$585,019

(Dollar amounts in thousands unless otherwise stated)

3. TIMBERLAND ACQUISITIONS

In 2019, the Company acquired approximately 62,000 acres of U.S. timberland located in Florida, Georgia, Texas, and Washington through sixteen transactions for an aggregate value of $106.3 million. Approximately $29.8 million of these acquisitions were acquired using like-kind exchange proceeds while the remaining $76.5 million were funded from operating cash flow and the use of the Company's revolving credit facility. Additionally, during 2019, the Company acquired approximately 9,000 acres of timberland (including approximately 2,000 acres of leased land) in New Zealand for approximately $36.0 million. These acquisitions were funded from operating cash flow.

In 2018, the Company acquired approximately 26,000 acres of U.S. timberland in Florida, Georgia and Texas for $45.9 million of like-kind exchange proceeds. Additionally, in two transactions during 2018, the Company acquired forestry rights covering approximately 4,000 acres of timberland in New Zealand for approximately $11.7 million. These acquisitions were funded from operating cash flow and use of the New Zealand subsidiary's working capital facility.

See Note 6 - Debt for additional information on the Company's revolving credit facility and the New Zealand subsidiary's working capital facility.

The following table summarizes the timberland acquisitions for the years ended December 31, 2019 and 2018:

	2019		2018	
	Cost	Acres	Cost	Acres
Florida	$71,183	42,522	$35,560	20,513
Georgia	13,395	10,271	2,532	2,232
Texas	14,349	6,643	7,851	3,279
Washington	7,340	2,260	—	—
New Zealand	36,020	9,223	11,665	3,833
Total Acquisitions	$142,287	70,919	$57,608	29,857

(Dollar amounts in thousands unless otherwise stated)

4. LEASES

ADOPTION OF ASC 842

For more information on the adoption of ASC 842, including required transition disclosures, see Note 1 - Summary of Significant Accounting Policies.

TIMBERLAND LEASES

U.S. timberland leases typically have initial terms of approximately 30 to 65 years, with renewal provisions in some cases. New Zealand timberland lease terms typically range between 30 and 99 years. New Zealand lease arrangements generally consist of Crown Forest Licenses ("CFLs"), forestry rights and land leases. A CFL is a license arrangement to use government or privately owned lands to operate a commercial forest. CFLs generally extend indefinitely and may only be terminated upon a 35-year termination notice. If no termination notice is given, the CFLs renew automatically each year for a one-year term. Alternatively, some CFLs extend for a specific term. Once a CFL is terminated, the Company may be able to obtain a forestry right from the subsequent owner. A forestry right is a license arrangement with a private entity to use their lands to operate a commercial forest. Forestry rights terminate either upon the issuance of a termination notice (which can last 35 to 45 years), completion of harvest, or a specified termination date.

As of December 31, 2019, the New Zealand subsidiary has two CFLs comprising 9,000 acres under termination notice that are being relinquished as harvest activities are concluded, as well as two fixed-term CFLs comprising 3,000 acres expiring in 2062. Additionally, the New Zealand subsidiary has two forestry rights comprising 32,000 acres under termination notice that are being relinquished as harvest activities are concluded in 2026 and 2030.

OTHER NON-TIMBERLAND LEASES

In addition to timberland holdings, the Company leases properties for certain office locations. Significant leased properties include a regional office in Lufkin, Texas; a Pacific Northwest Timber office in Hoquiam, Washington and a New Zealand Timber and Trading headquarters in Auckland, New Zealand.

LEASE MATURITIES, LEASE COST AND OTHER LEASE INFORMATION

The following table details the Company's undiscounted lease obligations as of December 31, 2019 by type of lease and year of expiration:

		Year of Expiration					
Lease obligations	**Total**	**2020**	**2021**	**2022**	**2023**	**2024**	**Thereafter**
Operating lease liabilities	$193,320	$10,028	$9,293	$8,413	$8,355	$8,281	$148,950
Total Undiscounted Cash Flows	$193,320	$10,028	$9,293	$8,413	$8,355	$8,281	$148,950
Imputed interest	(92,796)						
Balance at December 31, 2019	100,524						
Less: Current portion	(10,043)						
Non-current portion at December 31, 2019	$90,481						

(Dollar amounts in thousands unless otherwise stated)

The following table details components of the Company's lease cost for year ended December 31, 2019:

Lease Cost Components	Year Ended December 31, 2019
Operating lease cost	$10,870
Variable lease cost (a)	235
Total lease cost (b)	$11,105

(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) Short-term leases with an initial term of 12 months or less are not recorded on the balance sheet. Lease expense for these leases are expensed on a straight line basis over the lease term. Short-term lease expense was not material for the year ended December 31, 2019.

The following table details components of the Company's lease cost for the year ended December 31, 2019:

Supplemental cash flow information related to leases:	Year Ended December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$2,567
Investing cash flows from operating leases	8,303
Total cash flows from operating leases	$10,870
Weighted-average remaining lease term in years - operating leases	28
Weighted-average discount rate - operating leases	5 %

The Company applied the following practical expedients upon adoption of the new standard as allowed under ASC 842:

Practical Expedient	Description
Short-term leases	The Company does not record right-of-use assets or liabilities for short-term leases (a lease that at commencement date has a lease term of 12 months or less and does not contain a purchase option that is reasonably certain to be exercised).
Separation of lease and non-lease components	The Company does not separate non-lease components from the associated lease components if they have the same timing and pattern of transfer and, if accounted for separately, would both be classified as an operating lease.

(Dollar amounts in thousands unless otherwise stated)

5. SEGMENT AND GEOGRAPHICAL INFORMATION

Rayonier Operating Company operates in five reportable segments: Southern Timber, Pacific Northwest Timber, New Zealand Timber, Real Estate and 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 segment operating income (loss) and Adjusted EBITDA. Asset information is not reported by segment, as the company does not produce asset information by segment internally.

Operating income as presented in the Consolidated Statements of Income and Comprehensive Income is equal to segment income. Certain income (loss) items in the Consolidated Statements of Income and Comprehensive Income are not allocated to segments. These items, which include interest income (expense), miscellaneous income (expense) and income tax expense, are not considered by management to be part of segment operations and are included under “Corporate and other.”

Segment information for each of the three years ended December 31, 2019 follows:

	Sales by Product Line		
	2019	2018	2017
Southern Timber	$194,111	$169,995	$144,510
Pacific Northwest Timber	85,414	109,832	91,877
New Zealand Timber	241,861	249,014	223,299
Real Estate			
Improved Development	5,882	8,336	6,889
Unimproved Development	19,476	8,621	16,405
Rural	29,852	22,689	18,632
Timberlands & Non-Strategic	19,133	98,872	70,590
Large Dispositions	—	—	95,351
Other (a)	544	57	(541)
Total Real Estate	74,887	138,575	207,326
Trading	115,438	148,814	152,584
Intersegment eliminations	(155)	(92)	—
Total Sales	$711,556	$816,138	$819,596

(a) Includes marketing fees and deferred revenue adjustments related to Improved Development sales.

	Operating Income (Loss)		
	2019	2018	2017
Southern Timber	$57,804	$44,245	$42,254
Pacific Northwest Timber	(12,427)	8,137	1,127
New Zealand Timber	48,035	62,754	57,567
Real Estate (a)	38,665	76,240	130,856
Trading	8	953	4,578
Corporate and other	(25,058)	(22,249)	(20,891)
Total Operating Income	107,027	170,080	215,491
Unallocated interest expense and other	(12,026)	(21,594)	(29,354)
Total Income before Income Taxes	$95,001	$148,486	$186,137

(a) The year 2017 includes Large Dispositions of $67.0 million.

(Dollar amounts in thousands unless otherwise stated)

	Gross Capital Expenditures		
	2019	2018	2017
Capital Expenditures (a)			
Southern Timber	$34,574	$35,388	$34,476
Pacific Northwest Timber	11,220	9,311	10,254
New Zealand Timber	17,357	17,318	17,046
Real Estate	204	284	1,348
Corporate and other	641	24	2,221
Total capital expenditures	$63,996	$62,325	$65,345
Timberland Acquisitions			
Southern Timber	$98,927	$45,943	$220,051
Pacific Northwest Timber	7,340	—	1,483
New Zealand Timber	36,020	11,665	21,376
Total timberland acquisitions	$142,287	$57,608	$242,910
Total Gross Capital Expenditures	$206,283	$119,933	$308,255

(a) Excludes timberland acquisitions presented separately in addition to spending on the Rayonier Operating Company office building of $6.1 million in 2017 and real estate development investments of $6.8 million, $9.5 million and $15.8 million in the years 2019, 2018 and 2017, respectively.

	Depreciation, Depletion and Amortization		
	2019	2018	2017
Southern Timber	$61,923	$58,609	$49,357
Pacific Northwest Timber	29,165	32,779	32,008
New Zealand Timber	27,761	28,007	27,499
Real Estate (a)	8,229	23,566	36,343
Corporate and other	1,157	1,160	794
Total	$128,235	$144,121	$146,001

(a) The year 2017 includes Large Dispositions of $18.4 million.

	Non-Cash Cost of Land and Improved Development		
	2019	2018	2017
Real Estate (a)	$12,565	$23,553	$23,498

(a) The year 2017 includes Large Dispositions of $9.8 million.

	Geographical Operating Information							
	Sales			Operating Income			Identifiable Assets	
	2019	2018	2017	2019	2018	2017	2019	2018
United States	$354,395	$390,396	$419,402	$58,945	$83,369	$138,528	$2,288,341	$2,282,117
New Zealand	357,161	425,742	400,194	48,082	86,711	76,963	572,354	498,186
Total	$711,556	$816,138	$819,596	$107,027	$170,080	$215,491	$2,860,695	$2,780,303

(Dollar amounts in thousands unless otherwise stated)

6. DEBT

Rayonier Operating Company's debt consisted of the following at December 31, 2019 and 2018:

	2019	2018
Term Credit Agreement due 2024 at a variable interest rate of 3.3% at December 31, 2019	$350,000	$350,000
Incremental Term Loan Agreement due 2026 at a variable interest rate of 3.6% at December 31, 2019	300,000	300,000
Revolving Credit Facility due 2020 at a variable interest rate of 3.0% at December 31, 2019	82,000	—
Total debt	732,000	650,000
Less: Current maturities of long-term debt	(82,000)	—
Less: Deferred financing costs	(1,042)	(1,236)
Long-term debt, net of deferred financing costs	$648,958	$648,764

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

2020	82,000
2021	—
2022	—
2023	—
2024	350,000
Thereafter	300,000
Total debt	$732,000

TERM CREDIT AGREEMENT

In August 2015, the Company entered into a credit agreement with CoBank, ACB, as administrative agent, and a syndicate of Farm Credit institutions and other commercial banks to provide $550 million of new credit facilities, including a nine-year $350 million term loan facility. The periodic interest rate on the term loan facility is subject to a pricing grid based on the Company's leverage ratio, as defined in the credit agreement. As of December 31, 2019, the periodic interest rate on the term loan facility was LIBOR plus 1.625%. Monthly payments of interest only are due on this loan through maturity. Following the closing of the term loan, the Company entered into several interest rate swap transactions to fix the cost of the term loan facility over its nine-year term. The term credit agreement allows the Company to receive annual patronage payments, which are profit distributions made by a cooperative to its member-users based on the quantity or value of business done with the member-user. The Company estimates the effective interest rate on the term loan facility to be approximately 3.3% after consideration of the interest rate swaps and estimated patronage refunds. For additional information on the Company's interest rate swaps see Note 13 — Derivative Financial Instruments and Hedging Activities.

INCREMENTAL TERM LOAN AGREEMENT

In April 2016, the Company entered into an incremental term loan agreement with CoBank, ACB, as administrative agent, and a syndicate of Farm Credit institutions to provide a 10-year, $300 million incremental term loan. The periodic interest rate on the incremental term loan agreement is subject to a pricing grid based on the Company's leverage ratio, as defined in the credit agreement. As of December 31, 2019, the periodic interest rate on the incremental term loan was LIBOR plus 1.900%. Monthly payments of interest only are due on this loan through maturity. Following the closing of the incremental term loan, the Company entered into several interest rate swap transactions to fix the cost of the facility over its 10-year term. The Company estimates the effective interest rate on the incremental term loan facility to be approximately 2.8% after consideration of the interest rate swaps and estimated patronage payments. For additional information on the Company's interest rate swaps see Note 13 — Derivative Financial Instruments and Hedging Activities.

REVOLVING CREDIT FACILITY

In August 2015, the Company entered into a five-year $200 million unsecured revolving credit facility, replacing the previous $200 million revolving credit facility and $100 million farm credit facility, which were scheduled to expire in April 2016 and December 2019, respectively. The periodic interest rate on the revolving credit facility is subject to a pricing grid based on the Company's leverage ratio, as defined in the credit agreement. As of December 31, 2019, the periodic interest rate on the revolving credit facility was LIBOR plus 1.250%, with an unused commitment fee of 0.175%. Monthly payments of interest only are due on this loan through maturity. At December 31, 2019, the Company had $116.5 million of available borrowings under this facility, net of $1.5 million to secure its outstanding letters of credit.

NEW ZEALAND SUBSIDIARY

In April 2013, Rayonier Operating Company acquired an additional 39% interest in its New Zealand subsidiary, bringing its total ownership to 65%, and as a result, the New Zealand subsidiary's debt was consolidated effective on that date. On March 3, 2016, as a result of a capital contribution, the Company's ownership interest in the New Zealand subsidiary increased to 77%. See Note 8 — New Zealand Subsidiary for further information.

WORKING CAPITAL FACILITIES

In June 2019, the New Zealand subsidiary renewed its NZ$20 million working capital facility for an additional 12-month term. The NZ$20 million working capital facility is available for short-term operating cash flow needs of the New Zealand subsidiary. This facility holds a variable interest rate indexed to the 90-day New Zealand Bank Bill rate ("BKBM"). The margins are set for the term of the facility. During the year ended December 31, 2019, the New Zealand subsidiary made no borrowings and repayments on its working capital facility. At December 31, 2019, there was no outstanding balance on the working capital facility.

DEBT COVENANTS

In connection with the Company's $350 million term credit agreement (the "Term Credit Agreement"), $300 million incremental term loan agreement (the "Incremental Term Loan Agreement") and $200 million revolving credit facility (the "Revolving Credit Facility"), customary covenants must be met, the most significant of which include interest coverage and leverage ratios.

In addition to these financial covenants listed above, Term Credit Agreement, Incremental Term Loan Agreement and Revolving Credit Facility include customary covenants that limit the incurrence of debt and the disposition of assets, among others. At December 31, 2019, the Company was in compliance with all covenants.

(Dollar amounts in thousands unless otherwise stated)

7. HIGHER AND BETTER USE TIMBERLANDS AND REAL ESTATE DEVELOPMENT INVESTMENTS

Rayonier Operating Company continuously assesses potential alternative uses of its timberlands, as some properties may become more valuable for development, residential, recreation or other purposes. The Company periodically transfers, via a sale or contribution from the REIT to taxable REIT subsidiaries ("TRS"), HBU timberlands to enable land-use entitlement, development or marketing activities. The Company also periodically acquires HBU properties in connection with timberland acquisitions. These properties are managed as timberlands until sold or developed. While the majority of HBU sales involve rural and recreational land, the Company also selectively pursues various land-use entitlements on certain properties for residential, commercial and industrial development in order to enhance the long-term value of such properties. For selected development properties, Rayonier Operating Company also invests in targeted infrastructure improvements, such as roadways and utilities, to accelerate the marketability and improve the value of such properties.

An analysis of higher and better use timberlands and real estate development investments from December 31, 2018 to December 31, 2019 is shown below:

	Higher and Better Use Timberlands and Real Estate Development Investments		
	Land and Timber	Development Investments	Total
Non-current portion at December 31, 2018	$59,189	$26,420	$85,609
Plus: Current portion (a)	4,239	7,680	11,919
Total Balance at December 31, 2018	63,428	34,100	97,528
Non-cash cost of land and improved development	(1,916)	(4,814)	(6,730)
Timber depletion from harvesting activities and basis of timber sold in real estate sales	(2,866)	—	(2,866)
Capitalized real estate development investments (b)	—	6,803	6,803
Capital expenditures (silviculture)	204	—	204
Intersegment transfers	(485)	—	(485)
Total Balance at December 31, 2019	58,365	36,089	94,454
Less: Current portion (a)	(274)	(12,389)	(12,663)
Non-current portion at December 31, 2019	$58,091	$23,700	$81,791

(a) The current portion of Higher and Better Use Timberlands and Real Estate Development Investments is recorded in Inventory. See Note 18 — Inventory for additional information.

(b) Capitalized real estate development investments includes $0.4 million of capitalized interest.

8. NEW ZEALAND SUBSIDIARY

The Company maintains a 77% controlling financial interest in Matariki Forestry Group (the "New Zealand subsidiary"), a joint venture that owns or leases approximately 414,000 legal acres of New Zealand timberland. Accordingly, the Company consolidates the New Zealand subsidiary's balance sheet and results of operations. The portions of the consolidated financial position and results of operations attributable to the New Zealand subsidiary's 23% noncontrolling interest are shown separately within the Consolidated Statements of Income and Comprehensive Income and Consolidated Statements of Member's Equity. Rayonier New Zealand Limited ("RNZ"), a wholly owned subsidiary of Rayonier Operating Company, serves as the manager of the New Zealand subsidiary.

(Dollar amounts in thousands unless otherwise stated)

9. COMMITMENTS

At December 31, 2019, the future minimum payments under non-cancellable commitments were as follows:

	Development Projects (a)	Pension Contributions (b)	Commitments (c)	Total
2020	$4,403	$3,599	$2,510	$10,512
2021	178	681	2,122	2,981
2022	178	—	2,027	2,205
2023	178	—	2,007	2,185
2024	178	—	1,171	1,349
Thereafter	2,749	—	—	2,749
	$7,864	$4,280	$9,837	$21,981

(a) Primarily consisting of payments expected to be made on the Company's Wildlight and Richmond Hill development projects.
(b) Pension contribution requirements are based on actuarially determined estimates and IRS minimum funding requirements.
(c) Commitments include payments expected to be made on foreign exchange contracts, timberland deeds and other purchase obligations.

10. INCOME TAXES

As a wholly owned subsidiary of Rayonier Inc., Rayonier Operating Company is treated as a disregarded entity for U.S. federal income tax purposes. However, the Company has elected to allocate, based on the tax attributes and filings of the taxable subsidiaries, the Rayonier consolidated amount of current and deferred tax expense to Rayonier Operating Company.

The Company's U.S. timber operations are primarily conducted under the REIT structure and are generally not subject to U.S. federal and state income taxation. The Company's New Zealand timber operations are conducted by the New Zealand subsidiary, which is subject to corporate-level tax in New Zealand. The Company's non-REIT qualifying operations, which are subject to corporate-level tax, are held by various TRS entities. These operations include Rayonier Operating Company's log trading business and certain real estate activities, such as the sale, entitlement and development of HBU properties.

PROVISION FOR INCOME TAXES FROM CONTINUING OPERATIONS

The provision for income taxes for each of the three years ended December 31 follows:

	2019	2018	2017
Current			
U.S. federal	$2	$2	$261
State	(122)	37	(38)
Foreign	(1,542)	(1,914)	(245)
	(1,662)	(1,875)	(22)
Deferred			
U.S. federal	465	3,803	13,028
State	17	146	—
Foreign	(11,278)	(23,360)	(21,659)
	(10,796)	(19,411)	(8,631)
Changes in valuation allowance	(482)	(3,950)	(13,028)
Total	($12,940)	($25,236)	($21,681)

(Dollar amounts in thousands unless otherwise stated)

A reconciliation of the U.S. federal statutory income tax rate to the actual income tax rate for each of the three years ended December 31 follows:

	2019		2018		2017	
U.S. federal statutory income tax rate	($19,950)	(21.0)%	($31,182)	(21.0)%	($65,148)	(35.0)%
U.S. and foreign REIT income	22,922	24.1	34,192	23.0	64,820	34.8
Matariki Group and Rayonier New Zealand Ltd	(11,181)	(11.8)	(23,166)	(15.6)	(19,182)	(10.3)
Transition tax	—	—	—	—	(3,506)	(1.9)
Change in valuation allowance	(482)	(0.5)	(3,950)	(2.7)	(13,028)	(7.0)
ASU No. 2016-16 adoption impact	—	—	—	—	16,631	8.9
Deemed repatriation of unremitted foreign earnings	—	—	—	—	7,368	4.0
Reduction of deferred tax asset for statutory rate change	—	—	—	—	(10,499)	(5.6)
Internal transfer of assets deferred	(1,815)	(1.9)	—	—	—	—
Foreign income tax withholding	(1,535)	(1.6)	(1,848)	(1.2)	—	—
Other	(899)	(0.9)	718	0.5	863	0.5
Income tax expense as reported for net income	($12,940)	(13.6)%	($25,236)	(17.0)%	($21,681)	(11.6)%

The Company’s effective tax rate is below the 21 percent U.S. statutory rate primarily due to tax benefits associated with being a REIT.

DEFERRED TAXES

Deferred income taxes result from differences between the timing of recognizing revenues and expenses for financial book purposes versus income tax purposes. The nature of the temporary differences and the resulting net deferred tax asset/liability for the two years ended December 31 follows:

	2019	2018
Gross deferred tax assets:		
Pension, postretirement and other employee benefits	$1,512	$1,791
New Zealand subsidiary	23,211	14,252
CBPC tax credit carry forwards	14,555	14,555
Capitalized real estate costs	6,635	7,386
U.S. TRS net operating loss	5,410	5,747
Land basis difference	10,626	11,282
Other	4,356	4,047
Total gross deferred tax assets	66,305	59,060
Less: Valuation allowance	(39,320)	(38,839)
Total deferred tax assets after valuation allowance	$26,985	$20,221
Gross deferred tax liabilities:		
Accelerated depreciation	(23)	(73)
New Zealand subsidiary	(87,548)	(66,430)
Timber installment sale	—	(4,823)
Other	(3,938)	(1,272)
Total gross deferred tax liabilities	(91,509)	(72,598)
Net deferred tax liability reported as noncurrent	($64,524)	($52,377)

(Dollar amounts in thousands unless otherwise stated)

Foreign net operating loss ("NOL") and tax credit carryforwards as of the two years ended December 31 follows:

	Gross Amount	Valuation Allowance	Expiration
2019			
New Zealand subsidiary NOL carryforwards	$11,650	—	None
U.S. net deferred tax asset	24,765	(24,765)	None
Cellulosic Biofuel Producer Credit (a)	14,555	(14,555)	2023
Total Valuation Allowance		($39,320)	
2018			
New Zealand subsidiary NOL carryforwards	$31,052	—	None
U.S. net deferred tax asset	24,284	(24,284)	None
Cellulosic Biofuel Producer Credit (a)	14,555	(14,555)	2019
Total Valuation Allowance		($38,839)	

(a) The Further Consolidated Appropriations Act, 2020 was signed into law on December 20, 2019. The Further Consolidated Appropriations Act, 2020 included the Taxpayer Certainty and Disaster Relief Act of 2019 (Tax Extenders Act), which temporarily renewed approximately two dozen credits that previously expired or were set to expire at the end of 2019. The Cellulosic Biofuel Producer Credit was one of the credits extended under this act.

UNRECOGNIZED TAX BENEFITS

A reconciliation of the beginning and ending unrecognized tax benefits for the three years ended December 31 follows:

	2019	2018	2017
Balance at January 1,	—	—	$135
Decreases related to prior year tax positions (a)	—	—	(135)
Increases related to prior year tax positions	—	—	—
Balance at December 31,	—	—	—

(a) Result of a lapse of the applicable statute of limitations.

The Company records interest (and penalties, if applicable) related to unrecognized tax benefits in non-operating expense. The Company recorded no benefit to interest expense in 2019, 2018 and 2017, respectively and had no recorded liabilities for the payment of interest at December 31, 2019 and 2018.

TAX STATUTES

The following table provides detail of the tax years that remain open to examination by the IRS and other significant taxing jurisdictions:

Taxing Jurisdiction	Open Tax Years
U.S. Internal Revenue Service	2016 - 2018
New Zealand Inland Revenue	2014 - 2018

(Dollar amounts in thousands unless otherwise stated)

11. CONTINGENCIES

The Company has been named as a defendant in various 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 large deductible insurance plans, primarily in the areas of executive risk, property, automobile and general liability. These pending 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.

12. GUARANTEES

The Company provides financial guarantees as required by Rayonier Inc., creditors, insurance programs, and various governmental agencies. As of December 31, 2019, the following financial guarantees were outstanding:

Financial Commitments (a)	Maximum Potential Payment
Standby letters of credit (b)	$1,509
Surety bonds (c)	3,487
Senior Notes due 2022 (d)	$325,000
Total financial commitments	$329,996

(a) The Company has not recorded any liabilities for these financial commitments in the Consolidated Balance Sheets. The guarantees are not subject to measurement, as the guarantees are dependent on the Company's own performance.

(b) Approximately $0.5 million of the standby letters of credit serve as credit support for infrastructure at the Company's Wildlight development project. The remaining letters of credit support various insurance related agreements, primarily workers' compensation. These letters of credit will expire at various dates during 2020 and will be renewed as required.

(c) Rayonier Operating Company issues surety bonds primarily to secure performance obligations related to various operational activities and to provide collateral for the Company's Wildlight development project in Nassau County, Florida. These bonds expire at various dates during 2020 and are expected to be renewed as required.

(d) In March 2012, Rayonier Inc. issued $325 million of 3.75% Senior Notes maturing in 2022. The notes are fully and unconditionally guaranteed on a joint and several basis by Rayonier Operating Company LLC and Rayonier TRS Holdings, Inc.

13. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to market risk related to potential fluctuations in foreign currency exchange rates and interest rates. The Company uses derivative financial instruments to mitigate the financial impact of exposure to these risks. The Company also uses derivative financial instruments to mitigate exposure to foreign currency risk due to the translation of the investment in Rayonier Operating Company's New Zealand-based operations from New Zealand dollars to U.S. dollars.

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 (loss) income ("AOCI") and reclassified into earnings when the hedged transaction materializes. Gains and losses on derivatives that are designated and qualify for net investment hedge accounting are recorded as a component of AOCI and will not be reclassified into earnings until the Company's investment in its New Zealand operations is partially or completely liquidated. The ineffective portion of any hedge, 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 de minimis for all periods presented.

FOREIGN CURRENCY EXCHANGE AND OPTION CONTRACTS

The functional currency of Rayonier Operating Company's wholly-owned subsidiary, Rayonier New Zealand Limited, and the New Zealand subsidiary is the New Zealand dollar. The New Zealand subsidiary is exposed to foreign currency risk on export sales and ocean freight payments, which are mainly denominated in U.S. dollars. The New Zealand subsidiary typically hedges 50% to 90% of its estimated foreign currency exposure with respect to the following twelve months forecasted sales and purchases less distributions and up to 75% of the forward twelve to 18 months. Foreign currency exposure from the New Zealand subsidiary's trading operations is typically hedged based on the following three months forecasted sales and purchases. As of December 31, 2019, foreign currency exchange contracts and foreign currency option contracts had maturity dates through April 2021 and March 2021, respectively.

Foreign currency exchange and option contracts hedging foreign currency risk on export sales and ocean freight payments qualify for cash flow hedge accounting. The Company may de-designate these cash flow hedge relationships in advance or at the occurrence of the forecasted transaction. The portion of gains or losses on the derivative instrument previously accumulated in other comprehensive (loss) income for de-designated hedges remains in accumulated other comprehensive (loss) income until the forecasted transaction affects earnings. Changes in the value of derivative instruments after de-designation are recorded in earnings.

INTEREST RATE SWAPS

The Company is exposed to cash flow interest rate risk on its variable-rate Term Credit Agreement and Incremental Term Loan (as discussed below), and uses variable-to-fixed interest rate swaps to hedge this exposure. For these derivative instruments, the Company reports the gains/losses from the fluctuations in the fair market value of the hedges in AOCI and reclassifies them to earnings as interest expense in the same period in which the hedged interest payments affect earnings. For additional information on the Company's interest rate swaps see Note 6 — Debt.

(Dollar amounts in thousands unless otherwise stated)

The following table contains information on the outstanding interest rate swaps as of December 31, 2019:

Outstanding Interest Rate Swaps (a)						
Date Entered Into	Term	Notional Amount	Related Debt Facility	Fixed Rate of Swap	Bank Margin on Debt	Total Effective Interest Rate (b)
August 2015	9 years	$170,000	Term Credit Agreement	2.20 %	1.63 %	3.83 %
August 2015	9 years	180,000	Term Credit Agreement	2.35 %	1.63 %	3.98 %
April 2016	10 years	100,000	Incremental Term Loan	1.60 %	1.90 %	3.50 %
April 2016	10 years	100,000	Incremental Term Loan	1.60 %	1.90 %	3.50 %
July 2016	10 years	100,000	Incremental Term Loan	1.26 %	1.90 %	3.16 %

(a) All interest rate swaps have been designated as interest rate cash flow hedges and qualify for hedge accounting.
(b) Rate is before estimated patronage payments.

CARBON OPTIONS

The New Zealand subsidiary enters into carbon options from time to time to sell carbon assets at certain prices. Changes in fair value of the carbon option contracts are recorded in “Interest and other miscellaneous income, net” as the contracts do not qualify for hedge accounting treatment. As of December 31, 2019, carbon option contracts had maturity dates through June 2020.

The following table demonstrates the impact, gross of tax, of the Company’s derivatives on the Consolidated Statements of Income and Comprehensive Income for the years ended December 31, 2019, 2018 and 2017.

	Location on Statement of Income and Comprehensive Income	2019	2018	2017
Derivatives designated as cash flow hedges:				
Foreign currency exchange contracts	Other comprehensive (loss) income	$2,211	($4,357)	$2,100
Foreign currency option contracts	Other comprehensive (loss) income	159	(180)	(52)
Interest rate swaps	Other comprehensive (loss) income	(32,189)	8,296	4,214
Derivatives designated as a net investment hedge:				
Foreign currency exchange contract	Other comprehensive (loss) income	—	(344)	—
Derivatives not designated as hedging instruments:				
Foreign currency exchange contracts	Interest and other miscellaneous income, net	$135	$2,183	$47
Carbon options	Interest and other miscellaneous income, net	(105)	(158)	—

During the next 12 months, the amount of the December 31, 2019 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 gain of approximately $0.3 million.

(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 at December 31, 2019 and 2018:

	Notional Amount	
	2019	2018
Derivatives designated as cash flow hedges:		
Foreign currency exchange contracts	$56,350	$69,950
Foreign currency option contracts	22,000	24,000
Interest rate swaps	650,000	650,000
Derivatives not designated as hedging instruments:		
Foreign currency exchange contracts	—	9,396
Carbon options (a)	9,592	2,517

(a) Notional amount for carbon options is calculated as the number of units outstanding multiplied by the spot price as of December 31, 2019.

The following table contains the fair values of the derivative financial instruments recorded in the Consolidated Balance Sheets at December 31, 2019 and 2018. Changes in balances of derivative financial instruments are recorded as operating activities in the Consolidated Statements of Cash Flows:

		Fair Value Assets (Liabilities) (a)	
	Location on Balance Sheet	2019	2018
Derivatives designated as cash flow hedges:			
Foreign currency exchange contracts	Other current assets	424	—
	Other assets	390	—
	Other current liabilities	(172)	(1,569)
Foreign currency option contracts	Other current assets	151	217
	Other assets	209	102
	Other current liabilities	(27)	(106)
	Other non-current liabilities	(30)	(68)
Interest rate swaps	Other assets	2,614	23,735
	Other non-current liabilities	(11,068)	—
Derivatives not designated as hedging instruments:			
Foreign currency exchange contracts	Other current assets	—	152
	Other current liabilities	—	(24)
Carbon options (a)	Other current liabilities	(607)	(322)
Total derivative contracts:			
Other current assets		$575	$369
Other assets		3,213	23,837
Total derivative assets		$3,788	$24,206
Other current liabilities		(806)	(2,021)
Other non-current liabilities		(11,098)	(68)
Total derivative liabilities		($11,904)	($2,089)

(a) See Note 14 — Fair Value Measurements for further information on the fair value of our derivatives including their classification within the fair value hierarchy.

(Dollar amounts in thousands unless otherwise stated)

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.

14. FAIR VALUE MEASUREMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS

A three-level hierarchy that prioritizes the inputs used to measure fair value was established in the Accounting Standards Codification 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 and estimated fair values of financial instruments held by the Company at December 31, 2019 and 2018, using market information and what the Company believes to be appropriate valuation methodologies under generally accepted accounting principles:

	December 31, 2019			December 31, 2018		
Asset (liability) (a)	Carrying Amount	Fair Value		Carrying Amount	Fair Value	
		Level 1	Level 2		Level 1	Level 2
Cash and cash equivalents	$68,434	$68,434	—	$148,013	$148,013	—
Restricted cash (b)	1,233	1,233	—	8,080	8,080	—
Current maturities of long-term debt	(82,000)	—	(82,000)	—	—	—
Long-term debt (c)	(648,958)	—	(650,000)	(648,764)	—	(650,000)
Interest rate swaps (d)	(8,454)	—	(8,454)	23,735	—	23,735
Foreign currency exchange contracts (d)	642	—	642	(1,442)	—	(1,442)
Foreign currency option contracts (d)	303	—	303	145	—	145
Carbon options contracts (d)	(607)	—	(607)	(322)	—	(322)
Marketable equity securities (e)	10,582	10,582	—	—	—	—

(a) The Company did not have Level 3 assets or liabilities at December 31, 2019 and 2018.

(b) Restricted cash represents the proceeds from like-kind exchange sales deposited with a third-party intermediary and cash held in escrow for real estate development obligations. See Note 19 - Restricted Cash for additional information.

(c) The carrying amount of long-term debt is presented net of capitalized debt costs on non-revolving debt. See Note 6 — Debt for additional information.

(d) See Note 13 — Derivative Financial Instruments and Hedging Activities for information regarding the Balance Sheet classification of the Company's derivative financial instruments.

(e) The Company's investments in marketable equity securities are classified in "Other Assets" based on the nature of the securities and their availability for use in current operations. See Note 20 - Other Assets for additional information.

Rayonier Operating Company 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 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.

(Dollar amounts in thousands unless otherwise stated)

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.

Carbon option contracts — The fair value of carbon option contracts is determined by a mark-to-market valuation using the Black-Scholes option pricing model, 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.

Marketable equity securities — The fair value of marketable equity securities is determined by quoted prices in their active market.

The following table presents marketable equity securities that have been in a continuous unrealized gain position for less than 12 months and for 12 months or greater at December 31, 2019 and December 31, 2018:

	December 31, 2019				December 31, 2018			
	Carrying Amount	Less than 12 Months	12 Months or Greater	Total	Carrying Amount	Less than 12 Months	12 Months or Greater	Total
Fair value of marketable equity securities	$10,582	$10,582	—	$10,582	—	—	—	—
Unrealized gains	—	3,043	—	3,043	—	—	—	—

(Dollar amounts in thousands unless otherwise stated)

15. EMPLOYEE BENEFIT PLANS

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 plans. The Company closed enrollment in its pension plans to salaried employees hired after December 31, 2005. Effective December 31, 2016, the Company froze benefits for all employees participating in the pension plan. In lieu of the pension plan, the Company provides those employees with an enhanced 401(k) plan match similar to what is currently provided to employees hired after December 31, 2005. 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 following tables set forth the change in the projected benefit obligation and plan assets and reconcile the funded status and the amounts recognized in the Consolidated Balance Sheets for the pension and postretirement benefit plans for the two years ended December 31:

	Pension		Postretirement	
	2019	2018	2019	2018
Change in Projected Benefit Obligation				
Projected benefit obligation at beginning of year	$79,559	$87,986	$1,303	$1,420
Service cost	—	—	6	7
Interest cost	3,197	3,021	54	38
Actuarial loss (gain)	10,828	(8,160)	285	(149)
Benefits paid	(3,323)	(3,288)	(14)	(13)
Projected benefit obligation at end of year	$90,261	$79,559	$1,634	$1,303
Change in Plan Assets				
Fair value of plan assets at beginning of year	$50,949	$57,377	—	—
Actual return on plan assets	12,975	(4,638)	—	—
Employer contributions	6,413	2,829	14	13
Benefits paid	(3,284)	(4,002)	(14)	(13)
Other expense	(593)	(617)	—	—
Fair value of plan assets at end of year	$66,460	$50,949	—	—
Funded Status at End of Year:				
Net accrued benefit cost	($23,801)	($28,610)	($1,634)	($1,303)
Amounts Recognized in the Consolidated Balance Sheets Consist of:				
Current liabilities	($86)	($86)	($38)	($27)
Noncurrent liabilities	(23,715)	(28,524)	(1,596)	(1,276)
Net amount recognized	($23,801)	($28,610)	($1,634)	($1,303)

Net gains or losses recognized in other comprehensive (loss) income for the three years ended December 31 are as follows:

	Pension			Postretirement		
	2019	2018	2017	2019	2018	2017
Net (losses) gains	($1,514)	($1,743)	($583)	($285)	$149	($89)

(Dollar amounts in thousands unless otherwise stated)

Net gains or losses reclassified from other comprehensive income and recognized as a component of pension and postretirement expense for the three years ended December 31 are as follows:

	Pension			Postretirement		
	2019	2018	2017	2019	2018	2017
Amortization of losses (gains)	$449	$673	$466	—	$2	($1)

Net losses that have not yet been included in pension and postretirement expense for the two years ended December 31, but have been recognized as a component of AOCI are as follows:

	Pension		Postretirement	
	2019	2018	2019	2018
Net losses	($24,317)	($23,252)	($292)	($7)
Deferred income tax benefit	1,216	1,216	6	6
AOCI	($23,101)	($22,036)	($286)	($1)

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

	2019	2018
Projected benefit obligation	$90,261	$79,559
Accumulated benefit obligation	90,261	79,559
Fair value of plan assets	66,460	50,949

The following tables set forth the components of net pension and postretirement benefit cost (credit) that have been recognized during the three years ended December 31:

	Pension			Postretirement		
	2019	2018	2017	2019	2018	2017
Components of Net Periodic Benefit Cost (Credit)						
Service cost	—	—	—	$6	$7	$6
Interest cost	3,197	3,021	3,259	54	38	53
Expected return on plan assets	(3,107)	(3,934)	(3,781)	—	—	—
Amortization of losses (gains)	449	673	466	—	2	(1)
Net periodic benefit cost (credit)	$539	($240)	($56)	$60	$47	$58

The estimated pre-tax amounts that will be amortized from AOCI into net periodic benefit cost in 2020 are as follows:

	Pension	Postretirement
Amortization of loss	$861	$8

(Dollar amounts in thousands unless otherwise stated)

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

	Pension			Postretirement		
	2019	2018	2017	2019	2018	2017
Assumptions used to determine benefit obligations at December 31:						
Discount rate	3.06 %	4.11 %	3.48 %	3.16 %	4.18 %	3.56 %
Rate of compensation increase	—	—	—	4.50 %	4.50 %	4.50 %
Assumptions used to determine net periodic benefit cost for years ended December 31:						
Discount rate	4.11 %	3.48 %	4.01 %	4.18 %	3.56 %	4.12 %
Expected long-term return on plan assets	5.72 %	7.17 %	7.17 %	—	—	—
Rate of compensation increase	—	—	—	4.50 %	4.50 %	4.50 %

At December 31, 2019, the pension plan's discount rate was 3.1%, which closely approximates interest rates on high quality, long-term obligations. In 2019, the expected return on plan assets decreased to 5.7%, which is based on historical and expected long-term rates of return on broad equity and bond indices and consideration of the actual annualized rate of return. The Company utilizes this information in developing assumptions for returns, risks and correlations of asset classes, which are then used to establish the asset allocation ranges.

INVESTMENT OF PLAN ASSETS

The Company's pension plans' asset allocation (excluding short-term investments) at December 31, 2019 and 2018, and target allocation ranges by asset category are as follows:

	Percentage of Plan Assets		Target Allocation Range
Asset Category	2019	2018	
Domestic equity securities	41 %	39 %	35-45%
International equity securities	28 %	28 %	20-30%
Domestic fixed income securities	25 %	26 %	25-29%
International fixed income securities	4 %	5 %	3-7%
Real estate fund	2 %	2 %	2-4%
Total	100 %	100 %	

The Company's Pension and Savings Plan Committee and the Audit Committee of the Board of Directors oversee the pension plans' investment program, which is designed to maximize returns and provide sufficient liquidity to meet plan obligations while maintaining acceptable risk levels. The investment approach emphasizes diversification by allocating the plans' assets among asset categories and selecting investment managers whose various investment methodologies will be minimally correlative with each other. Investments within the equity categories may include large capitalization, small capitalization and emerging market securities, while the international fixed income portfolio may include emerging markets debt. Pension assets did not include a direct investment in Rayonier Inc. common shares during the years ended December 31, 2019 and 2018.

NET ASSET VALUE MEASUREMENTS

Separate investment accounts are measured using the unit value calculated based on the Net Asset Value ("NAV") of the underlying assets. The NAV is based on the fair value of the underlying investments held by each fund less liabilities divided by the units outstanding as of the valuation date. These funds are not publicly traded; however, the unit price calculation is based on observable market inputs of the funds' underlying assets.

(Dollar amounts in thousands unless otherwise stated)

The following table sets forth the net asset value of the plan assets as of December 31, 2019 or 2018.

Asset Category	December 31, 2019	December 31, 2018
Investments at Net Asset Value:		
Separate Investment Accounts	66,460	50,949
Total Investments at Net Asset Value	$66,460	$50,949

CASH FLOWS

Expected benefit payments to be made by the Company for the next 10 years are as follows:

	Pension Benefits	Postretirement Benefits
2020	$3,671	$38
2021	3,829	42
2022	4,050	45
2023	4,146	48
2024	4,318	51
2025-2029	22,752	308

The Company has approximately $3.6 million of pension contribution requirements in 2020.

DEFINED CONTRIBUTION PLANS

The Company provides a defined contribution plan to all of its employees. Company match contributions charged to expense for these plans were $1.0 million, $0.9 million and $0.8 million for the years ended December 31, 2019, 2018 and 2017, respectively. The defined contribution plan includes Rayonier Inc. common shares with a fair market value of $10.6 million and $9.7 million at December 31, 2019 and 2018, respectively. As of June 1, 2016, the Rayonier Inc. Common Stock Fund was closed to new contributions. Transfers out of the fund will continue to be permitted, but no new investments or transfers into the fund are allowed.

As discussed above, the defined benefit pension plan is currently frozen. In lieu of the pension plan, employees are eligible to receive an enhanced match contribution. Company enhanced match contributions charged to expense for the years ended December 31, 2019, 2018 and 2017 were $0.9 million, $0.8 million and $0.8 million, respectively.

(Dollar amounts in thousands unless otherwise stated)

16. INCENTIVE STOCK PLANS

As certain Rayonier Operating Company employees participate in Rayonier Inc.'s stock based compensation plan, the related expense is recognized by Rayonier Operating Company. The disclosures below detail Rayonier Inc.'s stock based compensation plans.

The Rayonier Incentive Stock Plan (the "Stock Plan") provides up to 15.8 million shares to be granted for incentive stock options, non-qualified stock options, stock appreciation rights, performance shares, restricted stock and restricted stock units, subject to certain limitations. At December 31, 2019, a total of 3.8 million shares were available for future grants under the Stock Plan. Under the Stock Plan, shares available for issuance are reduced by 1 share for each option or right granted and by 2.27 shares for each performance share, restricted share or restricted stock unit granted. Rayonier issues new shares of stock upon the exercise of stock options, the granting of restricted stock, and the vesting of performance shares and restricted stock units.

A summary of the Company's stock-based compensation cost is presented below:

	2019	2018	2017
Selling and general expenses	$6,416	$5,623	$4,784
Cost of sales	378	704	556
Timber and Timberlands, net (a)	110	101	56
Total stock-based compensation	$6,904	$6,428	$5,396
Tax benefit recognized related to stock-based compensation expense (b)	$362	$338	$249

(a) Represents amounts capitalized as part of the overhead allocation of timber-related costs.

(b) A valuation allowance is recorded against the tax benefit recognized as Rayonier does not expect to be able to realize the benefit in the future.

FAIR VALUE CALCULATIONS

RESTRICTED STOCK

Restricted stock granted to employees under the Stock Plan generally vests in fourths on the first, second, third and fourth anniversary of the grant date. Restricted stock granted to senior management generally vests in thirds on the third, fourth, and fifth anniversary of the grant date. Periodically, other one-time restricted stock grants are issued to employees for special purposes, such as new hire, promotion or retention, and can vest ratably over, or upon completion of, a defined period of time. Generally, holders of restricted stock receive dividend equivalent payments on outstanding restricted shares. Restricted stock granted to members of the board of directors generally vests immediately upon issuance and is subject to certain holding requirements. The fair value of each share granted is equal to the share price of Rayonier's stock on the date of grant. Rayonier has elected to value each grant in total and recognize the expense on a straight-line basis from the grant date of the award to the latest vesting date. As permitted, Rayonier does not estimate a forfeiture rate for non-vested shares. Accordingly, unexpected forfeitures will lower stock-based compensation during the period in which they occur.

As of December 31, 2019, there was $2.5 million of unrecognized compensation cost attributable to Rayonier's restricted stock. The Company expects to recognize this cost over a weighted average period of 2.3 years.

(Dollar amounts in thousands unless otherwise stated)

A summary of Rayonier’s restricted stock is presented below:

	2019	2018	2017
Restricted shares granted	—	87,924	97,643
Weighted average price of restricted shares granted	—	$35.44	$28.18
Intrinsic value of restricted stock outstanding (a)	$5,540	$8,792	$8,906
Grant date fair value of restricted stock vested	4,579	1,582	1,198
Cash used to purchase common shares from current and former employees to pay minimum withholding tax requirements on restricted shares vested	1,610	334	176

(a) Intrinsic value of restricted stock outstanding is based on the market price of Rayonier’s stock at December 31, 2019.

	2019	
	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested Restricted Shares at January 1,	317,499	$30.64
Granted	—	—
Vested	(142,778)	32.07
Cancelled	(5,607)	29.99
Non-vested Restricted Shares at December 31,	169,114	$29.45

RESTRICTED STOCK UNITS

In April 2019, Rayonier began granting restricted stock units instead of restricted stock to both employees and members of the board of directors. All attributes of Rayonier’s restricted stock described herein, including vesting characteristics, dividend payments, fair value measurement and expense recognition, apply equally to restricted stock units granted under the Stock Plan.

As of December 31, 2019, there was $2.7 million of unrecognized compensation cost attributable to Rayonier’s restricted stock units. The Company expects to recognize this cost over a weighted average period of 3.9 years.

A summary of Rayonier’s restricted stock units is presented below:

	2019	2018	2017
Restricted stock units granted	128,226	—	—
Weighted average price of restricted stock units granted	$31.39	—	—
Intrinsic value of restricted stock units outstanding (a)	3,351	—	—
Grant date fair value of restricted stock units vested	762	—	—
Cash used to purchase common shares from current and former employees to pay minimum withholding tax requirements on restricted stock units vested	$1	—	—

(a) Intrinsic value of restricted stock units outstanding is based on the market price of Rayonier’s stock at December 31, 2019.

	2019	
	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested Restricted Stock Units at January 1,	—	—
Granted	128,226	31.39
Vested	(24,664)	30.90
Cancelled	(1,265)	31.77
Non-vested Restricted Stock Units at December 31,	102,297	$31.50

(Dollar amounts in thousands unless otherwise stated)

PERFORMANCE SHARE UNITS

Rayonier’s performance share units generally vest upon completion of a three-year period. The number of shares, if any, that are ultimately awarded is contingent upon Rayonier’s total shareholder return versus selected peer group companies. The performance share payout is based on a market condition, and as such, the awards are valued using a Monte Carlo simulation model. The model generates the fair value of the award at the grant date, which is then recognized as expense on a straight-line basis over the vesting period. Additionally, Rayonier does not estimate a forfeiture rate for non-vested units. As such, unexpected forfeitures will lower stock-based compensation during the period in which they occur.

The Stock Plan allows for the cash settlement of the minimum required withholding tax on performance share unit awards. As of December 31, 2019, there was $5.1 million of unrecognized compensation cost related to Rayonier’s performance share unit awards, which is attributable to awards granted in 2017, 2018 and 2019. This cost is expected to be recognized over a weighted average period of 1.8 years.

A summary of Rayonier’s performance share units is presented below:

	2019	2018	2017
Common shares reserved for performance shares granted during year	232,684	213,154	226,448
Weighted average fair value of performance share units granted	$35.99	$40.27	$32.17
Intrinsic value of outstanding performance share units (a)	10,758	9,229	10,414
Fair value of performance shares vested	6,387	5,670	—
Cash used to purchase common shares from current and former employees to pay minimum withholding tax requirements on performance shares vested	2,639	2,651	—

(a) Intrinsic value of outstanding performance share units is based on the market price of Rayonier's stock at December 31, 2019.

	2019	
	Number of Units	Weighted Average Grant Date Fair Value
Outstanding Performance Share units at January 1,	333,282	$33.60
Granted	116,342	35.99
Units Distributed	(114,563)	28.78
Other Cancellations/Adjustments	(6,675)	36.61
Outstanding Performance Share units at December 31,	328,386	$36.06

Expected volatility was estimated using daily returns on Rayonier’s common shares for the three-year period ending on the grant date. The risk-free rate was based on the 3-year U.S. treasury rate on the date of the award. The dividend yield was not used to calculate fair value as awards granted receive dividend equivalents. The following table provides an overview of the assumptions used in calculating the fair value of the awards granted for the three years ended December 31, 2019:

	2019	2018	2017
Expected volatility	18.4 %	20.8 %	23.3 %
Risk-free rate	2.3 %	2.4 %	1.5 %

(Dollar amounts in thousands unless otherwise stated)

17. OTHER OPERATING (EXPENSE) INCOME, NET

The following table provides the composition of Other operating (expense) income, net for the three years ended December 31:

	2019	2018	2017
(Loss) gain on foreign currency remeasurement, net of cash flow hedges	($3,077)	$370	$3,044
Gain (loss) on sale or disposal of property plant & equipment	56	7	(68)
Income from sale of unused Internet Protocol addresses	—	646	—
Log trading marketing fees	314	286	1,222
Income from New Zealand Timber settlement	—	—	420
Miscellaneous expense, net	(1,826)	(157)	(225)
Total	($4,533)	$1,152	$4,393

18. INVENTORY

As of December 31, 2019 and 2018, the Company's inventory was solely comprised of finished goods, as follows:

	2019	2018
Finished goods inventory		
Real estate inventory (a)	$12,663	$11,919
Log inventory	1,855	3,784
Total inventory	$14,518	$15,703

(a) Represents the cost of HBU real estate (including capitalized development investments) under contract to be sold. See Note 7 — Higher and Better Use Timberlands and Real Estate Development Investments for additional information.

19. RESTRICTED CASH

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 that the LKE purchases are not completed, the proceeds are returned to the Company after 180 days and reclassified as available cash. As of December 31, 2019 and 2018, the Company had $1.2 million and $8.1 million, respectively, of proceeds from real estate sales classified as restricted cash which were deposited with an LKE intermediary as well as cash held in escrow for real estate development obligations.

The following table contains the amount of restricted cash recorded in the Consolidated Balance Sheets and Consolidated Statements of Cash Flows for the years ended December 31:

	2019	2018
Restricted cash deposited with LKE intermediary	$758	$7,530
Restricted cash held in escrow	475	550
Total restricted cash shown in the Consolidated Balance Sheets	1,233	8,080
Cash and cash equivalents	68,434	148,013
Total cash, cash equivalents and restricted cash shown in the Consolidated Statements of Cash Flows	$69,667	$156,093

(Dollar amounts in thousands unless otherwise stated)

20. OTHER ASSETS

Included in Other Assets are derivatives, goodwill in the New Zealand subsidiary, long-term prepaid roads, marketable equity securities and other deferred expenses including deferred financing costs related to revolving debt and capitalized software costs.

See Note 13 — Derivative Financial Instruments and Hedging Activities for further information on derivatives including their classification on the Consolidated Balance Sheets.

Changes in goodwill for the years ended December 31, 2019 and 2018 were:

	2019	2018
Balance, January 1 (net of $0 of accumulated impairment)	$8,307	$8,776
Changes to carrying amount		
Acquisitions	—	—
Impairment	—	—
Foreign currency adjustment	304	(469)
Balance, December 31 (net of $0 of accumulated impairment)	$8,611	$8,307

See Note 1 — Summary of Significant Accounting Policies for additional information on goodwill.

As of December 31, 2019 and 2018, the Company's prepaid logging and secondary roads follows:

	2019	2018
Long-term and prepaid and secondary roads		
Pacific Northwest long-term prepaid roads	$4,198	$4,000
New Zealand long-term secondary roads	4,265	3,072
Total long-term prepaid and secondary roads	$8,463	$7,072

See Note 1 — Summary of Significant Accounting Policies for additional information on prepaid logging roads.

As of December 31, 2019 and 2018, the Company's deferred financing costs related to revolving debt follows:

	2019	2018
Deferred financing costs related to revolving debt	$102	$213

See Note 1 — Summary of Significant Accounting Policies for additional information on deferred financing costs related to revolving debt.

As of December 31, 2019 and 2018, the Company's capitalized software costs follows:

	2019	2018
Capitalized software costs	$3,605	$3,776

See Note 1 — Summary of Significant Accounting Policies for additional information on capitalized software costs.

As of December 31, 2019 and 2018, the Company's investments in marketable equity securities follows:

	2019	2018
Investments in marketable equity securities	$10,582	—

See Note 1 — Summary of Significant Accounting Policies for additional information on investments in marketable equity securities. As of December 31, 2019, the Company's investments in marketable equity securities consist entirely of 114,400 limited partnership units of Pope Resources, originally purchased in an open-market transaction at $65.90 per unit.

(Dollar amounts in thousands unless otherwise stated)

21. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The following table summarizes the changes in AOCI by component for the years ended December 31, 2019 and 2018. All amounts are presented net of tax effect and exclude portions attributable to noncontrolling interest.

	Foreign currency translation gains/(losses)	Net investment hedges of New Zealand JV	Cash flow hedges	Employee benefit plans	Total
Balance as of December 31, 2017	$15,975	$1,665	$16,184	($20,407)	$13,417
Other comprehensive (loss) income before reclassifications	(16,985)	(344)	5,944	(1,594)	(12,979)
Amounts reclassified from accumulated other comprehensive (loss) income	—	—	(163)	(36)	(199)
Net other comprehensive (loss) income	(16,985)	(344)	5,781	(1,630)	(13,178)
Balance as of December 31, 2018	($1,010)	$1,321	$21,965	($22,037)	$239
Other comprehensive (loss) income before reclassifications	784	—	(31,547) (a)	(1,799)	(32,562)
Amounts reclassified from accumulated other comprehensive (loss) income	—	—	672	449 (b)	1,121
Net other comprehensive (loss) income	784	—	(30,875)	(1,350)	(31,441)
Balance as of December 31, 2019	($226)	$1,321	($8,910)	($23,387)	($31,202)

(a) Includes $32.2 million of other comprehensive loss related to interest rate swaps. See Note 13 — Derivative Financial Instruments and Hedging Activities for additional information.

(b) This component of other comprehensive (loss) income is included in the computation of net periodic pension cost. See Note 15 — Employee Benefit Plans for additional information.

The following table presents details of the amounts reclassified in their entirety from AOCI for the years ended December 31, 2019 and 2018:

Details about accumulated other comprehensive (loss) income components	Amount reclassified from accumulated other comprehensive (loss) income 2019	2018	Affected line item in the income statement
Realized (gain) loss on foreign currency exchange contracts	$1,246	($121)	Other operating income, net
Realized (gain) loss on foreign currency option contracts	(33)	(173)	Other operating income, net
Noncontrolling interest	(279)	68	Comprehensive income (loss) attributable to noncontrolling interest
Income tax expense (benefit) from foreign currency contracts	(262)	63	Income tax expense (Note 10)
Net (gain) loss on cash flow hedges reclassified from accumulated other comprehensive income	$672	($163)	

RAYONIER OPERATING COMPANY LLC AND SUBSIDIARIES
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
Years Ended December 31, 2019, 2018, and 2017
(In Thousands)

Description	Balance at Beginning of Year	Additions Charged to Cost and Expenses		Deductions	Balance at End of Year
Allowance for doubtful accounts:					
Year ended December 31, 2019	$8	16		—	$24
Year ended December 31, 2018	23	—		(15)	8
Year ended December 31, 2017	33	—		(10)	23
Deferred tax asset valuation allowance:					
Year ended December 31, 2019	$38,839	481	(a)	—	$39,320
Year ended December 31, 2018	34,889	3,950	(a)	—	38,839
Year ended December 31, 2017	21,861	13,028	(a)	—	34,889

(a) The 2019, 2018 and 2017 increase is comprised of valuation allowance against the TRS deferred tax assets.

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

EXHIBIT 99.5

RAYONIER OPERATING COMPANY LLC AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

THREE MONTHS ENDED MARCH 31, 2020 AND 2019

RAYONIER OPERATING COMPANY LLC AND SUBSIDIARIES

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RAYONIER OPERATING COMPANY LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME
(Unaudited)
(Dollars in thousands)

	Three Months Ended March 31,	
	2020	**2019**
SALES (NOTE 2)	$259,130	$191,546
Costs and Expenses		
Cost of sales	(209,499)	(143,251)
Selling and general expenses	(9,968)	(9,810)
Other operating (expense) income, net (Note 15)	(1,111)	35
	(220,578)	(153,026)
OPERATING INCOME	38,552	38,520
Interest expense	(5,077)	(4,571)
Interest and other miscellaneous income, net	248	1,789
INCOME BEFORE INCOME TAXES	33,723	35,738
Income tax expense (Note 9)	(3,706)	(4,349)
NET INCOME	30,017	31,389
Less: Net income attributable to noncontrolling interest	(567)	(2,999)
NET INCOME ATTRIBUTABLE TO RAYONIER OPERATING COMPANY	29,450	28,390
OTHER COMPREHENSIVE (LOSS) INCOME		
Foreign currency translation adjustment, net of income tax effect of $0, and $0	(44,023)	6,033
Cash flow hedges, net of income tax effect of $1,857 and $335	(83,475)	(10,686)
Amortization of pension and postretirement plans, net of income tax expense of $0 and $0	217	112
Total other comprehensive loss	(127,281)	(4,541)
COMPREHENSIVE (LOSS) INCOME	(97,264)	26,848
Less: Comprehensive loss (income) attributable to noncontrolling interest	10,661	(4,551)
COMPREHENSIVE (LOSS) INCOME ATTRIBUTABLE TO RAYONIER OPERATING COMPANY	($86,603)	$22,297

See Notes to Consolidated Financial Statements.

RAYONIER OPERATING COMPANY LLC AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Dollars in thousands)

	March 31, 2020	December 31, 2019
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$126,260	$68,434
Accounts receivable, less allowance for doubtful accounts of $25 and $24	28,295	27,127
Inventory (Note 16)	13,093	14,518
Prepaid expenses	14,941	14,728
Other current assets	384	867
Total current assets	182,973	125,674
TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION	2,355,581	2,482,047
HIGHER AND BETTER USE TIMBERLANDS AND REAL ESTATE DEVELOPMENT INVESTMENTS (NOTE 7)	88,833	81,791
PROPERTY, PLANT AND EQUIPMENT		
Land	4,131	4,131
Buildings	22,933	23,095
Machinery and equipment	4,346	4,339
Construction in progress	349	348
Total property, plant and equipment, gross	31,759	31,913
Less — accumulated depreciation	(9,950)	(9,662)
Total property, plant and equipment, net	21,809	22,251
RESTRICTED CASH (NOTE 17)	475	1,233
RIGHT-OF-USE ASSETS (NOTE 3)	91,953	99,942
OTHER ASSETS	40,022	47,757
TOTAL ASSETS	$2,781,646	$2,860,695
LIABILITIES AND MEMBER'S EQUITY		
CURRENT LIABILITIES		
Accounts payable	$20,837	$18,160
Current maturities of long-term debt (Note 6)	—	82,000
Accrued taxes	3,416	3,032
Accrued payroll and benefits	3,802	8,869
Accrued interest	1,946	2,162
Deferred revenue	6,718	11,440
Other current liabilities	26,459	22,480
Total current liabilities	63,178	148,143
LONG-TERM DEBT, NET OF DEFERRED FINANCING COSTS (NOTE 6)	731,007	648,958
PENSION AND OTHER POSTRETIREMENT BENEFITS (NOTE 14)	24,658	25,311
LONG-TERM LEASE LIABILITY (NOTE 3)	83,358	90,481
OTHER NON-CURRENT LIABILITIES	155,522	83,247
COMMITMENTS AND CONTINGENCIES (NOTES 8 and 10)		
MEMBER'S EQUITY		
Equity	1,784,903	1,798,096
Accumulated other comprehensive loss (Note 18)	(147,255)	(31,202)
TOTAL CONTROLLING INTEREST MEMBER'S EQUITY	1,637,648	1,766,894
Noncontrolling interest	86,275	97,661
TOTAL MEMBER'S EQUITY	1,723,923	1,864,555
TOTAL LIABILITIES AND MEMBER'S EQUITY	$2,781,646	$2,860,695

See Notes to Consolidated Financial Statements.

RAYONIER OPERATING COMPANY LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF MEMBER'S EQUITY
(Unaudited)
(Dollars in thousands)

	Member's Equity	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total Member's Equity
Balance, January 1, 2020	$1,798,096	($31,202)	$97,661	$1,864,555
Net income	29,450	—	567	30,017
Distributions to Rayonier Inc.	(42,643)	—	—	(42,643)
Amortization of pension and postretirement plan liabilities	—	217	—	217
Foreign currency translation adjustment	—	(33,894)	(10,129)	(44,023)
Cash flow hedges	—	(82,376)	(1,099)	(83,475)
Distribution to minority shareholder	—	—	(725)	(725)
Balance, March 31, 2020	$1,784,903	($147,255)	$86,275	$1,723,923

	Member's Equity	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total Member's Equity
Balance, January 1, 2019	$1,883,122	$239	$97,677	$1,981,038
Net income	28,390	—	2,999	31,389
Distributions to Rayonier Inc.	(49,694)	—	—	(49,694)
Amortization of pension and postretirement plan liabilities	—	112	—	112
Foreign currency translation adjustment	—	4,680	1,353	6,033
Cash flow hedges	—	(10,884)	198	(10,686)
Distribution to minority shareholder	—	—	(3,594)	(3,594)
Balance, March 31, 2019	$1,861,818	($5,853)	$98,633	$1,954,598

See Notes to Consolidated Financial Statements.

RAYONIER OPERATING COMPANY LLC AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

	Three Months Ended March 31,	
	2020	2019
OPERATING ACTIVITIES		
Net income	$30,017	$31,389
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, depletion and amortization	34,329	36,491
Non-cash cost of land and improved development	412	4,030
Stock-based incentive compensation expense	1,510	1,477
Deferred income taxes	3,361	3,705
Amortization of losses from pension and postretirement plans	217	112
Gain on sale of large disposition of timberlands	(28,655)	—
Other	(2,571)	(1,648)
Changes in operating assets and liabilities:		
Receivables	(5,316)	(8,195)
Inventories	(3,618)	(1,343)
Accounts payable	3,353	6,389
All other operating activities	(3,403)	(1,033)
CASH PROVIDED BY OPERATING ACTIVITIES	29,636	71,374
INVESTING ACTIVITIES		
Capital expenditures	(17,176)	(14,122)
Real estate development investments	(1,727)	(1,677)
Purchase of timberlands	(24,122)	(12,349)
Net proceeds from large disposition of timberlands	115,666	—
Other	2,070	2,337
CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	74,711	(25,811)
FINANCING ACTIVITIES		
Issuance of debt	20,000	—
Repayment of debt	(20,000)	—
Distributions to Rayonier Inc.	(44,251)	(51,016)
Distribution to minority shareholder	(725)	(3,594)
CASH USED FOR FINANCING ACTIVITIES	(44,976)	(54,610)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(2,303)	843
CASH, CASH EQUIVALENTS AND RESTRICTED CASH		
Change in cash, cash equivalents and restricted cash	57,068	(8,204)
Balance, beginning of year	69,667	156,093
Balance, end of period	$126,735	$147,889
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period:		
Interest (a)	$2,595	$2,120
Income taxes	185	631
Non-cash investing activity:		
Capital assets purchased on account	4,215	3,354

(a) Interest paid is presented net of patronage payments received of $4.3 million and $3.9 million for the three months ended March 31, 2020 and March 31, 2019, respectively.

See Notes to Consolidated Financial Statements.

RAYONIER OPERATING COMPANY LLC AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollar amounts in thousands unless otherwise stated)

1. ORGANIZATION, NATURE OF BUSINESS AND BASIS OF PRESENTATION

ORGANIZATION

Rayonier Operating Company LLC (“Rayonier Operating Company,” or “the Company”) is a Delaware limited liability company organized on June 3, 2010 as a wholly owned subsidiary of Rayonier Inc. (“Rayonier,” or “Parent”), the sole member of Rayonier Operating Company. Rayonier Inc. is a North Carolina Corporation with shares publicly traded on the NYSE under the symbol “RYN.” On July 29, 2010, Rayonier contributed to Rayonier Operating Company, and its successors, all interest of Rayonier including all properties and assets in exchange for the assumption of all liabilities related to the contributed assets. Following the contribution, substantially all of Rayonier assets are held by, and Rayonier operations are conducted through Rayonier Operating Company. Rayonier Operating Company currently does not have any publicly traded equity.

NATURE OF BUSINESS

The Company is a subsidiary of Rayonier Inc., a leading timberland real estate investment trust (“REIT”) with assets located in some of the most productive softwood timber growing regions in the United States and New Zealand. The Company invests in timberlands and actively manages them to provide current income and attractive long-term returns to unitholders. Revenues, operating income and cash flows are primarily derived from the following core business segments: Southern Timber, Pacific Northwest Timber, New Zealand Timber, Real Estate and Trading. As of March 31, 2020, the Company owned or leased under long-term agreements approximately 2.6 million acres of timberlands located in the U.S. South (1.8 million acres), U.S. Pacific Northwest (384,000 acres) and New Zealand (415,000 gross acres or 295,000 net plantable acres). New Zealand operations are conducted by Matariki Forestry Group, a joint venture (the “New Zealand subsidiary”), in which the Company maintains a 77% ownership interest.

BASIS OF PRESENTATION

The unaudited consolidated financial statements and notes thereto of Rayonier Operating Company LLC and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”). The year-end balance sheet information was derived from audited financial statements not included herein. In the opinion of management, these financial statements and notes reflect any adjustments (all of which are normal recurring adjustments) necessary for a fair presentation of the results of operations, financial position and cash flows for the periods presented. These statements and notes should be read in conjunction with the audited consolidated financial statements as of and for the years ended December 31, 2019, 2018 and 2017 included in Exhibit 99.4 of the Company’s Amendment No. 1 to the Current Report on Form 8-K filed with the SEC on July 17, 2020.

SUMMARY OF UPDATES TO SIGNIFICANT ACCOUNTING POLICIES

For a full description of our other significant accounting policies, see Note 1 — *Summary of Significant Accounting Policies* in the audited consolidated financial statements as of and for the years ended December 31, 2019, 2018 and 2017 included in Exhibit 99.4 of the Company’s Amendment No. 1 to the Current Report on Form 8-K filed with the SEC on July 17, 2020.

RECENTLY ADOPTED STANDARDS

The Company adopted Accounting Standards Update (“ASU”) No. 2016-13, *Financial Instruments-Credit Losses (Topic 326)* on January 1, 2020, with no material impact on the consolidated financial statements.

NEW ACCOUNTING STANDARDS

In March 2020, the FASB issued ASU No. 2020-04, *Reference Rate Reform (Topic 848)*, which provides optional guidance to ease the potential burden in accounting due to reference rate reform. The guidance in this update provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships and other transactions affected by reference rate reform if certain criteria are met. The amendments apply only to contracts and hedging relationships that reference LIBOR or another reference rate expected to be discontinued due to reference rate reform. These amendments are effective immediately and may be applied prospectively to contract modifications made and hedging relationships entered into on or before December 31, 2022. The Company is currently evaluating its contracts and the optional expedients provided by the new standard.

In December 2019, the FASB issued ASU No. 2019-12, *Income Taxes (Topic 740) - Simplifying the Accounting for Income Taxes*. The guidance issued in this update simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. ASU No. 2019-12 also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The standard will be effective for annual reporting periods beginning after December 15, 2020, including interim reporting periods within those fiscal years. The Company is currently evaluating the impact of adopting this new accounting guidance on our consolidated financial statements.

SUBSEQUENT EVENTS

Entry into Debt Agreements

See Note 6 — Debt for information regarding subsequent events related to the Company's debt agreements.

Change in Reporting Entity

On May 7, 2020, Rayonier Inc. contributed its 100% ownership interest in Rayonier Operating Company LLC (the "Contribution") to Rayonier, L.P., a Delaware limited partnership ("Rayonier, L.P." or "Operating Partnership").

Third Supplemental Indenture

As a result of the Contribution, which constituted the transfer of all or substantially all of Rayonier's assets under the terms of the Indenture, dated March 5, 2012 (as supplemented and amended from time to time, the "Indenture"), between Rayonier, as issuer, the subsidiary guarantors party thereto and The Bank of New York Mellon Trust Company, N.A., as trustee, Rayonier, L.P. expressly assumed all the obligations of Rayonier under the Indenture, including obligations with respect to the outstanding $325,000,000 in aggregate principal amount of 3.750% Senior Notes due 2022 (the "2022 Notes") issued thereunder.

On May 7, 2020, Rayonier, Rayonier, L.P., the subsidiary guarantors party thereto and the Trustee entered into the Third Supplemental Indenture, pursuant to which (1) Rayonier, L.P. succeeded to and became substituted for the Company under the Indenture and 2022 Notes and expressly assumed all the obligations of the Company under the Indenture, including obligations with respect to the 2022 Notes, and (2) Rayonier agreed to irrevocably, fully and unconditionally guarantee, jointly and severally, the obligations of Rayonier, L.P. under Indenture, including the 2022 Notes.

Merger with Pope Resources

On May 8, 2020, Rayonier, L.P. acquired Pope Resources, a Delaware Limited Partnership ("Pope"), and became the general partner of Pope. The acquisition occurred pursuant to a series of mergers (the "Mergers") provided for in an Agreement and Plan of Merger, dated as of January 14, 2020, as amended by Amendment No. 1, dated as of April 1, 2020 (as amended, the "Merger Agreement"), by and among Rayonier, Rayonier, L.P., Rayonier Operating Company LLC, Rayonier Operating Company Holdings, LLC, Pacific GP Merger Sub I, LLC, Pacific GP Merger Sub II, LLC, Pacific LP Merger Sub III, LLC, Pope, Pope EGP, Inc. and Pope MGP, Inc. Following the Mergers, Rayonier holds an approximate 96.5% ownership interest in the Operating Partnership, with the remaining 3.5% ownership interest owned by limited partners of Rayonier, L.P. that are former Pope Resources unitholders. As the sole general partner of Rayonier, L.P., Rayonier will have exclusive control of the day-to-day management of Rayonier, L.P.

(Dollar amounts in thousands unless otherwise stated)

2. REVENUE

PERFORMANCE OBLIGATIONS

The Company recognizes revenues when control of promised goods or services (“performance obligations”) is transferred to customers, in an amount that reflects the consideration expected in exchange for those goods or services (“transaction price”). The Company generally satisfies performance obligations within a year of entering into a contract and therefore has applied the disclosure exemption found under ASC 606-10-50-14. Unsatisfied performance obligations as of March 31, 2020 are primarily due to advances on stumpage contracts and unearned license revenue. These performance obligations are expected to be satisfied within the next twelve months. The Company generally collects payment within a year of satisfying performance obligations and therefore has elected not to adjust revenues for a financing component.

CONTRACT BALANCES

The timing of revenue recognition, invoicing and cash collections results in accounts receivable and deferred revenue (contract liabilities) on the Consolidated Balance Sheets. Accounts receivable are recorded when the Company has an unconditional right to consideration for completed performance under the contract. Contract liabilities relate to payments received in advance of performance under the contract. Contract liabilities are recognized as revenue as (or when) the Company performs under the contract.

The following table summarizes revenue recognized during the three months ended March 31, 2020 and 2019 that was included in the contract liability balance at the beginning of each year:

	Three Months Ended March 31,	
	2020	2019
Revenue recognized from contract liability balance at the beginning of the year (a)	$6,425	$5,356

(a) Revenue recognized was primarily from hunting licenses and the use of advances on pay-as-cut timber sales.

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The following tables present our revenue from contracts with customers disaggregated by product type for the three months ended March 31, 2020 and 2019:

Three Months Ended	Southern Timber	Pacific Northwest Timber	New Zealand Timber	Real Estate	Trading	Elim.	Total
March 31, 2020							
Pulpwood	$27,493	$3,127	$4,847	—	$2,530	—	$37,997
Sawtimber	19,509	27,445	30,788	—	16,112	—	93,854
Hardwood	481	—	—	—	—	—	481
Total Timber Sales	47,483	30,572	35,635	—	18,642	—	132,332
License Revenue, Primarily From Hunting	4,589	97	57	—	—	—	4,743
Other Non-Timber/Carbon Revenue	910	406	1,846	—	—	—	3,162
Agency Fee Income	—	—	—	—	329	—	329
Total Non-Timber Sales	5,499	503	1,903	—	329	—	8,234
Improved Development	—	—	—	—	—	—	—
Unimproved Development	—	—	—	—	—	—	—
Rural	—	—	—	2,397	—	—	2,397
Timberlands & Non-Strategic	—	—	—	—	—	—	—
Other	—	—	—	140	—	—	140
Large Dispositions	—	—	—	116,027	—	—	116,027
Total Real Estate Sales	—	—	—	118,564	—	—	118,564
Revenue from Contracts with Customers	52,982	31,075	37,538	118,564	18,971	—	259,130
Intersegment	—	—	—	—	13	(13)	—
Total Revenue	$52,982	$31,075	$37,538	$118,564	$18,984	($13)	$259,130
March 31, 2019							
Pulpwood	$26,799	$2,820	$8,767	—	$4,326	—	$42,712
Sawtimber	23,152	17,277	45,863	—	27,512	—	113,804
Hardwood	1,086	—	—	—	—	—	1,086
Total Timber Sales	51,037	20,097	54,630	—	31,838	—	157,602
License Revenue, Primarily from Hunting	4,026	4	53	—	—	—	4,083
Other Non-Timber/Carbon Revenue	5,783	434	2,447	—	—	—	8,664
Agency Fee Income	—	—	—	—	198	—	198
Total Non-Timber Sales	9,809	438	2,500	—	198	—	12,945
Improved Development	—	—	—	341	—	—	341
Unimproved Development	—	—	—	1,000	—	—	1,000
Rural	—	—	—	12,665	—	—	12,665
Timberlands & Non-Strategic	—	—	—	6,934	—	—	6,934
Other	—	—	—	59	—	—	59
Total Real Estate Sales	—	—	—	20,999	—	—	20,999
Revenue from Contracts with Customers	60,846	20,535	57,130	20,999	32,036	—	191,546
Intersegment	—	—	—	—	29	(29)	—
Total Revenue	$60,846	$20,535	$57,130	$20,999	$32,065	($29)	$191,546

RAYONIER OPERATING COMPANY LLC AND SUBSIDIARIES
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The following tables present our timber sales disaggregated by contract type for the three months ended March 31, 2020 and 2019:

Three Months Ended	Southern Timber	Pacific Northwest Timber	New Zealand Timber	Trading	Total
March 31, 2020					
Stumpage Pay-as-Cut	$25,407	—	—	—	$25,407
Stumpage Lump Sum	388	5,131	—	—	5,519
Total Stumpage	25,795	5,131	—	—	30,926
Delivered Wood (Domestic)	21,060	25,441	13,691	472	60,664
Delivered Wood (Export)	628	—	21,944	18,170	40,742
Total Delivered	21,688	25,441	35,635	18,642	101,406
Total Timber Sales	$47,483	$30,572	$35,635	$18,642	$132,332
March 31, 2019					
Stumpage Pay-as-Cut	$28,008	—	—	—	$28,008
Stumpage Lump Sum	2,095	—	—	—	2,095
Total Stumpage	30,103	—	—	—	30,103
Delivered Wood (Domestic)	19,338	20,097	20,700	2,124	62,259
Delivered Wood (Export)	1,596	—	33,930	29,714	65,240
Total Delivered	20,934	20,097	54,630	31,838	127,499
Total Timber Sales	$51,037	$20,097	$54,630	$31,838	$157,602

3. LEASES

TIMBERLAND LEASES

U.S. timberland leases typically have initial terms of approximately 30 to 65 years, with renewal provisions in some cases. New Zealand timberland lease terms typically range between 30 and 99 years. New Zealand lease arrangements generally consist of Crown Forest Licenses (“CFLs”), forestry rights and land leases. A CFL is a license arrangement to use government or privately owned land to operate a commercial forest. CFLs generally extend indefinitely and may only be terminated upon a 35-year termination notice. If no termination notice is given, the CFLs renew automatically each year for a one-year term. Alternatively, some CFLs extend for a specific term. Once a CFL is terminated, the Company may be able to obtain a forestry right from the subsequent owner. A forestry right is a license arrangement with a private entity to use their lands to operate a commercial forest. Forestry rights terminate either upon the issuance of a termination notice (which can last 35 to 45 years), completion of harvest, or a specified termination date.

As of March 31, 2020, the New Zealand subsidiary has two CFLs comprising 9,000 acres under termination notice that are being relinquished as harvest activities are concluded, as well as two fixed-term CFLs comprising 3,000 acres expiring in 2062. Additionally, the New Zealand subsidiary has two forestry rights comprising 32,000 acres under termination notice that are being relinquished as harvest activities are concluded.

OTHER NON-TIMBERLAND LEASES

In addition to timberland holdings, the Company leases properties for certain office locations. Significant leased properties include a regional office in Lufkin, Texas; a Pacific Northwest Timber office in Hoquiam, Washington and a New Zealand Timber and Trading headquarters in Auckland, New Zealand.

RAYONIER OPERATING COMPANY LLC AND SUBSIDIARIES
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LEASE MATURITIES, LEASE COST AND OTHER LEASE INFORMATION

The following table details the Company's undiscounted lease obligations as of March 31, 2020 by type of lease and year of expiration:

Lease obligations	Total	Year of Expiration: Remaining 2020	2021	2022	2023	2024	Thereafter
Operating lease liabilities	$171,497	$7,274	$8,700	$7,852	$7,799	$7,667	$132,205
Total Undiscounted Cash Flows	$171,497	$7,274	$8,700	$7,852	$7,799	$7,667	$132,205
Imputed interest	(78,964)						
Balance at March 31, 2020	92,533						
Less: Current portion	(9,175)						
Non-current portion at March 31, 2020	$83,358						

The following table details components of the Company's lease cost for the three months ended March 31, 2020 and March 31, 2019:

Lease Cost Components	Three Months Ended March 31, 2020	2019
Operating lease cost	$2,098	$2,437
Variable lease cost (a)	78	76
Total lease cost (b)	$2,176	$2,513

(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) Short-term leases with an initial term of 12 months or less are not recorded on the balance sheet. Lease expense for these leases are expensed on a straight line basis over the lease term. Short-term lease expense was not material for the three months ended March 31, 2020.

The following table provides supplemental cash flow information related to the Company's leases for the three months ended March 31, 2020 and March 31, 2019:

Supplemental cash flow information related to leases:	Three Months Ended March 31, 2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$741	$973
Investing cash flows from operating leases	1,357	1,464
Total cash flows from operating leases	$2,098	$2,437
Weighted-average remaining lease term in years - operating leases	28	29
Weighted-average discount rate - operating leases	5 %	5 %

(Dollar amounts in thousands unless otherwise stated)

The Company applies the following practical expedients as allowed under ASC 842:

Practical Expedient	Description
Short-term leases	The Company does not record right-of-use assets or lease liabilities for short-term leases (a lease that at commencement date has a lease term of 12 months or less and does not contain a purchase option that is reasonably certain to be exercised).
Separation of lease and non-lease components	The Company does not separate non-lease components from the associated lease components if they have the same timing and pattern of transfer and, if accounted for separately, would both be classified as an operating lease.

4. NEW ZEALAND SUBSIDIARY

The Company maintains a 77% controlling financial interest in Matariki Forestry Group, a joint venture that owns or leases approximately 415,000 legal acres of New Zealand timberland. Accordingly, the Company consolidates the New Zealand subsidiary's balance sheet and results of operations. The portions of the consolidated financial position and results of operations attributable to the New Zealand subsidiary's 23% noncontrolling interest are shown separately within the Consolidated Statements of Income and Comprehensive Income and Consolidated Statements of Shareholders' Equity. Rayonier New Zealand Limited ("RNZ"), a wholly-owned subsidiary of Rayonier Operating Company, serves as the manager of the New Zealand subsidiary.

5. SEGMENT AND GEOGRAPHICAL INFORMATION

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 segment operating income (loss) and Adjusted EBITDA. Asset information is not reported by segment, as the Company does not produce asset information by segment internally.

Operating income as presented in the Consolidated Statements of Income and Comprehensive Income is equal to segment income. Certain income (loss) items in the Consolidated Statements of Income and Comprehensive Income are not allocated to segments. These items, which include interest income (expense), miscellaneous income (expense) and income tax expense, are not considered by management to be part of segment operations and are included under "unallocated interest expense and other."

The following tables summarize the segment information for the three months ended March 31, 2020 and 2019:

	Three Months Ended March 31,	
SALES	**2020**	**2019**
Southern Timber	$52,982	$60,846
Pacific Northwest Timber	31,075	20,535
New Zealand Timber	37,538	57,130
Real Estate (a)	118,564	20,999
Trading	18,984	32,065
Intersegment Eliminations	(13)	(29)
Total	$259,130	$191,546

(a) The three months ended March 31, 2020 includes $116.0 million from a Large Disposition.

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	Three Months Ended March 31,	
OPERATING INCOME (LOSS)	**2020**	**2019**
Southern Timber	$15,070	$21,520
Pacific Northwest Timber	(948)	(3,741)
New Zealand Timber	5,448	15,720
Real Estate (a)	26,774	10,027
Trading	(19)	480
Corporate and Other	(7,773)	(5,486)
Total Operating Income	38,552	38,520
Unallocated interest expense and other	(4,829)	(2,782)
Total Income before Income Taxes	$33,723	$35,738

(a) The three months ended March 31, 2020 includes $28.7 million from a Large Disposition.

	Three Months Ended March 31,	
DEPRECIATION, DEPLETION AND AMORTIZATION	**2020**	**2019**
Southern Timber	$18,182	$19,727
Pacific Northwest Timber	10,702	6,826
New Zealand Timber	4,774	6,319
Real Estate (a)	35,745	3,335
Corporate and Other	297	284
Total	$69,700	$36,491

(a) The three months ended March 31, 2020 includes $35.4 million from a Large Disposition.

	Three Months Ended March 31,	
NON-CASH COST OF LAND AND IMPROVED DEVELOPMENT	**2020**	**2019**
Real Estate (a)	$52,051	$4,030
Total	$52,051	$4,030

(a) The three months ended March 31, 2020 includes $51.6 million from a Large Disposition.

RAYONIER OPERATING COMPANY LLC AND SUBSIDIARIES
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6. DEBT

Rayonier Operating Company’s debt consisted of the following at March 31, 2020:

	March 31, 2020
Term Credit Agreement borrowings due 2024 at a variable interest rate of 3.0% at March 31, 2020 (a)(c)	$350,000
Incremental Term Loan Agreement borrowings due 2026 at a variable interest rate of 3.5% at March 31, 2020 (b)	300,000
Revolving Credit Facility borrowings due 2020 at an average variable interest rate of 3.5% at March 31, 2020 (c)(d)	82,000
Total debt	732,000
Less: Deferred financing costs	(993)
Long-term debt, net of deferred financing costs	$731,007

(a) As of March 31, 2020 the periodic interest rate on the term loan facility was LIBOR plus 1.625%. The Company estimates the effective fixed interest rate on the term loan facility to be approximately 3.3% after consideration of interest rate swaps and estimated patronage refunds.

(b) As of March 31, 2020, the periodic interest rate on the incremental term loan was LIBOR plus 1.900%. The Company estimates the effective fixed interest rate on the incremental term loan facility to be approximately 2.8% after consideration of interest rate swaps and estimated patronage refunds.

(c) Maturity dates do not reflect amendments entered into after March 31, 2020. For additional information, see Subsequent Events Relating to Debt Agreements within this footnote below.

(d) The outstanding balance on the Revolving Credit Facility is classified as noncurrent in the Company’s Consolidated Balance Sheets at March 31, 2020, as Rayonier Operating Company has entered into an agreement to extend its maturity date. For additional information, see Subsequent Events Relating to Debt Agreements within this footnote below.

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

2020 (a)	$82,000
2021	—
2022	—
2023	—
2024	350,000
Thereafter	300,000
Total Debt	$732,000

(a) The outstanding balance on the Revolving Credit Facility is classified as noncurrent in the Company’s Consolidated Balance Sheets at March 31, 2020, as Rayonier Operating Company has entered into an agreement to extend its maturity date. For additional information, see Subsequent Events Relating to Debt Agreements within this footnote below.

2020 DEBT ACTIVITY

During the three months ended March 31, 2020, the Company made borrowings and repayments of $20.0 million on its Revolving Credit Facility**.** At March 31, 2020, the Company had available borrowings of $116.5 million under the Revolving Credit Facility, net of $1.5 million to secure its outstanding letters of credit.

During the three months ended March 31, 2020, the New Zealand subsidiary made no borrowings or repayments on its working capital facility. At March 31, 2020, the New Zealand subsidiary had NZ$20.0 million of available borrowings under its working capital facility.

(Dollar amounts in thousands unless otherwise stated)

DEBT COVENANTS

In connection with the Company's $350 million term credit agreement (the "Term Credit Agreement"), $300 million incremental term loan agreement (the "Incremental Term Loan Agreement") and $200 million revolving credit facility (the "Revolving Credit Facility"), customary covenants must be met, the most significant of which include interest coverage and leverage ratios.

The covenants listed below, which are the most significant financial covenants in effect as of March 31, 2020, are calculated on a trailing 12-month basis:

	Covenant Requirement	Actual Ratio	Favorable
Covenant EBITDA to consolidated interest expense should not be less than	2.5 to 1	10.3 to 1	7.8
Covenant debt to covenant net worth plus covenant debt shall not exceed	65 %	43 %	22 %

In addition to these financial covenants listed above, the Term Credit Agreement, Incremental Term Loan Agreement and Revolving Credit Facility include customary covenants that limit the incurrence of debt and the disposition of assets, among others. At March 31, 2020, the Company was in compliance with all applicable covenants.

SUBSEQUENT EVENTS RELATING TO DEBT AGREEMENTS

Term Credit Agreement

On April 1, 2020, the Company entered into a Second Amendment to the Credit Agreement to increase the limit on its Revolving Credit Facility from $200 million to $250 million and extend its maturity date from August 5, 2020 to April 1, 2025. Additionally, the maturity date of the Term Credit Agreement was extended from August 5, 2024 to April 1, 2028. The extension of the maturity dates of the Revolving Credit Facility and the Term Credit Agreement have been recognized in the Company's consolidated financial statements as of March 31, 2020.

On April 13, 2020, the Company entered into an Accordion Increase Agreement to further increase the limit on the Revolving Credit Facility from $250 million to $300 million.

2020 Incremental Term Loan Facility

On April 16, 2020, the Company entered into a Third Amendment and Incremental Term Loan Agreement which provided for the advancement of a five-year $250 million senior unsecured incremental term loan facility (the "2020 Incremental Term Loan Facility"). The Company intends to use the proceeds from the 2020 Incremental Term Loan Facility to fund its anticipated second quarter acquisition of Pope Resources.

3.75% Senior Notes Issued March 2012

In March 2012, Rayonier Inc. issued $325 million of 3.75% Senior Notes due 2022, guaranteed by certain subsidiaries. Semi annual payments of interest only are due on these notes through maturity. In connection with the Senior Notes, customary covenants that limit the incurrence of debt and the disposition of assets, among others.

On May 7, 2020, Rayonier, Rayonier, L.P., the subsidiary guarantors party thereto and the Trustee entered into the Third Supplemental Indenture, pursuant to which (1) Rayonier, L.P. succeeded to and became substituted for the Company under the Indenture and 2022 Notes and expressly assumed all the obligations of the Company under the Indenture, including obligations with respect to the 2022 Notes, and (2) Rayonier agreed to irrevocably, fully and unconditionally guarantee, jointly and severally, the obligations of Rayonier, L.P. under Indenture, including the 2022 Notes.

(Dollar amounts in thousands unless otherwise stated)

7. HIGHER AND BETTER USE TIMBERLANDS AND REAL ESTATE DEVELOPMENT INVESTMENTS

Rayonier Operating Company continuously assesses potential alternative uses of its timberlands, as some properties may become more valuable for development, residential, recreation or other purposes. The Company periodically transfers, via a sale or contribution from the real estate investment trust ("REIT") entities to taxable REIT subsidiaries ("TRS"), higher and better use ("HBU") timberlands to enable land-use entitlement, development or marketing activities. The Company also acquires HBU properties in connection with timberland acquisitions. These properties are managed as timberlands until sold or developed. While the majority of HBU sales involve rural and recreational land, the Company also selectively pursues various land-use entitlements on certain properties for residential, commercial and industrial development in order to enhance the long-term value of such properties. For selected development properties, Rayonier Operating Company also invests in targeted infrastructure improvements, such as roadways and utilities, to accelerate the marketability and improve the value of such properties.

Changes in higher and better use timberlands and real estate development investments from December 31, 2019 to March 31, 2020 are shown below:

	Higher and Better Use Timberlands and Real Estate Development Investments		
	Land and Timber	Development Investments	Total
Non-current portion at December 31, 2019	$58,091	$23,700	$81,791
Plus: Current portion (a)	274	12,389	12,663
Total Balance at December 31, 2019	58,365	36,089	94,454
Non-cash cost of land and improved development	(111)	(156)	(267)
Timber depletion from harvesting activities and basis of timber sold in real estate sales	(85)	—	(85)
Capitalized real estate development investments (b)	—	1,727	1,727
Capital expenditures (silviculture)	54	—	54
Intersegment transfers	33	—	33
Total Balance at March 31, 2020	58,256	37,660	95,916
Less: Current portion (a)	(209)	(6,874)	(7,083)
Non-current portion at March 31, 2020	$58,047	$30,786	$88,833

(a) The current portion of Higher and Better Use Timberlands and Real Estate Development Investments is recorded in Inventory. See Note 16 — Inventory for additional information.

(b) Capitalized real estate development investments include $0.1 million of capitalized interest.

8. COMMITMENTS

At March 31, 2020, the future minimum payments under non-cancellable commitments were as follows:

	Development Projects (a)	Pension Contributions (b)	Commitments (c)	Total
Remaining 2020	$3,584	$3,157	$8,576	$15,317
2021	161	681	4,143	4,985
2022	220	—	4,581	4,801
2023	232	—	4,821	5,053
2024	232	—	3,508	3,740
Thereafter	2,770	—	11,496	14,266
	$7,199	$3,838	$37,125	$48,162

(a) Primarily consisting of payments expected to be made on the Company's Wildlight and Richmond Hill development projects.

(b) Pension contribution requirements are based on actuarially determined estimates and IRS minimum funding requirements.

(c) Commitments include payments expected to be made on foreign exchange contracts, timberland deeds and other purchase obligations.

(Dollar amounts in thousands unless otherwise stated)

9. INCOME TAXES

As a subsidiary of Rayonier Inc., Rayonier Operating Company is treated as a disregarded entity for U.S. federal income tax purposes. However, the Company has elected to allocate, based on the tax attributes and filings of the taxable subsidiaries, the Rayonier consolidated amount of current and deferred tax expense to Rayonier Operating Company.

The Company's timber operations are primarily conducted by the Company's REIT entity, which is generally not subject to U.S. federal and state income tax. The New Zealand timber operations are conducted by the New Zealand subsidiary, which is subject to corporate-level tax in New Zealand. Non-REIT qualifying operations, which are subject to corporate-level tax, are conducted by various TRS entities. These operations include log trading and certain real estate activities, such as the sale, entitlement and development of HBU properties.

PROVISION FOR INCOME TAXES

The Company's tax expense is principally related to New Zealand corporate-level tax on the New Zealand subsidiary income. The following table contains the income tax expense recognized on the Consolidated Statements of Income and Comprehensive Income:

	Three Months Ended March 31,	
	2020	2019
Income tax expense	($3,706)	($4,349)

ANNUAL EFFECTIVE TAX RATE

The Company's effective tax rate after discrete items is below the 21.0% U.S. statutory rate due to tax benefits associated with being a REIT. The following table contains the Company's annualized effective tax rate after discrete items:

	Three Months Ended March 31,	
	2020	2019
Annualized effective tax rate after discrete items	12.1 %	12.7 %

10. CONTINGENCIES

The Company has been named as a defendant in various 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 large deductible insurance plans, primarily in the areas of executive risk, property, automobile and general liability. These pending 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.

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11. GUARANTEES

The Company provides financial guarantees as required by creditors, insurance programs, and various governmental agencies.

As of March 31, 2020, the following financial guarantees were outstanding:

Financial Commitments (a)		Maximum Potential Payment
Standby letters of credit (b)		$1,509
Surety bonds (c)		5,212
Senior Notes due 2022 (d)	$325,000	$325,000
Total financial commitments		$331,721

(a) The Company has not recorded any liabilities for these financial commitments in the Consolidated Balance Sheets. The guarantees are not subject to measurement, as the guarantees are dependent on the Company's own performance.

(b) Approximately $0.5 million of the standby letters of credit serve as credit support for infrastructure at the Company's Wildlight development project. The remaining letters of credit support various insurance related agreements, primarily workers' compensation. These letters of credit will expire at various dates during 2020 and will be renewed as required.

(c) Rayonier Operating Company issues surety bonds primarily to secure performance obligations related to various operational activities and to provide collateral for the Company's Wildlight development project in Nassau County, Florida. These surety bonds expire at various dates during 2020, 2021 and 2022 and are expected to be renewed as required.

(d) In March 2012, Rayonier Inc. issued $325 million of 3.75% Senior Notes maturing in 2022. The notes are fully and unconditionally guaranteed on a joint and several basis by Rayonier Operating Company LLC and Rayonier TRS Holdings, Inc. See Note 1 — Basis of Presentation for information regarding the subsequent assumption of all the obligations of the Company under the Indenture, including obligations with respect to the 2022 Notes

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12. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to market risk related to potential fluctuations in foreign currency exchange rates and interest rates. The Company uses derivative financial instruments to mitigate the financial impact of exposure to these risks.

Accounting for derivative financial instruments is governed by ASC 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 (loss) income ("AOCI") and reclassified into earnings when the hedged transaction materializes. Gains and losses on derivatives that are designated and qualify for net investment hedge accounting are recorded as a component of AOCI and will not be reclassified into earnings until the Company's investment in its New Zealand operations is partially or completely liquidated. The 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.

FOREIGN CURRENCY EXCHANGE AND OPTION CONTRACTS

The functional currency of Rayonier Operating Company's wholly-owned subsidiary, Rayonier New Zealand Limited, and the New Zealand subsidiary is the New Zealand dollar. The New Zealand subsidiary is exposed to foreign currency risk on export sales and ocean freight payments which are mainly denominated in U.S. dollars. The New Zealand subsidiary typically hedges 50% to 90% of its estimated foreign currency exposure with respect to the following twelve months forecasted sales and purchases, less distributions, and up to 75% of the forward 12 to 18 months. Foreign currency exposure from the New Zealand subsidiary's trading operations is typically hedged based on the following three months forecasted sales and purchases. As of March 31, 2020, foreign currency exchange contracts and foreign currency option contracts had maturity dates through September 2021 and August 2021, respectively.

Foreign currency exchange and option contracts hedging foreign currency risk on export sales and ocean freight payments qualify for cash flow hedge accounting. The Company may de-designate these cash flow hedge relationships in advance or at the occurrence of the forecasted transaction. The portion of gains or losses on the derivative instrument previously accumulated in other comprehensive (loss) income for de-designated hedges remains in accumulated other comprehensive (loss) income until the forecasted transaction affects earnings. Changes in the value of derivative instruments after de-designation are recorded in earnings.

INTEREST RATE SWAPS

The Company is exposed to cash flow interest rate risk on its variable-rate Term Credit Agreement and Incremental Term Loan Agreement and uses variable-to-fixed interest rate swaps to hedge this exposure. For these derivative instruments, the Company reports the gains/losses from the fluctuations in the fair market value of the hedges in AOCI and reclassifies them to earnings as interest expense in the same period in which the hedged interest payments affect earnings.

(Dollar amounts in thousands unless otherwise stated)

The following table contains information on the outstanding interest rate swaps as of March 31, 2020:

Outstanding Interest Rate Swaps (a)						
Date Entered Into	Term	Notional Amount	Related Debt Facility	Fixed Rate of Swap	Bank Margin on Debt	Total Effective Interest Rate (b)
August 2015	9 years	$170,000	Term Credit Agreement	2.20 %	1.63 %	3.83 %
August 2015	9 years	180,000	Term Credit Agreement	2.35 %	1.63 %	3.98 %
April 2016	10 years	100,000	Incremental Term Loan	1.60 %	1.90 %	3.50 %
April 2016	10 years	100,000	Incremental Term Loan	1.60 %	1.90 %	3.50 %
July 2016	10 years	100,000	Incremental Term Loan	1.26 %	1.90 %	3.16 %

(a) All interest rate swaps have been designated as interest rate cash flow hedges and qualify for hedge accounting.
(b) Rate is before estimated patronage payments.

TREASURY LOCKS

During the first quarter, the Company entered into treasury lock agreements, which were designated and qualified as cash flow hedges. These derivative instruments hedged the impact of changes in the benchmark interest rate to future interest payments associated with anticipated debt issuances. Prior to expiration, the Company de-designated and settled the treasury locks by converting them into interest rate swap lock agreements (discussed below). To the extent the Company de-designates or terminates a cash flow hedging relationship and the associated hedged item continues to exist, any unrealized gain or loss of the cash flow hedge at the time of de-designation remains in accumulated other comprehensive (loss) income and is amortized using the straight-line method through interest expense over the remaining life of the hedged item. Amounts recorded in accumulated other comprehensive (loss) income in connection with the settled treasury locks were ($20.8) million which will be reclassified to earnings through interest expense over the life of the anticipated issued debt.

The following table contains information on the expired treasury lock agreements entered into during the period ending March 31, 2020:

Converted Treasury Rate Locks (a)					
Date Entered Into	Term	Notional Amount	Rate	Related Debt Facility (b)	Expiration Date
January 2020	10 years	$100,000	1.53%	2020 Incremental Term Loan Facility	March 31, 2020
January 2020	10 years	100,000	1.53%	2020 Incremental Term Loan Facility	March 31, 2020
February 2020	10 years	50,000	1.35%	2020 Incremental Term Loan Facility	March 31, 2020

(a) At inception, all treasury locks were designated as interest rate cash flow hedges and qualified for hedge accounting.
(b) On April 16, 2020, the Company entered into a Third Amendment and Incremental Term Loan Agreement which provided for a five-year $250 million senior unsecured incremental term loan facility (the “2020 Incremental Term Loan Facility”). See Note 6 — Debt for information regarding subsequent events. The Company anticipates extending the term of the 2020 Incremental Term Loan facility for an additional five-year term upon maturity.

INTEREST RATE SWAP LOCKS

Upon de-designation, the Company converted the above treasury lock agreements to interest rate swap lock agreements to hedge the risk of changes in the interest payments attributable to changes in the benchmark LIBOR interest rate associated with anticipated issuances of debt. The interest rate swap locks were designated and qualified as cash flow hedges. The Company reports the gains/losses from the fluctuations in the fair market value of the hedges in AOCI and reclassifies them to earnings as interest expense in the same period in which the hedged interest payments affect earnings.

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The following table contains information on the outstanding interest rate swap lock agreements as of March 31, 2020:

Outstanding Interest Rate Swap Locks (a)					
Date Entered Into	Term	Notional Amount	Fixed Rate of Swap Lock (b)	Related Debt Facility (c)	Effective Date
March 2020	10 years	$100,000	1.56%	2020 Incremental Term Loan Facility	July 31, 2020
March 2020	10 years	100,000	1.59%	2020 Incremental Term Loan Facility	June 30, 2020
March 2020	10 years	50,000	1.41%	2020 Incremental Term Loan Facility	June 30, 2020

(a) All interest rate swap locks have been designated as interest rate cash flow hedges and qualify for hedge accounting.

(b) These interest rate swap locks were off-market derivatives, meaning they contained an embedded financing element, which the counterparties recovered through an incremental charge in the fixed rate over what would have been charged for an at-market swap lock.

(c) On April 16, 2020, the Company entered into a Third Amendment and Incremental Term Loan Agreement which provided for a five-year $250 million senior unsecured incremental term loan facility (the “2020 Incremental Term Loan Facility”). See Note 6 — Debt for information regarding subsequent events. The Company anticipates extending the term of the 2020 Incremental Term Loan facility for an additional five-year term upon maturity.

FORWARD-STARTING INTEREST RATE SWAPS

The Company is exposed to cash flow interest rate risk on anticipated debt issuances and uses forward-starting interest rate swap agreements to hedge against changes in future cash flows resulting from changes in interest rates from the trade date through the anticipated issuance date. For these derivative instruments, the Company reports the gains/losses from the fluctuations in the fair market value of the hedges in AOCI and reclassifies them to earnings as interest expense in the same period in which the hedged interest payments affect earnings.

The following table contains information on the outstanding forward-starting interest rate swaps as of March 31, 2020:

Outstanding Forward-Starting Interest Rate Swaps (a)						
Date Entered Into	Term	Notional Amount	Fixed Rate of Swap	Related Debt Facility	Forward Date	Maximum Period Ending for Forecasted Issuance Date
February 2020	10 years	$325,000	1.40 %	Anticipated issuance of debt	April 2022	April 2022
March 2020	4 years	100,000	0.88 %	Anticipated extension of Term Credit Agreement	August 2024	April 2020 (b)

(a) All forward-starting interest rate swaps have been designated as interest rate cash flow hedges and qualify for hedge accounting.

(b) On April 1, 2020, the maturity date of the Term Credit Agreement was extended from August 5, 2024 to April 1, 2028. See Note 6 — Debt for information regarding subsequent events. On April 8, 2020, the terms of this forward-starting swap were modified to match the maturity date of the Term Credit Agreement.

CARBON OPTIONS

The New Zealand subsidiary enters into carbon options from time to time to sell carbon assets at certain prices. Changes in fair value of the carbon option contracts are recorded in “Interest and other miscellaneous income, net” as the contracts did not qualify for hedge accounting treatment. As of March 31, 2020, carbon option contracts had maturity dates through June 2020.

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The following tables demonstrate the impact, gross of tax, of the Company's derivatives on the Consolidated Statements of Income and Comprehensive Income for three months ended March 31, 2020 and 2019:

	Income Statement Location	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Derivatives designated as cash flow hedges:			
Foreign currency exchange contracts	Other comprehensive (loss)	($5,480)	$1,119
Foreign currency option contracts	Other comprehensive (loss)	(1,149)	77
Interest rate swaps	Other comprehensive (loss)	(38,998)	(11,548)
Treasury locks	Other comprehensive (loss)	(20,846)	—
Interest rate swap locks	Other comprehensive (loss)	854	—
Forward-starting interest rate swaps	Other comprehensive (loss)	(19,710)	—
Derivatives not designated as hedging instruments:			
Foreign currency exchange contracts	Interest and other miscellaneous income, net	—	(16)
Carbon option contracts	Interest and other miscellaneous (expense) income, net	549	402

During the next 12 months, the amount of the March 31, 2020 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 $3.4 million.

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

	Notional Amount March 31, 2020	Notional Amount December 31, 2019
Derivatives designated as cash flow hedges:		
Foreign currency exchange contracts	$60,350	$56,350
Foreign currency option contracts	36,000	22,000
Interest rate swaps	650,000	650,000
Interest rate swap locks	250,000	—
Forward-starting interest rate swaps	425,000	—
Derivative not designated as a hedging instrument:		
Foreign currency exchange contracts	—	—
Carbon options (a)	5,070	9,592

(a) Notional amount for carbon options is calculated as the number of units outstanding multiplied by the spot price as of March 31, 2020.

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

	Location on Balance Sheet	Fair Value Assets / (Liabilities) (a)	
		March 31, 2020	December 31, 2019
Derivatives designated as cash flow hedges:			
Foreign currency exchange contracts	Other current assets	$79	$424
	Other assets	—	390
	Other current liabilities	(4,319)	(172)
	Other non-current liabilities	(599)	—
Foreign currency option contracts	Other current assets	68	151
	Other assets	129	209
	Other current liabilities	(546)	(27)
	Other non-current liabilities	(497)	(30)
Interest rate swaps	Other assets	—	2,614
	Other non-current liabilities	(47,452)	(11,068)
Interest rate swap locks	Other non-current liabilities	(19,992)	—
Forward-starting interest rate swaps	Other non-current liabilities	(19,710)	—
Derivative not designated as a hedging instrument:			
Carbon options	Other current liabilities	(14)	(607)
Total derivative contracts:			
Other current assets		$147	$575
Other assets		129	3,213
Total derivative assets		$276	$3,788
Other current liabilities		(4,879)	(806)
Other non-current liabilities		(88,250)	(11,098)
Total derivative liabilities		($93,129)	($11,904)

(a) See Note 13 — Fair Value Measurements for further information on the fair value of the Company's 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.

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13. FAIR VALUE MEASUREMENTS

FAIR VALUE OF FINANCIAL INSTRUMENTS

A three-level hierarchy that prioritizes the inputs used to measure fair value was established in the Accounting Standards Codification 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 and estimated fair values of financial instruments held by the Company at March 31, 2020 and December 31, 2019, using market information and what the Company believes to be appropriate valuation methodologies under GAAP:

	March 31, 2020			December 31, 2019		
	Carrying Amount	Fair Value		Carrying Amount	Fair Value	
Asset (Liability) (a)		Level 1	Level 2		Level 1	Level 2
Cash and cash equivalents	$126,260	$126,260	—	$68,434	$68,434	—
Restricted cash (b)	475	475	—	1,233	1,233	—
Current maturities of long-term debt	—	—	—	(82,000)	—	(82,000)
Long-term debt (c)	(731,007)	—	(732,000)	(648,958)	—	(650,000)
Interest rate swaps (d)	(47,452)	—	(47,452)	(8,454)	—	(8,454)
Interest rate swap locks (d)	(19,992)	—	(19,992)	—	—	—
Forward-starting interest rate swaps (d)	(19,710)	—	(19,710)	—	—	—
Foreign currency exchange contracts (d)	(4,839)	—	(4,839)	642	—	642
Foreign currency option contracts (d)	(846)	—	(846)	303	—	303
Carbon option contracts (d)	(14)	—	(14)	(607)	—	(607)
Marketable equity securities (e)	9,610	9,610	—	10,582	10,582	—

(a) The Company did not have Level 3 assets or liabilities at March 31, 2020 and December 31, 2019.
(b) Restricted cash represents the proceeds from like-kind exchange sales deposited with a third-party intermediary and cash held in escrow for a real estate sale. See Note 17 — Restricted Cash for additional information.
(c) The carrying amount of long-term debt is presented net of capitalized debt costs on non-revolving debt. See Note 6 — Debt for additional information.
(d) See Note 12 — Derivative Financial Instruments and Hedging Activities for information regarding the Consolidated Balance Sheets classification of the Company's derivative financial instruments.
(e) The Company's investments in marketable securities are classified in "Other Assets" based on the nature of the securities and their availability for use in current operations.

Rayonier Operating Company 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.

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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.

Carbon option contracts — The fair value of carbon option contracts is determined by a mark-to-market valuation using the Black-Scholes option pricing model, 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.

Marketable equity securities — The fair value of marketable equity securities is determined by quoted prices in their active market.

The following table presents marketable securities that have been in a continuous unrealized gain position for less than 12 months and for 12 months or greater at March 31, 2020 and December 31, 2019:

	March 31, 2020				December 31, 2019			
	Carrying Amount	Less than 12 Months	12 Months or Greater	Total	Carrying Amount	Less than 12 Months	12 Months or Greater	Total
Fair value of marketable equity securities	$ 9,610	9,610	—	9,610	$10,582	10,582	—	10,582
Unrealized (losses) gains	—	(972)	—	(972)	—	3,043	—	3,043

14. EMPLOYEE BENEFIT PLANS

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. Both plans are closed to new participants. Effective December 31, 2016, the Company froze benefits for all employees participating in the pension plan. In lieu of the pension plan, the Company provides those employees with an enhanced 401(k) plan match. 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.

As of March 31, 2020, the Company has paid $0.4 million of the approximately $3.6 million in current year mandatory pension contribution requirements (based on actuarial estimates and IRS minimum funding requirements).

The net pension and postretirement benefit costs (credits) that have been recorded are shown in the following table:

		Pension		Postretirement	
		Three Months Ended March 31,		Three Months Ended March 31,	
Components of Net Periodic Benefit Cost (Credit)	Income Statement Location	2020	2019	2020	2019
Service cost	Selling and general expenses	—	—	$2	$1
Interest cost	Interest and other miscellaneous (expense) income, net	677	800	13	14
Expected return on plan assets (a)	Interest and other miscellaneous (expense) income, net	(876)	(777)	—	—
Amortization of losses	Interest and other miscellaneous (expense) income, net	215	112	2	—
Net periodic benefit cost		$16	$135	$17	$15

(a) The weighted-average expected long-term rate of return on plan assets used in computing 2020 net periodic benefit cost for pension benefits is 5.7%.

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15. OTHER OPERATING (EXPENSE) INCOME, NET

Other operating (expense) income, net consisted of the following:

	Three Months Ended March 31,	
	2020	2019
Gain on foreign currency remeasurement, net of cash flow hedges	$1,433	$30
Gain on sale or disposal of property and equipment	3	21
Log trading marketing fees	47	57
Costs related to the merger with Pope Resources	(2,487)	—
Miscellaneous expense, net	(107)	(73)
Total	($1,111)	$35

16. INVENTORY

As of March 31, 2020 and December 31, 2019, Rayonier Operating Company's inventory consisted entirely of finished goods, as follows:

	March 31, 2020	December 31, 2019
Finished goods inventory		
Real estate inventory (a)	$7,083	$12,663
Log inventory	6,010	1,855
Total inventory	$13,093	$14,518

(a) Represents the cost of HBU real estate (including capitalized development investments) under contract to be sold. See Note 7 — Higher And Better Use Timberlands and Real Estate Development Investments for additional information.

17. RESTRICTED CASH

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 March 31, 2020 and December 31, 2019, the Company had $0.5 million and $1.2 million, respectively, of proceeds from real estate sales classified as restricted cash which were deposited with an LKE intermediary as well as cash held in escrow for a real estate sale.

The following table contains the amounts of restricted cash recorded in the Consolidated Balance Sheets and Consolidated Statements of Cash Flows for the three months ended March 31, 2020:

	March 31, 2020
Restricted cash held in escrow	$475
Total restricted cash shown in the Consolidated Balance Sheets	475
Cash and cash equivalents	126,260
Total cash, cash equivalents and restricted cash shown in the Consolidated Statements of Cash Flows	$126,735

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18. ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The following table summarizes the changes in AOCI by component for the three months ended March 31, 2020 and the year ended December 31, 2019. All amounts are presented net of tax and exclude portions attributable to noncontrolling interest.

	Foreign currency translation (loss) gains	Net investment hedges of New Zealand subsidiary	Cash flow hedges		Employee benefit plans		Total
Balance as of December 31, 2018	($1,010)	$1,321	$21,965		($22,037)		$239
Other comprehensive (loss) income before reclassifications	784	—	(31,547)		(1,799)		(32,562)
Amounts reclassified from accumulated other comprehensive (loss) income	—	—	672		449	(b)	1,121
Net other comprehensive (loss) income	784	—	(30,875)		(1,350)		(31,441)
Balance as of December 31, 2019	($226)	$1,321	($8,910)		($23,387)		($31,202)
Other comprehensive (loss) income before reclassifications	(33,894)	—	(82,391)	(a)	—	(b)	(116,285)
Amounts reclassified from accumulated other comprehensive (loss) income	—	—	15		217		232
Net other comprehensive (loss) income	(33,894)	—	(82,376)		217		(116,053)
Balance as of March 31, 2020	($34,120)	$1,321	($91,286)		($23,170)		($147,255)

(a) Includes $78.7 million of other comprehensive loss related to interest rate swaps, treasury locks, interest rate swap locks and forward-starting interest rate swaps. See Note 12 — Derivative Financial Instruments and Hedging Activities for additional information.

(b) This component of other comprehensive (loss) income is included in the computation of net periodic pension and post-retirement costs. See Note 14 — Employee Benefit Plans for additional information.

The following table presents details of the amounts reclassified in their entirety from AOCI to net income for the three months ended March 31, 2020 and March 31, 2019:

Details about accumulated other comprehensive (loss) income components	Amount reclassified from accumulated other comprehensive (loss) income		Affected line item in the income statement
	March 31, 2020	March 31, 2019	
Realized loss (gain) on foreign currency exchange contracts	$18	($412)	Other operating (expense) income, net
Realized loss (gain) on foreign currency option contracts	9	(14)	Other operating (expense) income, net
Noncontrolling interest	(6)	98	Comprehensive (loss) income attributable to noncontrolling interest
Income tax (benefit) expense from gain on foreign currency contracts	(6)	92	Income tax expense
Net loss (gain) from accumulated other comprehensive income	$15	($236)	

EXHIBIT 99.6

RAYONIER INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

On May 7, 2020, Rayonier Inc. contributed its 100% ownership interest in Rayonier Operating Company LLC (the "Contribution") to Rayonier, L.P., a Delaware limited partnership ("Rayonier, L.P." or "Operating Partnership"). This transaction amongst entities under common control was accounted for at carryover basis and has no impact to the accompanying unaudited pro forma condensed combined financial statements.

On May 8, 2020, Rayonier, L.P. acquired Pope Resources, a Delaware Limited Partnership ("Pope"), and became the general partner of Pope. The acquisition occurred pursuant to a series of mergers (the "Mergers") provided for in an Agreement and Plan of Merger, dated as of January 14, 2020, as amended by Amendment No. 1, dated as of April 1, 2020 (as amended, the "Merger Agreement"), by and among Rayonier, Rayonier, L.P., Rayonier Operating Company LLC, Rayonier Operating Company Holdings, LLC, Pacific GP Merger Sub I, LLC, Pacific GP Merger Sub II, LLC, Pacific LP Merger Sub III, LLC, Pope, Pope EGP, Inc and Pope MGP, Inc. Following the Mergers, Rayonier holds an approximate 96.5% ownership interest in Rayonier, L.P., with the remaining 3.5% ownership interest owned by limited partners of the Operating Partnership that are former Pope unitholders. As the sole general partner of Rayonier, L.P., Rayonier will have exclusive control of the day-to-day management of Rayonier, L.P.

The following unaudited pro forma condensed combined financial statements as of and for the three months ended March 31, 2020 have been prepared (i) as if the Mergers and the debt issuance necessary to finance the Mergers occurred on March 31, 2020 for purposes of the unaudited pro forma consolidated balance sheet, and (ii) as if the Contribution, the Mergers and the debt issuance necessary to finance the Mergers occurred on January 1, 2020 for purposes of the unaudited pro forma consolidated statement of operations for the three months ended March 31, 2020.

The preliminary fair value of assets acquired and liabilities assumed and related adjustments for the assets acquired and liabilities assumed related to the Mergers incorporated into the unaudited pro forma condensed consolidated financial statements are based on preliminary estimates and information currently available. The amount of the equity issued in connection with the Mergers and the assignment of fair value to assets and liabilities of Pope have not been finalized and are subject to change. The amount of the equity issued in connection with the Mergers was based on the number of Pope units outstanding prior to the Mergers and the elections made by the Pope unitholders pursuant to the Merger Agreement, and the fair value of the assets and liabilities assumed will be based on the actual net tangible and intangible assets and liabilities of Pope that exist on the effective date of the Mergers.

Actual amounts recorded in connection with the Mergers may change based on any increases or decreases in the fair value of the assets acquired and liabilities assumed upon the completion of the final valuation and may result in variances to the amounts presented in the unaudited pro forma consolidated balance sheet and/or unaudited pro forma consolidated statement of operations. Assumptions and estimates underlying the adjustments to the unaudited pro forma condensed consolidated financial statements are described in the accompanying notes. These adjustments are based on available information and assumptions that management of Rayonier consider to be reasonable. The unaudited pro forma condensed consolidated financial statements do not purport to: (1) represent Rayonier's actual financial position had the Mergers occurred on March 31, 2020; (2) represent the results of Rayonier's operations that would have actually occurred had the Mergers occurred on January 1, 2020; or (3) project Rayonier's financial position or results of operations as of any future date or for any future period, as applicable.

The unaudited pro forma condensed consolidated financial statements have been developed from, and should be read in conjunction with, the separate historical unaudited financial statements of Rayonier and accompanying notes thereto included in Rayonier's Quarterly report filed on Form 10-Q for the three months ended March 31, 2020, as filed with the Securities and Exchange Commission on May 1, 2020 and the separate historical unaudited financial statements of Pope and accompanying notes thereto included in Pope's Quarterly Report on Form 10-Q for the three months ended March 31, 2020, filed with the SEC on May 6, 2020.

RAYONIER INC. AND SUBSIDIARIES
Unaudited Pro Forma Condensed Combined Balance Sheet
As of March 30, 2020
(Dollars in millions)

	Historical Rayonier	Historical Pope Resources	Pro Forma Adjustments for Mergers		Pro Forma Funding Adjustments		Pro Forma Combined
ASSETS:							
Cash and cash equivalents	$132.4	$12.3	($267.4)	a	$249.2	a	$126.5
Accounts receivable, net	28.3	4.6	—		—		32.9
Inventory	13.1	—	—		—		13.1
Prepaid expenses and other current assets	15.3	3.8	—		—		19.1
Total current assets	189.1	20.7	(267.4)		249.2		191.6
TIMBER AND TIMBERLANDS, NET	2,355.6	436.4	527.9	b	—		3,319.9
HIGHER AND BETTER USE TIMBERLANDS AND REAL ESTATE DEVELOPMENT INVESTMENTS	88.8	20.3	7.5	c	—		116.6
PROPERTY, PLANT AND EQUIPMENT							
Total property, plant and equipment, gross	31.8	13.6	(5.3)		—		40.1
Less—accumulated depreciation	(10.0)	(8.4)	8.4		—		(10.0)
Total property, plant and equipment, net	21.8	5.2	3.1	d	—		30.1
OTHER ASSETS	132.5	7.3	(12.8)	e	—		127.0
TOTAL ASSETS	$2,787.8	$489.9	$258.3		$249.2		$3,785.2
LIABILITIES:							
Accounts payable	$20.8	$2.9	—		—		$23.7
Current maturities of long-term debt	—	25.1	(0.1)	f	—		25.0
Other current liabilities	48.5	8.3	1.1	g	—		57.9
Total current liabilities	69.3	36.3	1.0		—		106.6
LONG-TERM DEBT, NET OF DEFERRED FINANCING COSTS	1,055.3	136.8	(65.4)	f	249.2	f	1,375.9
PENSION AND OTHER POSTRETIREMENT BENEFITS	24.7	—	—		—		24.7
LONG-TERM LEASE LIABILITY	83.4	—	—		—		83.4
OTHER NON-CURRENT LIABILITIES	155.5	9.1	6.0	h	—		170.6
TOTAL LIABILITIES	1,388.2	182.2	(58.4)		249.2		1,761.2
REDEEMABLE INTEREST IN THE OPERATING PARTNERSHIP	—	—	106.8	i	—		106.8
EQUITY:							
GENERAL PARTNERS' CAPITAL	—	0.6	(0.6)	j	—		—
LIMITED PARTNERS' CAPITAL	—	34.6	(34.6)	j	—		—
SHAREHOLDERS' EQUITY							
Common Shares	889.8	—	161.4	j	—		1,051.2
Retained earnings	570.9	—	(21.1)	g,j	—		549.8
Accumulated other comprehensive income	(147.3)	—	—		—		(147.3)
TOTAL SHAREHOLDERS' EQUITY	1,313.4	35.2	105.1	j	—		1,453.7
Noncontrolling interest in consolidated affiliates	86.3	272.5	104.8	k	—		463.6
TOTAL NONCONTROLLING INTEREST AND SHAREHOLDERS' EQUITY	1,399.7	307.7	316.7		—		2,024.1
	$2,787.8	$489.9	$258.3		$249.2		$3,785.2

RAYONIER INC. AND SUBSIDIARIES
Unaudited Pro Forma Condensed Combined Statements of Income
For the Three Months Ended March 31, 2020
(Dollars in millions, except per share amounts)

	Historical Rayonier	Historical Pope Resources	Pro Forma Adjustments for Mergers		Pro Forma Funding Adjustments		Pro Forma Combined
SALES	$259.1	$24.4	—		—		$283.5
Costs and Expenses							—
Cost of sales	(209.4)	(18.5)	(7.9)	b,c,m	—		(235.8)
Selling and general expenses	(10.0)	(7.5)	4.4	d,l,n	—		(13.1)
Other operating (expense) income, net	(1.1)	(4.8)	—		—		(5.9)
	(220.6)	(30.8)	(3.5)		—		(254.9)
OPERATING INCOME (LOSS)	38.6	(6.4)	(3.5)		—		28.7
Interest expense	(8.3)	(1.4)	0.4	o	(2.2)	o	(11.5)
Interest and other miscellaneous income, net	(0.2)	—	—		—		(0.2)
INCOME BEFORE INCOME TAXES	30.1	(7.8)	(3.1)		(2.2)		17.0
Income tax expense	(3.7)	0.3	—	p	—		(3.4)
NET INCOME (LOSS)	26.4	(7.5)	(3.1)		(2.2)		13.6
Less: Net (income) loss attributable to noncontrolling interest in the Operating Partnership	—	—	(0.5)	q	—		(0.5)
Less: Net (income) loss attributable to noncontrolling interest in consolidated affiliates	(0.5)	3.7	—		—		3.2
NET INCOME ATTRIBUTABLE TO RAYONIER INC.	$25.9	($3.8)	($3.6)		($2.2)		$16.3
EARNINGS PER COMMON SHARE							
Basic earnings per share attributable to Rayonier Inc.	$0.20	($0.92)				r	$0.12
Diluted earnings per share attributable to Rayonier Inc.	$0.20	($0.92)				r	$0.12

Note 1 — Basis of Presentation

These unaudited pro forma condensed combined financial statements are based on Rayonier’s and Pope’s historical consolidated financial statements as adjusted to give effect to the Contribution, the Mergers and the debt issuance necessary to finance the acquisition. The unaudited pro forma condensed combined statements of income for the three months ended March 31, 2020, give effect to the Mergers as if they had occurred on January 1, 2020. The unaudited pro forma condensed combined balance sheet as of March 31, 2020, gives effect to the Mergers as if they had occurred on March 31, 2020.

The historical consolidated financial statements have been adjusted in the pro forma condensed combined financial statements to give effect to pro forma events that are (1) directly attributable to the business combination, (2) factually supportable and (3) with respect to the pro forma condensed combined statements of income, expected to have a continuing impact on the combined results following the business combination.

The business combination was accounted for under the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*. As the acquirer for accounting purposes, Rayonier has estimated the fair value of Pope’s assets acquired and liabilities assumed and conformed the accounting policies of Pope to its own accounting policies.

The pro forma combined financial statements do not necessarily reflect what the combined company’s financial condition or results of operations would have been had the acquisition occurred on the dates indicated. They also may not be useful in predicting the future financial condition and results of operations of the combined company. The actual financial position and results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors.

The combined pro forma financial information does not reflect the realization of any expected cost savings or other synergies from the acquisition of Pope as a result of restructuring activities and other planned cost savings initiatives following the completion of the business combination.

Note 2 — Pope and Rayonier Reclassification Adjustment

During the preparation of these unaudited pro forma condensed combined financial statements, management performed a preliminary analysis of Pope’s financial information to identify differences in accounting policies as compared to those of Rayonier and differences in financial statement presentation as compared to the presentation of Rayonier. At the time of preparing these unaudited pro forma condensed combined financial statements, Rayonier had not identified all adjustments necessary to conform Pope’s accounting policies to Rayonier’s accounting policies. The below adjustments represent Rayonier’s best estimates based upon the information currently available to Rayonier and could be subject to change once more detailed information is available.

Refer to the table below for a summary of reclassification adjustments made to Pope’s consolidated balance sheet as of March 31, 2020 to conform presentation (in millions):

Pope Resources Consolidated Statement of Financial Position Line Item	Rayonier Historical Consolidated Balance Sheet Line Item	Pope Resources Historical Consolidated Statement of Financial Position	Reclassification (Rounded) (1)	Pope Resources Adjusted Historical Consolidated Balance Sheet (Unaudited, Rounded)
	Cash and cash equivalents	—	$12.3	$12.3
Partnership cash		2.7	(2.7)	—
ORM Timber Funds cash		9.6	(9.6)	—
Accounts receivable, net	Accounts receivable, less allowance for doubtful accounts	4.6	—	4.6
Contract assets		2.4	(2.4)	—
Land held for sale	Inventory	—	—	—
Prepaid expenses and other current assets		1.4	(1.4)	—
	Other current assets	—	3.8	3.8
Timber and roads		359.4	(359.4)	—
Timberland		77.1	(77.1)	—
	Timber and Timberlands, net	—	436.4	436.4
Land held for development	Higher and Better Use Timberlands and Real Estate Developments	20.3	—	20.3
Buildings and equipment, net of accumulated depreciation		5.2	(5.2)	—
	Total property, plant and equipment, gross	—	13.6	13.6
	Less - accumulated depreciation	—	(8.4)	(8.4)
Restricted cash	Restricted cash	0.7	(0.7)	—
Other assets	Other assets	6.5	0.7	7.3
Accounts payable	Accounts payable	2.9	—	2.9
Accrued liabilities		5.7	(5.7)	—
Current portion of long-term debt - Partnership		0.1	(0.1)	—
Current portion of long-term debt - Funds		25.0	(25.0)	—
	Current maturities of long- term debt	—	25.1	25.1
Deferred revenue	Deferred revenue	0.4	(0.4)	—
Current portion of environmental remediation liability		1.0	(1.0)	—
Other current liabilities	Other current liabilities	1.1	7.1	8.3
Long-term debt, net of unamortized debt issuance costs and current portion - Partnership		104.4	(104.4)	—
Long-term debt, net of unamortized debt issuance costs - Funds		32.3	(32.3)	—
	Long-term debt, net of deferred financing costs	—	136.8	136.8
	Long-term lease liability	—	—	—
Environmental remediation and other long term liabilities	Other non-current liabilities	9.1	—	9.1
General Partners’ Capital		0.6	—	0.6
Limited Partners’ Capital		34.6	—	34.6
Noncontrolling interest	Noncontrolling interest	272.5	—	272.5

(1) Reclassifications to conform to Rayonier presentation.

Refer to the table below for a summary of reclassification adjustments made to present Pope's consolidated statement of income for the three months ended March 31, 2020 to conform presentation (in millions):

Pope Resources Consolidated Statement of Income Line Item	Rayonier Historical Consolidated Statement of Income Line Item	Pope Resources Historical Consolidated Statement of Income	Reclassification (Rounded) [1]	Pope Resources Adjusted Historical Consolidated Statement of Income (Unaudited, Rounded)
Total revenue	Sales	$24.4	—	$24.4
Total cost of sales	Cost of sales	(18.5)	—	(18.5)
General and Administrative	Selling and general expenses	(7.5)	—	(7.5)
Operating expenses	Other operating (expense) income, net	(4.8)	—	(4.8)
Interest expense, net	Interest expense	(1.4)	—	(1.4)
Income tax benefit	Income tax expense	0.3	—	0.3
Net and comprehensive (income) loss attributable to noncontrolling interests - ORM Timber Funds		3.5	(3.5)	—
Net and comprehensive loss attributable to noncontrolling interests - Real Estate		0.2	(0.2)	—
Net and comprehensive income attributable to unitholders		(3.8)	3.8	—
	Net income attributable to noncontrolling interest	—	3.7	3.7
	Net Income attributable to shareholders	—	(3.8)	(3.8)

(1) Reclassifications to conform to Rayonier presentation.

Note 3 — Financing

In connection with the Mergers, the Company incurred $250.0 million of debt at an interest rate of approximately 3.5% (inclusive of interest rate hedges and patronage rebates), less approximately $0.8 million in debt issuance costs, a portion of which was used to fund the cash component of the Mergers for approximately $169.5 million. The Company also extinguished a portion of Pope's existing debt of approximately $68.3 million which included a $2.3 million prepayment premium. Additionally, the Company paid approximately $9.6 million of transaction costs on behalf of Pope at the time of closing. The Company did not legally assume the extinguished portion of Pope's outstanding debt or liabilities.

Note 4 — Consideration

Consideration of approximately $526.7 million is based on Rayonier’s closing share price of $24.01 on May 7, 2020.

The following table summarizes the components of the consideration (in millions):

Cash consideration:		
Pope units as of March 31, 2020	4.4	
Less: Pope units held by Rayonier (1)	(0.1)	
Units outstanding, net	4.3	
Cash consideration (per Pope unit)	$37.50	
		159.5
General Partner interest		10.0
		169.5
Equity consideration:		
Pope units as of March 31, 2020	4.4	
Less: Pope units held by Rayonier (1)	(0.1)	
Units outstanding, net	4.3	
Exchange ratio	2.751	
Rayonier common shares/units to be issued	11.6	
Rayonier share price (2)	$24.01	
		279.2
Total consideration to Pope unit holders		**448.6**
Repayment of Pope debt		65.9
Repayment premium on Pope debt		2.3
Payment of transaction costs on behalf of Pope		9.6
Fair value of replacement Rayonier restricted stock units for vested Pope awards		0.2
Total pro forma purchase price		**$526.7**

(1) As of March 31, 2020, Rayonier held 114,400 Pope limited partnership units as marketable securities on its standalone financial statements.

(2) The purchase price is based on the closing price of Rayonier common stock on May 7, 2020.

Note 5 — Preliminary Purchase Price Allocation

Under the acquisition method of accounting, the total purchase price is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the date of the acquisition. The preliminary allocation of the purchase price is based on the terms of the Merger Agreement and Rayonier management’s estimates of the fair value of Pope’s assets and liabilities as of March 31, 2020, derived from the historical balance sheet of Pope as of March 31, 2020 and using the January 14, 2020 merger consideration adjusted based on Rayonier’s closing share price of $24.01 on May 7, 2020. As of the date of this document, Rayonier management has not finalized the detailed valuation studies necessary to arrive at the required estimates of the fair value of Pope’s assets acquired and the liabilities assumed and the related allocations of purchase price. The valuation studies are expected to be final by the end of 2020. Additional intangible asset classes may be identified as the valuation process continues. Therefore, the allocation of the purchase price to assets acquired and liabilities assumed is based on preliminary fair value estimates and is subject to final analysis by Rayonier management.

The following table summarizes the allocation of the preliminary purchase price as March 31, 2020, with the excess recorded as goodwill (in millions):

Timberland and Real Estate Business	
Cash	$2.7
Other current assets	3.4
Timber and timberland	492.4
Land held for development	27.7
Buildings and equipment	8.3
Other assets	5.8
Goodwill (1)	—
Other current liabilities	(7.3)
Environmental liabilities	(11.1)
Long-term debt	(39.0)
Other non-current liabilities (2)	(4.0)
Less: noncontrolling interest	(3.3)
Pro forma purchase price	**475.7**
Timber Fund Business	
Cash	9.6
Other current assets	5.0
Timber and timberland	471.9
Goodwill (1)	—
Current portion of long-term debt	(25.0)
Other current liabilities	(3.9)
Long-term debt	(32.4)
Less: noncontrolling interest	(374.2)
Pro forma purchase price	**51.0**
Total pro forma purchase price	**$526.7**

(1) Goodwill is calculated as the difference between the acquisition date fair value of the consideration transferred and the values assigned to the assets acquired and liabilities assumed. Goodwill is not amortized but is tested for impairment at least annually, or more frequently if circumstances indicate potential impairment.

(2) Other non-current liabilities includes a $4.0 million deferred income tax liability resulting from the preliminary fair value adjustment to Pope’s assets and liabilities.

Note 6 — Pro forma adjustments

The pro forma adjustments are based on our preliminary estimates and assumptions that are subject to change. The following adjustments have been reflected in the unaudited pro forma condensed combined financial information (in millions, except shares/units or per share/unit amounts):

a. The following represents the pro forma adjustments to cash and cash equivalents as a result of the Mergers:

Decrease from extinguishment of existing Pope debt [1]	($68.3)
Decrease from cash consideration paid to Pope unit holders	(169.5)
Decrease from cash payment of transaction-related expenses made on behalf of Pope	(9.6)
Decrease from cash payment of transaction-related expenses[2]	(20.0)
Pro forma adjustment to cash and cash equivalents	**($267.4)**

(1) Includes $2.3 million prepayment premium.

(2) Reflects estimated transaction costs of $20.0 million incurred by Rayonier directly attributable to the Mergers. Transaction costs include investment banking, legal, and other fees and expenses. Transaction costs are expensed as incurred and accounted for outside of the business combination in the post-acquisition financial statements of the combined entity. As the transaction costs will not have a continuing impact, Rayonier has not shown the estimated transaction costs in the unaudited pro forma statements of operations.

The following represents the pro forma adjustments to cash and cash equivalents as a result of the debt financing:

Issuance of new debt, net of debt issuance costs	$249.2
Pro forma adjustment to cash and cash equivalents	**$249.2**

b. Reflects the adjustment of $527.9 million to increase the basis in the acquired Timber and Timberlands to estimated fair value of $964.3 million. In determining the fair value of the timberlands, the Company utilized valuation methodologies including a discounted cash flow analysis. The fair value calculations are preliminary and subject to change after the Company finalizes its review of the specific types, nature, age, condition and location of Pope's timberlands. The following summarizes the changes in the estimated depletion expense:

Estimated depletion expense	($50.7)
Historical depletion expense	42.8
Pro forma adjustment to depletion expense	**($7.9)**

c. Reflects the adjustment of $7.5 million to increase the basis in the acquired real estate development investments to estimated fair value of $27.7 million. In determining the fair value of the real estate development investments, the Company utilized valuation methodologies including a sales comparison and a discounted cash flow analysis. The fair value calculations are preliminary and subject to change after the Company finalizes its review of the specific types, nature, age, condition and location of Pope's real estate development investments.

d. Reflects the adjustment of $3.1 million to increase the basis in the acquired property, plant and equipment to estimated fair value of $8.3 million. In determining the fair value of the property, plant and equipment the Company utilized valuation methodologies including a sales comparison approach. The fair value calculations are preliminary and subject to change after the Company finalizes its review of the specific types, nature, age, condition and location of Pope's property, buildings and equipment. The following summarizes the changes in the estimated depreciation expense:

Estimated depreciation expense	($0.7)
Historical depreciation expense	0.6
Pro forma adjustment to depreciation expense	**($0.1)**

e. At the time of this filing, the Company has not performed a detailed valuation analysis of Pope's intangible assets. Consequently, the fair value and estimated useful lives will likely differ from final amounts the Company will calculate after completing a detailed valuation analysis, and the difference could have a material impact on the accompanying unaudited pro forma condensed combined financial statements.

The following represents the pro forma adjustments to other assets:

Exchange of Pope units held by Rayonier for equity[1]	($11.3)
Decrease in investment in joint venture	(1.5)
Pro forma adjustment to other assets	**($12.8)**

(1) Pope units held by Rayonier will remain outstanding and represent Rayonier Operating Company LLC's limited partner interest in Pope Resources L.P.

f. Reflects the effects of extinguishing a portion of Pope's outstanding debt upon completion of the Mergers. The net decrease to debt includes:

Decrease from extinguishment of existing Pope debt	($66.0)
Increase from elimination of Pope's debt issuance costs	0.5
Plus: Pro forma adjustments to current portion of long-term debt	0.1
Pro forma adjustment to long-term debt	**($65.4)**

Rayonier has not completed the valuation analysis and calculations in sufficient detail necessary to arrive at the fair value adjustment of assumed debt and related amortization. Accordingly, debt is presented at their respective face amounts and should be treated as preliminary fair values.

The following reflects the new term debt incurred to finance the Mergers:

Issuance of new debt, net of debt issuance costs	$249.2
Pro forma adjustment to long-term debt	**$249.2**

g. Reflects the accrual of an estimated $1.1 million change in control payment obligation to a Pope executive incurred at the time of the Mergers. Pope has previously entered into an original employment contract with an executive officer in which Pope was required to incur severance obligations for matters relating to changes in control, as defined, and involuntary terminations. The Mergers met the change in control criteria of the employment agreement. For the severance payment to be made, there must be a change in control and a termination event of the executive, as defined in the employment agreements, referred to as a "double trigger" payment. Since the unaudited pro forma balance sheet assumes the Mergers have occurred and the payment has been made to the executive, the obligation has been accrued in the unaudited pro forma balance sheet as of March 31, 2020. Dual trigger payments are accounted for outside of the business combination and not included in the purchase price, instead, recorded as compensation expense in the post-acquisition financial statements of the combined entity. As the change in control payment will not have a continuing impact, Rayonier has not shown this amount in the unaudited pro forma statements of operations.

The following represents the pro forma adjustments to accrued expenses:

Increase for change in control payment obligations	$1.1
Pro forma adjustment to accrued expenses	**$1.1**

h. Reflects the adjustment of $2.0 million to increase the balance in the acquired environmental liabilities to estimated fair value of $11.1 million. In determining the fair value of the environmental liabilities, the Company utilized valuation methodologies including a discounted cash flow analysis. The fair value calculations are preliminary and subject to change after the Company finalizes its review of the specific types, nature, age, condition and location of Pope's environmental liabilities.

Additionally, includes a $4.0 million deferred income tax liability resulting from the preliminary fair value adjustment to Pope's' assets and liabilities.

The following represents the pro forma adjustments to non-current liabilities:

Increase in environmental liabilities	$2.0
Increase in deferred tax liabilities	4.0
Pro forma adjustment to non-current liabilities	**$6.0**

i. Represents the value of 4,446,153 Rayonier, L.P. units issued at $24.01 per unit (based on Rayonier's closing share price on May 7, 2020) to finance the Mergers based an actual elections of Rayonier, L.P. unit consideration. Limited partner units of Rayonier, L.P. are redeemable for cash (or, at the discretion of Rayonier, for Rayonier shares having an equivalent value) at any time after the Mergers. Consequently, the units are classified outside of permanent equity on Rayonier's balance sheet.

j. The following represents the pro forma adjustments to shareholder's equity, including the elimination of the historical equity of Pope:

General Partners' Capital	($0.6)	
Limited Partners' Capital	(34.6)	
Historical Pope Partnership Equity as of March 31, 2020		(35.2)
Decrease for exchange of Pope Resource units for equity	(11.3)	
Issuance of Rayonier common shares to Pope unit holders (1)	172.4	
Increase for issuance of Rayonier restricted stock units for Pope's vested awards	0.2	
Pro forma adjustments to common shares		161.4
Decrease for transaction-related expenses	(20.0)	
Decrease for change in control payment obligations	(1.1)	
Pro forma adjustment to retained earnings		(21.1)
Pro forma adjustments to shareholder's equity		**$105.1**

(1) Represents the value of 7,181,071 Rayonier common shares issued at $24.01 per share (based on Rayonier's closing share price on May 07, 2020) to finance the Mergers based an actual elections of Rayonier common share consideration.

k. Noncontrolling interest in consolidating affiliates represents the third-party ownership interest in the Timber Fund and a real estate investment business. Pro forma adjustments reflect the proportionate interests in the fair value of the respective identifiable assets and liabilities attributable to each of these businesses.

l. Represents the difference between Pope's historical equity compensation expense and the estimated equity compensation expense related to replacement awards issued to continuing employees as part of the acquisition agreement. The fair value of the replacement restricted unit awards will be recognized ratably over the remaining post-combination service periods ranging from one to four years. The following represents the pro forma adjustments to equity compensation expense:

Pope's historical equity compensation expense		($0.8)
Fair value of replacement restricted awards	1.4	
Approximate vesting period (in quarters)	16	
		0.1
Pro forma adjustment to equity compensation expense		**($0.7)**

m. The following represents the pro forma adjustments to cost of goods sold :

Pro forma adjustment to depletion expense	($7.9)
Pro forma adjustment to cost of goods sold	**($7.9)**

n. Represents the net change in selling and general administrative expenses as a result of increased depreciation expense and the elimination of Pope's legal and professional fees related to the Mergers. As the legal and professional expenses are directly attributable to the business combination and will not have a continuing impact, Rayonier has adjusted these expenses in the Pro Forma Statements of Operations.

Estimated increase to depreciation expense	($0.1)
Estimated increase to equity compensation expense	(0.7)
Elimination of legal and professional expenses	5.2
Pro forma adjustment to selling and general expenses	**$4.4**

o. The following represents the elimination of interest expense on extinguished Pope debt:

Elimination of interest expense - Pope debt	$0.4
Pro forma adjustment to interest expense	**$0.4**

The following represents interest expense on the new term debt to finance the acquisition of Pope and the amortization of related debt issuance costs:

Interest expense on new debt	$2.2
Amortization of new debt issuance costs	—
Pro forma adjustment to interest expense	**$2.2**

p. Rayonier intends to continue to qualify as a REIT under the requirements of the Internal Revenue Code, and as a result, the Company's direct income tax expense is expected to be minimal. Consequently, no additional adjustment to pro forma income tax expense has been made with respect to the Mergers. With respect to the Mergers, Rayonier expects to make taxable REIT subsidiary ("TRS") elections with respect to the taxable subsidiaries of Pope acquired in the Mergers (excluding the Pope Private REITs) and those subsidiaries therefore will be subject to U.S. federal income taxes at corporate rates. However, no pro forma adjustment for income tax expense has been reflected in the pro forma statement of income as incremental taxable income is projected to be minimal.

q. Net income attributable to noncontrolling interest in the Operating Partnership is computed by applying the percentage equal to the number of redeemable Rayonier, L.P. units divided by the total number of Rayonier, L.P. units to the Operating Partnership's net income after income attributable to noncontrolling interest of consolidating affiliates. The percentage of Rayonier, L.P. units has been calculated based on the number of operating units assumed to be outstanding, assuming such operating units were outstanding for the full period presented. See calculation below:

Redeemable Rayonier, L.P. units outstanding (1)	4,446,153	
Total units outstanding	140,764,718	
		3 %
Net Income	13.6	
Less: Net (income) loss attributable to noncontrolling interest in consolidated affiliates	3.2	
Net income attributable to unitholders		16.8
Net Income attributable to noncontrolling interest in the Operating Partnership		**$0.5**

(1) The redeemable Rayonier, L.P. units outstanding is based on the actual election of Rayonier, L.P. unit consideration.

r. Pro forma basic earnings per common share attributable to Rayonier has been calculated based on the number of shares assumed to be outstanding, assuming such shares were outstanding for the full period presented. The following table sets forth the computation of unaudited pro forma basic and diluted earnings per share attributable to Rayonier:

	Net income attributable to Rayonier	Outstanding shares	Per share amount
Earnings per share, basic	$16.3	136,318,565	$0.12
Earnings per share, diluted	16.3	136,529,121	$0.12

Shares utilized in the calculation of pro forma basic and diluted earnings per share attributable to common stockholders are as follows:

	Historical	Shares issued in the transaction [1]	Pro Forma Total
Weighted-average shares outstanding, basic	129,137,494	7,181,071	136,318,565
Weighted-average shares outstanding, diluted	129,348,050	7,181,071	136,529,121

(1) The issuance of Rayonier common shares is based on the actual election of common share consideration.

EXHIBIT 99.7

RAYONIER OPERATING COMPANY LLC AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

On May 7, 2020, Rayonier Inc. contributed (the”Contribution”) its 100% ownership interest in Rayonier Operating Company LLC (“Rayonier Operating Company” or “the Company”) to Rayonier, L.P., a Delaware limited partnership (“Rayonier, L.P.” or “Operating Partnership”).

On May 8, 2020, Rayonier, L.P. acquired Pope Resources, a Delaware Limited Partnership (“Pope”), and became the general partner of Pope. The acquisition occurred pursuant to a series of mergers (the “Mergers”) provided for in an Agreement and Plan of Merger, dated as of January 14, 2020, as amended by Amendment No. 1, dated as of April 1, 2020 (as amended, the “Merger Agreement”), by and among Rayonier, Rayonier, L.P., Rayonier Operating Company LLC, Rayonier Operating Company Holdings, LLC, Pacific GP Merger Sub I, LLC, Pacific GP Merger Sub II, LLC, Pacific LP Merger Sub III, LLC, Pope, Pope EGP, Inc. and Pope MGP, Inc. Following the Mergers, Rayonier holds an approximate 96.5% ownership interest in Rayonier, L.P., with the remaining 3.5% ownership interest owned by limited partners of the Operating Partnership that are former Pope Resources unitholders. As the sole general partner of Rayonier, L.P., Rayonier will have exclusive control of the day-to-day management of Rayonier, L.P.

The following unaudited pro forma condensed combined financial statements as of and for the three months ended March 31, 2020 have been prepared (i) as if the Contribution, the Mergers and the debt issuance necessary to finance the Mergers occurred on March 31, 2020 for purposes of the unaudited pro forma consolidated balance sheet, and (ii) as if the Contribution, the Mergers and the debt issuance necessary to finance the Mergers occurred on January 1, 2020 for purposes of the unaudited pro forma consolidated statement of operations for the three months ended March 31, 2020.

The preliminary fair value of assets acquired and liabilities assumed and related adjustments for the assets acquired and liabilities assumed related to the Mergers incorporated into the unaudited pro forma condensed consolidated financial statements are based on preliminary estimates and information currently available. The amount of the equity issued in connection with the Mergers and the assignment of fair value to assets and liabilities of Pope have not been finalized and are subject to change. The amount of the equity issued in connection with the Mergers was based on the number of Pope units outstanding prior to the Mergers and the elections made by the Pope unitholders pursuant to the Merger Agreement, and the fair value of the assets and liabilities assumed will be based on the actual net tangible and intangible assets and liabilities of Pope that exist on the effective date of the Mergers.

Actual amounts recorded in connection with the Mergers may change based on any increases or decreases in the fair value of the assets acquired and liabilities assumed upon the completion of the final valuation and may result in variances to the amounts presented in the unaudited pro forma consolidated balance sheet and/or unaudited pro forma consolidated statement of operations. Assumptions and estimates underlying the adjustments to the unaudited pro forma condensed consolidated financial statements are described in the accompanying notes. These adjustments are based on available information and assumptions that management of Rayonier Operating Company consider to be reasonable. The unaudited pro forma condensed consolidated financial statements do not purport to: (1) represent Rayonier Operating Company’s actual financial position had the Mergers occurred on March 31, 2020; (2) represent the results of Rayonier Operating Company’s operations that would have actually occurred had the Mergers occurred on January 1, 2020; or (3) project Rayonier Operating Company’s financial position or results of operations as of any future date or for any future period, as applicable.

The unaudited pro forma condensed consolidated financial statements have been developed from, and should be read in conjunction with, the separate historical unaudited financial statements of Rayonier Operating Company LLC and accompanying notes thereto for the three months ended March 31, 2020, included in Exhibit 99.6 of Rayonier, L.P.’s Amendment No. 1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission (“SEC”) on July 17, 2020 and the separate historical unaudited financial statements of Pope and accompanying notes thereto included in Pope’s Quarterly Report on Form 10-Q for the three months ended March 31, 2020, filed with the SEC on May 6, 2020.

RAYONIER OPERATING COMPANY LLC AND SUBSIDIARIES
Unaudited Pro Forma Condensed Combined Balance Sheet
As of March 30, 2020
(Dollars in millions)

	Historical Rayonier Operating Company		Pro Forma Rayonier Contribution Adjustments [(a)]	Historical Pope Resources	Pro Forma Adjustments for the Mergers		Pro Forma Funding Adjustments		Pro Forma Rayonier, L.P.
ASSETS:									
Cash and cash equivalents	$126.3		$6.1	$12.3	($267.4)	b	$249.2	b	$126.5
Accounts receivable, net	28.3		—	4.6	—		—		32.9
Inventory	13.1		—	—	—		—		13.1
Prepaid expenses and other current assets	15.3		—	3.8	—		—		19.1
Total current assets	183.0		6.1	20.7	(267.4)		249.2		191.6
TIMBER AND TIMBERLANDS, NET	2,355.6		—	436.4	527.9	c	—		3,319.9
HIGHER AND BETTER USE TIMBERLANDS AND REAL ESTATE DEVELOPMENT INVESTMENTS	88.8		—	20.3	7.5	d	—		116.6
PROPERTY, PLANT AND EQUIPMENT									
Total property, plant and equipment, gross	31.8		—	13.6	(5.3)		—		40.1
Less—accumulated depreciation	(10.0)		—	(8.4)	8.4		—		(10.0)
Total property, plant & equipment, net	21.8		—	5.2	3.1	e	—		30.1
OTHER ASSETS	132.4		0.1	7.3	(12.8)	f	—		127.0
TOTAL ASSETS	$2,781.6		$6.2	$489.9	$258.3		249.2		$3,785.2
LIABILITIES:									
Accounts payable	$20.8		—	$2.9	—		—		$23.7
Current maturities of long-term debt	—		—	25.1	(0.1)	g	—		25.0
Other current liabilities	42.3	—	6.2	8.3	1.1	h	—		57.9
Total current liabilities	63.1		6.2	36.3	1.0		—		106.6
LONG-TERM DEBT, NET OF DEFERRED FINANCING COSTS	731.0		324.3	136.8	(65.4)	g	249.2	g	1,375.9
PENSION AND OTHER POSTRETIREMENT BENEFITS	24.7		—	—	—		—		24.7
LONG-TERM LEASE LIABILITY	83.4		—	—	—		—		83.4
OTHER NON-CURRENT LIABILITIES	155.5		—	9.1	6.0	i	—		170.6
TOTAL LIABILITIES	1,057.7		330.5	182.2	(58.4)		249.2		1,761.2
REDEEMABLE OPERATING PARTNERSHIP UNITS	—		—	—	106.8	j	—		106.8
CAPITAL:									
General partner's capital	—		—	0.6	9.4	k	—		10.0
Limited partner's capital	—		—	34.6	1,556.3	k	—		1,590.9
Equity	1,784.9		(324.3)	—	(1,460.6)	k	—		—
Accumulated other comprehensive income	(147.3)		—	—	—		—		(147.3)
TOTAL CONTROLLING INTEREST CAPITAL	1,637.6		(324.3)	35.2	105.1	k	—		1,453.6
Noncontrolling interest	86.3		—	272.5	104.8	l	—		463.6
TOTAL CAPITAL	1,723.9		(324.3)	307.7	209.9		—		1,917.2
TOTAL LIABILITIES, REDEEMABLE OPERATING PARTNERSHIP UNITS AND CAPITAL	$2,781.6		$6.2	$489.9	$258.3		$249.2		$3,785.2

RAYONIER OPERATING COMPANY LLC AND SUBSIDIARIES
Unaudited Pro Forma Condensed Combined Statements of Income
For the Three Months Ended March 31, 2020
(Dollars in millions, except per unit amounts)

	Historical Rayonier Operating Company	Pro Forma Rayonier Contribution Adjustments (a)	Historical Pope Resources	Pro Forma Adjustments for the Mergers		Pro Forma Funding Adjustments		Pro Forma Rayonier, L.P.
SALES	$259.1	—	$24.4	—		—		$283.5
Costs and Expenses								—
Cost of sales	(209.4)	—	(18.5)	(7.9)	c,d,n	—		(235.8)
Selling and general expenses	(10.0)	—	(7.5)	4.4	e,m,o	—		(13.1)
Other operating (expense) income, net	(1.1)	—	(4.8)	—		—		(5.9)
	(220.6)	—	(30.8)	(3.5)		—		(254.9)
OPERATING INCOME (LOSS)	38.6	—	(6.4)	(3.5)		—		28.7
Interest expense	(5.1)	(3.2)	(1.4)	0.4	p	(2.2)	p	(11.5)
Interest and other miscellaneous income, net	0.2	(0.4)	—	—		—		(0.2)
INCOME BEFORE INCOME TAXES	33.7	(3.6)	(7.8)	(3.1)		(2.2)		17.0
Income tax expense	(3.7)	—	0.3	—	q	—		(3.4)
NET INCOME (LOSS)	30.0	(3.6)	(7.5)	(3.1)		(2.2)		13.6
Less: Net (income) loss attributable to noncontrolling interest in consolidated affiliates	(0.5)	—	3.7	—		—		3.2
NET INCOME AVAILABLE TO UNITHOLDERS	$29.5	($3.6)	($3.8)	($3.1)		($2.2)		$16.8
EARNINGS PER UNIT								
Net income available for unitholders - basic			($0.92)				r	$0.12
Net income available for unitholders - diluted			($0.92)				r	$0.12

Note 1 — Basis of Presentation

The unaudited pro forma condensed combined financial statements are based on Rayonier Operating Company's and Pope's historical consolidated financial statements as adjusted to give effect to the the Contribution, the Mergers and the debt issuance necessary to finance the Mergers. The unaudited pro forma condensed combined statements of income for the three months ended March 31, 2020, give effect to the Mergers as if they had occurred on January 1, 2020. The unaudited pro forma condensed combined balance sheet as of March 31, 2020, gives effect to the Mergers as if they had occurred on March 31, 2020.

The historical consolidated financial statements have been adjusted in the pro forma condensed combined financial statements to give effect to pro forma events that are (1) directly attributable to the business combination, (2) factually supportable and (3) with respect to the pro forma condensed combined statements of income, expected to have a continuing impact on the combined results following the business combination.

The business combination was accounted for under the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*. As the acquirer for accounting purposes, Rayonier Operating Company has estimated the fair value of Pope's assets acquired and liabilities assumed and conformed the accounting policies of Pope to its own accounting policies.

The pro forma combined financial statements do not necessarily reflect what the combined company's financial condition or results of operations would have been had the acquisition occurred on the dates indicated. They also may not be useful in predicting the future financial condition and results of operations of the combined company. The actual financial position and results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors.

The combined pro forma financial information does not reflect the realization of any expected cost savings or other synergies from the acquisition of Pope as a result of restructuring activities and other planned cost savings initiatives following the completion of the business combination.

Note 2 — Pope and Rayonier Operating Company Reclassification Adjustment

During the preparation of these unaudited pro forma condensed combined financial statements, management performed a preliminary analysis of Pope's financial information to identify differences in accounting policies as compared to those of Rayonier Operating Company and differences in financial statement presentation as compared to the presentation of Rayonier Operating Company. At the time of preparing these unaudited pro forma condensed combined financial statements, Rayonier Operating Company had not identified all adjustments necessary to conform Pope's accounting policies to Rayonier Operating Company's accounting policies. The below adjustments represent Rayonier Operating Company's best estimates based upon the information currently available to management and could be subject to change once more detailed information is available.

Refer to the table below for a summary of reclassification adjustments made to present Pope's consolidated balance sheet as of March 31, 2020 to conform presentation (in millions):

Pope Resources Consolidated Statement of Financial Position Line Item	Rayonier Operating Company Historical Consolidated Balance Sheet Line Item	Pope Resources Historical Consolidated Statement of Financial Position	Reclassification (Rounded) (1)	Pope Resources Adjusted Historical Consolidated Balance Sheet (Unaudited, Rounded)
	Cash and cash equivalents	—	$12.3	$12.3
Partnership cash		2.7	(2.7)	—
ORM Timber Funds cash		9.6	(9.6)	—
Accounts receivable, net	Accounts receivable, less allowance for doubtful accounts	4.6	—	4.6
Contract assets		2.4	(2.4)	—
Land held for sale	Inventory	—	—	—
Prepaid expenses and other current assets		1.4	(1.4)	—
	Other current assets	—	3.8	3.8
Timber and roads		359.4	(359.4)	—
Timberland		77.1	(77.1)	—
	Timber and Timberlands, net	—	436.4	436.4
Land held for development	Higher and Better Use Timberlands and Real Estate Developments	20.3	—	20.3
Buildings and equipment, net of accumulated depreciation		5.2	(5.2)	—
	Total property, plant and equipment, gross	—	13.6	13.6
	Less - accumulated depreciation	—	(8.4)	(8.4)
Restricted cash	Restricted cash	0.7	(0.7)	—
Other assets	Other assets	6.5	0.7	7.3
Accounts payable	Accounts payable	2.9	—	2.9
Accrued liabilities		5.7	(5.7)	—
Current portion of long-term debt - Partnership		0.1	(0.1)	—
Current portion of long-term debt - Funds		25.0	(25.0)	—
	Current maturities of long-term debt	—	25.1	25.1
Deferred revenue	Deferred revenue	0.4	(0.4)	—
Current portion of environmental remediation liability		1.0	(1.0)	—
Other current liabilities	Other current liabilities	1.1	7.1	8.3
Long-term debt, net of unamortized debt issuance costs and current portion - Partnership		104.4	(104.4)	—
Long-term debt, net of unamortized debt issuance costs - Funds		32.3	(32.3)	—
	Long-term debt, net of deferred financing costs	—	136.8	136.8
	Long-term lease liability	—	—	—
Environmental remediation and other long term liabilities	Other non-current liabilities	9.1	—	9.1
General Partners' Capital		0.6	—	0.6
Limited Partners' Capital		34.6	—	34.6
Noncontrolling interest	Noncontrolling interest	272.5	—	272.5

(1) Reclassifications to conform to Rayonier Operating Company presentation.

Refer to the table below for a summary of reclassification adjustments made to Pope's consolidated statement of income for the three months ended March 31, 2020 to conform presentation (in millions):

Pope Resources Consolidated Statement of Income Line Item	Rayonier Operating Company Historical Consolidated Statement of Income Line Items	Pope Resources Historical Consolidated Statement of Income	Reclassification (Rounded) (1)	Pope Resources Adjusted Historical Consolidated Statement of Income (Unaudited, Rounded)
Total revenue	Sales	$24.4	—	$24.4
Total cost of sales	Cost of sales	(18.5)	—	(18.5)
General and Administrative	Selling and general expenses	(7.5)	—	(7.5)
	Other operating (expense) income, net	(4.8)	—	(4.8)
Interest expense, net	Interest expense	(1.4)	—	(1.4)
Income tax benefit	Income tax expense	0.3	—	0.3
Net and comprehensive (income) loss attributable to noncontrolling interests - ORM Timber Funds		3.5	(3.5)	—
Net and comprehensive loss attributable to noncontrolling interests - Real Estate		0.2	(0.2)	—
Net and comprehensive income attributable to unitholders		(3.8)	3.8	—
	Net income attributable to noncontrolling interest	—	3.7	3.7
	Net Income attributable to shareholders	—	(3.8)	(3.8)

(1) Reclassifications to conform to Rayonier Operating Company presentation.

Note 3 — Financing

In connection with the Mergers, the Company incurred $250.0 million of debt at an interest rate of approximately 3.5% (inclusive of interest rate hedges and patronage rebates), less approximately $0.8 million in debt issuance costs, a portion of which was used to fund the cash component of the Mergers for approximately $169.5 million. The Company also extinguished a portion of Pope's existing debt of approximately $68.3 million which included a $2.3 million prepayment premium. Additionally, the Company paid approximately $9.6 million of transaction costs on behalf of Pope at the time of closing. The Company did not legally assume the extinguished portion of Pope's outstanding debt or liabilities.

Note 4 — Consideration

Consideration of approximately $526.7 million is based on Rayonier's closing share price of $24.01 on May 7, 2020.

The following table summarizes the components of the estimated consideration (in millions):

Cash consideration:		
Pope units as of March 31, 2020	4.4	
Less: Pope units held by Rayonier Operating Company[1]	(0.1)	
Units outstanding, net	4.3	
Cash consideration (per Pope unit)	$37.50	
		159.5
General Partner interest		10.0
		169.5
Equity consideration:		
Pope units as of March 31, 2020	4.4	
Less: Pope units held by Rayonier Operating Company [1]	(0.1)	
Units outstanding, net	4.3	
Exchange ratio	2.751	
Rayonier common shares/units to be issued	11.6	
Rayonier share price [2]	$24.01	
		279.2
Total consideration to Pope unit holders		**448.6**
Repayment of Pope debt		65.9
Repayment premium on Pope debt		2.3
Payment of transaction costs on behalf of Pope		9.6
Fair value of replacement Rayonier restricted stock units for vested Pope awards		0.2
Total pro forma purchase price		**$526.7**

(1) As of March 31, 2020, Rayonier Operating Company held 114,400 Pope limited partnership units as marketable securities on its standalone financial statements.

(2) The purchase price is based on the closing price of Rayonier common stock on May 7, 2020.

Note 5 — Preliminary Purchase Price Allocation

Under the acquisition method of accounting, the total purchase price is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the date of the acquisition. The preliminary allocation of the purchase price is based on the terms of the Merger Agreement and Rayonier Operating Company management's estimates of the fair value of Pope's assets and liabilities as of March 31, 2020, derived from the historical balance sheet of Pope as of March 31, 2020 and using the January 14, 2020 merger consideration adjusted based on Rayonier's closing share price of $24.01 on May 7, 2020. As of the date of this document, Rayonier Operating Company management has not finalized the detailed valuation studies necessary to arrive at the required estimates of the fair value of Pope's assets acquired and the liabilities assumed and the related allocations of purchase price. The valuation studies are expected to be final by the end of 2020. Additional intangible asset classes may be identified as the valuation process continues. Therefore, the allocation of the purchase price to assets acquired and liabilities assumed is based on preliminary fair value estimates and is subject to final analysis by Rayonier Operating Company management.

The following table summarizes the allocation of the preliminary purchase price as March 31, 2020, with the excess recorded as goodwill (in millions):

Timberland and Real Estate Business	
Cash	$2.7
Other current assets	3.4
Timber and timberland	492.4
Land held for development	27.7
Buildings and equipment	8.3
Other assets	5.8
Goodwill(1)	—
Other current liabilities	(7.3)
Environmental liabilities	(11.1)
Long-term debt	(39.0)
Other non-current liabilities (2)	(4.0)
Less: noncontrolling interest	(3.3)
Pro forma purchase price	**475.7**
Timber Fund Business	
Cash	9.6
Other current assets	5.0
Timber and timberland	471.9
Goodwill(1)	—
Current portion of long-term debt	(25.0)
Other current liabilities	(3.9)
Long-term debt	(32.4)
Less: noncontrolling interest	(374.2)
Pro forma purchase price	**51.0**
Total pro forma purchase price	**$526.7**

(1) Goodwill is calculated as the difference between the acquisition date fair value of the consideration transferred and the values assigned to the assets acquired and liabilities assumed. Goodwill is not amortized but is tested for impairment at least annually, or more frequently if circumstances indicate potential impairment.

(2) Other non-current liabilities includes a $4.0 million deferred income tax liability resulting from the preliminary fair value adjustment to Pope’s’ assets and liabilities.

Note 6 — Pro forma adjustments

The pro forma adjustments are based on our preliminary estimates and assumptions that are subject to change. The following adjustments have been reflected in the unaudited pro forma condensed combined financial information (in millions, except units or per unit amounts):

a. As part of the Mergers, Rayonier Inc. contributed 100% of its interest in Rayonier Operating Company to a new limited partnership (Rayonier, L.P.). Additionally, Rayonier, L.P. will become the obligor of existing bonds issued by Rayonier Inc. The following represents the pro forma adjustments for the Contribution:

Cash and cash equivalents	6.1	
Other assets	0.1	
Total assets		6.2
Accrued interest on Senior Notes [(1)]	6.2	
Senior Notes,[(1)] net of deferred financing costs	324.3	
Total liabilities		330.5
Total equity		**($324.3)**

(1) In March 2012, Rayonier Inc. issued $325 million of 3.75% Senior Notes due 2022, guaranteed by certain subsidiaries. Semi-annual payments of interest only are due on these notes through maturity.

b. The following represents the pro forma adjustments to cash and cash equivalents as a result of the Mergers:

Decrease from extinguishment of existing Pope debt [(1)]	($68.3)
Decrease from cash consideration paid to Pope unit holders	(169.5)
Decrease from cash payment of transaction-related expenses made on behalf of Pope	(9.6)
Decrease from cash payment of transaction-related expenses[(2)]	(20.0)
Pro forma adjustment to cash and cash equivalents	**($267.4)**

(1) Includes $2.3 million prepayment premium.

(2) Reflects estimated transaction costs of $20.0 million incurred by Rayonier Operating Company directly attributable to the Mergers. Transaction costs include investment banking, legal, and other fees and expenses. Transaction costs are expensed as incurred and accounted for outside of the business combination in the post-acquisition financial statements of the combined entity. As the transaction costs will not have a continuing impact, Rayonier Operating Company has not shown the estimated transaction costs in the unaudited pro forma statements of operations.

The following represents the pro forma adjustments to cash and cash equivalents as a result of the debt financing:

Issuance of new debt, net of debt issuance costs	$249.2
Pro forma adjustment to cash and cash equivalents	**$249.2**

c. Reflects the adjustment of $527.9 million to increase the basis in the acquired Timber and Timberlands to estimated fair value of $964.3 million. In determining the fair value of the timberlands, the Company utilized valuation methodologies including a discounted cash flow analysis. The fair value calculations are preliminary and subject to change after the Company finalizes its review of the specific types, nature, age, condition and location of Pope's timberlands. The following summarizes the changes in the estimated depletion expense:

Estimated depletion expense	($50.7)
Historical depletion expense	42.8
Pro forma adjustment to depletion expense	**($7.9)**

d. Reflects the adjustment of $7.5 million to increase the basis in the acquired real estate development investments to estimated fair value of $27.7 million. In determining the fair value of the real estate development investments, the Company utilized valuation methodologies including a sales comparison and a discounted cash flow analysis. The fair value calculations are preliminary and subject to change after the Company finalizes its review of the specific types, nature, age, condition and location of Pope's real estate development investments.

e. Reflects the adjustment of $3.1 million to increase the basis in the acquired property, plant and equipment to estimated fair value of $8.3 million. In determining the fair value of the property, plant and equipment the Company utilized valuation methodologies including a sales comparison approach. The fair value calculations are preliminary and subject to change after the Company finalizes its review of the specific types, nature, age, condition and location of Pope's property, buildings and equipment. The following summarizes the changes in the estimated depreciation expense:

Estimated depreciation expense	($0.7)
Historical depreciation expense	0.6
Pro forma adjustment to depreciation expense	**($0.1)**

f. At the time of this filing, the Company has not performed a detailed valuation analysis of Pope's intangible assets. Consequently, the fair value and estimated useful lives will likely differ from final amounts the Company will calculate after completing a detailed valuation analysis, and the difference could have a material impact on the accompanying unaudited pro forma condensed combined financial statements.

The following represents the pro forma adjustments to other assets:

Exchange of Pope units held by Rayonier Operating Company for equity (1)	($11.3)
Decrease in investment in joint venture	(1.5)
Pro forma adjustment to other assets	**($12.8)**

(1) Pope units held by Rayonier Operating Company will remain outstanding and represent Rayonier Operating Company LLC's limited partner interest in Pope Resources L.P.

g. Reflects the effects of extinguishing a portion of Pope's outstanding debt upon completion of the Mergers. The net decrease to debt includes:

Decrease from extinguishment of existing Pope debt	($66.0)
Increase from elimination of Pope's debt issuance costs	0.5
Plus: Pro forma adjustments to current portion of long-term debt	0.1
Pro forma adjustment to long-term debt	**($65.4)**

Rayonier Operating Company has not completed the valuation analysis and calculations in sufficient detail necessary to arrive at the fair value adjustment of assumed debt and related amortization. Accordingly, debt is presented at their respective face amounts and should be treated as preliminary fair values.

The following reflects the new term debt incurred to finance the the Mergers:

Issuance of new debt, net of debt issuance costs	$249.2
Pro forma adjustment to long-term debt	**$249.2**

h. Reflects the accrual of an estimated $1.1 million change in control payment obligation to a Pope executive incurred at the time of the Mergers. Pope has previously entered into an original employment contract with an executive officer in which Pope was required to incur severance obligations for matters relating to changes in control, as defined, and involuntary terminations. The Mergers met the change in control criteria of the employment agreement. For the severance payment to be made, there must be a change in control and a termination event of the executive, as defined in the employment agreements, referred to as a "double trigger" payment. Since the Pro Forma Balance Sheet assumes the Mergers have occurred and the payment has been made to the executive, the obligation has been accrued in the unaudited pro forma balance sheet as of March 31, 2020. Dual trigger payments are accounted for outside of the business combination and not included in the purchase price, instead, recorded as compensation expense in the post-acquisition financial statements of the combined entity. As the change in control payment will not have a continuing impact, Rayonier Operating Company has not shown this amount in the unaudited pro forma statements of operations.

The following represents the pro forma adjustments to accrued expenses:

Increase for change in control payment obligations	$1.1
Pro forma adjustment to accrued expenses	**$1.1**

i. Reflects the adjustment of $2.0 million to increase the balance in the acquired environmental liabilities to estimated fair value of $11.1 million. In determining the fair value of the environmental liabilities, the Company utilized valuation methodologies including a discounted cash flow analysis. The fair value calculations are preliminary and subject to change after the Company finalizes its review of the specific types, nature, age, condition and location of Pope's environmental liabilities.

Additionally, includes a $4.0 million deferred income tax liability resulting from the preliminary fair value adjustment to Pope's' assets and liabilities.

The following represents the pro forma adjustments to non-current liabilities:

Increase in environmental liabilities	$2.0
Increase in deferred tax liabilities	4.0
Pro forma adjustment to non-current liabilities	**$6.0**

j. Represents the value of 4,446,153 Rayonier, L.P. units issued at $24.01 per unit (based on Rayonier's closing share price on May 7, 2020) to finance the Mergers based an actual elections of Rayonier, L.P. unit consideration.

k. The following represents the pro forma adjustments to equity, including the elimination of the historical equity of Pope:

Issuance of general partner units to Rayonier Inc.	$10.0	
Historical Pope general partners' capital as of March 31, 2020	(0.6)	
Pro forma adjustment to general partner's capital		9.4
Issuance of limited partner units to Rayonier Inc.	1,590.9	
Historical Pope limited partners' capital as of March 31, 2020	(34.6)	
Pro forma adjustments to limited partner's capital		1,556.3
Decrease for transaction-related expenses	(20.0)	
Decrease for change in control payment obligations	(1.1)	
Issuance of Rayonier restricted stock units for Pope's vested awards	0.2	
Issuance of Rayonier common shares to Pope unit holders (1)	172.4	
Exchange of equity for Pope units held by Rayonier Operating Co.	(11.3)	
Exchange of equity to general partner units to Rayonier Inc.	(10.0)	
Exchange of equity to limited partner units to Rayonier Inc.	(1,590.9)	
Pro forma adjustment to equity		(1,460.6)
Pro forma adjustments to controlling interest capital		**$105.1**

(1) Represents the value of 7,181,071 Rayonier common shares issued at $24.01 per share (based on Rayonier's closing share price on May 07, 2020) to finance the Mergers based an actual elections of Rayonier common share consideration.

l. Noncontrolling interest in consolidating affiliates represents the third-party ownership interest in the Timber Fund and a real estate investment business. Pro forma adjustments reflect the proportionate interests in the fair value of the respective identifiable assets and liabilities attributable to each of these businesses.

m. Represents the difference between Pope's historical equity compensation expense and the estimated equity compensation expense related to replacement awards issued to continuing employees as part of the acquisition agreement. The fair value of Rayonier Inc. replacement restricted unit awards will be recognized ratably over the remaining post-combination service periods ranging from one to four years. The following represents the pro forma adjustments to equity compensation expense:

Pope’s historical equity compensation expense		($0.8)
Fair value of replacement Rayonier Inc.restricted awards	1.4	
Approximate vesting period (in quarters)	16	
		0.1
Pro forma adjustment to equity compensation expense		**($0.7)**

n. The following represents the pro forma adjustments to cost of goods sold:

Pro forma adjustment to depletion expense	($7.9)
Pro forma adjustment to cost of goods sold	**($7.9)**

o. Represents the net change in selling and general administrative expenses as a result of increased depreciation expense and the elimination of Pope’s legal and professional fees related to the Mergers. As the legal and professional expenses are directly attributable to the business combination and will not have a continuing impact, the Company has adjusted these expenses in the Pro Forma Statements of Operations.

Estimated increase to depreciation expense	($0.1)
Estimated increase to equity compensation expense	(0.7)
Elimination of legal and professional expenses	5.2
Pro forma adjustment to selling and general expenses	**$4.4**

p. The following represents the elimination of interest expense on extinguished Pope debt:

Elimination of interest expense - Pope debt	$0.4
Pro forma adjustment to interest expense	**$0.4**

The following represents interest expense on the new term debt to finance the acquisition of Pope and the amortization of related debt issuance costs:

Interest expense on new debt	$2.2
Amortization of new debt issuance costs	—
Pro forma adjustment to interest expense	**$2.2**

q. Rayonier Inc. intends to continue to qualify as a REIT under the requirements of the Internal Revenue Code, and as a result, the Company’s direct income tax expense is expected to be minimal. Consequently, no additional adjustment to pro forma income tax expense has been made with respect to the Mergers. With respect to the Mergers, Rayonier expects to make taxable REIT subsidiary (“TRS”) elections with respect to the taxable subsidiaries of Pope acquired in the Mergers (excluding the Pope Private REITs) and those subsidiaries therefore will be subject to U.S. federal income taxes at corporate rates. However, no pro forma adjustment for income tax expense has been reflected in the pro forma statement of income as incremental taxable income is projected to be minimal.

r. Pro forma basic earnings per unit has been calculated based on the number of units assumed to be outstanding, assuming such units were outstanding for the full period presented. The following table sets forth the computation of unaudited pro forma basic and diluted earnings per unit:

	Net income available to unitholders	**Outstanding units**	**Per unit amount**
Earnings per unit, basic	$16.8	140,764,718	$0.12
Earnings per unit, dilutive	$16.8	140,975,274	$0.12

Units utilized in the calculation of pro forma basic and diluted earnings per unit attributable to unitholders are as follows:

	Rayonier Inc. Units	Units issued in the transaction (1)	Pro Forma Total
Weighted-average units outstanding, basic	136,318,565	4,446,153	140,764,718
Weighted-average units outstanding, diluted	136,529,121	4,446,153	140,975,274

(1) The issuance of Rayonier, L.P. units is based on the actual election of Rayonier, L.P. unit consideration.

RAYONIER INC. AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

On May 7, 2020, Rayonier Inc. contributed its 100% ownership interest in Rayonier Operating Company LLC (the “Contribution”) to Rayonier, L.P., a Delaware limited partnership (“Rayonier, L.P.” or “Operating Partnership”). This transaction amongst entities under common control was accounted for at carryover basis and has no impact to the accompanying unaudited pro forma condensed combined financial statements.

On May 8, 2020, Rayonier, L.P. acquired Pope Resources, a Delaware Limited Partnership (“Pope”), and became the general partner of Pope. The acquisition occurred pursuant to a series of mergers (the “Mergers”) provided for in an Agreement and Plan of Merger, dated as of January 14, 2020, as amended by Amendment No. 1, dated as of April 1, 2020 (as amended, the “Merger Agreement”), by and among Rayonier, Rayonier, L.P., Rayonier Operating Company LLC, Rayonier Operating Company Holdings, LLC, Pacific GP Merger Sub I, LLC, Pacific GP Merger Sub II, LLC, Pacific LP Merger Sub III, LLC, Pope, Pope EGP, Inc and Pope MGP, Inc. Following the Mergers, Rayonier holds an approximate 96.5% ownership interest in Rayonier, L.P., with the remaining 3.5% ownership interest owned by limited partners of the Operating Partnership that are former Pope unitholders. As the sole general partner of Rayonier, L.P., Rayonier will have exclusive control of the day-to-day management of Rayonier, L.P.

The following unaudited pro forma condensed combined financial statements as of and for the year ended December 31, 2019 have been prepared (i) as if the Mergers and the debt issuance necessary to finance the Mergers occurred on December 31, 2019 for purposes of the unaudited pro forma consolidated balance sheet, and (ii) as if the Contribution, the Mergers and the debt issuance necessary to finance the Mergers occurred on January 1, 2019 for purposes of the unaudited pro forma consolidated statement of operations for year ended December 31, 2019.

The preliminary fair value of assets acquired and liabilities assumed and related adjustments for the assets acquired and liabilities assumed related to the Mergers incorporated into the unaudited pro forma condensed consolidated financial statements are based on preliminary estimates and information currently available. The amount of the equity issued in connection with the Mergers and the assignment of fair value to assets and liabilities of Pope have not been finalized and are subject to change. The amount of the equity issued in connection with the Mergers was based on the number of Pope units outstanding prior to the Mergers and the elections made by the Pope unitholders pursuant to the Merger Agreement, and the fair value of the assets and liabilities assumed will be based on the actual net tangible and intangible assets and liabilities of Pope that exist on the effective date of the Mergers.

Actual amounts recorded in connection with the Mergers may change based on any increases or decreases in the fair value of the assets acquired and liabilities assumed upon the completion of the final valuation and may result in variances to the amounts presented in the unaudited pro forma consolidated balance sheet and/or unaudited pro forma consolidated statement of operations. Assumptions and estimates underlying the adjustments to the unaudited pro forma condensed consolidated financial statements are described in the accompanying notes. These adjustments are based on available information and assumptions that management of Rayonier consider to be reasonable. The unaudited pro forma condensed consolidated financial statements do not purport to: (1) represent Rayonier’s actual financial position had the Mergers occurred on December 31, 2019; (2) represent the results of Rayonier’s operations that would have actually occurred had the Mergers occurred on January 1, 2019; or (3) project Rayonier’s financial position or results of operations as of any future date or for any future period, as applicable.

The unaudited pro forma condensed consolidated financial statements have been developed from, and should be read in conjunction with, the separate historical audited financial statements of Rayonier and accompanying notes thereto included in Rayonier’s Annual Report on Form 10-K for the year ended December 31, 2019, incorporated herein by reference, and the separate historical audited financial statements of Pope and accompanying notes thereto included in Pope’s Annual Report on Form 10-K for the year ended December 31, 2019, incorporated herein by reference, and the accompanying notes to the unaudited pro forma condensed combined financial statements.

RAYONIER INC. AND SUBSIDIARIES
Unaudited Pro Forma Condensed Combined Balance Sheet
As of December 31, 2019
(Dollars in millions)

	Historical Rayonier	Historical Pope Resources	Pro Forma Adjustments for the Merger		Pro Forma Funding Adjustments		Pro Forma Combined
ASSETS:							
Cash and cash equivalents	$68.7	$8.2	($267.4)	a	$249.2	a	$58.7
Accounts receivable, net	27.1	3.8	—		—		30.9
Inventory	14.5	—	—		—		14.5
Prepaid expenses and other current assets	15.7	4.2	—		—		19.9
Total current assets	126.0	16.2	(267.4)		249.2		124.0
TIMBER AND TIMBERLANDS, NET	2,482.0	444.3	514.4	b	—		3,440.7
HIGHER AND BETTER USE TIMBERLANDS AND REAL ESTATE DEVELOPMENT INVESTMENTS	81.8	20.2	7.5	c	—		109.5
PROPERTY, PLANT AND EQUIPMENT							
Total property, plant and equipment, gross	31.9	13.5	(5.3)		—		40.1
Less—accumulated depreciation	(9.6)	(8.2)	8.2		—		(9.6)
Total property, plant and equipment, net	22.3	5.3	2.9	d	—		30.5
OTHER ASSETS	148.9	7.5	(13.1)	e	—		143.3
TOTAL ASSETS	$2,861.0	$493.5	$244.3		$249.2		$3,848.0
LIABILITIES:							
Accounts payable	$18.2	$1.7	—		—		$19.9
Current maturities of long-term debt	82.0	25.1	(0.1)	f	—		107.0
Other current liabilities	51.0	9.9	1.1	g	—		62.0
Total current liabilities	151.2	36.7	1.0		—		188.9
LONG-TERM DEBT, NET OF DEFERRED FINANCING COSTS	973.1	128.8	(65.4)	f	249.2	f	1,285.7
PENSION AND OTHER POSTRETIREMENT BENEFITS	25.3	—	—		—		25.3
LONG-TERM LEASE LIABILITY	90.5	—	—		—		90.5
OTHER NON-CURRENT LIABILITIES	83.3	9.0	6.0	h	—		98.4
TOTAL LIABILITIES	1,323.4	174.5	(58.4)		249.2		1,688.7
NONCONTROLLING INTEREST IN THE OPERATING PARTNERSHIP	—	—	106.8	i	—		106.8
EQUITY:							
GENERAL PARTNERS' CAPITAL	—	0.8	(0.8)	j	—		—
LIMITED PARTNERS' CAPITAL	—	42.0	(42.0)	j	—		—
SHAREHOLDERS' EQUITY							
Common Shares	888.2	—	161.4	i,j	—		1,049.6
Retained earnings	583.0	—	(21.1)	g,j	—		561.9
Accumulated other comprehensive income	(31.2)	—	—		—		(31.2)
TOTAL SHAREHOLDERS' EQUITY	1,440.0	42.8	97.5	j	—		1,580.3
Noncontrolling interest in consolidated affiliates	97.6	276.2	98.4	k	—		472.2
TOTAL NONCONTROLLING INTEREST AND SHAREHOLDERS' EQUITY	1,537.6	319.0	302.7		—		2,159.3
	$2,861.0	$493.5	$244.3		$249.2		$3,848.0

RAYONIER INC. AND SUBSIDIARIES
Unaudited Pro Forma Condensed Combined Statements of Income
For the Year Ended December 31, 2019
(Dollars in millions, except per share amounts)

	Historical Rayonier	Historical Pope Resources	Pro Forma Adjustments for the Merger		Pro Forma Funding Adjustments		Pro Forma Combined
SALES	$711.6	$109.9	—		—		$821.5
Costs and Expenses							—
Cost of sales	(558.4)	(95.1)	(25.7)	b,c,m	—		(679.2)
Selling and general expenses	(41.7)	(17.2)	4.2	d,l,n	—		(54.7)
Other operating (expense) income, net	(4.5)	(1.6)	—		—		(6.1)
	(604.6)	(113.9)	(21.5)		—		(740.0)
OPERATING INCOME	107.0	(4.0)	(21.5)		—		81.5
Interest expense	(31.7)	(5.8)	1.7	o	(8.9)	o	(44.7)
Interest and other miscellaneous income, net	5.3	—	—		—		5.3
INCOME BEFORE INCOME TAXES	80.6	(9.8)	(19.8)		(8.9)		42.1
Income tax expense	(12.9)	(0.2)	—	p	—		(13.1)
NET INCOME	67.7	(10.0)	(19.8)		(8.9)		29.0
Less: Net (income) loss attributable to noncontrolling interest in the Operating Partnership	—	—	(1.0)	q	—		(1.0)
Less: Net (income) loss attributable to noncontrolling interest in consolidated affiliates	(8.6)	12.4	—		—		3.8
NET INCOME ATTRIBUTABLE TO RAYONIER	$59.1	$2.4	($20.8)		($8.9)		$31.8
EARNINGS PER COMMON SHARE							
Basic earnings per share attributable to Rayonier Inc.	$0.46	$0.52				r	$0.23
Diluted earnings per share attributable to Rayonier Inc.	$0.46	$0.52				r	$0.23

Note 1 — Basis of Presentation

These unaudited pro forma condensed combined financial statements are based on Rayonier's and Pope's historical consolidated financial statements as adjusted to give effect to the Contribution, the Mergers and the debt issuance necessary to finance the acquisition. The unaudited pro forma condensed combined statements of income for the year ended December 31, 2019, give effect to the Mergers as if they had occurred on January 1, 2019. The unaudited pro forma condensed combined balance sheet as of December 31, 2019, gives effect to the Mergers as if they had occurred on December 31, 2019.

The historical consolidated financial statements have been adjusted in the pro forma condensed combined financial statements to give effect to pro forma events that are (1) directly attributable to the business combination, (2) factually supportable and (3) with respect to the pro forma condensed combined statements of income, expected to have a continuing impact on the combined results following the business combination.

The business combination was accounted for under the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*. As the acquirer for accounting purposes, Rayonier has estimated the fair value of Pope's assets acquired and liabilities assumed and conformed the accounting policies of Pope to its own accounting policies.

The pro forma combined financial statements do not necessarily reflect what the combined company's financial condition or results of operations would have been had the acquisition occurred on the dates indicated. They also may not be useful in predicting the future financial condition and results of operations of the combined company. The actual financial position and results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors.

The combined pro forma financial information does not reflect the realization of any expected cost savings or other synergies from the acquisition of Pope as a result of restructuring activities and other planned cost savings initiatives following the completion of the business combination.

Note 2 — Pope and Rayonier Reclassification Adjustment

During the preparation of these unaudited pro forma condensed combined financial statements, management performed a preliminary analysis of Pope's financial information to identify differences in accounting policies as compared to those of Rayonier and differences in financial statement presentation as compared to the presentation of Rayonier. At the time of preparing these unaudited pro forma condensed combined financial statements, Rayonier had not identified all adjustments necessary to conform Pope's accounting policies to Rayonier's accounting policies. The below adjustments represent Rayonier's best estimates based upon the information currently available to Rayonier and could be subject to change once more detailed information is available.

Refer to the table below for a summary of reclassification adjustments made to Pope's consolidated balance sheet as of December 31, 2019 to conform presentation (in millions):

Pope Resources Consolidated Statement of Financial Position Line Item	Rayonier Historical Consolidated Balance Sheet Line Item	Pope Resources Historical Consolidated Statement of Financial Position	Reclassification (Rounded) [1]	Pope Resources Adjusted Historical Consolidated Balance Sheet (Unaudited, Rounded)
	Cash and cash equivalents	—	$8.2	$8.2
Partnership cash		2.0	(2.0)	—
ORM Timber Funds cash		6.2	(6.2)	—
Accounts receivable, net	Accounts receivable, less allowance for doubtful accounts	3.8	—	3.8
Contract assets		2.8	(2.8)	—
Land held for sale	Inventory	—	—	—
Prepaid expenses and other current assets		1.4	(1.4)	—
	Other current assets	—	4.2	4.2
Timber and roads		367.3	(367.3)	—
Timberland		77.0	(77.0)	—
	Timber and Timberlands, net	—	444.3	444.3
Land held for development	Higher and Better Use Timberlands and Real Estate Developments	20.2	—	20.2
Buildings and equipment, net of accumulated depreciation		5.3	(5.3)	—
	Total property, plant and equipment, gross	—	13.5	13.5
	Less - accumulated depreciation	—	(8.2)	(8.2)
Restricted cash	Restricted cash	0.8	(0.8)	—
Other assets	Other assets	6.7	0.8	7.5
Accounts payable	Accounts payable	1.7	—	1.7
Accrued liabilities		7.2	(7.2)	—
Current portion of long-term debt - Partnership		0.1	(0.1)	—
Current portion of long-term debt - Funds		25.0	(25.0)	—
	Current maturities of long- term debt	—	25.1	25.1
Deferred revenue	Deferred revenue	0.2	(0.2)	—
Current portion of environmental remediation liability		1.1	(1.1)	—
Other current liabilities	Other current liabilities	1.4	8.5	9.9
Long-term debt, net of unamortized debt issuance costs and current portion - Partnership		96.4	(96.4)	—
Long-term debt, net of unamortized debt issuance costs - Funds		32.3	(32.3)	—
	Long-term debt, net of deferred financing costs	—	128.8	128.8
	Long-term lease liability	—	—	—
Environmental remediation and other long term liabilities	Other non-current liabilities	9.0	—	9.0
General Partners' Capital		0.8	—	0.8
Limited Partners' Capital		42.0	—	42.0
Noncontrolling interest	Noncontrolling interest	276.2	—	276.2

(1) Reclassifications to conform to Rayonier presentation.

Refer to the table below for a summary of reclassification adjustments made to Pope's consolidated statement of income for the year ended December 31, 2019 to conform presentation (in millions):

Pope Resources Consolidated Statement of Income Line Item	Rayonier Historical Consolidated Statement of Income Line Item	Pope Resources Historical Consolidated Statement of Income	Reclassification (Rounded) (1)	Pope Resources Adjusted Historical Consolidated Statement of Income (Unaudited, Rounded)
Total revenue	Sales	$109.9	—	$109.9
Total cost of sales	Cost of sales	(79.2)	(15.9)	(95.1)
Partnership Timber Operating expenses		(5.3)	5.3	—
Funds Timber Operating expenses		(5.8)	5.8	—
Timberland Investment Management Operating expenses		(4.9)	4.9	—
Environmental remediation (Real Estate)		(1.6)	1.6	—
General and Administrative	Selling and general expenses	(12.1)	(5.1)	(17.2)
Real Estate Operating expenses		(5.1)	5.1	—
Gain on sale of timberland		0.1	(0.1)	—
	Other operating (expense) income, net	—	(1.6)	(1.6)
Interest expense, net	Interest expense	(5.8)	—	(5.8)
	Interest and other miscellaneous income, net	—	—	—
Income tax expense	Income tax expense	(0.2)	—	(0.2)
Net and comprehensive (income) loss attributable to noncontrolling interests - ORM Timber Funds		11.8	(11.8)	—
Net and comprehensive loss attributable to noncontrolling interests - Real Estate		0.6	(0.6)	—
Net and comprehensive income attributable to unitholders		2.4	(2.4)	—
	Net income attributable to noncontrolling interest	—	12.4	12.4
	Net Income attributable to shareholders	—	2.4	2.4

(1) Reclassifications to conform to Rayonier presentation.

Note 3 — Financing

In connection with the Mergers, the Company incurred $250.0 million of debt at an interest rate of approximately 3.5% (inclusive of interest rate hedges and patronage rebates), less approximately $0.8 million in debt issuance costs, a portion of which was used to fund the cash component of the Mergers for approximately $169.5 million. The Company also extinguished a portion of Pope's existing debt of approximately $68.3 million which included a $2.3 million prepayment premium. Additionally, the Company paid approximately $9.6 million of transaction costs on behalf of Pope at the time of closing. The Company did not legally assume the extinguished portion of Pope's outstanding debt or liabilities.

Note 4 — Consideration

Consideration of approximately $526.7 million is based on Rayonier's closing share price of $24.01 on May 7, 2020.

The following table summarizes the components of the consideration (in millions):

Cash consideration:		
Pope units as of December 31, 2019	4.4	
Less: Pope units held by Rayonier (1)	(0.1)	
Units outstanding, net	4.3	
Cash consideration (per Pope unit)	$37.50	
		159.5
General Partner interest		10.0
		169.5
Equity consideration:		
Pope units as of December 31, 2019	4.4	
Less: Pope units held by Rayonier (1)	(0.1)	
Units outstanding, net	4.3	
Exchange ratio	2.751	
Rayonier common shares/units to be issued	11.6	
Rayonier share price (2)	$24.01	
		279.2
Total consideration to Pope unit holders		**448.6**
Repayment of Pope debt		65.9
Repayment premium on Pope debt		2.3
Payment of transaction costs on behalf of Pope		9.6
Fair value of replacement Rayonier restricted stock units for vested Pope awards		0.2
Total pro forma purchase price		**$526.7**

(1) As of December 31, 2019, Rayonier held 114,400 Pope limited partnership units as marketable securities on its standalone financial statements.

(2) The purchase price is based on the closing price of Rayonier common stock on May 7, 2020.

Note 5 — Preliminary Purchase Price Allocation

Under the acquisition method of accounting, the total purchase price is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the date of the acquisition. The preliminary allocation of the purchase price is based on the terms of the Merger Agreement and Rayonier management's estimates of the fair value of Pope's assets and liabilities as of December 31, 2019, derived from the historical balance sheet of Pope as of December 31, 2019 and using the January 14, 2020 merger consideration adjusted based on Rayonier's closing share price of $24.01 on May 7, 2020. As of the date of this document, Rayonier management has not finalized the detailed valuation studies necessary to arrive at the required estimates of the fair value of Pope's assets acquired and the liabilities assumed and the related allocations of purchase price. The valuation studies are expected to be final by the end of 2020. Additional intangible asset classes may be identified as the valuation process continues. Therefore, the allocation of the purchase price to assets acquired and liabilities assumed is based on preliminary fair value estimates and is subject to final analysis by Rayonier management.

The following table summarizes the allocation of the preliminary purchase price as December 31, 2019, with the excess recorded as goodwill (in millions):

Timberland and Real Estate Business	
Cash	2.0
Other current assets	3.0
Timber and timberland	486.9
Land held for development	27.7
Buildings and equipment	8.3
Other assets	5.7
Goodwill [1]	—
Other current liabilities	(8.1)
Environmental liabilities	(11.1)
Long-term debt	(31.0)
Other non-current liabilities [2]	(4.1)
Less: noncontrolling interest	(3.3)
Pro forma purchase price	**476.0**
Timber Fund Business	
Cash	6.2
Other current assets	4.9
Timber and timberland	471.9
Goodwill [1]	—
Current portion of long-term debt	(25.0)
Other current liabilities	(3.5)
Long-term debt	(32.4)
Less: noncontrolling interest	(371.4)
Pro forma purchase price	**50.7**
Total pro forma purchase price	**$526.7**

(1) Goodwill is calculated as the difference between the acquisition date fair value of the consideration transferred and the values assigned to the assets acquired and liabilities assumed. Goodwill is not amortized but is tested for impairment at least annually, or more frequently if circumstances indicate potential impairment.

(2) Other non-current liabilities includes a $4.0 million deferred income tax liability resulting from the preliminary fair value adjustment to Pope's assets and liabilities.

Note 6 — Pro forma adjustments

The pro forma adjustments are based on Rayonier's preliminary estimates and assumptions that are subject to change. The following adjustments have been reflected in the unaudited pro forma condensed combined financial information (in millions, except shares/units or per share/unit amounts):

a. The following represents the pro forma adjustments to cash and cash equivalents as a result of the Mergers:

Decrease from extinguishment of existing Pope debt [1]	($68.3)
Decrease from cash consideration paid to Pope unit holders	(169.5)
Decrease from cash payment of transaction-related expenses made on behalf of Pope	(9.6)
Decrease from cash payment of transaction-related expenses[2]	(20.0)
Pro forma adjustment to cash and cash equivalents	**($267.4)**

(1) Includes $2.3 million prepayment premium.

(2) Reflects estimated transaction costs of $20.0 million incurred by Rayonier directly attributable to the Mergers. Transaction costs include investment banking, legal, and other fees and expenses. Transaction costs are expensed as incurred and accounted for outside of the business combination in the post-acquisition financial statements of the combined entity. As the transaction costs will not have a continuing impact, Rayonier has not shown the estimated transaction costs in the unaudited pro forma statements of operations.

The following represents the pro forma adjustments to cash and cash equivalents as a result of the debt financing:

Issuance of new debt, net of debt issuance costs	$249.2
Pro forma adjustment to cash and cash equivalents	**$249.2**

b. Reflects the adjustment of $514.4 million to increase the basis in the acquired Timber and Timberlands to estimated fair value of $958.8 million. In determining the fair value of the timberlands, the Company utilized valuation methodologies including a discounted cash flow analysis. The fair value calculations are preliminary and subject to change after the Company finalizes its review of the specific types, nature, age, condition and location of Pope's timberlands. The following summarizes the changes in the estimated depletion expense:

Estimated depletion expense	($175.0)
Historical depletion expense	154.0
Pro forma adjustment to depletion expense	**($21.0)**

c. Reflects the adjustment of $7.5 million to increase the basis in the acquired real estate development investments to estimated fair value of $27.7 million. In determining the fair value of the real estate development investments, the Company utilized valuation methodologies including a sales comparison and a discounted cash flow analysis. The fair value calculations are preliminary and subject to change after the Company finalizes its review of the specific types, nature, age, condition and location of Pope's real estate development investments.

Estimated non-cash cost of land and improved development	($26.5)
Historical non-cash cost of land and improved development	21.8
Pro forma adjustment to non-cash cost of land and improved development	**($4.7)**

d. Reflects the adjustment of $2.8 million to increase the basis in the acquired property, plant and equipment to estimated fair value of $8.3 million. In determining the fair value of the property, plant and equipment the Company utilized valuation methodologies including a sales comparison approach. The fair value calculations are preliminary and subject to change after the Company finalizes its review of the specific types, nature, age, condition and location of Pope's property, buildings and equipment. The following summarizes the changes in the estimated depreciation expense:

Estimated depreciation expense	($2.6)
Historical depreciation expense	2.3
Pro forma adjustment to depreciation expense	**($0.3)**

e. At the time of this filing, the Company has not performed a detailed valuation analysis of Pope's intangible assets. Consequently, the fair value and estimated useful lives will likely differ from final amounts the Company will calculate after completing a detailed valuation analysis, and the difference could have a material impact on the accompanying unaudited pro forma condensed combined financial statements.

The following represents the pro forma adjustments to other assets:

Exchange of Pope units held by Rayonier for common shares [1]	($11.3)
Decrease in investment in joint venture	(1.8)
Pro forma adjustment to other assets	**($13.1)**

(1) Pope units held by Rayonier will remain outstanding and represent Rayonier Operating Company LLC's limited partner interest in Pope Resources L.P.

f. Reflects the effects of extinguishing a portion of Pope's outstanding debt upon completion of the Mergers. The net decrease to debt includes:

Decrease from extinguishment of existing Pope debt	($66.0)
Increase from elimination of Pope's debt issuance costs	0.5
Plus: Pro forma adjustments to current portion of long-term debt	0.1
Pro forma adjustment to long-term debt	**($65.4)**

Rayonier has not completed the valuation analysis and calculations in sufficient detail necessary to arrive at the fair value adjustment of assumed debt and related amortization. Accordingly, debt is presented at their respective face amounts and should be treated as preliminary fair values.

The following reflects the new term debt incurred to finance the Mergers:

Issuance of new debt, net of debt issuance costs	$249.2
Pro forma adjustment to long-term debt	**$249.2**

g. Reflects the accrual of an estimated $1.1 million change in control payment obligation to a Pope executive incurred at the time of the Mergers. Pope has previously entered into an original employment contract with an executive officer in which Pope was required to incur severance obligations for matters relating to changes in control, as defined, and involuntary terminations. The Mergers met the change in control criteria of the employment agreement. For the severance payment to be made, there must be a change in control and a termination event of the executive, as defined in the employment agreements, referred to as a "double trigger" payment. Since the unaudited pro forma balance sheet assumes the Mergers have occurred and the payment has been made to the executive, the obligation has been accrued in the unaudited pro forma balance sheet as of December 31, 2019. Dual trigger payments are accounted for outside of the business combination and not included in the purchase price, instead, recorded as compensation expense in the post-acquisition financial statements of the combined entity. As the change in control payment will not have a continuing impact, Rayonier has not shown this amount in the unaudited pro forma statements of operations.

The following represents the pro forma adjustments to accrued expenses:

Increase for change in control payment obligations	$1.1
Pro forma adjustment to accrued expenses	**$1.1**

h. Reflects the adjustment of $2.0 million to increase the balance in the acquired environmental liabilities to estimated fair value of $11.1 million. In determining the fair value of the environmental liabilities, the Company utilized valuation methodologies including a discounted cash flow analysis. The fair value calculations are preliminary and subject to change after the Company finalizes its review of the specific types, nature, age, condition and location of Pope's environmental liabilities.

Additionally, includes a $4.0 million deferred income tax liability resulting from the preliminary fair value adjustment to Pope's' assets and liabilities.

The following represents the pro forma adjustments to non-current liabilities:

Increase in environmental liabilities	$2.0
Increase in deferred tax liabilities	4.0
Pro forma adjustment to non-current liabilities	**$6.0**

i. Represents the value of 4,446,153 Rayonier, L.P. units issued at $24.01 per unit (based on Rayonier's closing share price on May 7, 2020) to finance the Mergers based an actual elections of Rayonier, L.P. unit consideration. Limited partner units of Rayonier, L.P. are redeemable for cash (or, at the discretion of Rayonier, for Rayonier shares having an equivalent value) at any time after the Mergers. Consequently, the units are classified outside of permanent equity on Rayonier's balance sheet.

j. The following represents the pro forma adjustments to shareholder's equity, including the elimination of the historical equity of Pope:

General Partners' Capital	($0.8)	
Limited Partners' Capital	(42.0)	
Historical Pope Partnership Equity as of December 31, 2019		(42.8)
Decrease for exchange of Pope Resource units for common stock	(11.3)	
Issuance of Rayonier common shares to Pope unit holders (1)	172.4	
Increase for issuance of Rayonier restricted stock units for Pope's vested awards	0.2	
Pro forma adjustments to common shares		161.4
Decrease for transaction-related expenses	(20.0)	
Decrease for change in control payment obligations	(1.1)	
Pro forma adjustment to retained earnings		(21.1)
Pro forma adjustments to shareholder's equity		**$97.5**

(1) Represents the value of 7,181,071 Rayonier common shares issued at $24.01 per share (based on Rayonier's closing share price on May 07, 2020) to finance the Mergers based an actual elections of Rayonier common share consideration.

k. Noncontrolling interest in consolidating affiliates represents the third-party ownership interest in the Timber Fund and a real estate investment business. Pro forma adjustments reflect the proportionate interests in the fair value of the respective identifiable assets and liabilities attributable to each of these businesses.

l. Represents the difference between Pope's historical equity compensation expense and the estimated equity compensation expense related to replacement awards issued to continuing employees as part of the acquisition agreement. The fair value of the replacement restricted unit awards will be recognized ratably over the remaining post-combination service periods ranging from one to four years. The following represents the pro forma adjustments to equity compensation expense:

Pope's historical equity compensation expense		($1.2)
Fair value of replacement restricted awards	1.4	
Approximate vesting period (in years)	4	
		0.4
Pro forma adjustment to equity compensation expense		**($0.8)**

m. The following represents the increase in cost of goods sold as a result of increased depletion and non-cash cost of real estate development expense:

Pro forma adjustment to depletion expense	($21.0)
Pro forma adjustment to non-cash cost of land and improved development	(4.7)
Pro forma adjustment to cost of goods sold	**($25.7)**

n. Represents the net change in selling and general administrative expenses as a result of increased depreciation expense and the elimination of Pope's legal and professional fees related to the Mergers. As the legal and professional expenses are directly attributable to the business combination and will not have a continuing impact, Rayonier has adjusted these expenses in the Pro Forma Statements of Operations.

Estimated increase to depreciation expense	($0.3)
Estimated increase to equity compensation expense	(0.8)
Elimination of legal and professional expenses	5.3
Pro forma adjustment to selling and general expenses	**$4.2**

o. The following represents the elimination of interest expense on extinguished Pope debt:

Elimination of interest expense - Pope debt	$1.7
Pro forma adjustment to interest expense	**$1.7**

The following represents interest expense on the new term debt to finance the Mergers and the amortization of related debt issuance costs:

Interest expense on new debt	$8.8
Amortization of new debt issuance costs	0.1
Pro forma adjustment to interest expense	**$8.9**

p. Rayonier intends to continue to qualify as a REIT under the requirements of the Internal Revenue Code, and as a result, the Company's direct income tax expense is expected to be minimal. Consequently, no additional adjustment to pro forma income tax expense has been made with respect to the Mergers. With respect to the Mergers, Rayonier expects to make taxable REIT subsidiary ("TRS") elections with respect to the taxable subsidiaries of Pope acquired in the Mergers (excluding the Pope Private REITs) and those subsidiaries therefore will be subject to U.S. federal income taxes at corporate rates. However, no pro forma adjustment for income tax expense has been reflected in the pro forma statement of income as incremental taxable income is projected to be minimal.

q. Net income attributable to noncontrolling interest in the Operating Partnership is computed by applying the percentage equal to the number of redeemable Rayonier, L.P. units divided by the total number of Rayonier, L.P. units to the Operating Partnership's net income after income attributable to noncontrolling interest of consolidating affiliates. The percentage of Rayonier, L.P. units has been calculated based on the number of operating units assumed to be outstanding, assuming such operating units were outstanding for the full period presented. See calculation below:

Redeemable Rayonier, L.P. units outstanding [1]	4,446,153	
Total units outstanding	140,884,426	
		3 %
Net Income	29.0	
Less: Net (income) loss attributable to noncontrolling interest in consolidated affiliates	3.8	
Net income attributable to unitholders		32.8
Net Income attributable to noncontrolling interest in the Operating Partnership		**$1.0**

(1) The redeemable Rayonier, L.P. units outstanding is based on the actual election of Rayonier, L.P. unit consideration.

r. Pro forma basic earnings per common share attributable to Rayonier has been calculated based on the number of shares assumed to be outstanding, assuming such shares were outstanding for the full period presented. The following table sets forth the computation of unaudited pro forma basic and diluted earnings per share attributable to Rayonier:

	Net income attributable to Rayonier	Outstanding shares	Per share amount
Earnings per share, basic	$31.8	136,438,273	$0.23
Earnings per share, diluted	31.8	136,779,459	$0.23

Shares utilized in the calculation of pro forma basic and diluted earnings per share attributable to common stockholders are as follows:

	Historical	Shares issued in the transaction (1)	Pro Forma Total
Weighted-average shares outstanding, basic	129,257,202	7,181,071	136,438,273
Weighted-average shares outstanding, diluted	129,598,388	7,181,071	136,779,459

(1) The issuance of Rayonier common shares is based on the actual election of common share consideration.

RAYONIER OPERATING COMPANY LLC AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On May 7, 2020, Rayonier Inc. contributed (the"Contribution") its 100% ownership interest in Rayonier Operating Company LLC ("Rayonier Operating Company" or "the Company") to Rayonier, L.P., a Delaware limited partnership ("Rayonier, L.P." or "Operating Partnership").

On May 8, 2020, Rayonier, L.P. acquired Pope Resources, a Delaware Limited Partnership ("Pope"), and became the general partner of Pope. The acquisition occurred pursuant to a series of mergers (the "Mergers") provided for in an Agreement and Plan of Merger, dated as of January 14, 2020, as amended by Amendment No. 1, dated as of April 1, 2020 (as amended, the "Merger Agreement"), by and among Rayonier, Rayonier, L.P., Rayonier Operating Company LLC, Rayonier Operating Company Holdings, LLC, Pacific GP Merger Sub I, LLC, Pacific GP Merger Sub II, LLC, Pacific LP Merger Sub III, LLC, Pope, Pope EGP, Inc. and Pope MGP, Inc. Following the Mergers, Rayonier holds an approximate 96.5% ownership interest in Rayonier, L.P., with the remaining 3.5% ownership interest owned by limited partners of the Operating Partnership that are former Pope Resources unitholders. As the sole general partner of Rayonier, L.P., Rayonier will have exclusive control of the day-to-day management of Rayonier, L.P.

The following unaudited pro forma condensed combined financial statements as of and for the three months ended March 31, 2020 have been prepared (i) as if the Contribution, the Mergers and the debt issuance necessary to finance the Mergers occurred on December 31, 2019 for purposes of the unaudited pro forma consolidated balance sheet, and (ii) as if the Contribution, the Mergers and the debt issuance necessary to finance the Mergers occurred on January 1, 2019 for purposes of the unaudited pro forma consolidated statement of operations for the year ended December 31, 2019.

The preliminary fair value of assets acquired and liabilities assumed and related adjustments for the assets acquired and liabilities assumed related to the Mergers incorporated into the unaudited pro forma condensed consolidated financial statements are based on preliminary estimates and information currently available. The amount of the equity issued in connection with the Mergers and the assignment of fair value to assets and liabilities of Pope have not been finalized and are subject to change. The amount of the equity issued in connection with the Mergers was based on the number of Pope units outstanding prior to the Mergers and the elections made by the Pope unitholders pursuant to the Merger Agreement, and the fair value of the assets and liabilities assumed will be based on the actual net tangible and intangible assets and liabilities of Pope that exist on the effective date of the Mergers.

Actual amounts recorded in connection with the Mergers may change based on any increases or decreases in the fair value of the assets acquired and liabilities assumed upon the completion of the final valuation and may result in variances to the amounts presented in the unaudited pro forma consolidated balance sheet and/or unaudited pro forma consolidated statement of operations. Assumptions and estimates underlying the adjustments to the unaudited pro forma condensed consolidated financial statements are described in the accompanying notes. These adjustments are based on available information and assumptions that management of Rayonier Operating Company consider to be reasonable. The unaudited pro forma condensed consolidated financial statements do not purport to: (1) represent Rayonier Operating Company's actual financial position had the Mergers occurred on December 31, 2019; (2) represent the results of Rayonier Operating Company's operations that would have actually occurred had the Mergers occurred on January 1, 2019; or (3) project Rayonier Operating Company's financial position or results of operations as of any future date or for any future period, as applicable.

The unaudited pro forma condensed consolidated financial statements have been developed from, and should be read in conjunction with, the separate historical audited financial statements of Rayonier Operating Company LLC and accompanying notes thereto for the years ended December 31, 2019, 2018 and 2017, included in Exhibit 99.4 of the Company's Amendment No. 1 to the Current Report on Form 8-K filed with the SEC on July 17, 2020, the separate historical audited financial statements of Pope and accompanying notes thereto included in Pope's Annual Report on Form 10-K for the year ended December 31, 2019, incorporated herein by reference, and the accompanying notes to the unaudited pro forma condensed combined financial statements.

RAYONIER OPERATING COMPANY LLC AND SUBSIDIARIES
Unaudited Pro Forma Condensed Combined Balance Sheet
As of December 31, 2019
(Dollars in millions)

	Historical Rayonier Operating Company	Pro Forma Rayonier Contribution Adjustments [(a)]	Historical Pope Resources	Pro Forma Adjustments for the Mergers		Pro Forma Funding Adjustments		Pro Forma Rayonier, L.P.
ASSETS:								
Cash and cash equivalents	$68.4	$0.3	$8.2	($267.4)	b	$249.2	b	$58.7
Accounts receivable, net	27.1	—	3.8	—		—		30.9
Inventory	14.5	—	—	—		—		14.5
Prepaid expenses and other current assets	15.7	—	4.2	—		—		19.9
Total current assets	125.7	0.3	16.2	(267.4)		249.2		124.0
TIMBER AND TIMBERLANDS, NET	2,482.0	—	444.3	514.4	c	—		3,440.7
HIGHER AND BETTER USE TIMBERLANDS AND REAL ESTATE DEVELOPMENT INVESTMENTS	81.8	—	20.2	7.5	d	—		109.5
PROPERTY, PLANT AND EQUIPMENT								
Total property, plant and equipment, gross	31.9	—	13.5	(5.3)		—		40.1
Less—accumulated depreciation	(9.6)	—	(8.2)	8.2		—		(9.6)
Total property, plant & equipment, net	22.3	—	5.3	2.9	e	—		30.5
OTHER ASSETS	148.9	—	7.5	(13.1)	f	—		143.3
TOTAL ASSETS	$2,860.7	$0.3	$493.5	$244.3		249.2		$3,848.0
LIABILITIES:								
Accounts payable	$18.2	—	$1.7	—		—		$19.9
Current maturities of long-term debt	82.0	—	25.1	(0.1)	g	—		107.0
Other current liabilities	48.0 —	3.0	9.9	1.1	h	—		62.0
Total current liabilities	148.2	3.0	36.7	1.0		—		188.9
LONG-TERM DEBT, NET OF DEFERRED FINANCING COSTS	648.9	324.2	128.8	(65.4)	g	249.2	g	1,285.7
PENSION AND OTHER POSTRETIREMENT BENEFITS	25.3	—	—	—		—		25.3
LONG-TERM LEASE LIABILITY	90.5	—	—	—		—		90.5
OTHER NON-CURRENT LIABILITIES	83.3	—	9.0	6.0	i	—		98.4
TOTAL LIABILITIES	996.2	327.2	174.5	(58.4)		249.2		1,688.7
REDEEMABLE OPERATING PARTNERSHIP UNITS	—	—	—	106.8	j	—		106.8
CAPITAL:								
General partner's capital	—	—	0.8	9.2	k	—		10.0
Limited partner's capital	—	—	42.0	1,559.5	k	—		1,601.5
Equity	1,798.1	(326.9)	—	(1,471.2)	k	—		—
Accumulated other comprehensive income	(31.2)	—	—	—		—		(31.2)
TOTAL CONTROLLING INTEREST CAPITAL	1,766.9	(326.9)	42.8	97.5	k	—		1,580.3
Noncontrolling interest	97.6	—	276.2	98.4	l	—		472.2
TOTAL CAPITAL	1,864.5	(326.9)	319.0	195.9		—		2,052.5
TOTAL LIABILITIES, REDEEMABLE OPERATING PARTNERSHIP UNITS AND CAPITAL	$2,860.7	$0.3	$493.5	$244.3		$249.2		$3,848.0

RAYONIER OPERATING COMPANY LLC AND SUBSIDIARIES
Unaudited Pro Forma Condensed Combined Statements of Income
For the Year Ended December 31, 2019
(Dollars in millions, except per share amounts)

	Historical Rayonier Operating Company	Pro Forma Rayonier Contribution Adjustments (a)	Historical Pope Resources	Pro Forma Adjustments for the Mergers		Pro Forma Funding Adjustments		Pro Forma Rayonier, L.P.
SALES	$711.6	—	$109.9	—		—		$821.5
Costs and Expenses								—
Cost of sales	(558.4)	—	(95.1)	(25.7)	c,d,n	—		(679.2)
Selling and general expenses	(41.7)	—	(17.2)	4.2	e,m,o	—		(54.7)
Other operating (expense) income, net	(4.5)	—	(1.6)	—		—		(6.1)
	(604.5)	—	(113.9)	(21.5)		—		(739.9)
OPERATING INCOME	107.0	—	(4.0)	(21.5)		—		81.5
Interest expense	(19.1)	(12.6)	(5.8)	1.7	p	(8.9)	p	(44.7)
Interest and other miscellaneous income, net	7.1	(1.8)	—	—		—		5.3
INCOME BEFORE INCOME TAXES	95.0	(14.4)	(9.8)	(19.8)		(8.9)		42.1
Income tax expense	(12.9)	—	(0.2)	—	q	—		(13.1)
NET INCOME	82.1	(14.4)	(10.0)	(19.8)		(8.9)		29.0
Less: Net (income) loss attributable to noncontrolling interest in consolidated affiliates	(8.6)	—	12.4	—		—		3.8
NET INCOME AVAILABLE TO UNITHOLDERS	$73.5	($14.4)	$2.4	($19.8)		($8.9)		$32.8
EARNINGS PER UNIT								
Net income available for unitholders - basic			$0.52				r	$0.23
Net income available for unitholders - diluted			$0.52				r	$0.23

Note 1 — Basis of Presentation

The unaudited pro forma condensed combined financial statements are based on Rayonier Operating Company's and Pope's historical consolidated financial statements as adjusted to give effect to the the Contribution, the Mergers and the debt issuance necessary to finance the Mergers. The unaudited pro forma condensed combined statements of income for the year ended December 31, 2019, give effect to the Mergers as if they had occurred on January 1, 2019. The unaudited pro forma condensed combined balance sheet as of December 31, 2019, gives effect to the Mergers as if they had occurred on December 31, 2019.

The historical consolidated financial statements have been adjusted in the pro forma condensed combined financial statements to give effect to pro forma events that are (1) directly attributable to the business combination, (2) factually supportable and (3) with respect to the pro forma condensed combined statements of income, expected to have a continuing impact on the combined results following the business combination.

The business combination was accounted for under the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*. As the acquirer for accounting purposes, Rayonier Operating Company has estimated the fair value of Pope's assets acquired and liabilities assumed and conformed the accounting policies of Pope to its own accounting policies.

The pro forma combined financial statements do not necessarily reflect what the combined company's financial condition or results of operations would have been had the acquisition occurred on the dates indicated. They also may not be useful in predicting the future financial condition and results of operations of the combined company. The actual financial position and results of operations may differ significantly from the pro forma amounts reflected herein due to a variety of factors.

The combined pro forma financial information does not reflect the realization of any expected cost savings or other synergies from the acquisition of Pope as a result of restructuring activities and other planned cost savings initiatives following the completion of the business combination.

Note 2 — Pope and Rayonier Operating Company Reclassification Adjustment

During the preparation of these unaudited pro forma condensed combined financial statements, management performed a preliminary analysis of Pope's financial information to identify differences in accounting policies as compared to those of Rayonier Operating Company and differences in financial statement presentation as compared to the presentation of Rayonier Operating Company. At the time of preparing these unaudited pro forma condensed combined financial statements, Rayonier Operating Company had not identified all adjustments necessary to conform Pope's accounting policies to Rayonier Operating Company's accounting policies. The below adjustments represent Rayonier Operating Company's best estimates based upon the information currently available to management and could be subject to change once more detailed information is available.

Refer to the table below for a summary of reclassification adjustments made to present Pope's consolidated balance sheet as of December 31, 2019 to conform presentation (in millions):

Pope Resources Consolidated Statement of Financial Position Line Item	Rayonier Operating Company Historical Consolidated Balance Sheet Line Item	Pope Resources Historical Consolidated Statement of Financial Position	Reclassification (Rounded) (1)	Pope Resources Adjusted Historical Consolidated Balance Sheet (Unaudited, Rounded)
	Cash and cash equivalents	—	$8.2	$8.2
Partnership cash		2.0	(2.0)	—
ORM Timber Funds cash		6.2	(6.2)	—
Accounts receivable, net	Accounts receivable, less allowance for doubtful accounts	3.8	—	3.8
Contract assets		2.8	(2.8)	
Land held for sale	Inventory	—	—	—
Prepaid expenses and other current assets		1.1	(1.1)	—
	Other current assets		3.9	3.9
Timber and roads		367.3	(367.3)	—
Timberland		77.0	(77.0)	—
	Timber and Timberlands, net		444.3	444.3
Land held for development	Higher and Better Use Timberlands and Real Estate Developments	20.2		20.2
Buildings and equipment, net of accumulated depreciation		5.3	(5.3)	—
	Total property, plant and equipment, gross		13.6	13.6
	Less - accumulated depreciation		(8.2)	(8.2)
Restricted cash	Restricted cash	0.8	(0.8)	—
Other assets	Other assets	6.6	0.8	7.4
Accounts payable	Accounts payable	1.7	—	1.7
Accrued liabilities		6.9	(6.9)	—
Current portion of long-term debt - Partnership		0.1	(0.1)	—
Current portion of long-term debt - Funds		25.0	(25.0)	—
	Current maturities of long-term debt	—	25.1	25.1
Deferred revenue	Deferred revenue	0.2	(0.2)	—
Current portion of environmental remediation liability		1.1	(1.1)	—
Other current liabilities	Other current liabilities	1.4	$8.2	9.6
Long-term debt, net of unamortized debt issuance costs and current portion - Partnership		96.4	(96.4)	—
Long-term debt, net of unamortized debt issuance costs - Funds		32.3	(32.3)	—
	Long-term debt, net of deferred financing costs		128.8	128.8
	Long-term lease liability	—	—	—
Environmental remediation and other long term liabilities	Other non-current liabilities	9.0	—	9.0
General Partners' Capital		0.8	—	0.8
Limited Partners' Capital		42.0	—	42.0
Noncontrolling interest	Noncontrolling interest	276.2	—	276.2

(1) Reclassifications to conform to Rayonier Operating Company presentation.

Refer to the table below for a summary of reclassification adjustments made to Pope's consolidated statement of income for the year ended December 31, 2019 to conform presentation (in millions):

Pope Resources Consolidated Statement of Income Line Item	Rayonier Operating Company Historical Consolidated Statement of Income Line Items	Pope Resources Historical Consolidated Statement of Income	Reclassification (Rounded) (1)	Pope Resources Adjusted Historical Consolidated Statement of Income (Unaudited, Rounded)
Total revenue	Sales	$109.9	—	$109.9
Total cost of sales	Cost of sales	(79.2)	(15.9)	(95.1)
Partnership Timber Operating expenses		(5.3)	5.3	—
Funds Timber Operating expenses		(5.8)	5.8	—
Timberland Investment Management Operating expenses		(4.9)	4.9	—
Environmental remediation (Real Estate)		(1.6)	1.6	—
General and Administrative	Selling and general expenses	(12.1)	(5.1)	(17.2)
Real Estate Operating expenses		(5.1)	5.1	—
Gain on sale of timberland		0.1	(0.1)	—
	Other operating (expense) income, net	—	(1.6)	(1.6)
Interest expense, net	Interest expense	(5.8)	—	(5.8)
	Interest and other miscellaneous income, net	—	—	—
Income tax expense	Income tax expense	(0.2)	—	(0.2)
Net and comprehensive (income) loss attributable to noncontrolling interests - ORM Timber Funds		11.8	(11.8)	—
Net and comprehensive loss attributable to noncontrolling interests - Real Estate		0.6	(0.6)	—
Net and comprehensive income attributable to unitholders		2.4	(2.4)	—
	Net income attributable to noncontrolling interest	—	12.4	12.4
	Net Income attributable to shareholders	—	2.4	2.4

(1) Reclassifications to conform to Rayonier Operating Company presentation.

Note 3 — Financing

In connection with the Mergers, the Company incurred $250.0 million of debt at an interest rate of approximately 3.5% (inclusive of interest rate hedges and patronage rebates), less approximately $0.8 million in debt issuance costs, a portion of which was used to fund the cash component of the Mergers for approximately $169.5 million. The Company also extinguished a portion of Pope's existing debt of approximately $68.3 million which included a $2.3 million prepayment premium. Additionally, the Company paid approximately $9.6 million of transaction costs on behalf of Pope at the time of closing. The Company did not legally assume the extinguished portion of Pope's outstanding debt or liabilities.

Note 4 — Consideration

Consideration of approximately $526.7 million is based on Rayonier's closing share price of $24.01 on May 7, 2020.

The following table summarizes the components of the estimated consideration (in millions):

Cash consideration:		
Pope units as of December 31, 2019	4.4	
Less: Pope units held by Rayonier Operating Company[(1)]	(0.1)	
Units outstanding, net	4.3	
Cash consideration (per Pope unit)	$37.50	
		159.5
General Partner interest		10.0
		169.5
Equity consideration:		
Pope units as of December 31, 2019	4.4	
Less: Pope units held by Rayonier Operating Company [(1)]	(0.1)	
Units outstanding, net	4.3	
Exchange ratio	2.751	
Rayonier common shares/units to be issued	11.6	
Rayonier share price [(2)]	$24.01	
		279.2
Total estimated consideration to Pope unit holders		**448.6**
Estimated repayment of Pope debt		65.9
Estimated repayment premium on Pope debt		2.3
Payment of transaction costs on behalf of Pope		9.6
Fair value of replacement Rayonier restricted stock units for vested Pope awards		0.2
Total pro forma purchase price		**$526.7**

(1) As of December 31, 2019, Rayonier Operating Company holds 114,400 Pope limited partnership units as marketable securities on its standalone financial statements.

(2) The purchase price is based on the closing price of Rayonier common stock on May 7, 2020.

Note 5 — Preliminary Purchase Price Allocation

Under the acquisition method of accounting, the total purchase price is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values as of the date of the acquisition. The preliminary allocation of the purchase price is based on the terms of the Merger Agreement and Rayonier Operating Company management's estimates of the fair value of Pope's assets and liabilities as of December 31, 2019, derived from the historical balance sheet of Pope as of December 31, 2019 and using the January 14, 2020 merger consideration adjusted based on Rayonier's closing share price of $24.01 on May 7, 2020. As of the date of this document, Rayonier Operating Company management has not finalized the detailed valuation studies necessary to arrive at the required estimates of the fair value of Pope's assets acquired and the liabilities assumed and the related allocations of purchase price. The valuation studies are expected to be final by the end of 2020. Additional intangible asset classes may be identified as the valuation process continues. Therefore, the allocation of the purchase price to assets acquired and liabilities assumed is based on preliminary fair value estimates and is subject to final analysis by Rayonier Operating Company management.

The following table summarizes the allocation of the preliminary purchase price as December 31, 2019, with the excess recorded as goodwill (in millions):

Timberland and Real Estate Business	
Cash	2.0
Other current assets	3.0
Timber and timberland	486.9
Land held for development	27.7
Buildings and equipment	8.3
Other assets	5.7
Goodwill(1)	—
Other current liabilities	(8.1)
Environmental liabilities	(11.1)
Long-term debt	(31.0)
Other non-current liabilities (2)	(4.1)
Less: noncontrolling interest	(3.3)
Pro forma purchase price	**476.0**
Timber Fund Business	
Cash	6.2
Other current assets	4.9
Timber and timberland	471.9
Goodwill(1)	—
Current portion of long-term debt	(25.0)
Other current liabilities	(3.5)
Long-term debt	(32.4)
Less: noncontrolling interest	(371.4)
Pro forma purchase price	**50.7**
Total pro forma purchase price	**$526.7**

(1) Goodwill is calculated as the difference between the acquisition date fair value of the consideration transferred and the values assigned to the assets acquired and liabilities assumed. Goodwill is not amortized but is tested for impairment at least annually, or more frequently if circumstances indicate potential impairment.

(2) Non-current liabilities includes a $4.0 million deferred income tax liability resulting from the preliminary fair value adjustment to Pope's' assets and liabilities.

Note 6 — Pro forma adjustments

The pro forma adjustments are based on our preliminary estimates and assumptions that are subject to change. The following adjustments have been reflected in the unaudited pro forma condensed combined financial information (in millions, except units or per unit amounts):

a. As part of the Mergers, Rayonier Inc. contributed 100% of its interest in Rayonier Operating Company to a new limited partnership (Rayonier, L.P.). Additionally, Rayonier, L.P. will become the obligor of existing bonds issued by Rayonier Inc. The following represents the pro forma adjustments for the Contribution:

Cash and cash equivalents	0.3	
Total assets		0.3
Accrued interest on Senior Notes [1]	3.0	
Senior Notes,[1] net of deferred financing costs	324.2	
Total liabilities		327.2
Total equity		**($326.9)**

(1) In March 2012, Rayonier Inc. issued $325 million of 3.75% Senior Notes due 2022, guaranteed by certain subsidiaries. Semi-annual payments of interest only are due on these notes through maturity.

a. The following represents the pro forma adjustments to cash and cash equivalents as a result of the Mergers:

Decrease from extinguishment of existing Pope debt [1]	($68.3)
Decrease from cash consideration paid to Pope unit holders	(169.5)
Decrease from cash payment of transaction-related expenses made on behalf of Pope	(9.6)
Decrease from cash payment of transaction-related expenses[2]	(20.0)
Pro forma adjustment to cash and cash equivalents	**($267.4)**

Decrease from extinguishment of existing Pope debt [1]	($68.3)
Decrease from cash consideration paid to Pope unit holders	(169.5)
Decrease from cash payment of transaction-related expenses made on behalf of Pope	(9.6)
Decrease from cash payment of transaction-related expenses[2]	(20.0)
Pro forma adjustment to cash and cash equivalents	**($267.4)**

(1) Includes $2.3 million prepayment premium.

(2) Reflects estimated transaction costs of $20.0 million incurred by Rayonier directly attributable to the Mergers. Transaction costs include investment banking, legal, and other fees and expenses. Transaction costs are expensed as incurred and accounted for outside of the business combination in the post-acquisition financial statements of the combined entity. As the transaction costs will not have a continuing impact, Rayonier has not shown the estimated transaction costs in the unaudited pro forma statements of operations.

The following represents the pro forma adjustments to cash and cash equivalents as a result of the debt financing:

Issuance of new debt, net of debt issuance costs	$249.2
Pro forma adjustment to cash and cash equivalents	**$249.2**

b. Reflects the adjustment of $514.4 million to increase the basis in the acquired Timber and Timberlands to estimated fair value of $958.8 million. In determining the fair value of the timberlands, the Company utilized valuation methodologies including a discounted cash flow analysis. The fair value calculations are preliminary and subject to change after the Company finalizes its review of the specific types, nature, age, condition and location of Pope's timberlands. The following summarizes the changes in the estimated depletion expense:

Estimated depletion expense	($175.0)
Historical depletion expense	154.0
Pro forma adjustment to depletion expense	**($21.0)**

c. Reflects the adjustment of $7.5 million to increase the basis in the acquired real estate development investments to estimated fair value of $27.7 million. In determining the fair value of the real estate development investments, the Company utilized valuation methodologies including a sales comparison and a discounted cash flow analysis. The fair value calculations are preliminary and subject to change after the

Company finalizes its review of the specific types, nature, age, condition and location of Pope's real estate development investments. The following summarizes the changes in the estimated Non-cash cost of land and improved development expense:

Estimated non-cash cost of land and improved development	($26.5)
Historical non-cash cost of land and improved development	21.8
Pro forma adjustment to non-cash cost of land and improved development	**($4.7)**

d. Reflects the adjustment of $2.8 million to increase the basis in the acquired property, plant and equipment to estimated fair value of $8.3 million. In determining the fair value of the property, plant and equipment the Company utilized valuation methodologies including a sales comparison approach. The fair value calculations are preliminary and subject to change after the Company finalizes its review of the specific types, nature, age, condition and location of Pope's property, buildings and equipment. The following summarizes the changes in the estimated depreciation expense:

Estimated depreciation expense	($2.6)
Historical depreciation expense	2.3
Pro forma adjustment to depreciation expense	**($0.2)**

e. At the time of this filing, the Company has not performed a detailed valuation analysis of Pope's intangible assets. Consequently, the fair value and estimated useful lives will likely differ from final amounts the Company will calculate after completing a detailed valuation analysis, and the difference could have a material impact on the accompanying unaudited pro forma condensed combined financial statements.

The following represents the pro forma adjustments to other assets:

Exchange of Pope units held by Rayonier Operating Company for equity (1)	($11.3)
Decrease in investment in joint venture	(1.8)
Pro forma adjustment to other assets	**($13.1)**

(1) Pope units held by Rayonier will remain outstanding and represent Rayonier Operating Company LLC's limited partner interest in Pope Resources L.P.

f. Reflects the effects of extinguishing a portion of Pope's outstanding debt upon completion of the acquisition. The net decrease to debt includes:

Decrease from extinguishment of existing Pope debt	($66.0)
Increase from elimination of Pope's debt issuance costs	0.5
Plus: Pro forma adjustments to current portion of long-term debt	0.1
Pro forma adjustment to long-term debt	**($65.4)**

Rayonier Operating Company has not completed the valuation analysis and calculations in sufficient detail necessary to arrive at the fair value adjustment of assumed debt and related amortization. Accordingly, debt is presented at their respective face amounts and should be treated as preliminary fair values.

The following reflects the new term debt incurred to finance the acquisition of Pope:

Issuance of new debt, net of debt issuance costs	$249.2
Pro forma adjustment to long-term debt	**$249.2**

g. Reflects the accrual of an estimated $1.1 million change in control payment obligation to a Pope executive incurred at the time of the Mergers. Pope has previously entered into original employment contract with an executive officer in which Pope was required to incur severance obligations for matters relating to changes in control, as defined, and involuntary terminations. The Mergers met the change in control criteria of the employment agreement. For the severance payment to be made, there must be a change in control and a termination event of the executive, as defined in the employment agreements, referred to as a "double trigger" payment. Since the unaudited pro forma balance sheet assumes the Mergers have occurred and the payment has been made to the executive, the obligation has been accrued in the unaudited pro forma balance sheet as of December 31, 2019. Dual trigger payments are accounted for outside of the business combination and not included in the purchase price, instead, recorded as compensation expense in the post-acquisition financial statements of the combined entity. As the change in control payment will not have a continuing impact, Rayonier has not shown this amount in the unaudited pro forma statements of operations.

The following represents the pro forma adjustments to accrued expenses:

Increase for change in control payment obligations	$1.1
Pro forma adjustment to accrued expenses	**$1.1**

i. Reflects the adjustment of $2.0 million to decrease the balance in the acquired environmental liabilities to estimated fair value of $11.1 million. In determining the fair value of the environmental liabilities, the Company utilized valuation methodologies including a discounted cash flow analysis. The fair value calculations are preliminary and subject to change after the Company finalizes its review of the specific types, nature, age, condition and location of Pope's environmental liabilities.

Additionally, includes a $4.0 million deferred income tax liability resulting from the preliminary fair value adjustment to Pope's' assets and liabilities.

The following represents the pro forma adjustments to non-current liabilities:

Increase in environmental liabilities	$2.0
Increase in deferred tax liabilities	4.0
Pro forma adjustment to non-current liabilities	**$6.0**

j. Represents the value of 4,446,153 Rayonier, L.P. units issued at $24.01 per unit (based on Rayonier's closing share price on May 7, 2020) to finance the Mergers based an actual elections of Rayonier, L.P. unit consideration.

k. The following represents the pro forma adjustments to shareholder's equity, including the elimination of the historical equity of Pope:

General Partner Consideration	$10.0	
Historical Pope general partners' capital as of December 31, 2019	(0.8)	
Pro forma adjustment to general partner's capital		9.2
Issuance of limited partner units to Rayonier Inc.	1,601.5	
Historical Pope limited partners' capital as of December 31, 2019	(42.0)	
Pro forma adjustments to limited partner's capital		1,559.5
Decrease for transaction-related expenses	(20.0)	
Decrease for change in control payment obligations	(1.1)	
Issuance of Rayonier restricted stock units for Pope's vested awards	0.2	
Exchange of equity for Pope units held by Rayonier Operating Co.	(11.3)	
Issuance of Rayonier common shares to Pope unit holders (1)	172.4	
Exchange of equity to general partner units to Rayonier Inc.	(10.0)	
Exchange of equity to limited partner units to Rayonier Inc.	(1,601.5)	
Pro forma adjustment to equity		(1,471.2)
Pro forma adjustments to controlling interest capital		**$97.5**

(1) Represents the value of 7,181,071 Rayonier common shares issued at $24.01 per share (based on Rayonier's closing share price on May 07, 2020) to finance the Mergers based an actual elections of Rayonier common share consideration.

l. Represents the difference between Pope’s historical equity compensation expense and the estimated equity compensation expense related to replacement awards issued to continuing employees as part of the acquisition agreement. The fair value of Rayonier Inc. replacement restricted unit awards will be recognized ratably over the remaining post-combination service periods ranging from one to four years. The following represents the pro forma adjustments to equity compensation expense:

Pope’s historical equity compensation expense		($1.2)
Fair value of replacement Rayonier Inc.restricted awards	1.4	
Approximate vesting period (in years)	4	
		0.4
Pro forma adjustment to equity compensation expense		**($0.8)**

m. The following represents the increase in cost of goods sold as a result of increased depletion and non-cash cost of real estate development expense:

Pro forma adjustment to depletion expense	($21.0)
Pro forma adjustment to non-cash cost of land and improved development	(4.7)
Pro forma adjustment to cost of goods sold	**($25.7)**

n. Represents the net change in selling and general administrative expenses as a result of increased depreciation expense and the elimination of Pope’s legal and professional fees related to the Mergers. As the legal and professional expenses are directly attributable to the business combination and will not have a continuing impact, Rayonier has adjusted these expenses in the Pro Forma Statements of Operations.

Estimated increase to depreciation expense	($0.3)
Estimated increase to equity compensation expense	**(0.8)**
Elimination of legal and professional expenses	5.3
Pro forma adjustment to selling and general expenses	**$4.2**

o. The following represents the elimination of interest expense on extinguished Pope debt:

Elimination of interest expense - Pope debt	$1.7
Pro forma adjustment to interest expense	**$1.7**

The following represents interest expense on the new term debt to finance the Mergers and the amortization of related debt issuance costs:

Interest expense on new debt	$8.8
Amortization of new debt issuance costs	0.1
Pro forma adjustment to interest expense	**$8.9**

p. Rayonier Inc. intends to continue to qualify as a REIT under the requirements of the Internal Revenue Code, and as a result, the Company’s direct income tax expense is expected to be minimal. Consequently, no additional adjustment to pro forma income tax expense has been made with respect to the Mergers. With respect to the Mergers, Rayonier expects to make taxable REIT subsidiary (“TRS”) elections with respect to the taxable subsidiaries of Pope acquired in the Mergers (excluding the Pope Private REITs) and those subsidiaries therefore will be subject to U.S. federal income taxes at corporate rates. However, no pro forma adjustment for income tax expense has been reflected in the pro forma statement of income as incremental taxable income is projected to be minimal.

q. Pro forma basic earnings per unit has been calculated based on the number of units assumed to be outstanding, assuming such units were outstanding for the full period presented. The following table sets forth the computation of unaudited pro forma basic and diluted earnings per unit:

	Net income available to unitholders	Outstanding units	Per unit amount
Earnings per unit, basic	$32.8	140,884,426	$0.23
Earnings per unit, dilutive	$32.8	141,225,612	$0.23

Rayonier, L.P. considers both partnership units and equivalents, which have identical rights to distributions and undistributed earnings, to be common units for purposes of the earnings per unit computations. Units utilized in the calculation of pro forma basic and diluted earnings per unit attributable to unitholders are as follows:

	Rayonier Inc. Units	Units issued in the transaction (1)	Pro Forma Total
Weighted-average units and equivalents outstanding, basic	136,438,273	4,446,153	140,884,426
Weighted-average units and equivalents outstanding, diluted	136,779,459	4,446,153	141,225,612

(1) The issuance of Rayonier, L.P. units is based on the actual election of Rayonier, L.P. unit consideration.