

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1999

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-6780

RAYONIER INC.

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

1177 Summer Street, Stamford, Connecticut 06905-5529
(Principal Executive Office)

Telephone Number: (203) 348-7000

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

YES NO

As of May 3, 1999, there were outstanding 27,789,215 Common Shares of the
Registrant.

RAYONIER INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The following unaudited financial statements reflect, in the opinion of Rayonier Inc. (Rayonier or the Company), all adjustments (which include only normal recurring adjustments) necessary for a fair presentation of the results of operations, the financial position and the cash flows for the periods presented. For a full description of accounting policies, please refer to Notes to Consolidated Financial Statements in the 1998 Annual Report on Form 10-K.

RAYONIER INC. AND SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME
(UNAUDITED)
(THOUSANDS OF DOLLARS, EXCEPT PER SHARE DATA)

	Three Months Ended March 31,	
	1999	1998
	-----	-----
SALES	\$ 226,396	\$ 225,414
	-----	-----
Costs and expenses		
Cost of sales	188,681	184,179
Selling and general expenses	9,465	8,347
Other operating income, net	(1,194)	(1,269)
	-----	-----
	196,952	191,257
	-----	-----
OPERATING INCOME	29,444	34,157
Interest expense	(7,703)	(7,912)
Interest and miscellaneous income, net	713	295
	-----	-----
Income before income taxes	22,454	26,540
Provision for income taxes	(7,324)	(8,344)
	-----	-----
NET INCOME	\$ 15,130	\$ 18,196
	=====	=====
NET INCOME PER COMMON SHARE		
Basic EPS	\$ 0.54	\$ 0.64
	=====	=====
Diluted EPS	\$ 0.54	\$ 0.63
	=====	=====

RAYONIER INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)
(THOUSANDS OF DOLLARS)

ASSETS

	March 31, 1999	December 31, 1998
	-----	-----
CURRENT ASSETS		
Cash and short-term investments	\$ 5,662	\$ 6,635
Accounts receivable, less allowance for doubtful accounts of \$4,845 and \$4,843	100,585	118,762
Inventories		
Finished goods	67,485	47,109
Work in process	14,156	15,762
Raw materials	13,031	13,212
Manufacturing and maintenance supplies	25,504	22,827
	-----	-----
Total inventories	120,176	98,910
Timber purchase agreements	36,348	35,776
Other current assets	16,381	13,192
Deferred income taxes	7,384	8,559
	-----	-----
Total current assets	286,536	281,834
OTHER ASSETS	64,091	65,988
TIMBER PURCHASE AGREEMENTS	18,897	20,922
TIMBER, TIMBERLANDS AND LOGGING ROADS, NET OF DEPLETION AND AMORTIZATION	544,097	544,190
PROPERTY, PLANT AND EQUIPMENT		
Land, buildings, machinery and equipment	1,306,456	1,304,188
Less - accumulated depreciation	631,425	616,266
	-----	-----
	675,031	687,922
	-----	-----
	\$1,588,652	\$1,600,856
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	\$ 65,532	\$ 65,844
Bank loans and current maturities	5,146	4,094
Accrued taxes	13,689	8,728
Accrued payroll and benefits	20,927	21,460
Accrued interest	10,244	6,182
Other current liabilities	45,763	44,279
Current reserves for dispositions and discontinued operations	20,906	22,167
	-----	-----
Total current liabilities	182,207	172,754
DEFERRED INCOME TAXES	118,256	115,405
LONG-TERM DEBT	456,976	485,850
NON-CURRENT RESERVES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS	157,242	159,198
OTHER NON-CURRENT LIABILITIES	29,140	28,690
SHAREHOLDERS' EQUITY		
Common Shares, 60,000,000 shares authorized, 27,795,347 and 27,767,309 shares issued and outstanding	78,930	79,561
Retained earnings	565,901	559,398
	-----	-----
	644,831	638,959
	-----	-----
	\$1,588,652	\$1,600,856
	=====	=====

RAYONIER INC. AND SUBSIDIARIES
 STATEMENTS OF CONSOLIDATED CASH FLOWS
 (UNAUDITED)
 (THOUSANDS OF DOLLARS)

	Three Months Ended March 31,	
	1999	1998
OPERATING ACTIVITIES		
Net income	\$ 15,130	\$ 18,196
Non-cash items included in income		
Depreciation, depletion and amortization	26,696	22,913
Deferred income taxes	2,848	4,912
Increase in other non-current liabilities	450	3,887
Change in accounts receivable, inventories and accounts payable	(3,401)	2,184
(Increase) decrease in current timber purchase agreements	(572)	854
(Increase) decrease in other current assets	(3,189)	1,852
Increase (decrease) in accrued liabilities	9,974	(14,524)
	-----	-----
CASH FROM OPERATING ACTIVITIES	47,936	40,274
	-----	-----
INVESTING ACTIVITIES		
Capital expenditures, net of sales and retirements of \$24 and \$677	(13,712)	(24,275)
Acquisition of Rayonier Timberlands, L.P. Class A Units	--	(48,821)
Expenditures for dispositions and discontinued operations, net of tax benefits of \$1,178 and \$1,298	(2,039)	(2,243)
Change in timber purchase agreements and other assets	3,922	(6,361)
	-----	-----
CASH USED FOR INVESTING ACTIVITIES	(11,829)	(81,700)
	-----	-----
FINANCING ACTIVITIES		
Issuance of debt	59,853	143,770
Repayments of debt	(87,675)	(77,167)
Dividends paid	(8,627)	(8,781)
Repurchase of Common Shares	(1,523)	(2,313)
Issuance of Common Shares	892	672
Buyout of minority interest	--	(16,959)
	-----	-----
CASH (USED FOR) PROVIDED BY FINANCING ACTIVITIES	(37,080)	39,222
	-----	-----
CASH AND SHORT-TERM INVESTMENTS		
Decrease in cash and short term investments	(973)	(2,204)
Balance, beginning of period	6,635	10,661
	-----	-----
Balance, end of period	\$ 5,662	\$ 8,457
	=====	=====
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	\$ 3,694	\$ 4,703
	=====	=====
Income taxes	\$ 216	\$ 3,612
	=====	=====

RAYONIER INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (UNAUDITED)
 (THOUSANDS OF DOLLARS, EXCEPT PER SHARE DATA)

1. EARNINGS PER COMMON SHARE

The following table provides details of the calculation of basic and diluted EPS in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share" for the three months ended March 31, 1999 and 1998.

	1999	1998
	-----	-----
Net Income	\$ 15,130	\$ 18,196
	=====	=====
Shares used for determining basic EPS	27,806,659	28,311,424
Dilutive effect of:		
Stock options	230,249	279,187
Contingent shares	240,000	231,084
	-----	-----
Shares used for determining diluted EPS	28,276,908	28,821,695
	=====	=====
Basic EPS	\$ 0.54	\$ 0.64
	=====	=====
Diluted EPS	\$ 0.54	\$ 0.63
	=====	=====

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SEGMENT INFORMATION

Rayonier operates in two major business segments, Timber and Wood Products and Specialty Pulp Products. The Timber and Wood Products segment includes two reportable business units: Forest Resources and Trading, and Wood Products. Chemical Cellulose, and Fluff and Specialty Paper Pulps are product lines within the Specialty Pulp Products segment.

The amounts and relative contributions to sales and operating income attributable to each of Rayonier's reportable business units for the three months ended March 31, 1999 and 1998 were as follows (thousands of dollars):

	Three Months Ended March 31,	
	1999	1998
	-----	-----
SALES		
Timber and Wood Products		
Forest Resources and Trading	\$ 100,042	\$ 84,429
Wood Products	24,628	29,207
	-----	-----
Total Timber and Wood Products	124,670	113,636
Specialty Pulp Products		
Chemical Cellulose	62,840	67,745
Fluff and Specialty Paper Pulps	39,029	45,114
	-----	-----
Total Specialty Pulp Products	101,869	112,859
Intersegment eliminations	(143)	(1,081)
	-----	-----
Total sales	\$ 226,396	\$ 225,414
	=====	=====
OPERATING INCOME		
Timber and Wood Products		
Forest Resources and Trading	\$ 28,517	\$ 35,290
Wood Products	(901)	(5,654)
	-----	-----
Total Timber and Wood Products	27,616	29,636
Specialty Pulp Products	5,866	7,892
Corporate and other	(4,038)	(3,371)
	-----	-----
Total operating income	\$ 29,444	\$ 34,157
	=====	=====

RESULTS OF OPERATIONS

SALES AND OPERATING INCOME

Sales for the first quarter of 1999 were \$226 million, \$1 million higher than the first quarter of 1998. The increase in sales was principally due to higher trading activity offset by lower pulp volume and chemical cellulose prices, and the absence of lumber sales from the Company's Plummer, ID lumber mill which closed in July 1998 after the facility was damaged by a fire.

Operating income of \$29 million was \$5 million below the prior year, as a result of lower U.S. timber volume and prices, and weaker pulp volume and chemical cellulose prices partially offset by lower manufacturing costs and the absence of losses at the Plummer, ID lumber mill.

TIMBER AND WOOD PRODUCTS

Sales were higher than the prior year by \$11 million, while operating income declined by \$2 million from last year.

FOREST RESOURCES AND TRADING

Forest Resources and Trading sales for the three month period ended March 31, 1999 were \$100 million, \$16 million higher than 1998 due to growth of wood products trading, which began operating in the first quarter of 1998, and higher log trading activity in Asian and U.S. domestic markets. These improvements were partially offset by lower U.S. timber volume and prices.

Operating income for the quarter of \$29 million was \$7 million below last year. The decline resulted from reduced timber prices and volumes in both the Northwest and Southeast U.S., partly offset by higher log trading margins. Northwest U.S. timber prices declined due to the impact of the Asian economic crisis on export products. Southeast U.S. pulpwood demand was weak due to extensive pulp mill closures and downtime in the region. In the first quarter of 1998, Southeast U.S. timber markets experienced price improvements due to unusually wet weather that led to restricted supply and difficult logging conditions.

WOOD PRODUCTS

Wood Products sales of \$25 million for the three month period were \$5 million lower than 1998 resulting from the absence of sales from the Plummer, ID lumber mill and slightly lower Southeast U.S. lumber volume and prices partially offset by higher MDF volume and prices.

An operating loss of \$1 million represented an improvement of \$5 million from the prior year's first quarter resulting from stronger MDF performance due to new markets, better pricing, and lower production costs, the absence of losses generated by the Plummer, ID lumber mill and lower log costs at the Company's Southeast U.S. lumber mills. These positive factors were reduced by slightly lower lumber sales volume and prices compared to last year although prices were higher than 1998's fourth quarter.

SPECIALTY PULP PRODUCTS

Sales of Specialty Pulp Products for the three-month period were \$102 million, \$11 million lower than 1998. The decline was primarily due to weaker demand for both fluff and paper and chemical cellulose pulps and lower chemical cellulose pricing. Operating income for the first three months was \$6 million, \$2 million lower than 1998 resulting from the lower sales volumes and prices, offset by lower wood and manufacturing costs.

CORPORATE AND OTHER

Corporate and other costs for the first quarter of 1999 were above 1998 reflecting higher general and corporate development expenses.

OTHER INCOME / EXPENSE

Interest expense of \$8 million for the first three months of 1999 was slightly below the first quarter of 1998 due to lower average interest rates. Miscellaneous income in the first quarter of 1999 was higher than 1998 due to the favorable impact of a contract settlement.

The effective tax rate of 32.6 percent for the first three months of 1999 compared to 31.4 percent in 1998. The 1999 rate reflects lower tax benefits from foreign operations and reduced research and development tax credits.

NET INCOME

Net income for the first quarter was \$15.1 million or \$0.54 per Common Share, compared to \$18.2 million, or \$0.63 cents per Common Share in 1998.

OTHER ITEMS

In an April 19 press release the Company indicated that its prospects for improved results were encouraging based on positive signs in some of the Company's markets and recent economic forecasts for Asia, Europe and Latin America for a second half recovery. Price increases for fluff pulp appeared to be holding and further increases were possible. Lumber markets were strong and Northwest U.S. log sales should improve as Asia recovers. Some softness in Southeast U.S. timber prices was expected, but the overall impact would be favorable due to lower wood costs at the Company's pulp and lumber mills.

The Company announced that it would take a 44-day market related shutdown at its Fernandina Beach, FL pulp mill beginning April 21 and a scheduled maintenance shutdown at its Jesup, GA pulp mill in May to complete maintenance and capital projects. Most of the financial impact of the shutdowns would be offset by contributions to income from lower pulp production costs and continued strength in lumber and Northwest timber activity.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operating activities of \$48 million for the first three months of 1999 increased \$8 million from 1998 as a result of decreased working capital requirements. EBITDA (defined as earnings from continuing operations before significant non-recurring items, provision for dispositions, interest expense, income taxes and depreciation, depletion and amortization) for the first three months of 1999 amounted to \$57 million, similar to 1998 first quarter results. Cash from operating activities helped to finance capital expenditures of \$14 million, dividends of \$9 million and the repurchase of Common Shares for \$2 million. In 1999, first quarter ending debt was \$462 million and the debt-to-capital-ratio was 41.7 percent compared to debt of \$490 million and a debt to capital ratio of 43.4 percent at December 31, 1998.

The Company repurchased 37,400 of its shares during the first three months of 1999 at an average cost of \$40.52 for a total of \$1.5 million. Over the same period of 1998, the Company repurchased 52,080 shares at an average cost of \$44.42 per share for a total of \$2.3 million.

The Company has unsecured credit facilities totaling \$300 million, which were used as support for \$106 million of outstanding commercial paper. As of March 31, 1999, the Company had \$194 million available under its revolving credit facilities. In addition, the Company has on file with the Securities and Exchange Commission shelf registration statements to offer \$150 million of new public debt securities. The Company believes that internally generated funds, combined with available external financing, will enable Rayonier to fund capital expenditures, share repurchases, working capital and other liquidity needs for the foreseeable future.

YEAR 2000 COMPLIANCE

Rayonier began its company-wide Year 2000 Project in 1996 and expects all phases to be completed by the end of the third quarter of 1999. The Project is designed to identify Year 2000 problems and take corrective action covering business and process control systems, networking communications, personal computer applications, embedded microprocessors and third party supplier and customer risks. The Company has engaged outside consultants to advise on, assist in and monitor compliance. The project team reports directly to the Company's senior executive officers and regularly provides program updates to the Audit Committee of the Board of Directors.

The estimated total amount expended on the Year 2000 Project through the first quarter of 1999 was less than \$2 million and the Company estimates that future costs could range up to \$2 million. Many of the Company's systems were upgraded or replaced in the ordinary course of business during the last five years, and costs related to those upgrades and replacements are not included in the Year 2000 Project expenses.

The Company believes that with the completion of its Year 2000 Project as scheduled, the risks will be minimized and the possibility of significant interruptions of operations reduced. However, if the Company and its third party suppliers and customers do not complete in a timely manner their assessment, remediation and testing for Year 2000 compliance, there can be no assurance that Year 2000 problems will not materially adversely affect the Company's results of operations or its relationships with its suppliers and customers. The Company has not yet been able to clearly identify the most reasonably likely worst case scenarios and the appropriate contingency plans for such scenarios. As the Company completes all phases of its Year 2000 Project, it will prepare contingency plans for critical systems to deal with any areas where it determines that risks of non-compliance are significant.

Comments about market trends, anticipated earnings and future activities, including disclosures about the Company's Year 2000 project, are forward-looking and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Changes in factors referred to in such disclosures, and changes in the following additional important factors, among others, could cause actual results to differ materially from those expressed in the forward-looking statements: changes in global market trends; adverse weather conditions in the Company's operating areas; the possibility of forest fires; fluctuations in demand for specialty chemical cellulose and fluff pulps, export and domestic logs, and wood products; the impact of such market factors on the Company's timber sales in the U.S. and New Zealand; production costs for wood products and for specialty pulps, particularly for raw materials such as wood and chemicals; governmental policies and regulations affecting the environment, import and export controls, and taxes; and interest rate and currency movements.

ITEM 3. SELECTED OPERATING DATA

	Three Months Ended March 31,	
	1999	1998
	-----	-----
TIMBER AND WOOD PRODUCTS		
Log trading sales volume		
North America, in millions of board feet	30	33
New Zealand, in thousands of cubic meters	272	151
Other, in thousands of cubic meters	110	38
Timber sales volume		
Northwest U.S., in millions of board feet	65	67
Southeast U.S., in thousands of short green tons	533	609
New Zealand, in thousands of cubic meters	270	126
Lumber sales volume, in millions of board feet	56	74 (a)
Medium-density fiberboard sales volume, in thousands of cubic meters	27	13
Intercompany timber sales volume		
Northwest U.S., in millions of board feet	10	2
Southeast U.S., in thousands of short green tons	7	32
New Zealand, in thousands of cubic meters	121	60
SPECIALTY PULP PRODUCTS		
Pulp sales volume		
Chemical cellulose, in thousands of metric tons	74	77
Fluff and specialty paper pulp, in thousands of metric tons	77	86
Production as a percent of capacity	100.6%	98.4%

(a) Includes sales of 17 by the Plummer lumber mill, which closed in July 1998 after fire damaged the facility.

SELECTED SUPPLEMENTAL FINANCIAL DATA (thousands of dollars, except per share data)

	Three Months Ended March 31,	
	1999	1998
GEOGRAPHICAL DATA (NON-U.S.)		
Sales		
New Zealand	\$ 18,284	\$ 11,066
Other	9,982	3,136
	-----	-----
Total	\$ 28,266	\$ 14,202
	=====	=====
Operating Income		
New Zealand	\$ (1,635)	\$ (5,280)
Other	(306)	(1,249)
	-----	-----
Total	\$ (1,941)	\$ (6,529)
	=====	=====
FOREST RESOURCES		
Sales		
Northwest U.S.	\$ 23,866	\$ 26,834
Southeast U.S.	16,942	21,580
New Zealand	5,362	3,456
	-----	-----
Total	\$ 46,170	\$ 51,870
	=====	=====
Operating Income		
Northwest U.S.	\$ 18,566	\$ 20,982
Southeast U.S.	12,463	16,377
New Zealand	998	655
	-----	-----
Total	\$ 32,027	\$ 38,014
	=====	=====
EBITDA per Share		
Northwest U.S.	\$ 0.69	\$ 0.75
Southeast U.S.	0.53	0.64
New Zealand	0.14	0.08
	-----	-----
Total	\$ 1.36	\$ 1.47
	=====	=====

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Rayonier's 10-K for 1998 reported that the U.S. Court of Appeals for the Eleventh Circuit on March 10, 1999 affirmed summary judgment in favor of Rayonier in an action brought by Powell-Duffryn Terminals. Subsequently, on March 31, 1999, Powell Duffryn filed a motion for rehearing by the same court.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) See Exhibit Index.
- (b) Rayonier Inc. did not file a report on Form 8-K during the quarter covered by this report.

SIGNATURE

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RAYONIER INC. (Registrant)

BY GERALD J. POLLACK
Gerald J. Pollack
Senior Vice President and
Chief Financial Officer

May 14, 1999

EXHIBIT INDEX

EXHIBIT NO. -----	DESCRIPTION -----	LOCATION -----
2	Plan of acquisition, reorganization, arrangement, liquidation or succession	None
3.1	Amended and restated articles of incorporation	No amendments
3.2	By-laws	No amendments
4	Instruments defining the rights of security holders, including indentures	Not required to be filed. The Registrant hereby agrees to file with the Commission a copy of any instrument defining the rights of holders of the Registrant's long-term debt upon request of the Commission.
10	Material Contracts	None
11	Statement re computation of per share earnings	Not required to be filed
12	Statement re computation of ratios	Filed herewith
15	Letter re unaudited interim financial information	None
18	Letter re change in accounting principles	None
19	Report furnished to security holders	None
22	Published report regarding matters submitted to vote of security holders	None
23	Consents of experts and counsel	None
24	Power of attorney	None
27	Financial data schedule	Filed herewith
99	Additional exhibits	None

RAYONIER INC. AND SUBSIDIARIES

RATIO OF EARNINGS TO FIXED CHARGES

(UNAUDITED)
(THOUSANDS OF DOLLARS)

	Three Months Ended March 31,	
	1999	1998
Earnings:		
Net Income	\$15,130	\$18,196
Add:		
Income Taxes	7,324	8,344
Amortization of Capitalized Interest	584	566
Additions to Net Income	23,038	27,106
Adjustments to Earnings for Fixed Charges:		
Interest and Other Financial Charges	7,703	7,912
Interest Factor Attributable to Rentals	438	494
Adjustments for Fixed Charges	8,141	8,406
EARNINGS AS ADJUSTED	\$31,179	\$35,512
Fixed Charges:		
Fixed Charges above	\$ 8,141	\$ 8,406
Capitalized Interest	53	96
TOTAL FIXED CHARGES	\$ 8,194	\$ 8,502
RATIO OF EARNINGS AS ADJUSTED TO TOTAL FIXED CHARGES	3.81	4.18

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1,000

3-MOS

	DEC-31-1999	
	JAN-01-1999	
	MAR-31-1999	
		5,662
		0
	105,430	
	4,845	
	120,176	
	286,536	
		1,306,456
	631,425	
	1,588,652	
182,207		
		456,976
	0	
		0
		78,930
		565,901
1,588,652		
		226,396
	226,396	
		188,681
	188,681	
	7,558	
	0	
	7,703	
	22,454	
		7,324
15,130		
		0
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		0
	15,130	
	0.54	
	0.54	