

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

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 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 (X) NO ( )

As of August 3, 1999, there were outstanding 27,765,142 Common Shares of  
the Registrant.

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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<br>Ended June 30, |            | Six Months<br>Ended June 30, |            |
|--|--------------------------------|------------|------------------------------|------------|
|  | 1999                           | 1998       | 1999                         | 1998       |
| SALES  | \$ 258,023                     | \$ 254,011 | \$ 484,419                   | \$ 479,425 |
| Costs and expenses                               |                                |            |                              |            |
| Cost of sales                                    | 215,198                        | 210,301    | 403,879                      | 394,480    |
| Selling and general expenses                     | 9,785                          | 9,412      | 19,250                       | 17,759     |
| Other operating income, net                      | (711)                          | (874)      | (1,905)                      | (2,143)    |
|  | 224,272                        | 218,839    | 421,224                      | 410,096    |
| OPERATING INCOME                                 | 33,751                         | 35,172     | 63,195                       | 69,329     |
| Interest expense                                 | (7,683)                        | (9,072)    | (15,387)                     | (16,984)   |
| Interest and miscellaneous (expense) income, net | (233)                          | 202        | 481                          | 497        |
| Income before income taxes                       | 25,835                         | 26,302     | 48,289                       | 52,842     |
| Provision for income taxes                       | (8,758)                        | (7,862)    | (16,082)                     | (16,206)   |
| NET INCOME                                       | \$ 17,077                      | \$ 18,440  | \$ 32,207                    | \$ 36,636  |
| NET INCOME PER COMMON SHARE                      |                                |            |                              |            |
| Basic EPS  | \$ 0.62                        | \$ 0.65    | \$ 1.16                      | \$ 1.29    |
| Diluted EPS                                      | \$ 0.60                        | \$ 0.64    | \$ 1.14                      | \$ 1.27    |

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

ASSETS

|   | June 30,<br>1999 | December 31,<br>1998 |
|---|------------------|----------------------|
|   | -----            | -----                |
| <b>CURRENT ASSETS</b>   |                  |                      |
| Cash and short-term investments   | \$ 5,717         | \$ 6,635             |
| Accounts receivable, less allowance for doubtful<br>accounts of \$4,863 and \$4,843 | 108,332          | 118,762              |
| Inventories   |                  |                      |
| Finished goods  | 58,901           | 47,109               |
| Work in process   | 12,659           | 15,762               |
| Raw materials   | 11,484           | 13,212               |
| Manufacturing and maintenance supplies  | 24,846           | 22,827               |
|   | -----            | -----                |
| Total inventories   | 107,890          | 98,910               |
| Timber purchase agreements  | 37,914           | 35,776               |
| Other current assets  | 13,540           | 13,192               |
| Deferred income taxes   | 7,180            | 8,559                |
|   | -----            | -----                |
| Total current assets  | 280,573          | 281,834              |
| <b>OTHER ASSETS</b>   | 61,248           | 65,988               |
| <b>TIMBER PURCHASE AGREEMENTS</b>   | 21,284           | 20,922               |
| <b>TIMBER, TIMBERLANDS AND LOGGING ROADS,<br/>NET OF DEPLETION AND AMORTIZATION</b> | 544,807          | 544,190              |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>  |                  |                      |
| Land, buildings, machinery and equipment  | 1,327,668        | 1,304,188            |
| Less - accumulated depreciation   | 646,723          | 616,266              |
|   | -----            | -----                |
|   | 680,945          | 687,922              |
|   | -----            | -----                |
|   | \$1,588,857      | \$1,600,856          |
|   | =====            | =====                |

LIABILITIES AND SHAREHOLDERS' EQUITY

|   |             |             |
|---|-------------|-------------|
| <b>CURRENT LIABILITIES</b>  |             |             |
| Accounts payable  | \$ 70,124   | \$ 65,844   |
| Bank loans and current maturities   | 5,965       | 4,094       |
| Accrued taxes   | 15,841      | 8,728       |
| Accrued payroll and benefits  | 23,536      | 21,460      |
| Accrued interest  | 7,586       | 6,182       |
| Other current accrued liabilities   | 41,552      | 44,279      |
| Current reserves for dispositions and discontinued operations   | 19,732      | 22,167      |
|   | -----       | -----       |
| Total current liabilities   | 184,336     | 172,754     |
| <b>DEFERRED INCOME TAXES</b>  | 122,462     | 115,405     |
| <b>LONG-TERM DEBT</b>   | 446,404     | 485,850     |
| <b>NON-CURRENT RESERVES FOR DISPOSITIONS<br/>AND DISCONTINUED OPERATIONS</b>                            | 154,062     | 159,198     |
| <b>OTHER NON-CURRENT LIABILITIES</b>  | 30,274      | 28,690      |
| <b>SHAREHOLDERS' EQUITY</b>   |             |             |
| Common Shares, 60,000,000 shares authorized,<br>27,772,207 and 27,767,309 shares issued and outstanding | 76,958      | 79,561      |
| Retained earnings   | 574,361     | 559,398     |
|   | -----       | -----       |
|   | 651,319     | 638,959     |
|   | -----       | -----       |
|   | \$1,588,857 | \$1,600,856 |
|   | =====       | =====       |

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

|  | Six Months<br>Ended June 30, |                  |
|--|------------------------------|------------------|
|  | 1999                         | 1998             |
| <b>OPERATING ACTIVITIES</b>  |                              |                  |
| Net income   | \$ 32,207                    | \$ 36,636        |
| Non-cash items included in income  |                              |                  |
| Depreciation, depletion and amortization   | 50,124                       | 47,760           |
| Deferred income taxes  | 5,663                        | 8                |
| Increase in other non-current liabilities  | 1,584                        | 1,270            |
| Change in accounts receivable, inventories<br>and accounts payable                                       | 5,730                        | (6,100)          |
| Increase in current timber purchase agreements   | (2,138)                      | (7,600)          |
| (Increase) decrease in other current assets  | (348)                        | 2,670            |
| Increase (decrease) in accrued liabilities   | 7,866                        | (13,243)         |
| <b>CASH FROM OPERATING ACTIVITIES</b>  | <b>100,688</b>               | <b>61,401</b>    |
| <b>INVESTING ACTIVITIES</b>  |                              |                  |
| Capital expenditures, net of sales and retirements<br>of \$311 and \$2,186                               | (43,764)                     | (48,686)         |
| Acquisition of Rayonier Timberlands, L.P. Class A Units  | --                           | (48,821)         |
| Expenditures for dispositions and discontinued operations,<br>net of tax benefits of \$2,773 and \$2,504 | (4,798)                      | (4,321)          |
| Change in timber purchase agreements and other assets  | 4,378                        | (8,325)          |
| <b>CASH USED FOR INVESTING ACTIVITIES</b>  | <b>(44,184)</b>              | <b>(110,153)</b> |
| <b>FINANCING ACTIVITIES</b>  |                              |                  |
| Issuance of debt   | 99,861                       | 183,910          |
| Repayments of debt   | (137,436)                    | (89,027)         |
| Dividends paid   | (17,244)                     | (17,539)         |
| Repurchase of Common Shares  | (5,600)                      | (8,710)          |
| Issuance of Common Shares  | 2,997                        | 2,038            |
| Buyout of minority interest  | --                           | (16,959)         |
| <b>CASH (USED FOR) PROVIDED BY FINANCING ACTIVITIES</b>  | <b>(57,422)</b>              | <b>53,713</b>    |
| <b>CASH AND SHORT-TERM INVESTMENTS</b>   |                              |                  |
| (Decrease) increase in cash and short-term investments   | (918)                        | 4,961            |
| Balance, beginning of period   | 6,635                        | 10,661           |
| Balance, end of period   | <u>\$ 5,717</u>              | <u>\$ 15,622</u> |
| Supplemental disclosures of cash flow information  |                              |                  |
| Cash paid during the period for:   |                              |                  |
| Interest   | <u>\$ 14,132</u>             | <u>\$ 15,980</u> |
| Income taxes   | <u>\$ 4,622</u>              | <u>\$ 11,718</u> |

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 and six months ended June 30, 1999 and 1998.

|   | Three Months<br>Ended June 30, |            | Six Months<br>Ended June 30, |            |
|---|--------------------------------|------------|------------------------------|------------|
|   | 1999                           | 1998       | 1999                         | 1998       |
| Net Income                              | \$ 17,077                      | \$ 18,440  | \$ 32,207                    | \$ 36,636  |
| Shares used for determining basic EPS   | 27,785,931                     | 28,273,886 | 27,796,186                   | 28,290,854 |
| Dilutive effect of:                     |                                |            |                              |            |
| Stock options                           | 307,947                        | 337,795    | 269,111                      | 312,159    |
| Contingent shares                       | 240,000                        | 231,084    | 240,000                      | 231,084    |
| Shares used for determining diluted EPS | 28,333,878                     | 28,842,765 | 28,305,297                   | 28,834,097 |
| Basic EPS                               | \$ 0.62                        | \$ 0.65    | \$ 1.16                      | \$ 1.29    |
| Diluted EPS                             | \$ 0.60                        | \$ 0.64    | \$ 1.14                      | \$ 1.27    |

## 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 and six months ended June 30, 1999 and 1998 were as follows (thousands of dollars):

|                                 | Three Months<br>Ended June 30, |            | Six Months<br>Ended June 30, |            |
|---------------------------------|--------------------------------|------------|------------------------------|------------|
|                                 | 1999                           | 1998       | 1999                         | 1998       |
| <b>SALES</b>                    |                                |            |                              |            |
| Timber and Wood Products        |                                |            |                              |            |
| Forest Resources and Trading    | \$ 119,102                     | \$ 99,645  | \$ 219,144                   | \$ 184,074 |
| Wood Products                   | 32,786                         | 32,276     | 57,414                       | 61,483     |
| Total Timber and Wood Products  | 151,888                        | 131,921    | 276,558                      | 245,557    |
| Specialty Pulp Products         |                                |            |                              |            |
| Chemical Cellulose              | 69,945                         | 75,786     | 132,785                      | 143,531    |
| Fluff and Specialty Paper Pulps | 36,296                         | 46,784     | 75,325                       | 91,898     |
| Total Specialty Pulp Products   | 106,241                        | 122,570    | 208,110                      | 235,429    |
| Intersegment Eliminations       | (106)                          | (480)      | (249)                        | (1,561)    |
| Total Sales                     | \$ 258,023                     | \$ 254,011 | \$ 484,419                   | \$ 479,425 |
| <b>OPERATING INCOME</b>         |                                |            |                              |            |
| Timber and Wood Products        |                                |            |                              |            |
| Forest Resources and Trading    | \$ 29,892                      | \$ 34,416  | \$ 58,409                    | \$ 69,706  |
| Wood Products                   | 1,964                          | (3,576)    | 1,063                        | (9,230)    |
| Total Timber and Wood Products  | 31,856                         | 30,840     | 59,472                       | 60,476     |
| Specialty Pulp Products         | 6,156                          | 7,693      | 12,022                       | 15,585     |
| Corporate and Other             | (4,261)                        | (3,361)    | (8,299)                      | (6,732)    |
| Total Operating Income          | \$ 33,751                      | \$ 35,172  | \$ 63,195                    | \$ 69,329  |

## RESULTS OF OPERATIONS

## SALES AND OPERATING INCOME

Sales for the second quarter of 1999 were \$258 million, \$4 million higher than the second quarter of 1998, while sales for the six months ended June 30, 1999 of \$484 million were \$5 million higher than the prior year. Sales increases in the Timber and Wood Products segment, principally due to higher trading activity, were partially offset by reduced sales in the Specialty Pulp Products segment due to lower pulp volume and chemical cellulose prices.

Operating income for the second quarter of 1999 of \$34 million was \$1 million below prior year, while operating income for the six-month period ended June 30, 1999 of \$63 million was \$6 million below prior year. Forest Resources and Trading operating results for both periods decreased due to lower timber prices, land sales and Southeast U.S. timber volume. Specialty Pulp Products operating results for both periods declined due to decreased volume and chemical cellulose prices. However, improvements in Wood Products due to stronger lumber prices partially offset these decreases.

## TIMBER AND WOOD PRODUCTS

Timber and Wood Products sales for the second quarter were \$152 million, \$20 million higher than prior year resulting from higher trading activity and slightly improved Wood Products sales. Sales for the six month period were \$277 million, \$31 million higher than the prior year, reflecting higher trading activity partially offset by lower timber and wood products sales. Operating income for the three months ended June 30, 1999 of \$32 million was \$1 million above prior year. Year to date operating income of \$59 million declined \$1 million from last year as improved Wood Products results were offset by lower income from Forest Resources and Trading.

## FOREST RESOURCES AND TRADING

Forest Resources and Trading sales for the three month period ended June 30, 1999 were \$119 million, \$19 million above prior year, resulting from growth of wood products trading activities and higher Northwest U.S. timber volume. These improvements were partially offset by lower Southeast U.S. timber prices and land sales. For the six month period ending June 30, 1999 sales were \$219 million, \$35 million above 1998 principally due to the higher wood products trading activity and improved log trading volume in Asian and U.S. domestic markets, partially offset by lower Southeast U.S. timber volume, timber prices and land sales.

Operating income for the second quarter was \$30 million, \$5 million below 1998 resulting from lower Southeast U.S. timber prices and land sales partially offset by higher Northwest U.S. timber volume. Operating income for the first half of 1999 of \$58 million was \$11 million below prior year due to reduced timber prices in both the Northwest and Southeast U.S. and from lower land sales. Prices declined in the Northwest U.S. due to the impact of the Asian economic crisis on export products and in the Southeast U.S. due to reduced pulpwood demand resulting from pulp and paper mill closures and downtime in the region. Timber prices were unusually high in Southeast U.S. markets during the first half of 1998 due to unusually wet weather that led to restricted supply because of difficult logging conditions.

## WOOD PRODUCTS

Wood Products sales for the second quarter ended June 30, 1999 were \$33 million, relatively unchanged from the prior year, and for the six month period were \$57 million, \$4 million below 1998. Higher prices and volume for Southeast U.S. lumber, driven by continued strong U.S. housing demand, and improved markets for the Company's medium-density fiberboard (MDF) plant were offset by the absence of lumber sales from the Company's Plummer, ID mill which closed in July 1998 after the facility was damaged by fire.

Operating income of \$2 million and \$1 million for the second quarter and first half of 1999, respectively, were \$6 million and \$10 million above prior year results. The improvement resulted from higher prices and lower operating costs for both lumber and MDF.

## SPECIALTY PULP PRODUCTS

Sales of Specialty Pulp Products for the second quarter of 1999 were \$106 million, \$16 million below prior year due to lower volume and chemical cellulose prices. For the six month period, sales were \$208 million, \$27 million lower than 1998. The decline was primarily due to weaker demand for both fluff and chemical cellulose pulps and lower chemical cellulose pricing.

Operating income of \$6 million and \$12 million for the second quarter and first half of 1999, respectively, were \$2 million and \$4 million below prior year. The decline resulted from lower fluff and chemical cellulose pulp volumes, lower chemical cellulose pricing and 45 days of market related shutdown costs for the Fernandina Beach, FL pulp mill, partially offset by lower wood and manufacturing costs.

## CORPORATE AND OTHER

Corporate and other costs for the second quarter and six months to date of 1999 were above 1998 reflecting higher general and administrative expenses.

## OTHER INCOME / EXPENSE

Interest expense of \$15 million for the first six months of 1999 was \$2 million below 1998 due to lower average interest rates and debt balances. Miscellaneous expense in the second quarter of 1999 included \$0.5 million in costs associated with refinancing debt at lower interest rates. For the six months ended June 30, 1999 miscellaneous income was equal to last year, with the adverse impact of the debt refinancing expense offset by favorable first quarter interest income related to a contract settlement.



The effective tax rate of 33.3 percent for the first six months of 1999 compared to 30.7 percent in 1998. The 1998 rate is lower than the 1999 rate due to higher prior years' research and development tax credits, and tax benefits from foreign operations.

#### NET INCOME

Net income for the second quarter of 1999 was \$17.1 million or \$0.60 per Common Share, compared to \$18.4 million, or \$0.64 per Common Share in 1998. Net income for the six months ended June 30, 1999 was \$32 million or \$1.14 per share compared to \$37 million or \$1.27 per share last year.

#### OTHER ITEMS

The Company is optimistic about market conditions in the coming months based on a gradual improvement in Asian markets and a continued strong outlook for U.S. housing. Improvement is also expected to continue in MDF product and customer mix. Specialty Pulp earnings should strengthen due to higher fluff prices, although chemical cellulose market weakness remains. Despite normal second-half timber harvest reductions, the Company expects to largely sustain second quarter earnings levels in the third quarter.

On July 29, 1999, the Company announced that it had signed a definitive agreement to purchase approximately 980,000 acres of timberland in Florida, Georgia and Alabama from Smurfit-Stone Container Corporation for \$725 million. The transaction is expected to close early in the fourth quarter of 1999. The Company indicated that it will finance the acquisition with \$225 million in cash and \$500 million in pre-committed long-term notes to be issued by a wholly-owned Rayonier partnership that will hold all of the Company's U.S. timberlands. The Company expects to realize approximately \$20 million per year in benefits by operating the timberlands similarly to its own management program by selling timber on an arms-length basis at auction and by eliminating overlapping marketing and management costs. At existing prices, the Company believes that the acquisition properties will contribute approximately \$70 million annually to EBITDA (defined as earnings from continuing operations before significant non-recurring items, provision for dispositions, interest expense, income taxes and depreciation, depletion and amortization). Assuming an early fourth quarter closing, the after-tax earnings dilution in the fourth quarter is estimated at 18 cents per share.

#### LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operating activities of \$101 million for the first six months of 1999 increased \$39 million from 1998 as a result of decreased working capital requirements. EBITDA for the first six months of 1999 of \$114 million decreased \$4 million from 1998 results primarily due to lower operating income at both Forest Resources and Trading, and Specialty Pulp Products. Cash from operating activities helped to finance capital expenditures of \$44 million, dividends of \$17 million and the repurchase of Common Shares for \$6 million and also reduce debt by \$38 million. In 1999, second quarter ending debt was \$452 million and the debt-to-capital-ratio was 41.0 percent compared to debt of \$490 million and a debt-to-capital-ratio of 43.4 percent at December 31, 1998.

The Company repurchased 124,300 of its shares during the first six months of 1999 at an average price of \$45.05 per share for a total cost of \$5.6 million. Over the same period of 1998, the Company repurchased 190,294 shares, at an average cost of \$45.77 per share for a total cost of \$8.7 million.

The Company has unsecured credit facilities totaling \$300 million, which were used as support for \$125 million of outstanding commercial paper. At June 30, 1999, the Company had \$175 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.

As of June 30, 1999, the Company has identified potential Year 2000 problems with its internal systems (hardware, software, and process control devices) and completed most of the necessary corrective actions. Minor efforts remaining for full compliance will be completed in the third quarter of 1999. Outside advisors have assisted in planning and monitoring this effort. The evaluation

of external suppliers has been completed and contingency plans for critical suppliers that are not Year 2000 compliant are being developed. These contingency plans will also be completed before the end of the third quarter of 1999.

The total amount expended on the Year 2000 Project through the first half of 1999 was approximately \$3 million and the Company estimates that future costs could range up to \$1 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 identified its hypercritical systems, the failure of which could constitute a worst case scenario, and is finalizing contingency plans to deal with any Year 2000 related failures.

#### SAFE HARBOR

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: failure of one or more conditions to closing the acquisition of the Smurfit-Stone timberlands to be satisfied; failure to realize operational efficiencies; 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; adverse weather conditions in the Company's operating areas; the possibility of forest fires; 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<br>Ended June 30, |       | Six Months<br>Ended June 30, |        |
|---|--------------------------------|-------|------------------------------|--------|
|   | 1999                           | 1998  | 1999                         | 1998   |
| <b>TIMBER AND WOOD PRODUCTS</b>   |                                |       |                              |        |
| Log trading sales volume  |                                |       |                              |        |
| North America, in millions of board feet                                | 45                             | 36    | 75                           | 69     |
| New Zealand, in thousands of cubic meters                               | 319                            | 225   | 591                          | 376    |
| Other, in thousands of cubic meters                                     | 162                            | 51    | 272                          | 89     |
| Timber sales volume   |                                |       |                              |        |
| Northwest U.S., in millions of board feet                               | 67                             | 57    | 132                          | 124    |
| Southeast U.S., in thousands of short green tons                        | 598                            | 621   | 1,131                        | 1,230  |
| New Zealand, in thousands of cubic meters                               | 321                            | 244   | 591                          | 370    |
| Lumber sales volume, in millions of board feet                          | 68                             | 83(a) | 124                          | 157(a) |
| Medium-density fiberboard sales volume,<br>in thousands of cubic meters | 31                             | 24    | 58                           | 37     |
| Intercompany timber sales volume  |                                |       |                              |        |
| Northwest U.S., in millions of board feet                               | 8                              | 3     | 18                           | 5      |
| Southeast U.S., in thousands of short green tons                        | 4                              | 18    | 11                           | 50     |
| New Zealand, in thousands of cubic meters                               | 148                            | 94    | 269                          | 154    |
| <b>SPECIALTY PULP PRODUCTS</b>  |                                |       |                              |        |
| Pulp sales volume   |                                |       |                              |        |
| Chemical cellulose, in thousands of metric tons                         | 81                             | 86    | 155                          | 163    |
| Fluff and specialty paper pulp, in thousands of metric tons             | 69                             | 89    | 146                          | 175    |
| Production as a percent of capacity                                     | 87.0%                          | 98.7% | 94.0%                        | 98.6%  |

(a) Includes sales for the three months and six months ended June 30, 1998 of 20 and 37, respectively, by the Plummer, ID lumber mill, which closed in July 1998 after fire damaged the facility.

12  
 SELECTED SUPPLEMENTAL FINANCIAL DATA (thousands of dollars, except per share  
 data)

|                                     | Three Months<br>Ended June 30, |            | Six Months<br>Ended June 30, |             |
|-------------------------------------|--------------------------------|------------|------------------------------|-------------|
|                                     | 1999                           | 1998       | 1999                         | 1998        |
| <b>GEOGRAPHICAL DATA (NON-U.S.)</b> |                                |            |                              |             |
| Sales                               |                                |            |                              |             |
| New Zealand                         | \$ 21,521                      | \$ 16,545  | \$ 39,805                    | \$ 27,611   |
| Other                               | 11,101                         | 4,977      | 21,083                       | 8,113       |
| Total                               | \$ 32,622                      | \$ 21,522  | \$ 60,888                    | \$ 35,724   |
| Operating Income                    |                                |            |                              |             |
| New Zealand                         | \$ (1,068)                     | \$ (3,222) | \$ (2,703)                   | \$ (8,502)  |
| Other                               | 38                             | (918)      | (268)                        | (2,167)     |
| Total                               | \$ (1,030)                     | \$ (4,140) | \$ (2,971)                   | \$ (10,669) |
| <b>FOREST RESOURCES</b>             |                                |            |                              |             |
| Sales                               |                                |            |                              |             |
| Northwest U.S.                      | \$ 23,716                      | \$ 20,589  | \$ 47,582                    | \$ 47,423   |
| Southeast U.S.                      | 14,754                         | 23,555     | 31,696                       | 45,135      |
| New Zealand                         | 7,430                          | 5,878      | 12,792                       | 9,334       |
| Total                               | \$ 45,900                      | \$ 50,022  | \$ 92,070                    | \$ 101,892  |
| Operating Income                    |                                |            |                              |             |
| Northwest U.S.                      | \$ 18,704                      | \$ 14,493  | \$ 37,270                    | \$ 35,475   |
| Southeast U.S.                      | 10,532                         | 17,965     | 22,995                       | 34,342      |
| New Zealand                         | 2,467                          | 2,446      | 3,465                        | 3,101       |
| Total                               | \$ 31,703                      | \$ 34,904  | \$ 63,730                    | \$ 72,918   |
| EBITDA per Share                    |                                |            |                              |             |
| Northwest U.S.                      | \$ 0.70                        | \$ 0.55    | \$ 1.39                      | \$ 1.30     |
| Southeast U.S.                      | 0.46                           | 0.73       | 0.99                         | 1.37        |
| New Zealand                         | 0.21                           | 0.18       | 0.35                         | 0.26        |
| Total                               | \$ 1.37                        | \$ 1.46    | \$ 2.73                      | \$ 2.93     |

## 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. This motion was denied on May 11, 1999.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Annual Meeting of Shareholders of the Company was held on May 21, 1999. At that meeting, three directors were elected as follows (there were no broker non-votes with respect to the election of directors):

|   | Votes For<br>----- | Votes Withheld<br>----- |
|---|--------------------|-------------------------|
| Director of Class II, Term Expires in 2002: |                    |                         |
| Paul G. Kirk, Jr                            | 23,112,469         | 111,779                 |
| Carl S. Sloane                              | 23,115,384         | 108,864                 |
| Gordon I. Ulmer                             | 23,112,476         | 111,772                 |

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) See Exhibit Index.
- (b) Rayonier Inc. filed a current report on Form 8-K on July 29, 1999, including a press release issued on that date.

## 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 GEORGE C. KAY  
-----  
George C. Kay  
Vice President and  
Corporate Controller  
(Chief Accounting Officer)

August 13, 1999

## EXHIBIT INDEX

## EXHIBIT INDEX

| EXHIBIT NO.<br>----- | DESCRIPTION<br>-----  | LOCATION<br>-----   |
|----------------------|---|---|
| 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)

|   | Six Months<br>Ended June 30, |          |
|---|------------------------------|----------|
|   | 1999                         | 1998     |
| Earnings:   |                              |          |
| Net Income  | \$32,207                     | \$36,636 |
| Add:  |                              |          |
| Income Taxes  | 16,082                       | 16,206   |
| Amortization of Capitalized Interest                    | 1,184                        | 1,122    |
| Additions to Net Income                                 | 17,266                       | 17,328   |
| Adjustments to Earnings for Fixed Charges:              |                              |          |
| Interest and Other Financial Charges                    | 15,387                       | 16,984   |
| Interest Factor Attributable to Rentals                 | 875                          | 987      |
| Adjustments for Fixed Charges                           | 16,262                       | 17,971   |
| EARNINGS AS ADJUSTED                                    | \$65,735                     | \$71,935 |
| Fixed Charges:  |                              |          |
| Fixed Charges above Capitalized Interest                | \$16,262                     | \$17,971 |
| Capitalized Interest                                    | 150                          | 194      |
| TOTAL FIXED CHARGES                                     | \$16,412                     | \$18,165 |
| RATIO OF EARNINGS AS ADJUSTED TO<br>TOTAL FIXED CHARGES | 4.01                         | 3.96     |

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1,000

6-MOS

|           |             |           |
|-----------|-------------|-----------|
|           | DEC-31-1999 |           |
|           | JAN-01-1999 |           |
|           | JUN-30-1999 |           |
|           |             | 5,717     |
|           |             | 0         |
|           | 113,195     |           |
|           | 4,863       |           |
|           | 107,890     |           |
|           | 280,573     |           |
|           |             | 1,327,668 |
|           | 646,723     |           |
|           | 1,588,857   |           |
| 184,336   |             | 446,404   |
|           | 0           |           |
|           |             | 0         |
|           |             | 76,958    |
| 1,588,857 |             | 574,361   |
|           |             | 484,419   |
|           | 484,419     |           |
|           |             | 403,879   |
|           | 403,879     |           |
|           | 16,864      |           |
|           | 0           |           |
|           | 15,387      |           |
|           | 48,289      |           |
|           | 16,082      |           |
| 32,207    |             |           |
|           | 0           |           |
|           | 0           |           |
|           |             | 0         |
|           | 32,207      |           |
|           | 1.16        |           |
|           | 1.14        |           |