RAYONIER INC
Form 10-Q
October 31, 2013

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 September 30, 2013
OR

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

For the transition period from to

Commission File Number 1-6780
RAYONIER INC.
Incorporated in the State of North Carolina
I.R.S. Employer Identification No. 13-2607329
1301 RIVERPLACE BOULEVARD
JACKSONVILLE, FL 32207
(Principal Executive Office)
Telephone Number: (904) 357-9100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES x NO o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES x NO o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o NO x

As of October 23, 2013, there were outstanding 126,255,949 Common Shares of the registrant.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
SALES	$384,784	$386,163	$1,187,580	$1,070,830
Costs and Expenses				
Cost of sales	287,150	259,201	850,866	738,480
Selling and general expenses	15,326	15,476	48,354	50,633
Other operating (income) expense, net	(1,341)	306	(4,553)	(6,128)
	301,135	274,983	894,667	782,985
Equity in income of New Zealand joint venture	—	66	562	249
OPERATING INCOME BEFORE GAIN ON CONSOLIDATION OF NEW ZEALAND JOINT VENTURE	83,649	111,246	293,475	288,094
Gain related to consolidation of New Zealand joint venture (Note 6)	—	—	16,098	—
OPERATING INCOME	83,649	111,246	309,573	288,094
Interest expense	(13,031)	(8,253)	(30,768)	(36,133)
Interest and miscellaneous (expense) income, net	(746)	234	1,911	294
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	69,872	103,227	280,716	252,255
Income tax expense	(11,505)	(23,949)	(31,200)	(54,287)
INCOME FROM CONTINUING OPERATIONS	58,367	79,278	249,516	197,968
DISCONTINUED OPERATIONS, NET (Note 2)				
Income from discontinued operations, net of income tax expense of $0, $646, $22,273 and $2,573	—	1,282	44,477	5,108
NET INCOME	58,367	80,560	293,993	203,076
Less: Net income attributable to noncontrolling interest	1,022	—	1,749	—
NET INCOME ATTRIBUTABLE TO RAYONIER INC.	57,345	80,560	292,244	203,076
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign currency translation adjustment	24,259	5,373	(2,967)	3,115
New Zealand joint venture cash flow hedges	3,433	878	4,209	86
Amortization of pension and postretirement plans, net of income tax expense of $1,579, $1,482, $5,403 and $4,332	3,639	3,401	12,326	9,943
Total other comprehensive income	31,331	9,652	13,568	13,144
COMPREHENSIVE INCOME	89,698	90,212	307,561	216,220
Less: Comprehensive income (loss) attributable to noncontrolling interest	8,594	—	(909)	—
COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.	$81,104	$90,212	$308,470	$216,220
EARNINGS PER COMMON SHARE (Note 3)				

BASIC EARNINGS PER SHARE ATTRIBUTABLE TO RAYONIER INC.				
Continuing Operations	$0.45	$0.65	$1.97	$1.62
Discontinued Operations	—	0.01	0.36	0.04
Net Income	$0.45	$0.66	$2.33	$1.66
DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO RAYONIER INC.				
Continuing Operations	$0.44	$0.61	$1.89	$1.54
Discontinued Operations	—	0.01	0.34	0.04
Net Income	$0.44	$0.62	$2.23	$1.58

See Notes to Consolidated Financial Statements.

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

	September 30, 2013	December 31, 2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$260,738	$280,596
Accounts receivable, less allowance for doubtful accounts of $595 and $417	124,360	100,359
Inventory		
Finished goods	115,635	103,568
Work in progress	3,304	4,446
Raw materials	12,823	17,602
Manufacturing and maintenance supplies	2,223	2,350
Total inventory	133,985	127,966
Deferred tax assets	62,914	15,845
Prepaid and other current assets	59,184	41,508
Total current assets	641,181	566,274
TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION	2,103,503	1,573,309
PROPERTY, PLANT AND EQUIPMENT		
Land	23,168	27,383
Buildings	184,933	147,445
Machinery and equipment	1,761,590	1,444,012
Construction in progress	17,157	268,459
Total property, plant and equipment, gross	1,986,848	1,887,299
Less — accumulated depreciation	(1,118,416)	(1,180,261)
Total property, plant and equipment, net	868,432	707,038
INVESTMENT IN JOINT VENTURE (Note 6)	—	72,419
OTHER ASSETS	205,004	203,911
TOTAL ASSETS	$3,818,120	$3,122,951
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$98,970	$70,381
Current maturities of long-term debt	10,000	150,000
Accrued taxes	20,146	13,824
Accrued payroll and benefits	26,484	28,068
Accrued interest	13,854	7,956
Accrued customer incentives	10,771	10,849
Other current liabilities	51,191	18,640
Current liabilities for dispositions and discontinued operations (Note 13)	8,446	8,105
Total current liabilities	239,862	307,823
LONG-TERM DEBT	1,646,337	1,120,052
NON-CURRENT LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS (Note 13)	67,125	73,590
PENSION AND OTHER POSTRETIREMENT BENEFITS (Note 15)	158,663	159,582
OTHER NON-CURRENT LIABILITIES	21,254	23,900
COMMITMENTS AND CONTINGENCIES (Notes 11, 12 and 14)		

SHAREHOLDERS’ EQUITY		
Common Shares, 480,000,000 shares authorized, 126,224,421 and 123,332,444 shares issued and outstanding	687,357	670,749
Retained earnings	995,249	876,634
Accumulated other comprehensive loss	(93,153)	(109,379)
TOTAL RAYONIER INC. SHAREHOLDERS’ EQUITY	1,589,453	1,438,004
Noncontrolling interest	95,426	—
TOTAL SHAREHOLDERS’ EQUITY	1,684,879	1,438,004
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$3,818,120	$3,122,951

See Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30, 2013	2012
OPERATING ACTIVITIES		
Net income	$293,993	$203,076
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, depletion and amortization	132,810	100,130
Non-cash cost of real estate sold	4,349	3,005
Stock-based incentive compensation expense	8,993	12,212
Amortization of debt discount/premium	887	5,367
Deferred income taxes	42,832	(6,028)
Tax benefit of AFMC for CBPC exchange	(18,761)	(11,660)
Non-cash adjustments to unrecognized tax benefit liability	3,966	—
Amortization of losses from pension and postretirement plans	16,835	14,275
Gain on sale of discontinued operations, net	(42,670)	—
Gain related to consolidation of New Zealand joint venture	(16,098)	—
Loss on early redemption of exchangeable notes	3,017	—
Other	(8,538)	(332)
Changes in operating assets and liabilities:		
Receivables	(18,710)	(14,169)
Inventories	(9,040)	(646)
Accounts payable	13,712	(13,326)
Income tax receivable/payable	(2,482)	52,189
All other operating activities	5,863	16,416
Payment to exchange AFMC for CBPC	(70,311)	—
Expenditures for dispositions and discontinued operations	(6,411)	(6,867)
CASH PROVIDED BY OPERATING ACTIVITIES	334,236	353,642
INVESTING ACTIVITIES		
Capital expenditures	(122,482)	(112,015)
Purchase of additional interest in New Zealand joint venture	(139,879)	—
Purchase of timberlands	(11,650)	(11,632)
Jesup mill cellulose specialties expansion (gross purchases of $140,820 and $130,718, net of purchases on account of $3,428 and $25,936)	(137,392)	(104,782)
Proceeds from disposition of Wood Products business, net of income tax payments of $16,027	68,063	—
Change in restricted cash	3,989	(12,796)
Other	159	4,281
CASH USED FOR INVESTING ACTIVITIES	(339,192)	(236,944)
FINANCING ACTIVITIES		
Issuance of debt	607,885	355,000
Repayment of debt	(453,463)	(198,653)
Dividends paid	(175,079)	(152,358)
Proceeds from the issuance of common shares	9,205	20,732
Excess tax benefits on stock-based compensation	8,189	7,057
Debt issuance costs	—	(3,698)

Repurchase of common shares	(11,303)	(7,783)
CASH (USED FOR) PROVIDED BY FINANCING ACTIVITIES	(14,566)	20,297
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(336)	(123)
CASH AND CASH EQUIVALENTS		
Change in cash and cash equivalents	(19,858)	136,872
Balance, beginning of year	280,596	78,603
Balance, end of period	$260,738	$215,475
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period:		
Interest	$26,930	$18,239
Income taxes	$88,024	$14,912
Non-cash investing activity:		
Capital assets purchased on account	$29,738	$52,727
Non-cash financing activity:		
Shareholder debt assumed in acquisition of New Zealand joint venture	$125,532	$—
Conversion of shareholder debt to equity noncontrolling interest	$(95,961)	$—
Partial conversion of Senior Exchangeable Notes to equity	$1,497	$—

See Notes to Consolidated Financial Statements.

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

1. BASIS OF PRESENTATION

Basis of Presentation

The unaudited consolidated financial statements and notes thereto of Rayonier Inc. and its subsidiaries ("Rayonier" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). In the opinion of management, these financial statements and notes reflect all adjustments (all of which are normal recurring adjustments) necessary for a fair presentation of the results of operations, financial position and cash flows for the periods presented. These statements and notes should be read in conjunction with the financial statements and supplementary data included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012, as filed with the SEC.

Reclassifications

Certain 2012 amounts have been reclassified to agree with the current year presentation. See Note 2 — Sale of Wood Products Business for information regarding reclassifications for discontinued operations.

New Accounting Standards

In December 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-11, Disclosures about Offsetting Assets and Liabilities. The standard requires enhanced disclosures about assets and liabilities that are subject to a master netting agreement or when the right of offset exists. In January 2013, the FASB issued ASU No. 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. This pronouncement limits the scope of ASU No. 2011-1. The standards' disclosure requirements are retrospective and were effective beginning in first quarter 2013. See Note 9 — Derivative Financial Instruments and Hedging Activities for the disclosures required under this guidance.

In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This standard requires reporting, in one place, information about reclassifications out of AOCI by component. An entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount is reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified to net income in their entirety, an entity is required to cross-reference to other currently required disclosures that provide additional detail about those amounts. The information required by this standard must be presented in one place, either parenthetically on the face of the financial statements by income statement line item or in a note. See Note 17 — Accumulated Other Comprehensive Loss for the disclosures required under this guidance.

In March 2013, the FASB issued ASU No. 2013-05, Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. This standard requires a parent entity to release a related foreign entity's cumulative translation adjustment into net income only if its sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The cumulative translation adjustment should be released into net income if the transaction results in the loss of a controlling financial interest in a foreign entity or results in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date. ASU No. 2013-05 will be effective for first quarter 2014. The Company does not expect that the adoption of this standard will have a material impact on the consolidated financial statements.

Subsequent Events

The Company evaluated events and transactions that occurred after the balance sheet date but before financial statements were issued, and one subsequent event was identified that warranted disclosure. See Note 16 — Debt for additional information.

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

2. SALE OF WOOD PRODUCTS BUSINESS

On March 1, 2013, Rayonier completed the sale of its Wood Products business (consisting of three lumber mills in Baxley, Swainsboro and Eatonton, Georgia) to International Forest Products Limited ("Interfor") for $80 million plus a working capital adjustment. The sale is consistent with the Company's strategic plan to fully position its manufacturing operations in the specialty chemicals sector. Rayonier will not have significant continuing involvement in the operations of the Wood Products business. Accordingly, the operating results of the Wood Products business, formerly reported as a separate operating segment, are classified as discontinued operations in the Company's Consolidated Statements of Income and Comprehensive Income for all periods presented. Certain administrative and general costs historically allocated to the Wood Products segment, which will remain with the Company after the sale, are reported in continuing operations.

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

The following table summarizes the operating results of the Company's discontinued operations and the related gain for the three and nine months ended September 30, 2013 and 2012, as presented in "Income from discontinued operations, net" in the Consolidated Statements of Income and Comprehensive Income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Sales	$—	$22,825	$16,968	$65,865
Cost of sales and other	—	(20,897)	(14,258)	(58,184)
Gain on sale of discontinued operations	—	—	64,040	—
Income from discontinued operations before income taxes	—	1,928	66,750	7,681
Income tax expense	—	(646)	(22,273)	(2,573)
Income from discontinued operations, net	$—	$1,282	$44,477	$5,108

The sale did not meet the "held for sale" criteria prior to the period it was completed. The major classes of Wood Products assets and liabilities included in the sale were as follows:

	March 1, 2013
Accounts receivable, net	$4,127
Inventory	4,270
Prepaid and other current assets	2,053
Property, plant and equipment, net	9,990
Total assets	$20,440
Total liabilities	$596

Cash flows from discontinued operations are immaterial both individually and in the aggregate. As such, they are included with cash flows from continuing operations in the Consolidated Statements of Cash Flows.

Pursuant to the purchase and sale agreement, Rayonier will provide Interfor with saw timber procurement services for the three lumber mills through December 31, 2013. Rayonier also contracted with Interfor to purchase wood chips produced at the lumber mills for use at Rayonier's Jesup mill and market other wood chips produced by the mills to third parties on Interfor's behalf. The Company will purchase 100 percent of the Baxley mill chips for five years and 25 percent of the Swainsboro mill chips through 2013. The purchase price of these chips will be based on the average price paid by the Company to unrelated third parties.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(Dollar amounts in thousands unless otherwise stated)

Prior to the Wood Products sale, saw timber procurement services for and wood chip purchases from the lumber mills were intercompany transactions eliminated in consolidation as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Wood chip purchases	$—	$3,270	$1,650	$9,507
Saw timber procurement services	—	282	223	856
Total intercompany	$—	$3,552	$1,873	$10,363

3. EARNINGS PER COMMON SHARE

The following table provides details of the calculations of basic and diluted earnings per common share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Income from continuing operations	$58,367	$79,278	$249,516	$197,968
Less: Income from continuing operations attributable to noncontrolling interest	1,022	—	1,749	—
Income from continuing operations attributable to Rayonier Inc.	$57,345	$79,278	$247,767	$197,968
Income from discontinued operations attributable to Rayonier Inc.	$—	$1,282	$44,477	$5,108
Net income attributable to Rayonier Inc.	$57,345	$80,560	$292,244	$203,076
Shares used for determining basic earnings per common share	126,122,151	122,848,705	125,549,133	122,552,910
Dilutive effect of:				
Stock options	468,286	603,761	501,324	667,960
Performance and restricted shares	546,247	755,884	518,138	735,653
Assumed conversion of Senior Exchangeable Notes (a)	2,168,254	3,683,936	2,176,414	3,148,423
Assumed conversion of warrants (a) (b)	1,608,466	2,067,380	2,043,965	1,443,606
Shares used for determining diluted earnings per common share	130,913,404	129,959,666	130,788,974	128,548,552
Basic earnings per common share attributable to Rayonier Inc.:				
Continuing operations	$0.45	$0.65	$1.97	$1.62
Discontinued operations	—	0.01	0.36	0.04
Net income	$0.45	$0.66	$2.33	$1.66
Diluted earnings per common share attributable to Rayonier Inc.:				
Continuing operations	$0.44	$0.61	$1.89	$1.54
Discontinued operations	—	0.01	0.34	0.04
Net income	$0.44	$0.62	$2.23	$1.58

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Anti-dilutive shares excluded from the computations of diluted earnings per share:				
Stock options, performance and restricted shares	101,884	123,217	167,487	261,759
Assumed conversion of exchangeable note hedges (a)	2,168,254	3,683,936	2,176,414	3,148,423
Total	2,270,138	3,807,153	2,343,901	3,410,182

(a) The Senior Exchangeable Notes due 2012 (the "2012 Notes") matured in October 2012 and $31.5 million of the Senior Exchangeable Notes due 2015 (the "2015 Notes") were redeemed by the noteholders in September 2013; however, no additional shares were issued due to offsetting exchangeable note hedges. Similarly, Rayonier will not issue additional shares upon future exchange or maturity of the 2015 Notes due to offsetting hedges. Accounting Standards Codification 260, Earnings Per Share requires the assumed conversion of the Notes to be included in dilutive shares if the average stock price for the period exceeds the strike prices, while the assumed conversion of the hedges is excluded since they are anti-dilutive. As such, the dilutive effect of the assumed conversion of the 2012 Notes was included for the three and nine months ended September 30, 2012. The full dilutive effect of the 2015 Notes was included for the three and nine months ended September 30, 2012, while only a proportional amount based on the length of time the $31.5 million balance was outstanding before the exchange was included for the three and nine months ended September 30, 2013.

The warrants sold in conjunction with the 2012 Notes began maturing on January 15, 2013 and matured ratably through March 27, 2013. As a result, 2,037,303 shares were issued through the end of the first quarter and 97,918 shares were issued in the first week of April. The dilutive impact of these warrants was calculated based on the length of time they were outstanding before settlement. Rayonier will distribute additional shares upon maturity of the warrants associated with the 2015 Notes if the stock price exceeds $39.24 per share. For further information, see Note 11 — Debt in the 2012 Annual Report on Form 10-K and Note 16 — Debt of this Form 10-Q.

(b) The higher shares used for the assumed conversion of the warrants associated with the 2012 Notes in the first nine months of 2013 were primarily due to an increase in the average stock price from $45.65 in the nine months ended September 30, 2012 to $56.42, partially offset by a decrease in dilutive shares due to the maturity of the warrants. The shares used for the assumed conversion of the warrants decreased in the third quarter of 2013 as there was no dilutive impact from the warrants on the 2012 Notes.

4. INCOME TAXES

Rayonier is a real estate investment trust ("REIT"). In general, only its taxable REIT subsidiaries, whose businesses include the Company's non-REIT qualified activities and foreign operations, are subject to corporate income taxes. However, the Company was subject to U.S. federal corporate income tax on built-in gains (the excess of fair market value over tax basis for property held upon REIT election at January 1, 2004) on taxable sales of such property during calendar years 2004 through 2010. Accordingly, the provision for corporate income taxes relates principally to current and deferred taxes on taxable REIT subsidiaries' income and foreign operations.

Alternative Fuel Mixture Credit ("AFMC") and Cellulosic Biofuel Producer Credit ("CBPC")

The U.S. Internal Revenue Code allowed two credits for taxpayers that produced and used an alternative fuel in the operation of their business through December 31, 2009. The AFMC is a $.50 per gallon refundable tax credit (which is not taxable), while the CBPC is a $1.01 per gallon credit that is nonrefundable, taxable and has limitations based on an entity's tax liability. Rayonier produces and uses an alternative fuel ("black liquor") at its Jesup, Georgia and Fernandina Beach, Florida performance fibers mills, which qualified for both credits. The Company claimed the

AFMC on its original 2009 tax return.

In the first quarter of 2013 management approved the exchange of approximately 120 million gallons of black liquor for the CBPC previously claimed for the AFMC, resulting in a $18.8 million tax benefit. In the third quarter 2012, management approved the exchange of approximately 22 million gallons, bringing the total number of exchange gallons approved year-to date to 82 million for 2012. The impact of the exchanges in 2012 was $2.6 million and $11.7 million for the quarter and year-to-date periods, respectively. Third quarter 2012 results also reflect the reversal of a $3.4 million interest expense accrual based on IRS guidance stating interest payments are not required for AFMC exchanged for the CBPC, based upon the manner of the Company's original claim. For additional information on the AFMC and CBPC, see Note 8 — Income Taxes in the Company’s 2012 Annual Report.

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

Provision for Income Taxes from Continuing Operations

The Company’s effective tax rate is below the 35 percent U.S. statutory tax rate primarily due to tax benefits associated with being a REIT. The Company’s effective tax rate in 2013 was lower than 2012 primarily due to recording the additional AFMC exchange, the federal research and experimentation tax credit and a $4.9 million benefit associated with the completion of an internal transfer of properties.

The table below reconciles the U.S. statutory rate to the Company’s effective tax rate for each period presented (in millions of dollars):

	Three Months Ended September 30,			
	2013		2012	
Income tax expense at federal statutory rate	$24	35.0 %	$36	35.0 %
REIT income not subject to tax	(11)	(15.7)	(6)	(5.9)
Other	1	0.5	(2)	(2.3)
Income tax expense before discrete items	14	19.8 %	28	26.8 %
Exchange of AFMC for CBPC	—	—	(3)	(3.1)
Other	(2)	(3.3)	(1)	(0.5)
Income tax expense as reported	$12	16.5 %	$24	23.2 %

	Nine Months Ended September 30,			
	2013		2012	
Income tax expense at federal statutory rate	$98	35.0 %	$88	35.0 %
REIT income not subject to tax	(37)	(13.2)	(18)	(7.2)
Other	(1)	(0.5)	(3)	(1.3)
Income tax expense before discrete items	60	21.3 %	67	26.5 %
Exchange of AFMC for CBPC	(19)	(6.7)	(12)	(4.6)
Gain related to consolidation of New Zealand joint venture	(5)	(2.0)	—	—
Other	(5)	(1.5)	(1)	(0.4)
Income tax expense as reported	$31	11.1 %	$54	21.5 %

Provision for Income Taxes from Discontinued Operations

In the first quarter, Rayonier completed the sale of its Wood Products business for $80 million plus a working capital adjustment. For the nine months ended September 30, 2013 and 2012, income tax expense related to discontinued operations was $22.3 million ($21.4 million from the gain on sale) and $2.6 million, respectively. For the three months ended September 30, 2012, income tax related to discontinued operations was $0.6 million. See Note 2 — Sale of Wood Products Business for additional information.

Unrecognized Tax Benefits

In accordance with generally accepted accounting principles, the Company recognizes the impact of a tax position if a position is “more likely than not” to prevail. During third quarter 2013, the Company filed an amended 2009 federal income tax return reflecting an increased domestic production deduction due to the inclusion of the CBPC income. As required, the Company recorded a $4.8 million liability related to this uncertain tax position.

5. RESTRICTED DEPOSITS

In order to qualify for like-kind exchange (“LKE”) treatment, the proceeds from real estate sales must be deposited with a third-party intermediary. These proceeds are accounted for as restricted cash until a suitable replacement property is acquired. In the event LKE purchases are not completed, the proceeds are returned to the Company after 180 days and reclassified as available cash. As of September 30, 2013 and December 31, 2012, the Company had $6.6 million and

$10.6 million, respectively, of proceeds from real estate sales classified as restricted cash in Other Assets, which were deposited with an LKE intermediary.

6. JOINT VENTURE INVESTMENT

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

The purchase price of the additional interest in the New Zealand JV was $139.9 million, which included $3.3 million of contingent consideration and was financed through our term credit agreement. As the purchase price was in New Zealand dollars, the Company purchased foreign currency forward contracts to mitigate foreign currency risk on the purchase price. As a result, the Company recorded a benefit of $1.7 million and received that amount upon maturity of the contracts on April 2, 2013.

The contingent consideration arrangement required the Company to pay additional consideration to the New Zealand JV's selling (former) shareholders equal to a multiple of the increase in log prices for a six month period beginning in November 2012. We estimated the fair value of the contingent consideration arrangement at the acquisition date to be $3.3 million. Fair value was determined using an average of the cost and freight (CFR) selling price of China A-grade 3.8 meter logs. In the second quarter of 2013, the contingent consideration was determined and paid in the amount of $3.3 million.

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

We have applied estimates and judgments in order to determine the fair value of assets acquired and liabilities assumed at the acquisition date. In determining fair value we utilized valuation methodologies including discounted cash flow analysis. The assumptions made in performing these valuations include assumptions as to discount rates, foreign exchange rates, and commodity prices. Any significant change in key assumptions may cause the acquisition accounting to be revised.

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The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the acquisition date:

	April 4, 2013
Accounts receivable, net	$9,777
Inventory	2,465
Other current assets	6,767
Timber and timberlands, net	545,287
Other assets	25,436
Total identifiable assets acquired	589,732
Accounts payable	11,679
Current maturities of long-term debt	3,843
Accrued interest	2,038
Other current liabilities	3,624
Long-term debt (third party)	196,319
Long-term debt (shareholders) (a)	125,532
Other non-current liabilities	13,565
Total liabilities assumed	356,600
Net identifiable assets	233,132
Less: Fair value of equity method investment	(93,253)
Purchase price	$139,879

(a) Long-term debt included $125.5 million of shareholder loans payable to the noncontrolling interest by the New Zealand JV. Subsequent to the acquisition date, $96.0 million of the noncontrolling interest's shareholder loans were converted to preferred equity.

The Company's operating results for the nine months ended September 30, 2013 reflect 26 percent of the New Zealand JV's income prior to the acquisition date, as reported in "Equity in income of New Zealand joint venture" in the Consolidated Statements of Income and Comprehensive Income. The amounts of revenue and earnings of the New Zealand JV included in the Company's Consolidated Statements of Income and Comprehensive Income from the acquisition date to the period ended September 30, 2013 are as follows:

	Revenue and earnings from April 4, 2013 to September 30, 2013
Sales	$98,717
Net Income	4,997

The following represents the pro forma consolidated sales and net income for the 2013 and 2012 third quarter and year-to-date periods as if the additional interest in the New Zealand JV had been acquired on January 1, 2012.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Sales	$384,784	$437,881	$1,222,106	$1,216,691
Net Income	$58,367	$78,598	$292,234	$197,330

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7. SHAREHOLDERS' EQUITY

An analysis of shareholders' equity for the nine months ended September 30, 2013 and the year ended December 31, 2012 is shown below (share amounts not in thousands):

	Rayonier Inc. Shareholders					
	Common Shares			Accumulated Other Comprehensive Income/(Loss)		
	Shares	Amount	Retained Earnings		Non-controlling Interest	Total Shareholders' Equity
Balance, December 31, 2011	122,035,177	$630,286	$806,235	$(113,448)	$ —	$1,323,073
Net income	—	—	278,685	—	—	278,685
Dividends ($1.68 per share)	—	—	(208,286)	—	—	(208,286)
Issuance of shares under incentive stock plans	1,467,024	25,495	—	—	—	25,495
Stock-based compensation	—	15,116	—	—	—	15,116
Excess tax benefit on stock-based compensation	—	7,635	—	—	—	7,635
Repurchase of common shares	(169,757)	(7,783)	—	—	—	(7,783)
Net loss from pension and postretirement plans	—	—	—	(496)	—	(496)
Foreign currency translation adjustment	—	—	—	4,352	—	4,352
Joint venture cash flow hedges	—	—	—	213	—	213
Balance, December 31, 2012	123,332,444	$670,749	$876,634	$(109,379)	$ —	$1,438,004
Acquisition of noncontrolling interest	—	—	—	—	96,335	96,335
Net income	—	—	292,244	—	1,749	293,993
Dividends ($1.37 per share)	—	—	(173,629)	—	—	(173,629)
Issuance of shares under incentive stock plans	967,566	9,205	—	—	—	9,205
Stock-based compensation	—	9,020	—	—	—	9,020
Excess tax benefit on stock-based compensation	—	8,189	—	—	—	8,189
Repurchase of common shares	(210,810)	(11,303)	—	—	—	(11,303)
Equity portion of convertible debt (Note 16)	—	1,497	—	—	—	1,497
Settlement of warrants (Note 16)	2,135,221	—	—	—	—	—
Amortization of pension and postretirement plans	—	—	—	12,326	—	12,326
Foreign currency translation adjustment	—	—	—	237	(3,204)	(2,967)
Joint venture cash flow hedges	—	—	—	3,663	546	4,209
Balance, September 30, 2013	126,224,421	$687,357	$995,249	$(93,153)	$ 95,426	$1,684,879

8. SEGMENT AND GEOGRAPHICAL INFORMATION

Rayonier operates in three reportable business segments: Forest Resources, Real Estate and Performance Fibers. Prior to the first quarter of 2013, the Company operated in four reportable business segments, which included Wood Products. In March 2013, the Company sold its Wood Products business and its operations are shown as discontinued operations for all periods presented. See Note 2 — Sale of Wood Products Business for additional information. On April 4, 2013, Rayonier acquired an additional 39 percent interest in the New Zealand JV, bringing its total ownership to 65 percent. As a result, 100 percent of the New Zealand JV's results of operations have been consolidated and included within the Forest Resources segment since April 4, when the Company acquired control of the entity. Accordingly, the New Zealand JV's assets and liabilities are fully consolidated at September 30, 2013. See Note 6 — Joint Venture Investment for further information regarding the Company's joint venture.

Forest Resources sales include all activities related to the harvesting of timber. Real Estate sales include all property sales, including those designated for higher and better use ("HBU"). The assets of the Real Estate segment include HBU property held by the Company's real estate subsidiary, TerraPointe LLC.

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The Performance Fibers segment included two major product lines, cellulose specialties and absorbent materials. Beginning in the third quarter of 2013 and in conjunction with the completion of the cellulose specialties expansion ("CSE") project, the Company's Jesup mill discontinued producing absorbent material and began producing commodity viscose during the multi-year transition to higher cellulose specialties volume. Commodity viscose is a dissolving wood pulp used primarily in the manufacture of textiles. Commodity Viscose/Other includes commodity viscose and off-grade.

The Company's remaining operations include harvesting and selling timber acquired from third parties (log trading). These operations are reported in "Other Operations." Sales between operating segments are made based on estimated fair market value, and intercompany sales, purchases and profits (losses) are eliminated in consolidation. The Company evaluates financial performance based on the operating income of the segments.

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

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

ASSETS	September 30, 2013	December 31, 2012
Forest Resources	$2,216,727	$1,690,030
Real Estate	88,002	112,647
Performance Fibers	1,122,779	902,309
Wood Products (a)	—	18,454
Other Operations	29,056	23,296
Corporate and other	361,556	376,215
Total	$3,818,120	$3,122,951

(a) The Company sold its Wood Products segment during the first quarter of 2013. See Note 2 — Sale of Wood Products Business for additional information.

	Three Months Ended September 30,		Nine Months Ended September 30,	
SALES	2013	2012	2013	2012
Forest Resources	$111,260	$59,853	$277,422	$164,711
Real Estate	14,088	13,043	51,761	37,369
Performance Fibers	224,243	288,221	761,456	793,586
Other Operations	35,295	26,293	97,394	76,702
Intersegment Eliminations	(102)	(1,247)	(453)	(1,538)
Total	$384,784	$386,163	$1,187,580	$1,070,830

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	Three Months Ended September 30,		Nine Months Ended September 30,	
OPERATING INCOME(LOSS)	2013	2012	2013	2012
Forest Resources	$23,172	$11,184	$57,317	$27,438
Real Estate	7,521	8,420	30,468	20,897
Performance Fibers	62,663	101,455	233,415	265,812
Other Operations	(301)	(419)	1,643	(201)
Corporate and other (c)	(9,406)	(9,394)	(13,270)	(25,852)
Total	$83,649	$111,246	$309,573	$288,094

(c) The nine months ended September 30, 2013 includes a $16.1 million gain related to the consolidation of the New Zealand JV. See Note 6 — Joint Venture Investment.

	Three Months Ended September 30,		Nine Months Ended September 30,	
DEPRECIATION, DEPLETION AND AMORTIZATION	2013	2012	2013	2012
Forest Resources	$28,475	$18,793	$72,210	$52,662
Real Estate	2,074	1,288	8,720	4,733
Performance Fibers	22,340	15,077	51,142	41,577
Corporate and other	262	368	738	1,158
Total	$53,151	$35,526	$132,810	$100,130

9. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

Accounting for derivative financial instruments is governed by 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 income (“AOCI”) and reclassified into earnings when the hedged transaction materializes. The ineffective portion of any hedge as well as changes in the fair value of derivatives not designated as hedging instruments and those which are no longer effective as hedging instruments, are recognized immediately in earnings.

Foreign Currency Exchange and Option Contracts

The functional currency of the Company’s New Zealand-based operations and New Zealand JV is the New Zealand dollar. These operations are exposed to foreign currency risk on export sales and ocean freight payments which are predominately denominated in US dollars. The Company typically hedges at least 70 percent of its estimated foreign currency exposure with respect to the following three months forecasted sales and purchases and 50 percent of the forward twelve months.

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

Interest Rate Swaps

The Company uses interest rate swaps to manage the New Zealand JV’s exposure to interest rate movements on its variable rate debt attributable to changes in the New Zealand Bank bill rate. By converting a portion of these borrowings from floating rates to fixed rates the Company has reduced the impact of interest rate changes on its expected future cash outflows. As of September 30, 2013, the Company’s interest rate contracts had maturity dates through January 2020.

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Fuel Hedge Contracts

The Company uses fuel swap contracts to manage its New Zealand JV's exposure to changes in New Zealand's domestic diesel prices. The fuel swaps are quoted by domestic banks in New Zealand dollar price terms. As of September 30, 2013 all of the contracts had maturities of less than one year. The fair value of the fuel swap contracts is determined by a mark-to-market valuation which estimates fair value by discounting the difference between the contracted forward price and the current forward price for the residual maturity of the contract.

The following table demonstrates the impact of the Company's derivatives on the Consolidated Statements of Income and Comprehensive Income for the third quarter and nine months ended September 30, 2013:

	Income Statement Location	September 30, 2013 Three Months Ended	Nine Months Ended
Derivatives designated as cash flow hedges:			
Foreign currency exchange contracts	Other comprehensive income (loss)	$2,602	$1,093
	Other operating income (expense)	(619)	(619)
Foreign currency option contracts	Other comprehensive income (loss)	832	468
Derivatives not designated as hedging instruments:			
Foreign currency exchange contracts	Other operating income (expense)	360	1,786
Foreign currency option contracts	Other operating income (expense)	480	(1,011)
Interest rate swaps	Interest and other miscellaneous income	2,079	4,729
Fuel hedges	Cost of sales - benefit	(162)	(14)

During the next 12 months, the amount of the September 30, 2013 AOCI balance, net of tax, expected to be reclassified into earnings as a result of the maturation of the Company's derivative instruments is a loss of approximately $1.5 million.

The following table contains the notional amounts of the derivative financial instruments recorded in the Consolidated Balance Sheets at September 30, 2013:

	September 30, 2013 Notional Amount (a)
Derivatives designated as cash flow hedges:	
Foreign currency exchange contracts	$23,500
Foreign currency option contracts	32,000
Derivatives not designated as hedging instruments:	
Foreign currency exchange contracts	$8,650
Foreign currency option contracts	16,000
Interest rate swaps	185,013
Fuel contracts	41

(a) All notional amounts are stated in thousands of dollars except fuel contracts which are denominated in thousands of barrels.

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The following table contains the fair values of the derivative financial instruments recorded in the Consolidated Balance Sheet at September 30, 2013:

	September 30, 2013	
	Location on Balance Sheet	Fair Value Assets (Liabilities) (a)
Derivatives designated as cash flow hedges:		
Foreign currency exchange contracts	Other current liabilities	(9)
	Other assets	1,101
Foreign currency option contracts	Other current liabilities	(286)
	Other assets	755
Derivatives not designated as hedging instruments:		
Foreign currency exchange contracts	Prepaid and other current assets	204
Foreign currency option contracts	Other current liabilities	(56)
	Other assets	200
Interest rate swaps	Other current liabilities	(2,949)
	Other non-current liabilities	(4,164)
Fuel contracts	Other current liabilities	(109)
Total derivative contracts:		
Prepaid and other current assets		204
Other assets		2,056
Total derivative assets		$2,260
Other current liabilities		(3,409)
Other non-current liabilities		(4,164)
Total derivative liabilities		$(7,573)

(a) See Note 10 — Fair Value Measurements for further information on the fair value of our derivatives including their classification within the fair value hierarchy.

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

10. FAIR VALUE MEASUREMENTS
Fair Value of Financial Instruments
The Accounting Standards Codification established a three-level hierarchy that prioritizes the inputs used to measure fair value as follows:
Level 1 — Quoted prices in active markets for identical assets or liabilities.
Level 2 — Observable inputs other than quoted prices included in Level 1.
Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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The following table presents the carrying amount, estimated fair values and categorization under the fair value hierarchy of financial instruments held by the Company at September 30, 2013 and December 31, 2012, using market information and what management believes to be appropriate valuation methodologies under generally accepted accounting principles:

	September 30, 2013			December 31, 2012		
Asset (liability)	Carrying Amount	Fair Value		Carrying Amount	Fair Value	
		Level 1	Level 2		Level 1	Level 2
Cash and cash equivalents	$260,738	$260,738	$—	$280,596	$280,596	$—
Restricted cash (a)	6,569	6,569	—	10,559	10,559	—
Current maturities of long-term debt	(10,000)	—	(16,900) (b)	(150,000)	—	(150,000)
Long-term debt	(1,646,337)	—	(1,739,813)	(1,120,052)	—	(1,250,341)
Interest rate swaps (c)	(7,113)	—	(7,113)	—	—	—
Foreign currency exchange contracts (c)	1,296	—	1,296	—	—	—
Foreign currency option contracts (c)	613	—	613	—	—	—
Fuel contracts (c)	(109)	—	(109)	—	—	—

(a) Restricted cash is recorded in “Other Assets” and represents the proceeds from LKE sales deposited with a third-party intermediary.

(b) The fair market value of current maturities of long-term-term debt represents the value of the debt and equity associated with the early redemption of a portion of the Senior Exchangeable Notes due 2015. The Company has a hedge agreement that offsets the $6.9 million equity portion of the current maturity. See Note 16 — Debt for more information regarding the exchange of the notes.

(c) See Note 9 — Derivative Financial Instruments and Hedging Activities for information regarding the Balance Sheet classification of the Company’s derivative financial instruments.

Rayonier uses the following methods and assumptions in estimating the fair value of its financial instruments:
Cash and cash equivalents and Restricted cash — The carrying amount is equal to fair market value.
Debt — The fair value of fixed rate debt is based upon quoted market prices for debt with similar terms and maturities. The variable rate debt adjusts with changes in the market rate, therefore the carrying value approximates fair value.
Interest rate swap agreements — The fair value of interest rate contracts is determined by discounting the expected future cash flows, for each instrument, at prevailing interest rates.
Foreign currency exchange contracts — The fair value of foreign currency exchange contracts is determined by a mark-to-market valuation which estimates fair value by discounting the difference between the contracted forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.
Foreign currency option contracts — The fair value of foreign currency option contracts is based on a mark-to-market calculation using the Black-Scholes option pricing model.
Fuel contracts — The fair value of diesel fuel 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.

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11. GUARANTEES

The Company provides financial guarantees as required by creditors, insurance programs, and various governmental agencies. As of September 30, 2013, the following financial guarantees were outstanding:

Financial Commitments	Maximum Potential Payment	Carrying Amount of Liability
Standby letters of credit (a)	$18,205	$15,000
Guarantees (b)	2,254	43
Surety bonds (c)	7,328	1,151
Total financial commitments	$27,787	$16,194

(a) Approximately $15 million of the standby letters of credit serve as credit support for industrial revenue bonds. The remaining letters of credit support various insurance related agreements, primarily workers’ compensation and pollution liability policy requirements. These letters of credit will expire at various dates during 2013 and 2014 and will be renewed as required.

(b) In conjunction with a timberland sale and note monetization in the first quarter of 2004, the Company issued a make-whole agreement pursuant to which it guaranteed $2.3 million of obligations of a special-purpose entity that was established to complete the monetization. At September 30, 2013, the Company has a de minimus liability to reflect the fair market value of its obligation to perform under the make-whole agreement.

(c) Rayonier issues surety bonds primarily to secure timber harvesting obligations in the State of Washington and to provide collateral for the Company’s workers’ compensation self-insurance program in that state. These surety bonds expire at various dates during 2014 and are expected to be renewed as required.

12. COMMITMENTS

As disclosed in the Company’s Annual Report on Form 10-K, Rayonier leases certain buildings, machinery and equipment under various operating leases. Rayonier’s commitments have changed primarily due to the acquisition of a controlling interest in the New Zealand JV and sale of the Wood Products business. The following table shows the increase in the Company’s commitments, as of September 30, 2013:

	Forestry Rights (a)	Forest Leases (b)	Operating Leases (c)	Purchase Obligations (d)
Remaining 2013	$474	$290	$315	2,088
2014	1,639	1,153	883	8,645
2015	1,639	1,153	612	8,345
2016	1,639	1,153	1,632	9,577
2017	1,639	1,153	2,410	8,597
Thereafter	42,642	57,799	17,789	6,005
	$49,672	$62,701	$23,641	$43,257

(a) Forestry rights grant access to the leased land for the purpose of harvesting. The majority of the New Zealand JV’s forestry rights terminate with the harvest of the land’s existing crop and require the land to be left in the cut condition upon termination.

(b) Forest leases have an average term between 30 and 99 years. Annual rent is indexed to the Consumer Price Index or current market values. A number of these leases require the land to be returned in a fully stocked condition (replanted).

(c) Operating leases include New Zealand leases on buildings, machinery and equipment under various operating leases and a Jesup mill natural gas transportation lease.

(d)

Pursuant to the Wood Products purchase and sale agreement, Rayonier contracted with Interfor to purchase wood chips produced at the lumber mills for use at Rayonier's Jesup mill. Purchase obligations include obligations under this agreement as well as payments expected to be made on derivative financial instruments held in New Zealand.

The New Zealand JV has a number of Crown Forest Licenses ("CFL") with the New Zealand government, which are excluded from the table above. The leases extend indefinitely and may only be terminated upon a 35 year termination notice from the government. If no termination notice is given, the leases renew automatically each year for a one year term. As of September 30, 2013, the New Zealand JV has three CFL's under termination notice, with one terminating in 2034 and the remaining two expiring in 2062. The annual license fee is determined based on current market value, with three yearly rent reviews. The total annual license fee on the CFL's is $2.7 million per year.

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13. LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS

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

	September 30, 2013	December 31, 2012
Balance, beginning of period	$81,695	$90,824
Expenditures charged to liabilities	(6,411)	(9,926)
Increase to liabilities	287	797
Balance, end of period	75,571	81,695
Less: Current portion	(8,446)	(8,105)
Non-current portion	$67,125	$73,590

The Company is exposed to the risk of reasonably possible additional losses in excess of the established liabilities. As of September 30, 2013, this amount could range up to $29 million, attributable to several of the applicable sites, and arises from uncertainty over the availability, feasibility and effectiveness of certain remediation technologies, additional or different contamination that may be discovered, development of new or more effective environmental remediation technologies, potential changes in applicable law and regulations, and the exercise of discretion in interpretation of applicable law and regulations by governmental agencies.

The Company believes established liabilities are sufficient for probable costs expected to be incurred over the next 20 years with respect to its dispositions and discontinued operations. Remedial actions for these sites vary, but include on-site (and in certain cases off-site) removal or treatment of contaminated soils and sediments, recovery and treatment/remediation of groundwater, and source remediation and/or control.

14. CONTINGENCIES

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

15. EMPLOYEE BENEFIT PLANS

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

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

	Pension Three Months Ended September 30,		Postretirement Three Months Ended September 30,	
	2013	2012	2013	2012
Components of Net Periodic Benefit Cost				
Service cost	$2,011	$2,102	$330	$227

Interest cost	3,953	4,321	231	242
Expected return on plan assets	(5,966)	(6,369)	—	—
Amortization of prior service cost	322	327	6	6
Amortization of losses	4,792	4,394	98	156
Net periodic benefit cost	$5,112	$4,775	$665	$631

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	Pension Nine Months Ended September 30,		Postretirement Nine Months Ended September 30,	
	2013	2012	2013	2012
Components of Net Periodic Benefit Cost				
Service cost	$6,441	$6,143	$828	$664
Interest cost	12,740	12,630	711	706
Expected return on plan assets	(19,356)	(18,618)	—	—
Amortization of prior service cost	1,032	956	19	18
Amortization of losses	15,308	12,846	533	455
Net periodic benefit cost	$16,165	$13,957	$2,091	$1,843

In 2013, the Company has no mandatory pension contribution requirements and does not expect to make any discretionary contributions.

16. DEBT

The warrants sold in conjunction with the issuance of the 3.75% Senior Exchangeable Notes due 2012 began maturing on January 15, 2013 and continued to mature through March 27, 2013. In first and second quarter 2013, 8,313,511 of warrants were settled, resulting in the issuance of 2,135,221 Rayonier common shares.

As of June 30, 2013, the $172.5 million 4.50% Senior Exchangeable Notes due 2015 became exchangeable at the option of the holders for the calendar quarter ending September 30, 2013. According to the indenture, in order for the notes to become exchangeable, the Company’s stock price must exceed 130 percent of the exchange price for 20 trading days during a period of 30 consecutive trading days as of the last day of the quarter. During the three months ended September 30, 2013, three groups of note holders elected to exercise their right to redeem $41.5 million of the notes. As of September 30, 2013, two redemptions in the amount of $31.5 million have settled. The third redemption of $10 million was settled on October 3, 2013 and classified as short-term debt at September 30, 2013. In accordance with Accounting Standards Codification (“ASC”) 470-50, Modifications and Extinguishments [Debt], the fair value of the debt prior to redemption was compared to its carrying amount and the difference expensed, along with unamortized discount and issuance costs. As a result, Rayonier recorded a loss on debt extinguishment of $3 million in the third quarter.

Based upon the average stock price for the 30 trading days ended September 30, 2013, these notes again became exchangeable at the option of the holder for the calendar quarter ending December 31, 2013. The remaining balance of the notes is classified as long-term debt at September 30, 2013 due to the ability and intent of the Company to refinance them on a long-term basis.

During the nine months ended September 30, 2013, the Company had no net activity on its $450 million unsecured revolving credit facility. The Company had $172 million of available borrowings under this facility at September 30, 2013, net of $3 million to secure its outstanding letters of credit. During the nine months ended September 30, 2013, the Company borrowed an additional $200 million on the term credit agreement for general corporate purposes. Additional draws totaling $140 million remain available on the term credit agreement.

Joint Venture Debt

On April 4, 2013, Rayonier acquired an additional 39 percent interest in its New Zealand JV, bringing its total ownership to 65 percent and as a result, the New Zealand JV’s debt was consolidated effective on that date. See Note 6 — Joint Venture Investment for further information.

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The New Zealand JV's debt consisted of the following at September 30, 2013:

	September 30, 2013
Senior Secured Facilities Agreement	
Revolving Credit Facility due 2016 at variable interest rate of 4.39%	$194,533
Working Capital Facility due 2014	—
Noncontrolling interest shareholder loan at a 0% interest rate	31,717
Total debt	226,250
Less: Current maturities of long-term debt	—
Long-term debt	$226,250

Senior Secured Facilities Agreement

The New Zealand JV is party to a $214 million variable rate Senior Secured Facilities Agreement comprised of two tranches. Tranche A, a $195 million revolving cash advance facility expires September 2016 and Tranche B, a $19 million working capital facility expires July 2014. Although the maximum amounts available under the agreement are denominated in New Zealand dollars, advances on Tranche A are also available in U.S. dollars. This agreement is secured by a Security Trust Deed that provides recourse only to the New Zealand JV's assets; there is no recourse to Rayonier Inc. or any of its subsidiaries.

Revolving Credit Facility

As of September 30, 2013 the Senior Secured Facilities Agreement had $195 million outstanding on Tranche A at 4.39 percent due September 2016. The interest rate is indexed to the 90 day New Zealand Bank bill rate and is generally repriced quarterly. The margin on the index rate fluctuates based on the interest coverage ratio. The New Zealand JV manages these rates through interest rate swaps, as discussed at Note 9 — Derivative Financial Instruments and Hedging Activities.

Working Capital Facility

The $19 million Working Capital Facility is available for short-term operating cash flow needs of the New Zealand JV. This facility holds a variable interest rate indexed to the Official Cash Rate set by the Reserve Bank of New Zealand. The margin ranges from 1.17 percent to 1.44 percent based on the interest coverage ratio and the length of time each borrowing is outstanding. At September 30, 2013, there was no outstanding balance on the Working Capital Facility.

Shareholder Loan

The shareholder loan is an interest-free loan from the noncontrolling New Zealand JV interest in the amount of $32 million. This loan represents part of the noncontrolling party's investment in the New Zealand JV. The loan is secured by timberlands owned by the New Zealand JV and is subordinated to the Senior Secured Facilities Agreement. Although Rayonier Inc. is not liable for this loan, the shareholder loan instrument contains features with characteristics of both debt and equity and is therefore required to be classified as debt and consolidated. As the loan is effectively at call, the carrying amount is deemed to be the fair value. The entire balance of the shareholder loan remained classified as long-term debt at September 30, 2013 due to the ability and intent of the Company to refinance it on a long-term basis.

Debt Covenants

In connection with the New Zealand JV's Senior Secured Facilities Agreement, covenants must be met, including generation of sufficient cash flows to meet a minimum interest coverage ratio of 1.25 to 1 on a quarterly basis and maintenance of a leverage ratio of bank debt versus the forest and land valuation below the covenant's maximum ratio of 40 percent. At September 30, 2013, the New Zealand JV was in compliance with all its covenants.

There were no other significant changes to the Company’s outstanding debt as reported in Note 11 — Debt in the Company’s 2012 Annual Report on Form 10-K.

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Subsequent Event
On October 3, 2013, the third settlement of Senior Exchangeable Notes due 2015 in the amount of $10 million was completed. As a result, Rayonier recorded a $1 million loss on the redemption in the fourth quarter.

17. ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated Other Comprehensive Loss was comprised of the following:

	Foreign currency translation gains	New Zealand joint venture cash flow hedges	Unrecognized components of employee benefit plans, net of tax	Total
Balance as of December 31, 2012	$38,829	$(3,628)	$(144,580)	$(109,379)
Other comprehensive income before reclassifications	237	809	530	1,576
Amounts reclassified from accumulated other comprehensive income	—	2,854	11,796 (a)	14,650
Net other comprehensive income	237	3,663	12,326	16,226
Balance as of September 30, 2013	$39,066	$35	$(132,254)	$(93,153)

(a) This accumulated other comprehensive income component 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 nine months ended September 30, 2013:

Details about accumulated other comprehensive income components	Amount reclassified from accumulated other comprehensive income	Affected line item in the income statement
Loss from New Zealand joint venture cash flow hedges	$2,159	Gain related to consolidation of New Zealand joint venture
Realized loss on foreign exchange contracts	1,069	Other operating (income) expense, net
Noncontrolling interest benefit	(374)	Comprehensive income (loss) attributable to noncontrolling interest
Total loss reclassified from accumulated other comprehensive income	$2,854	

18. OTHER OPERATING INCOME (EXPENSE), NET

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Lease income, primarily from hunting leases	$4,367	$1,357	$9,141	$6,263
Other non-timber income	573	433	1,651	2,324
Foreign currency (loss) gain	(2,050)	(979)	511	(1,165)
Loss on sale or disposal of property, plant & equipment	(276)	(75)	(974)	(1,807)
Insurance recoveries	—	—	—	2,319
Gain on foreign currency exchange contracts	221	—	156	—

Legal and corporate development costs	(1,494)	(1,042)	(5,932)	(1,806)
Total	$1,341	$(306)	$4,553	$6,128

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19. CONSOLIDATING FINANCIAL STATEMENTS

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

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

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

	Rayonier Inc. (Parent Guarantor)	ROC (Subsidiary Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Non-guarantors	Consolidating Adjustments	Total Consolidated
SALES	$—	$ —	$ —	$ 384,784	$ —	$ 384,784
Costs and Expenses						
Cost of sales	—	—	—	287,150	—	287,150
Selling and general expenses	—	2,276	—	13,050	—	15,326
Other operating expense (income), net	—	738	—	(2,740)	661	(1,341)
	—	3,014	—	297,460	661	301,135
OPERATING (LOSS) INCOME	—	(3,014)	—	87,324	(661)	83,649
Interest expense	(3,190)	(162)	(7,115)	(2,564)	—	(13,031)
Interest and miscellaneous income (expense), net	2,538	770	(4,325)	271	—	(746)
Equity in income from subsidiaries	57,932	58,802	39,544	—	(156,278)	—
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	57,280	56,396	28,104	85,031	(156,939)	69,872
Income tax benefit (expense)	65	1,536	3,627	(16,671)	(62)	(11,505)
NET INCOME	57,345	57,932	31,731	68,360	(157,001)	58,367
Less: Net income attributable to noncontrolling interest	—	—	—	1,022	—	1,022
NET INCOME ATTRIBUTABLE TO RAYONIER INC.	57,345	57,932	31,731	67,338	(157,001)	57,345
OTHER COMPREHENSIVE INCOME						
Foreign currency translation adjustment	17,887	17,887	2,084	24,259	(37,858)	24,259
New Zealand joint venture cash flow hedges	2,233	2,231	2,231	3,434	(6,696)	3,433

Amortization of pension and postretirement plans, net of income tax	3,639	3,639	2,747	2,747	(9,133)	3,639
Total other comprehensive loss	23,759	23,757	7,062	30,440	(53,687)	31,331
COMPREHENSIVE INCOME	81,104	81,689	38,793	98,800	(210,688)	89,698
Less: Comprehensive income attributable to noncontrolling interest	—	—	—	8,594	—	8,594
COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.	$81,104	$ 81,689	$ 38,793	$90,206	$ (210,688)	$ 81,104

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CONDENSED CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
For the Three Months Ended September 30, 2012

	Rayonier Inc. (Parent Guarantor)	ROC (Subsidiary Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Non-guarantors	Consolidating Adjustments	Total Consolidated
SALES	$—	$ —	$ —	$386,163	$ —	$ 386,163
Costs and Expenses						
Cost of sales	—	—	—	259,201	—	259,201
Selling and general expenses	—	2,762	—	12,714	—	15,476
Other operating expense (income), net	—	730	—	(424)	—	306
	—	3,492	—	271,491	—	274,983
Equity in income of New Zealand joint venture	—	—	—	66	—	66
OPERATING (LOSS) INCOME	—	(3,492)	—	114,738	—	111,246
Interest (expense) income	(3,136)	(196)	(10,244)	5,323	—	(8,253)
Interest and miscellaneous income (expense), net	1,630	1,594	(980)	(2,010)	—	234
Equity in income from subsidiaries	82,066	85,241	73,635	—	(240,942)	—
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	80,560	83,147	62,411	118,051	(240,942)	103,227
Income tax (expense) benefit	—	(1,081)	4,096	(26,964)	—	(23,949)
INCOME FROM CONTINUING OPERATIONS	80,560	82,066	66,507	91,087	(240,942)	79,278
DISCONTINUED OPERATIONS, NET						
Income from discontinued operations, net of income tax	—	—	—	1,282	—	1,282
NET INCOME	80,560	82,066	66,507	92,369	(240,942)	80,560
OTHER COMPREHENSIVE INCOME						
Foreign currency translation adjustment	5,373	5,373	107	4,887	(10,367)	5,373
New Zealand joint venture cash flow hedges	878	878	—	879	(1,757)	878
Amortization of pension and postretirement plans, net of income tax	3,401	3,401	2,578	(4,959)	(1,020)	3,401
Total other comprehensive income	9,652	9,652	2,685	807	(13,144)	9,652
COMPREHENSIVE INCOME	$90,212	$ 91,718	$ 69,192	$93,176	$ (254,086)	$ 90,212

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RAYONIER INC. AND SUBSIDIARIES
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CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
For the Nine Months Ended September 30, 2013

	Rayonier Inc (Parent Guarantor)	ROC (Subsidiary Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Non-guarantors	Consolidating Adjustments	Total Consolidated
SALES	$—	$ —	$ —	$ 1,187,580	$ —	$ 1,187,580
Costs and Expenses						
Cost of sales	—	—	—	850,866	—	850,866
Selling and general expenses	—	7,357	—	40,997	—	48,354
Other operating (income) expense, net	(1,701)	1,187	—	(4,039)	—	(4,553)
	(1,701)	8,544	—	887,824	—	894,667
Equity in income of New Zealand joint venture	—	—	—	562	—	562
OPERATING INCOME (LOSS) BEFORE GAIN ON CONSOLIDATION OF NEW ZEALAND JOINT VENTURE	1,701	(8,544)	—	300,318	—	293,475
Gain related to consolidation of New Zealand joint venture	—	—	—	16,098	—	16,098
OPERATING INCOME (LOSS)	1,701	(8,544)	—	316,416	—	309,573
Interest (expense) income	(9,879)	(680)	(20,730)	521	—	(30,768)
Interest and miscellaneous income (expense), net	6,716	2,403	(5,873)	(1,335)	—	1,911
Equity in income from subsidiaries	293,706	298,802	198,981	—	(791,489)	—
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	292,244	291,981	172,378	315,602	(791,489)	280,716
Income tax benefit (expense)	—	1,725	9,164	(42,089)	—	(31,200)
INCOME FROM CONTINUING OPERATIONS	292,244	293,706	181,542	273,513	(791,489)	249,516
DISCONTINUED OPERATIONS, NET						
Income from discontinued operations, net of income tax	—	—	—	44,477	—	44,477
NET INCOME	292,244	293,706	181,542	317,990	(791,489)	293,993
Less: Net income attributable to noncontrolling interest	—	—	—	1,749	—	1,749
NET INCOME ATTRIBUTABLE TO RAYONIER INC.	292,244	293,706	181,542	316,241	(791,489)	292,244
OTHER COMPREHENSIVE INCOME						
	237	237	629	(2,967)	(1,103)	(2,967)

Foreign currency translation adjustment						
New Zealand joint venture cash flow hedges	3,663	3,663	1,014	4,209	(8,340)	4,209
Amortization of pension and postretirement plans, net of income tax	12,326	12,326	9,578	9,578	(31,482)	12,326
Total other comprehensive income	16,226	16,226	11,221	10,820	(40,925)	13,568
COMPREHENSIVE INCOME	308,470	309,932	192,763	328,810	(832,414)	307,561
Less: Comprehensive loss attributable to noncontrolling interest	—	—	—	(909)	—	(909)
COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.	$ 308,470	$ 309,932	$ 192,763	$ 329,719	$ (832,414)	$ 308,470

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AND COMPREHENSIVE INCOME
For the Nine Months Ended September 30, 2012

	Rayonier Inc (Parent Guarantor)	ROC (Subsidiary Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Non-Guarantors	Consolidating Adjustments	Total Consolidated
SALES	$—	$ —	$ —	$ 1,070,830	$ —	$ 1,070,830
Costs and Expenses						
Cost of sales	—	—	—	738,480	—	738,480
Selling and general expenses	—	7,977	—	42,656	—	50,633
Other operating expense (income), net	—	742	—	(6,870)	—	(6,128)
	—	8,719	—	774,266	—	782,985
Equity in income of New Zealand joint venture	—	—	—	249	—	249
OPERATING (LOSS) INCOME	—	(8,719)	—	296,813	—	288,094
Interest (expense) income	(7,502)	(646)	(30,713)	2,728	—	(36,133)
Interest and miscellaneous income (expense), net	5,086	4,580	(3,022)	(6,350)	—	294
Equity in income from subsidiaries	205,492	211,635	179,787	—	(596,914)	—
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	203,076	206,850	146,052	293,191	(596,914)	252,255
Income tax (expense) benefit	—	(1,358)	12,313	(65,242)	—	(54,287)
INCOME FROM CONTINUING OPERATIONS	203,076	205,492	158,365	227,949	(596,914)	197,968
DISCONTINUED OPERATIONS, NET						
Income from discontinued operations, net of income taxes	—	—	—	5,108	—	5,108
NET INCOME	203,076	205,492	158,365	233,057	(596,914)	203,076
OTHER COMPREHENSIVE INCOME						
Foreign currency translation adjustment	3,115	3,115	483	2,633	(6,231)	3,115
New Zealand joint venture cash flow hedges	86	86	—	86	(172)	86
Amortization of pension and postretirement plans, net of income tax	9,943	9,943	7,537	—	(17,480)	9,943
Total other comprehensive income	13,144	13,144	8,020	2,719	(23,883)	13,144
COMPREHENSIVE INCOME	$ 216,220	$ 218,636	$ 166,385	$ 235,776	$ (620,797)	$ 216,220

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CONDENSED CONSOLIDATING BALANCE SHEETS
As of September 30, 2013

	Rayonier Inc. (Parent Guarantor)	ROC (Subsidiary Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Non-guarantors	Consolidating Adjustments	Total Consolidated
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	$172,938	$4,933	$ 20,995	$61,872	$—	$260,738
Accounts receivable, less allowance for doubtful accounts	—	22	1,596	122,742	—	124,360
Inventory	—	—	—	133,985	—	133,985
Deferred tax assets	—	—	—	62,914	—	62,914
Prepaid and other current assets	—	4,604	654	53,926	—	59,184
Total current assets	172,938	9,559	23,245	435,439	—	641,181
TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION	—	—	—	2,103,503	—	2,103,503
NET PROPERTY, PLANT AND EQUIPMENT	—	2,399	—	866,033	—	868,432
INVESTMENT IN SUBSIDIARIES	1,520,817	1,749,463	1,316,652	—	(4,586,932)	—
INTERCOMPANY NOTES RECEIVABLE	223,022	—	20,400	—	(243,422)	—
OTHER ASSETS	3,808	31,732	3,938	165,526	—	205,004
TOTAL ASSETS	$1,920,585	$1,793,153	$ 1,364,235	$3,570,501	$(4,830,354)	$3,818,120
LIABILITIES AND SHAREHOLDERS' EQUITY						
CURRENT LIABILITIES						
Accounts payable	$—	$884	$ 854	$97,232	$—	$98,970
Current maturities of long-term debt	—	—	10,000	—	—	10,000
Accrued taxes	—	3,529	—	16,617	—	20,146
Accrued payroll and benefits	—	12,969	—	13,515	—	26,484
Accrued interest	6,132	578	3,930	3,214	—	13,854
Accrued customer incentives	—	—	—	10,771	—	10,771
Other current liabilities	—	9,358	—	41,833	—	51,191
Current liabilities for dispositions and discontinued operations	—	—	—	8,446	—	8,446
Total current liabilities	6,132	27,318	14,784	191,628	—	239,862
LONG-TERM DEBT	325,000	—	1,029,770	291,567	—	1,646,337
NON-CURRENT LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS	—	—	—	67,125	—	67,125
PENSION AND OTHER POSTRETIREMENT BENEFITS	—	131,037	—	27,626	—	158,663

OTHER NON-CURRENT LIABILITIES	—	8,818	—	12,436	—	21,254
INTERCOMPANY PAYABLE	—	105,163	—	102,854	(208,017)	—
TOTAL RAYONIER INC. SHAREHOLDERS' EQUITY	1,589,453	1,520,817	319,681	2,781,839	(4,622,337)	1,589,453
Noncontrolling interest	—	—	—	95,426	—	95,426
TOTAL SHAREHOLDERS' EQUITY	1,589,453	1,520,817	319,681	2,877,265	(4,622,337)	1,684,879
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,920,585	$1,793,153	$ 1,364,235	$3,570,501	$(4,830,354)	$3,818,120

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CONDENSED CONSOLIDATING BALANCE SHEETS
As of December 31, 2012

	Rayonier Inc. (Parent Guarantor)	ROC (Subsidiary Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Non-guarantors	Consolidating Adjustments	Total Consolidated
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	$252,888	$3,966	$ 19,358	$4,384	$—	$280,596
Accounts receivable, less allowance for doubtful accounts	—	386	—	99,973	—	100,359
Inventory	—	—	—	127,966	—	127,966
Deferred tax assets	—	—	—	15,845	—	15,845
Prepaid and other current assets	—	1,566	691	39,251	—	41,508
Total current assets	252,888	5,918	20,049	287,419	—	566,274
TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION	—	—	—	1,573,309	—	1,573,309
NET PROPERTY, PLANT AND EQUIPMENT	—	2,321	—	704,717	—	707,038
INVESTMENT IN JOINT VENTURE	—	—	—	72,419	—	72,419
INVESTMENT IN SUBSIDIARIES	1,445,205	1,677,782	1,452,027	—	(4,575,014)	—
INTERCOMPANY NOTES RECEIVABLE	213,863	14,000	19,831	—	(247,694)	—
OTHER ASSETS	4,148	27,779	5,182	166,802	—	203,911
TOTAL ASSETS	$1,916,104	$1,727,800	$ 1,497,089	$2,804,666	$(4,822,708)	$3,122,951
LIABILITIES AND SHAREHOLDERS' EQUITY						
CURRENT LIABILITIES						
Accounts payable	$—	$2,099	$ 33	$68,249	$—	$70,381
Current maturities of long-term debt	150,000	—	—	—	—	150,000
Accrued taxes	—	485	—	13,339	—	13,824
Accrued payroll and benefits	—	15,044	—	13,024	—	28,068
Accrued interest	3,100	379	3,197	1,280	—	7,956
Accrued customer incentives	—	—	—	10,849	—	10,849
Other current liabilities	—	2,925	—	15,715	—	18,640
Current liabilities for dispositions and discontinued operations	—	—	—	8,105	—	8,105
Total current liabilities	153,100	20,932	3,230	130,561	—	307,823
LONG-TERM DEBT	325,000	—	718,321	76,731	—	1,120,052
NON-CURRENT LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS	—	—	—	73,590	—	73,590

PENSION AND OTHER POSTRETIREMENT BENEFITS	—	129,156	—	30,426	—	159,582
OTHER NON-CURRENT LIABILITIES	—	16,432	—	7,468	—	23,900
INTERCOMPANY PAYABLE	—	116,075	—	137,797	(253,872)	—
TOTAL SHAREHOLDERS' EQUITY	1,438,004	1,445,205	775,538	2,348,093	(4,568,836)	1,438,004
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,916,104	$1,727,800	$ 1,497,089	$2,804,666	$(4,822,708)	$3,122,951

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RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2013

	Rayonier Inc (Parent Guarantor)	ROC (Subsidiary Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Non-guarantors	Consolidating Adjustments	Total Consolidated
CASH PROVIDED BY OPERATING ACTIVITIES	$389,405	$394,700	$ 84,000	$291,478	$ (825,347)	$ 334,236
INVESTING ACTIVITIES						
Capital expenditures	—	(335)	—	(122,147)	—	(122,482)
Purchase of additional interest in New Zealand joint venture	—	—	—	(139,879)	—	(139,879)
Purchase of timberlands	—	—	—	(11,650)	—	(11,650)
Jesup mill cellulose specialties expansion	—	—	—	(137,392)	—	(137,392)
Proceeds from the disposition of Wood Products business	—	—	—	68,063	—	68,063
Change in restricted cash	—	—	—	3,989	—	3,989
Investment in Subsidiaries	(138,178)	(138,178)	(316,836)	—	593,192	—
Other	—	1,701	—	(1,542)	—	159
CASH USED FOR INVESTING ACTIVITIES	(138,178)	(136,812)	(316,836)	(340,558)	593,192	(339,192)
FINANCING ACTIVITIES						
Issuance of debt	175,000	—	375,000	57,885	—	607,885
Repayment of debt	(325,000)	—	(56,527)	(71,936)	—	(453,463)
Dividends paid	(175,079)	—	—	—	—	(175,079)
Proceeds from the issuance of common shares	9,205	—	—	—	—	9,205
Excess tax benefits on stock-based compensation	—	—	—	8,189	—	8,189
Repurchase of common shares	(11,303)	—	—	—	—	(11,303)
Issuance of intercompany notes	(4,000)	—	—	4,000	—	—
Intercompany distributions	—	(256,921)	(84,000)	108,766	232,155	—
CASH (USED FOR) PROVIDED BY FINANCING ACTIVITIES	(331,177)	(256,921)	234,473	106,904	232,155	(14,566)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	—	—	—	(336)	—	(336)
CASH AND CASH EQUIVALENTS						
Change in cash and cash equivalents	(79,950)	967	1,637	57,488	—	(19,858)
Balance, beginning of year	252,888	3,966	19,358	4,384	—	280,596
Balance, end of period	$172,938	$4,933	$ 20,995	$61,872	$ —	$ 260,738

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2012

	Rayonier Inc (Parent Guarantor)	ROC (Subsidiary Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Non-guarantors	Consolidating Adjustments	Total Consolidated
CASH PROVIDED BY OPERATING ACTIVITIES	$23,916	$105,407	$ 12,000	$317,407	$ (105,088)	$ 353,642
INVESTING ACTIVITIES						
Capital expenditures	—	(240)	—	(111,775)	—	(112,015)
Purchase of timberlands	—	—	—	(11,632)	—	(11,632)
Jesup mill cellulose specialties expansion	—	—	—	(104,782)	—	(104,782)
Change in restricted cash	—	—	—	(12,796)	—	(12,796)
Investment in Subsidiaries	—	—	(5,536)	—	5,536	—
Other	—	(69)	—	4,350	—	4,281
CASH USED FOR INVESTING ACTIVITIES	—	(309)	(5,536)	(236,635)	5,536	(236,944)
FINANCING ACTIVITIES						
Issuance of debt	325,000	—	15,000	15,000	—	355,000
Repayment of debt	(120,000)	(30,000)	(23,153)	(25,500)	—	(198,653)
Dividends paid	(152,358)	—	—	—	—	(152,358)
Proceeds from the issuance of common shares	20,732	—	—	—	—	20,732
Excess tax benefits on stock-based compensation	—	—	—	7,057	—	7,057
Debt issuance costs	(3,698)	—	—	—	—	(3,698)
Repurchase of common shares	(7,783)	—	—	—	—	(7,783)
Issuance of intercompany notes	(9,000)	—	—	9,000	—	—
Intercompany distributions	—	(24,529)	(12,000)	(63,023)	99,552	—
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	52,893	(54,529)	(20,153)	(57,466)	99,552	20,297
EFFECT OF EXCHANGE RATE CHANGES ON CASH	—	—	—	(123)	—	(123)
CASH AND CASH EQUIVALENTS						
Change in cash and cash equivalents	76,809	50,569	(13,689)	23,183	—	136,872
Balance, beginning of year	—	8,977	59,976	9,650	—	78,603
Balance, end of period	$76,809	$59,546	$ 46,287	$32,833	$ —	$ 215,475

RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
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In March 2012, Rayonier Inc. issued $325 million of 3.75% Senior Notes due 2022. The notes are fully and unconditionally guaranteed by ROC and Rayonier TRS Holdings Inc. In connection with these notes, the Company provides the following consolidating financial information in accordance with SEC Regulation S-X Rule 3-10, Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered.

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

	Rayonier Inc. (Parent Issuer)	Subsidiary Guarantors	Non-guarantors	Consolidating Adjustments	Total Consolidated
SALES	$—	$—	$384,784	$ —	$384,784
Costs and Expenses					
Cost of sales	—	—	287,150	—	287,150
Selling and general expenses	—	2,276	13,050	—	15,326
Other operating expense (income), net	—	738	(2,740)	661	(1,341)
	—	3,014	297,460	661	301,135
OPERATING (LOSS) INCOME	—	(3,014)	87,324	(661)	83,649
Interest expense	(3,190)	(7,277)	(2,564)	—	(13,031)
Interest and miscellaneous income (expense), net	2,538	(3,555)	271	—	(746)
Equity in income from subsidiaries	57,932	66,610	—	(124,542)	—
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	57,280	52,764	85,031	(125,203)	69,872
Income tax benefit (expense)	65	5,168	(16,671)	(67)	(11,505)
NET INCOME	57,345	57,932	68,360	(125,270)	58,367
Less: Net income attributable to noncontrolling interest	—	—	1,022	—	1,022
NET INCOME ATTRIBUTABLE TO RAYONIER INC.	57,345	57,932	67,338	(125,270)	57,345
OTHER COMPREHENSIVE INCOME					
Foreign currency translation adjustment	17,887	17,887	24,259	(35,774)	24,259
New Zealand joint venture cash flow hedges	2,233	2,231	3,434	(4,465)	3,433
Amortization of pension and postretirement plans, net of income tax	3,639	3,639	2,747	(6,386)	3,639
Total other comprehensive income	23,759	23,757	30,440	(46,625)	31,331
COMPREHENSIVE INCOME	81,104	81,689	98,800	(171,895)	89,698
Less: Comprehensive income attributable to noncontrolling interest	—	—	8,594	—	8,594
COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.	$81,104	$81,689	$90,206	$ (171,895)	$81,104

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RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
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CONDENSED CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
For the Three Months Ended September 30, 2012

	Rayonier Inc. (Parent Issuer)	Subsidiary Guarantors	Non-guarantors	Consolidating Adjustments	Total Consolidated
SALES	$—	$—	$386,163	$ —	$386,163
Costs and Expenses					
Cost of sales	—	—	259,201	—	259,201
Selling and general expenses	—	2,762	12,714	—	15,476
Other operating income (expense), net	—	730	(424)	—	306
	—	3,492	271,491	—	274,983
Equity in income of New Zealand joint venture	—	—	66	—	66
OPERATING (LOSS) INCOME	—	(3,492)	114,738	—	111,246
Interest (expense) income	(3,136)	(10,440)	5,323	—	(8,253)
Interest and miscellaneous income (expense), net	1,630	614	(2,010)	—	234
Equity in income from subsidiaries	82,066	92,369	—	(174,435)	—
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	80,560	79,051	118,051	(174,435)	103,227
Income tax benefit (expense)	—	3,015	(26,964)	—	(23,949)
INCOME FROM CONTINUING OPERATIONS	80,560	82,066	91,087	(174,435)	79,278
DISCONTINUED OPERATIONS, NET					
Income from discontinued operations, net of income taxes	—	—	1,282	—	1,282
NET INCOME	80,560	82,066	92,369	(174,435)	80,560
OTHER COMPREHENSIVE INCOME					
Foreign currency translation adjustment	5,373	5,373	4,887	(10,260)	5,373
New Zealand joint venture cash flow hedges	878	878	879	(1,757)	878
Amortization of pension and postretirement plans, net of income tax	3,401	3,401	(4,959)	1,558	3,401
Total other comprehensive income	9,652	9,652	807	(10,459)	9,652
COMPREHENSIVE INCOME	$90,212	$91,718	$93,176	$ (184,894)	$90,212

RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
For the Nine Months Ended September 30, 2013

	Rayonier Inc. (Parent Issuer)	Subsidiary Guarantors	Non-guarantors	Consolidating Adjustments	Total Consolidated
SALES	$—	$—	$1,187,580	$—	$1,187,580
Costs and Expenses					
Cost of sales	—	—	850,866	—	850,866
Selling and general expenses	—	7,357	40,997	—	48,354
Other operating (income) expense, net	(1,701)	1,187	(4,039)	—	(4,553)
	(1,701)	8,544	887,824	—	894,667
Equity in income of New Zealand joint venture	—	—	562	—	562
OPERATING INCOME (LOSS) BEFORE GAIN ON CONSOLIDATION OF NEW ZEALAND JOINT VENTURE	1,701	(8,544)	300,318	—	293,475
Gain on consolidation of New Zealand joint venture	—	—	16,098	—	16,098
OPERATING INCOME (LOSS)	1,701	(8,544)			