

RAYONIER INC  
Form 10-Q  
July 30, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**FORM 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended June 30, 2010

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**

**50 North Laura Street, Jacksonville, FL 32202**

**(Principal Executive Office)**

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

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

YES  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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YES  NO

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

YES  NO

As of July 22, 2010, there were outstanding 80,254,551 Common Shares of the Registrant.

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****RAYONIER INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****AND COMPREHENSIVE INCOME****(Unaudited)****(Dollars in thousands, except per share data)**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>SALES</b>	\$ 312,210	\$ 278,698	\$ 622,410	\$ 558,083
Costs and Expenses				
Cost of sales	242,940	216,674	475,794	441,021
Selling and general expenses	15,172	14,349	32,139	28,991
Other operating income, net (Note 2)	(1,260)	(87,165)	(5,828)	(91,177)
	256,852	143,858	502,105	378,835
Equity in income (loss) of New Zealand joint venture	986	(602)	531	(1,839)
<b>OPERATING INCOME BEFORE GAIN ON SALE OF A PORTION OF THE INTEREST IN THE NEW ZEALAND JOINT VENTURE</b>	56,344	134,238	120,836	177,409
Gain on sale of a portion of the interest in the New Zealand joint venture (Note 3)	-	-	12,367	-
<b>OPERATING INCOME</b>	56,344	134,238	133,203	177,409
Interest expense	(12,250)	(12,248)	(24,736)	(24,840)
Interest and miscellaneous income, net	408	216	598	283
<b>INCOME BEFORE INCOME TAXES</b>	44,502	122,206	109,065	152,852
Income tax expense	(5,944)	(14,453)	(13,554)	(19,178)
<b>NET INCOME</b>	38,558	107,753	95,511	133,674
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Foreign currency translation adjustments	(2,045)	15,825	(3,261)	10,947
Joint venture cash flow hedges	816	(277)	1,026	(2,627)
Amortization of pension and postretirement benefit costs, net of income tax expense (benefit) of \$221 and \$200, and (\$2,366) and \$666	535	691	4,639	1,116

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<b>COMPREHENSIVE INCOME</b>	\$ 37,864	\$ 123,992	\$ 97,915	\$ 143,110
<b>EARNINGS PER COMMON SHARE</b>				
Basic earnings per share	\$ 0.48	\$ 1.37	\$ 1.20	\$ 1.70
Diluted earnings per share	\$ 0.48	\$ 1.35	\$ 1.18	\$ 1.68

See Notes to Condensed Consolidated Financial Statements.

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**RAYONIER INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(Dollars in thousands)

	June 30, 2010	December 31, 2009
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 344,184	\$ 74,964
Accounts receivable, less allowance for doubtful accounts of \$1,278 and \$1,150	95,710	103,740
Inventory		
Finished goods	69,170	70,548
Work in process	7,004	8,884
Raw materials	13,850	6,829
Manufacturing and maintenance supplies	2,269	2,243
Total inventory	92,293	88,504
Income tax and alternative fuel mixture credit receivable	121	192,579
Prepaid and other current assets	62,381	49,909
Total Current Assets	594,689	509,696
<b>TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION</b>	1,146,216	1,188,559
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land	24,787	24,789
Buildings	125,827	126,443
Machinery and equipment	1,318,628	1,275,955
Total property, plant and equipment, gross	1,469,242	1,427,187
Less - accumulated depreciation	(1,097,801)	(1,082,248)
Total property, plant and equipment, net	371,441	344,939
<b>INVESTMENT IN JOINT VENTURE</b>	63,784	50,999
<b>OTHER ASSETS</b>	176,459	158,738
<b>TOTAL ASSETS</b>	<b>\$ 2,352,589</b>	<b>\$ 2,252,931</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 64,261	\$ 58,584
Bank loans and current maturities	-	4,650
Accrued interest	6,312	6,512
Accrued customer incentives	9,421	25,644
Current liabilities for dispositions and discontinued operations (Note 11)	11,038	10,648

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Other current liabilities	85,972	69,073
<b>TOTAL CURRENT LIABILITIES</b>	<b>177,004</b>	<b>175,111</b>
<b>LONG-TERM DEBT</b>	<b>764,057</b>	<b>694,999</b>
<b>NON-CURRENT LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS (Note 11)</b>	<b>83,264</b>	<b>87,943</b>
<b>PENSION AND OTHER POSTRETIREMENT BENEFITS (Note 13)</b>	<b>111,795</b>	<b>111,662</b>
<b>OTHER NON-CURRENT LIABILITIES</b>	<b>34,606</b>	<b>37,010</b>
<b>COMMITMENTS AND CONTINGENCIES (Notes 10 and 12)</b>		
<b>SHAREHOLDERS EQUITY</b>		
Common Shares, 240,000,000 and 120,000,000 shares authorized, 80,253,894 and 79,541,974 shares issued and outstanding	580,108	561,962
Retained earnings	679,093	663,986
Accumulated other comprehensive loss	(77,338)	(79,742)
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>1,181,863</b>	<b>1,146,206</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 2,352,589</b>	<b>\$ 2,252,931</b>

See Notes to Condensed Consolidated Financial Statements.

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

	<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 95,511	\$ 133,674
Adjustments to reconcile net income to total cash provided by operating activities:		
Depreciation, depletion and amortization	76,522	86,675
Non-cash cost of real estate sold	3,434	5,232
Stock-based incentive compensation expense	7,960	8,162
Gain on sale of a portion of the interest in the New Zealand joint venture	(11,545)	-
Amortization of convertible debt discount	4,058	2,883
Deferred income tax expense (benefit)	385	(3,177)
Excess tax benefits on stock-based compensation	(3,951)	(891)
Other	1,747	4,965
Changes in operating assets and liabilities:		
Receivables	7,952	(5,802)
Inventories	(7,359)	(8,383)
Accounts payable	841	(3,988)
Income tax and alternative fuel mixture credit receivable	192,458	(83,218)
Other current assets	(11,796)	(19,463)
Accrued liabilities	4,459	9,446
Other assets	(91)	(46)
Other non-current liabilities	(466)	5,247
Expenditures for dispositions and discontinued operations	(4,319)	(4,102)
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>355,800</b>	<b>127,214</b>
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(71,348)	(50,107)
Change in restricted cash	(10,043)	(1,144)
Other	4,875	(2,137)
<b>CASH USED FOR INVESTING ACTIVITIES</b>	<b>(76,516)</b>	<b>(53,388)</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of debt	127,000	30,000
Repayment of debt	(66,650)	(30,000)
Dividends paid	(79,990)	(78,929)
Proceeds from the issuance of common shares	12,232	3,698
Excess tax benefits on stock-based compensation	3,951	891
Debt issuance costs	(535)	-
Repurchase of common shares	(5,997)	(1,388)
<b>CASH USED FOR FINANCING ACTIVITIES</b>	<b>(9,989)</b>	<b>(75,728)</b>



<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	(75)	106
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**CASH AND CASH EQUIVALENTS**

Increase (decrease) in cash and cash equivalents	269,220	(1,796)
Balance, beginning of year	74,964	61,685
 Balance, end of period	 \$ 344,184	 \$ 59,889

**SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION**

Cash paid during the period:		
Interest	\$ 19,700	\$ 21,270
 Income taxes	 \$ 144	 \$ 4,612
 Non-cash investing activity:		
Capital assets purchased on account	\$ 13,595	\$ 8,644

See Notes to Condensed Consolidated Financial Statements.

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**RAYONIER INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**(Dollars in thousands unless otherwise stated)**

**1. BASIS OF PRESENTATION AND NEW ACCOUNTING PRONOUNCEMENTS**

***Basis of Presentation***

The unaudited condensed 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 ). Accordingly, certain information in the financial statements of the Company s Annual Report on Form 10-K have been condensed. In the opinion of management, these financial statements and notes reflect all adjustments (including 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, 2009, as filed with the SEC.

***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 warranted disclosure. See Note 16 *Consolidating Financial Statements* for information about changes in the Company s guarantor structure.

***New or Recently Adopted Accounting Pronouncements***

In June 2009, the Financial Accounting Standards Board ( FASB ) issued new guidance related to consolidation which replaced the quantitative-based risks and rewards calculation for determining which enterprise has a controlling interest in a variable interest entity with an approach primarily qualitative in nature. This Standard requires additional disclosures about an enterprise s involvement in variable interest entities and was effective January 1, 2010 for Rayonier. The Company s application of this guidance had no effect on the accompanying condensed consolidated financial statements. See Note 9 *Fair Value Measurements* for additional information about the Company s variable interest entity.

Also in June 2009, the FASB issued new guidance related to the accounting for transfers of financial assets. The new standard eliminates the concept of a qualifying special-purpose entity ( QSPE ) and associated guidance and creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale. Entities formerly classified as QSPEs are now evaluated for consolidation under the provisions related to the consolidation of controlling and non-controlling interests in an entity. Under the new guidance, the Company s investment in a special purpose entity does not require consolidation. See Note 9 *Fair Value Measurements* for additional information about this entity.

**2. ALTERNATIVE FUEL MIXTURE CREDIT ( AFMC )**

The U.S. Internal Revenue Code allowed a tax credit for taxpayers that produced and used an alternative fuel in the operation of their business. Rayonier produces and uses an alternative fuel ( black liquor ) at its Jesup, Georgia and Fernandina Beach, Florida Performance Fibers mills, which qualified for the \$0.50 per gallon credit of alternative fuel used in operations through December 31, 2009. Accordingly, the Condensed Consolidated Statements of Income and Comprehensive Income for the three and six months ended June 30, 2009, include income of approximately \$85.9 million, net of associated expenses, recorded in Other operating income, net for black liquor produced and used.

**3. JOINT VENTURE INVESTMENT**

The Company owns an interest in Matariki Forestry Group ( Matariki ), a joint venture ( JV ) that owns or leases approximately 0.3 million acres of New Zealand timberlands. In addition to this investment, Rayonier New Zealand Limited ( RNZ ), a wholly-owned subsidiary of Rayonier serves as the manager of the JV forests and operates a log trading business.

Rayonier s investment in the JV is accounted for using the equity method of accounting. Income from the JV is reported in the Timber segment as operating income since the Company manages the forests and its JV interest is an extension of the Company s operations. A portion of Rayonier s investment is recorded at historical cost which generates a difference between the book value of the Company s investment and its proportionate share of the JV s net assets. The difference represents the Company s unrecognized gain from RNZ s sale of timberlands to the JV in 2005. The deferred gain is recognized on a straight-line basis over the estimated number of years the JV expects to harvest the timberlands.

**Table of Contents****RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands unless otherwise stated)**

In the third quarter of 2008, Rayonier's Board of Directors approved a plan to offer to sell the Company's 40 percent interest in the JV as well as the operations of RNZ. As a result, the operating results of the JV and RNZ were segregated from continuing operations in the Condensed Consolidated Statements of Income and Comprehensive Income and reported as discontinued operations.

In the second quarter of 2009, as a result of distressed capital markets and the weak global economic conditions, Rayonier and its joint venture partners decided to discontinue the sale process and continue with ongoing operations. Accordingly, the operating results of the joint venture are included in continuing operations in the Condensed Consolidated Statements of Income and Comprehensive Income for all periods presented.

In December of 2009, the JV signed an agreement to sell a 35 percent interest in the JV to a new investor for NZ\$167 million. Matariki issued new shares to the investor and used the proceeds entirely to pay down a portion of its outstanding NZ\$367 million debt. Consummation of this transaction occurred in February 2010. Upon closing, Rayonier's ownership interest in Matariki declined from 40 percent to 26 percent. As a result of this transaction, results for 2010 include a gain of \$11.5 million, net of \$0.9 million in tax, or \$0.14 per diluted share.

**4. EARNINGS PER COMMON SHARE**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income	\$ 38,558	\$ 107,753	\$ 95,511	\$ 133,674
Shares used for determining basic earnings per common share	80,104,004	78,913,563	79,923,790	78,860,562
Dilutive effect of:				
Stock options	374,768	427,016	387,399	317,981
Performance and restricted shares	613,931	448,496	592,281	358,654
Shares used for determining diluted earnings per common share	81,092,703	79,789,075	80,903,470	79,537,197
Basic earnings per common share:	\$ 0.48	\$ 1.37	\$ 1.20	\$ 1.70
Diluted earnings per common share:	\$ 0.48	\$ 1.35	\$ 1.18	\$ 1.68

**5. INCOME TAXES**

Rayonier is a real estate investment trust ( REIT ). In general, only Rayonier TRS Holdings Inc. ( TRS ), the Company s wholly-owned taxable subsidiary whose businesses include the Company s non-REIT qualified activities, is subject to corporate income taxes. However, Rayonier Inc. is 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 the first 10 years following the election to be taxed as a REIT. Accordingly, the provision for corporate income taxes relates principally to current and deferred taxes on certain property sales and on TRS income.

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 and like-kind exchange ( LKE ) transactions. Effective tax rates before discrete items were 19.1 percent and 21.5 percent for the three months ended June 30, 2010 and 2009, respectively. Year-to-date effective tax rates before discrete items were 17.6 percent and 20.2 percent in 2010 and 2009, respectively. The lower rate in 2010 was due to proportionately higher earnings from the REIT.

Including discrete items, the effective tax rates for the quarter and year-to-date were 13.4 percent and 12.4 percent compared to 11.9 percent and 12.6 percent in 2009, respectively.

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollars in thousands unless otherwise stated)

**6. RESTRICTED DEPOSITS**

In order to qualify for LKE treatment, the proceeds from real estate sales must be deposited with a third party intermediary. These proceeds are accounted for as restricted cash until a suitable replacement property is acquired. In the event that LKE purchases are not completed, the proceeds are returned to the Company after 180 days and reclassified as available cash. As of June 30, 2010 and December 31, 2009, the Company had \$10.1 million and \$0.1 million, respectively, of proceeds from real estate sales classified as restricted cash in Other Assets, which were deposited with an LKE intermediary.

**7. SHAREHOLDERS EQUITY**

An analysis of shareholders' equity for the six months ended June 30, 2010 and the year ended December 31, 2009 is shown below (share amounts not in thousands):

	Common Shares		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Shareholders Equity
	Shares	Amount			
<b>Balance, December 31, 2008</b>	78,814,431	\$ 527,302	\$ 509,931	\$ (98,296)	\$ 938,937
Net income	-	-	312,541	-	312,541
Dividends (\$2.00 per share)	-	-	(158,486)	-	(158,486)
Issuance of shares under incentive stock plans	776,905	11,115	-	-	11,115
Equity portion of convertible debt	-	8,850	-	-	8,850
Warrants and hedge, net	-	(2,391)	-	-	(2,391)
Stock-based compensation	-	15,754	-	-	15,754
Excess tax benefit on stock-based compensation	-	2,720	-	-	2,720
Repurchase of common shares	(49,362)	(1,388)	-	-	(1,388)
Net gain from pension and postretirement plans	-	-	-	4,879	4,879
Foreign currency translation adjustment	-	-	-	15,980	15,980
Joint venture cash flow hedges	-	-	-	(2,305)	(2,305)
<b>Balance, December 31, 2009</b>	79,541,974	\$ 561,962	\$ 663,986	\$ (79,742)	\$ 1,146,206
Net income	-	-	95,511	-	95,511
Dividends (\$1.00 per share)	-	-	(80,404)	-	(80,404)
Issuance of shares under incentive stock plans	847,366	12,232	-	-	12,232
Stock-based compensation	-	7,960	-	-	7,960
Excess tax benefit on stock-based compensation	-	3,951	-	-	3,951
Repurchase of common shares	(135,446)	(5,997)	-	-	(5,997)
Amortization of pension and postretirement benefit costs	-	-	-	4,639	4,639
Foreign currency translation adjustment	-	-	-	(3,261)	(3,261)
Joint venture cash flow hedges	-	-	-	1,026	1,026

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<b>Balance, June 30, 2010</b>	80,253,894	\$ 580,108	\$ 679,093	\$ (77,338)	\$ 1,181,863
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**8. SEGMENT INFORMATION**

Rayonier operates in four reportable business segments: Timber, Real Estate, Performance Fibers, and Wood Products. Timber sales include all activities that relate 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. The Performance Fibers segment includes two major product lines, cellulose specialties and absorbent materials. The Wood Products segment is comprised of lumber operations. 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 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.



**Table of Contents****RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands unless otherwise stated)**

Operating income (loss) as presented in the Condensed Consolidated Statements of Income and Comprehensive Income is equal to segment income (loss). Certain income (loss) items in the Condensed 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 Company 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:

	June 30, 2010	December 31, 2009
<b>ASSETS</b>		
Timber	\$ 1,275,635	\$ 1,259,675
Real Estate	79,550	71,118
Performance Fibers	543,182	517,941
Wood Products	21,474	21,972
Other Operations	25,944	19,432
Corporate and other	406,804	362,793
<b>TOTAL</b>	<b>\$ 2,352,589</b>	<b>\$ 2,252,931</b>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>SALES</b>				
Timber	\$ 48,917	\$ 43,591	\$ 96,025	\$ 78,518
Real Estate	12,712	41,378	45,729	67,970
Performance Fibers	201,947	177,109	401,719	380,743
Wood Products	21,573	12,495	37,505	24,247
Other Operations	30,246	8,959	47,354	14,659
Intersegment Eliminations	(3,185)	(4,834)	(5,922)	(8,054)
<b>TOTAL</b>	<b>\$ 312,210</b>	<b>\$ 278,698</b>	<b>\$ 622,410</b>	<b>\$ 558,083</b>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>OPERATING INCOME (LOSS)</b>				
Timber	\$ 8,663	\$ 432	\$ 16,872	\$ (1,906)
Real Estate	4,183	24,155	21,537	38,568
Performance Fibers	44,990	34,687	89,847	75,536
Wood Products	4,270	(2,571)	4,311	(6,144)
Other Operations	726	(2,068)	1,336	(1,330)

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Corporate and other	(6,488)	79,603 (a)	(700) (b)	72,685(a)
<b>TOTAL</b>	\$ 56,344	\$ 134,238	\$ 133,203	\$ 177,409

- (a) Includes \$85.9 million relating to the AFMC. For additional information, see Note 2 *Alternative Fuel Mixture Credit ( AFMC )*.
- (b) Includes a gain of \$12.4 million from the sale of a portion of the Company's interest in its New Zealand joint venture. See Note 3 *Joint Venture Investment* for additional information.

**Table of Contents****RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands unless otherwise stated)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>DEPRECIATION, DEPLETION AND AMORTIZATION</b>				
Timber	\$ 17,269	\$ 21,951	\$ 34,005	\$ 39,432
Real Estate	2,486	12,055	12,002	17,445
Performance Fibers	12,203	12,708	28,007	26,996
Wood Products	1,078	1,214	2,144	2,432
Other Operations	1	1	2	2
Corporate and other	170	182	362	368
<b>TOTAL</b>	<b>\$ 33,207</b>	<b>\$ 48,111</b>	<b>\$ 76,522</b>	<b>\$ 86,675</b>

**9. FAIR VALUE MEASUREMENTS**

The following table presents the carrying amount and estimated fair values of financial instruments held by the Company at June 30, 2010 and December 31, 2009, using market information and what the Company believes to be appropriate valuation methodologies under generally accepted accounting principles:

Asset (liability)	June 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 344,184	\$ 344,184	\$ 74,964	\$ 74,964
Short-term debt	-	-	(4,650)	(4,650)
Long-term debt	(764,057)	(848,298)	(694,999)	(790,763)

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

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

*Debt* - The Company's short-term bank loans and floating rate debt approximate fair value. The fair value of fixed rate long-term debt is based upon quoted market prices for debt with similar terms and maturities.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

Asset	Carrying Value at June 30, 2010	Level 2	Carrying Value at December 31, 2009	Level 2

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Investment in special-purpose entity	\$	2,733	\$	2,733	\$	2,733	\$	2,733
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*Variable Interest Entity*

Rayonier holds a variable interest in a bankruptcy-remote, limited liability subsidiary ( special-purpose entity ) which was created in 2004 when Rayonier monetized a \$25.0 million installment note and letter of credit received in connection with a timberland sale. The Company contributed the note and a letter of credit to the special-purpose entity and using the installment note and letter of credit as collateral, the special-purpose entity issued \$22.6 million of 15-year Senior Secured Notes and remitted cash of \$22.6 million to the Company. There are no restrictions that relate to the transferred financial assets. Rayonier maintains a \$2.6 million interest in the entity and receives immaterial cash payments equal to the excess of interest received on the installment

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note over the interest paid on the Senior Secured Notes. The Company's interest is recorded at fair value and is included in Other Assets in the Condensed Consolidated Balance Sheets. In addition, the Company calculated and recorded a de minimus guarantee liability to reflect its obligation of up to \$2.6 million under a make-whole agreement pursuant to which it guaranteed certain obligations of the entity. This guarantee obligation is also collateralized by the letter of credit. The Company's interest in the entity, together with the make-whole agreement, represents the maximum exposure to loss as a result of the Company's involvement with the special-purpose entity. Upon maturity of the Senior Secured Notes in 2019 and termination of the special purpose entity, Rayonier will receive the remaining \$2.6 million of cash. The Company determined, based upon an analysis under the variable interest entity guidance, that it does not have the power to direct activities that most significantly impact the entity's economic success. Therefore, Rayonier is not the primary beneficiary and is not required to consolidate the entity.

**10. GUARANTEES**

The Company provides financial guarantees as required by creditors, insurance programs, and state and foreign governmental agencies. As of June 30, 2010, the following financial guarantees were outstanding:

	Maximum Potential Payment	Carrying Amount of Liability
Standby letters of credit (1)	\$ 43,807	\$ 38,110
Guarantees (2)	2,555	43
Surety bonds (3)	11,605	1,851
Total	\$ 57,967	\$ 40,004

- (1) Approximately \$39 million of the standby letters of credit serve as credit support for industrial revenue bonds. The remaining letters of credit support obligations under various insurance related agreements, primarily workers' compensation and pollution liability policy requirements. These letters of credit expire at various dates during 2010 and 2011 and will be renewed as required.
- (2) 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 \$2.6 million of obligations of a special-purpose entity that was established to complete the monetization. At June 30, 2010 the Company has recorded a de minimus liability to reflect the fair market value of its obligation to perform under the make-whole agreement.
- (3) Rayonier issued surety bonds primarily to secure timber in the State of Washington and to provide collateral for the Company's workers' compensation self-insurance program in Washington and Georgia. These surety bonds expire at various dates during 2010, 2011 and 2014, and are expected to be renewed as required.

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

An analysis of activity in the liabilities for dispositions and discontinued operations for the six months ended June 30, 2010 and the year ended December 31, 2009, is as follows:

	June 30, 2010	December 31, 2009
Balance, January 1	\$ 98,591	\$ 104,575
Expenditures charged to liabilities	(4,319)	(8,095)
Increase (reduction) to liabilities	30	2,111
Balance, end of period	94,302	98,591
Less: Current portion	(11,038)	(10,648)
Non-current portion	\$ 83,264	\$ 87,943

Subject to the factors described in the next paragraph of this footnote and in Note 16 *Liabilities for Dispositions and Discontinued Operations* in the 2009 Annual Report on Form 10-K, the Company believes established liabilities are sufficient for costs expected to be incurred over the next 20 years with respect to its dispositions and discontinued operations. Remedial actions

**Table of Contents****RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands unless otherwise stated)**

for these sites vary, but can include, among other remedies, 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.

In addition, the Company is exposed to the risk of reasonably possible additional losses in excess of the established liabilities. As of June 30, 2010, it is estimated that this amount could range up to \$36 million and arises from uncertainty over the availability or effectiveness of certain remediation technologies, additional or different contamination that may be discovered, development of new or improved environmental remediation technologies, changes in applicable law and the exercise of discretion in interpretation of applicable law and regulations by governmental agencies.

For additional information on the Company's environmental liabilities refer to Note 16 *Liabilities for Dispositions and Discontinued Operations* in the 2009 Annual Report on Form 10-K.

**12. CONTINGENCIES**

Rayonier is engaged in various legal actions, including certain environmental proceedings. The Company 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 effect on the Company's financial position, results of operations, or cash flow.

There have been no material changes in the status of the other specific matters referenced in Note 16 *Liabilities for Dispositions and Discontinued Operations* in the 2009 Annual Report on Form 10-K.

**13. EMPLOYEE BENEFIT PLANS**

The Company has four qualified non-contributory defined benefit pension plans covering the majority of its employees and an unfunded plan that provides benefits in excess of amounts allowable under current tax law in the qualified plans. Three of the qualified plans, as well as the unfunded plan, 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 periodic benefit costs of the Company's pension and postretirement plans (medical and life insurance) are shown in the following table:

	Pension		Postretirement	
	Three Months Ended June 30,		Three Months Ended June 30,	
	2010	2009	2010	2009
Components of Net Periodic Benefit Cost				
Service cost	\$ 1,452	\$ 1,842	\$ 146	\$ 90

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Interest cost	4,291	4,349	257	301
Expected return on plan assets	(5,416)	(5,291)	-	-
Amortization of prior service cost	518	354	22	22
Amortization of plan amendment	-	-	(2,392)	(2,392)
Amortization of losses	1,130	1,349	1,478	1,558
Net periodic benefit cost	\$ 1,975	\$ 2,603	\$ (489)	\$ (421)



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	Pension		Postretirement	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Components of Net Periodic Benefit Cost</b>				
Service cost	\$ 3,098	\$ 3,685	\$ 292	\$ 180
Interest cost	8,870	8,698	514	601
Expected return on plan assets	(10,826)	(10,582)	-	-
Amortization of prior service cost	829	708	44	44
Amortization of plan amendment	-	-	(4,784)	(4,784)
Amortization of losses	3,228	2,698	2,956	3,116
Net periodic benefit cost	\$ 5,199	\$ 5,207	\$ (978)	\$ (843)

The Company made no discretionary contributions to the pension plans during the six months ended June 30, 2010. The Company's 2010 full year discretionary pension contributions may be in the \$40 million to \$50 million range in order to improve funded status.

**14. DEBT**

In March 2010, TRS borrowed \$75 million under a five-year term loan agreement with a group of banks at LIBOR plus 275 basis points. There were no other significant changes to the Company's outstanding debt as reported in Note 13 *Debt* of the Company's 2009 Annual Report on Form 10-K.

**15. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

Accumulated Other Comprehensive Income (Loss) was comprised of the following:

	June 30, 2010	December 31, 2009
Foreign currency translation adjustments	\$ 23,508	\$ 26,769
Joint venture cash flow hedges	(1,279)	(2,305)
Unrecognized components of employee benefit plans, net of tax	(99,567)	(104,206)
Total	\$ (77,338)	\$ (79,742)

**16. CONSOLIDATING FINANCIAL STATEMENTS**

In October 2007, TRS issued \$300 million of 3.75% Senior Exchangeable Notes due 2012, and in August 2009 TRS issued \$172.5 million of 4.50% Senior Exchangeable Notes due 2015. The notes for both transactions are guaranteed by Rayonier and are non-callable. In connection with these exchangeable notes, the Company provides the following condensed consolidating financial information in accordance with SEC

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Regulation S-X Rule 3-10, *Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered*. Each entity in the consolidating financial information 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 incurred for the benefit of its subsidiaries.

### *Subsequent Event*

On July 29, 2010, Rayonier Inc. reorganized its operating structure by creating a new wholly owned operating entity Rayonier Operating Company LLC ( ROC ), and entering into a contribution agreement under which Rayonier Inc. contributed all assets and liabilities to ROC. As part of this agreement, ROC guarantees the TRS notes mentioned above. Rayonier Inc. 's guarantee of the TRS notes was unchanged by the transaction.

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**RAYONIER INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**(Dollars in thousands unless otherwise stated)**

The new operating structure will allow Rayonier Inc. to adopt an umbrella real estate investment trust ( UPREIT ) structure. An UPREIT structure allows for the acquisition of timberlands in exchange for ROC equity and can be attractive to timberland sellers, because by accepting ROC equity interests in exchange for their assets, sellers may be able to defer taxable gains. ROC equity interests may also offer sellers diversification and liquidity in their investments and comparable dividends to Rayonier Inc. shareholders.

**Table of Contents****RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

**CONDENSED CONSOLIDATING STATEMENTS OF INCOME**

For the Three Months Ended June 30, 2010

	Rayonier Inc. (Parent Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Rayonier TRS Holdings Inc. (Non-guarantors)	All Other Subsidiaries (Non- guarantors)	Consolidating Adjustments	Total Consolidated
<b>SALES</b>	\$ -	\$ -	\$ 294,765	\$ 33,410	\$ (15,965)	\$ 312,210
Costs and Expenses						
Cost of sales	-	-	240,382	23,712	(21,154)	242,940
Selling and general expenses	2,856	-	11,539	777	-	15,172
Other operating expense (income), net	24	-	425	(1,709)	-	(1,260)
	2,880	-	252,346	22,780	(21,154)	256,852
Equity in income of New Zealand joint venture	836	-	150	-	-	986
<b>OPERATING (LOSS) INCOME</b>	(2,044)	-	42,569	10,630	5,189	56,344
Interest expense	260	(7,333)	(5,148)	(29)	-	(12,250)
Interest and miscellaneous income (expense), net	1,332	(1,299)	(4,740)	5,115	-	408
Equity in income from subsidiaries	39,350	23,926	-	-	(63,276)	-
<b>INCOME BEFORE INCOME TAXES</b>	38,898	15,294	32,681	15,716	(58,087)	44,502
Income tax (expense) benefit	(340)	3,151	(8,755)	-	-	(5,944)
<b>NET INCOME</b>	\$ 38,558	\$ 18,445	\$ 23,926	\$ 15,716	\$ (58,087)	\$ 38,558

**Table of Contents****RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

	<b>CONDENSED CONSOLIDATING STATEMENTS OF INCOME</b>					
	<b>For the Three Months Ended June 30, 2009</b>					
	<b>Rayonier Inc.</b>	<b>Rayonier TRS</b>	<b>Rayonier</b>	<b>All Other</b>	<b>Consolidating</b>	<b>Total</b>
	<b>(Parent</b>	<b>Holdings</b>	<b>TRS</b>	<b>Subsidiaries</b>	<b>Adjustments</b>	<b>Consolidated</b>
	<b>Guarantor)</b>	<b>Inc.</b>	<b>Holdings Inc.</b>	<b>(Non-</b>		
	<b>\$</b>	<b>\$</b>	<b>(Non-guarantors)</b>	<b>guarantors)</b>	<b>\$</b>	<b>\$</b>
<b>SALES</b>	-	-	220,184	66,806	(8,292)	278,698
<b>Costs and Expenses</b>						
Cost of sales	-	-	183,764	42,636	(9,726)	216,674
Selling and general expenses	2,409	-	11,101	834	5	14,349
Other operating expense (income), net	193	-	(85,210)	(2,148)	-	(87,165)
	2,602	-	109,655	41,322	(9,721)	143,858
Equity in (loss) income of New Zealand joint venture	(807)	-	205	-	-	(602)
<b>OPERATING (LOSS) INCOME</b>	(3,409)	-	110,734	25,484	1,429	134,238
Interest expense	(126)	(4,607)	(6,360)	(1,155)	-	(12,248)
Interest and miscellaneous income (expense), net	781	(774)	(1,062)	1,305	(34)	216
Equity in income from subsidiaries	112,043	88,431	-	-	(200,474)	-
<b>INCOME BEFORE INCOME TAXES</b>	109,289	83,050	103,312	25,634	(199,079)	122,206
Income tax (expense) benefit	(1,536)	1,964	(14,881)	-	-	(14,453)
<b>NET INCOME</b>	\$ 107,753	\$ 85,014	\$ 88,431	\$ 25,634	\$ (199,079)	\$ 107,753

**Table of Contents****RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

<b>CONDENSED CONSOLIDATING STATEMENTS OF INCOME</b>						
<b>For the Six Months Ended June 30, 2010</b>						
<b>Subsidiaries of</b>						
	<b>Rayonier Inc.</b>	<b>Rayonier TRS</b>	<b>Rayonier</b>	<b>All Other</b>	<b>Consolidating</b>	<b>Total</b>
	<b>(Parent</b>	<b>Holdings</b>	<b>TRS</b>	<b>Subsidiaries</b>	<b>Adjustments</b>	<b>Consolidated</b>
	<b>Guarantor)</b>	<b>Inc.</b>	<b>Holdings Inc.</b>	<b>(Non-</b>		
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>guarantors)</b>	<b>\$</b>	<b>\$</b>
<b>SALES</b>	-	-	579,333	134,868	(91,791)	622,410
<b>Costs and Expenses</b>						
Cost of sales	-	-	474,223	65,882	(64,311)	475,794
Selling and general expenses	4,856	-	25,730	1,553	-	32,139
Other operating expense (income), net	20	-	(1,635)	(4,213)	-	(5,828)
	4,876	-	498,318	63,222	(64,311)	502,105
Equity in income of New Zealand joint venture	26	-	505	-	-	531
<b>OPERATING (LOSS) INCOME BEFORE GAIN ON SALE OF A PORTION OF THE INTEREST IN THE NEW ZEALAND JOINT VENTURE</b>						
	(4,850)	-	81,520	71,646	(27,480)	120,836
Gain on sale of a portion of the interest in the New Zealand joint venture	4,670	-	7,697	-	-	12,367
<b>OPERATING (LOSS) INCOME</b>	(180)	-	89,217	71,646	(27,480)	133,203
Interest expense	150	(14,723)	(10,084)	(79)	-	(24,736)
Interest and miscellaneous income (expense), net	10,259	(2,598)	(16,347)	9,284	-	598
Equity in income from subsidiaries	86,824	44,452	-	-	(131,276)	-
<b>INCOME BEFORE INCOME TAXES</b>	97,053	27,131	62,786	80,851	(158,756)	109,065
Income tax (expense) benefit	(1,542)	6,322	(18,334)	-	-	(13,554)
<b>NET INCOME</b>	\$ 95,511	\$ 33,453	\$ 44,452	\$ 80,851	\$ (158,756)	\$ 95,511



**Table of Contents****RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

**CONDENSED CONSOLIDATING STATEMENTS OF INCOME**

For the Six Months Ended June 30, 2009

	Rayonier Inc. (Parent Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Subsidiaries of Rayonier TRS Holdings Inc. (Non-guarantors)	All Other Subsidiaries (Non- guarantors)	Consolidating Adjustments	Total Consolidated
<b>SALES</b>	\$ -	\$ -	\$ 457,859	\$ 118,022	\$ (17,798)	\$ 558,083
Costs and Expenses						
Cost of sales	-	-	383,982	77,179	(20,140)	441,021
Selling and general expenses	4,898	-	22,413	1,675	5	28,991
Other operating expense (income), net	88	-	(86,779)	(4,486)	-	(91,177)
	4,986	-	319,616	74,368	(20,135)	378,835
Equity in loss of New Zealand joint venture	(1,560)	-	(279)	-	-	(1,839)
<b>OPERATING (LOSS) INCOME</b>	(6,546)	-	137,964	43,654	2,337	177,409
Interest expense	(236)	(9,214)	(13,077)	(2,313)	-	(24,840)
Interest and miscellaneous income (expense), net	1,576	(1,547)	(2,271)	2,588	(63)	283
Equity in income from subsidiaries	141,506	102,136	-	-	(243,642)	-
<b>INCOME BEFORE INCOME TAXES</b>	136,300	91,375	122,616	43,929	(241,368)	152,852
Income tax (expense) benefit	(2,626)	3,928	(20,480)	-	-	(19,178)
<b>NET INCOME</b>	\$ 133,674	\$ 95,303	\$ 102,136	\$ 43,929	\$ (241,368)	\$ 133,674



**Table of Contents****RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollar amounts in thousands unless otherwise stated)****CONDENSED CONSOLIDATING BALANCE SHEETS****As of June 30, 2010**

	<b>Rayonier Inc. (Parent Guarantor)</b>	<b>Rayonier TRS Holdings Inc. (Issuer)</b>	<b>Subsidiaries of Rayonier TRS Holdings Inc. (Non-guarantors)</b>	<b>All Other Subsidiaries (Non- guarantors)</b>	<b>Consolidating Adjustments</b>	<b>Total Consolidated</b>
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 41,277	\$ -	\$ 254,093	\$ 48,814	\$ -	\$ 344,184
Accounts receivable, less allowance for doubtful accounts	8	-	93,104	2,598	-	95,710
Inventory	-	-	104,474	-	(12,181)	92,293
Intercompany interest receivable	-	-	-	4,264	(4,264)	-
Income tax and alternative fuel mixture credit receivable	-	-	121	-	-	121
Prepaid and other current assets	2,121	776	58,107	1,377	-	62,381
<b>Total current assets</b>	<b>43,406</b>	<b>776</b>	<b>509,899</b>	<b>57,053</b>	<b>(16,445)</b>	<b>594,689</b>
<b>TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION</b>						
	1,807	-	62,936	1,081,473	-	1,146,216
<b>NET PROPERTY, PLANT AND EQUIPMENT</b>						
	1,344	-	368,513	826	758	371,441
<b>INVESTMENT IN JOINT VENTURE</b>						
	75,233	-	(11,449)	-	-	63,784
<b>INVESTMENT IN SUBSIDIARIES</b>						
	1,215,080	882,980	-	-	(2,098,060)	-
<b>OTHER ASSETS</b>						
	23,350	10,148	684,671	14,578	(556,288)	176,459
<b>TOTAL ASSETS</b>	<b>\$ 1,360,220</b>	<b>\$ 893,904</b>	<b>\$ 1,614,570</b>	<b>\$ 1,153,930</b>	<b>\$ (2,670,035)</b>	<b>\$ 2,352,589</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>						
<b>CURRENT LIABILITIES</b>						
Accounts payable	\$ 1,284	\$ -	\$ 62,355	\$ 622	\$ -	\$ 64,261
Accrued interest	237	5,286	768	21	-	6,312
Accrued customer incentives	-	-	9,421	-	-	9,421
Current liabilities for dispositions and discontinued operations	-	-	11,038	-	-	11,038
Other current liabilities	17,659	-	47,780	20,533	-	85,972

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Total current liabilities	19,180	5,286	131,362	21,176	-	177,004
LONG-TERM DEBT	-	445,391	318,666	-	-	764,057
NON-CURRENT LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS	-	-	83,264	-	-	83,264
PENSION AND OTHER POSTRETIREMENT BENEFITS	87,061	-	24,734	-	-	111,795
OTHER NON-CURRENT LIABILITIES	11,112	-	22,886	608	-	34,606
INTERCOMPANY PAYABLE	61,004	-	150,678	8,749	(220,431)	-
<b>TOTAL LIABILITIES</b>	<b>178,357</b>	<b>450,677</b>	<b>731,590</b>	<b>30,533</b>	<b>(220,431)</b>	<b>1,170,726</b>
TOTAL SHAREHOLDERS EQUITY	1,181,863	443,227	882,980	1,123,397	(2,449,604)	1,181,863
<b>TOTAL LIABILITIES AND SHAREHOLDERS EQUITY</b>	<b>\$ 1,360,220</b>	<b>\$ 893,904</b>	<b>\$ 1,614,570</b>	<b>\$ 1,153,930</b>	<b>\$ (2,670,035)</b>	<b>\$ 2,352,589</b>

**Table of Contents****RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

**CONDENSED CONSOLIDATING BALANCE SHEETS**

As of December 31, 2009

	Rayonier Inc. (Parent Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Subsidiaries of Rayonier TRS Holdings Inc. (Non-guarantors)	All Other Subsidiaries (Non- guarantors)	Consolidating Adjustments	Total Consolidated
<b>ASSETS</b>						
<b>CURRENT ASSETS</b>						
Cash and cash equivalents	\$ 2,895	\$ -	\$ 69,722	\$ 2,347	\$ -	\$ 74,964
Accounts receivable, less allowance for doubtful accounts	-	-	101,710	2,030	-	103,740
Inventory	-	-	114,187	-	(25,683)	88,504
Intercompany interest receivable	-	-	-	1,081	(1,081)	-
Income tax and alternative fuel mixture credit receivable	-	-	192,579	-	-	192,579
Prepaid and other current assets	1,430	758	44,722	2,999	-	49,909
<b>Total current assets</b>	<b>4,325</b>	<b>758</b>	<b>522,920</b>	<b>8,457</b>	<b>(26,764)</b>	<b>509,696</b>
<b>TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION</b>						
	1,807	-	87,747	1,099,005	-	1,188,559
<b>NET PROPERTY, PLANT AND EQUIPMENT</b>						
	1,493	-	341,790	1,147	509	344,939
INVESTMENT IN JOINT VENTURE	75,248	-	(24,249)	-	-	50,999
INVESTMENT IN SUBSIDIARIES	1,173,256	869,169	-	-	(2,042,425)	-
OTHER ASSETS	23,135	11,668	496,195	4,313	(376,573)	158,738
<b>TOTAL ASSETS</b>	<b>\$ 1,279,264</b>	<b>\$ 881,595</b>	<b>\$ 1,424,403</b>	<b>\$ 1,112,922</b>	<b>\$ (2,445,253)</b>	<b>\$ 2,252,931</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>						
<b>CURRENT LIABILITIES</b>						
Accounts payable	\$ 3,057	\$ -	\$ 54,871	\$ 656	\$ -	\$ 58,584
Bank loans and current maturities	-	-	4,650	-	-	4,650
Accrued interest	519	5,286	707	-	-	6,512
Accrued customer incentives	-	-	25,644	-	-	25,644
Current liabilities for dispositions and discontinued operations	-	-	10,648	-	-	10,648
Other current liabilities	18,885	-	37,726	12,462	-	69,073

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Total current liabilities	22,461	5,286	134,246	13,118	-	175,111
LONG-TERM DEBT	5,000	441,332	243,667	5,000	-	694,999
NON-CURRENT LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS	-	-	87,943	-	-	87,943
PENSION AND OTHER POSTRETIREMENT BENEFITS	86,522	-	25,140	-	-	111,662
OTHER NON-CURRENT LIABILITIES	13,352	-	23,035	23,553	(22,930)	37,010
INTERCOMPANY PAYABLE	5,723	-	41,203	8,706	(55,632)	-
TOTAL LIABILITIES	133,058	446,618	555,234	50,377	(78,562)	1,106,725
TOTAL SHAREHOLDERS EQUITY	1,146,206	434,977	869,169	1,062,545	(2,366,691)	1,146,206
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$ 1,279,264	\$ 881,595	\$ 1,424,403	\$ 1,112,922	\$ (2,445,253)	\$ 2,252,931

**Table of Contents****RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

(Dollars in thousands unless otherwise stated)

**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**

For the Six Months Ended June 30, 2010

Subsidiaries of

	Rayonier Inc. (Parent Guarantor)	Rayonier TRS Holdings, Inc. (Issuer)	Rayonier TRS Holdings Inc. (Non-guarantors)	All Other Subsidiaries (Non- guarantors)	Consolidating Adjustments	Total Consolidated
<b>CASH PROVIDED BY</b>						
<b>OPERATING ACTIVITIES</b>	\$ 117,276	\$ 25,000	\$ 231,519	\$ 118,793	\$ (136,788)	\$ 355,800
<b>INVESTING ACTIVITIES</b>						
Capital expenditures	(139)	-	(58,842)	(12,367)	-	(71,348)
Purchase of timberlands	-	-	-	(22,936)	22,936	-
Purchase of real estate	-	-	(41,254)	-	41,254	-
Change in restricted cash	-	-	-	(10,043)	-	(10,043)
Other	-	-	6,855	(1,980)	-	4,875
<b>CASH USED FOR INVESTING</b>						
<b>ACTIVITIES</b>	(139)	-	(93,241)	(47,326)	64,190	(76,516)
<b>FINANCING ACTIVITIES</b>						
Issuance of debt	-	-	75,000	52,000	-	127,000
Repayment of debt	(5,000)	-	(4,650)	(57,000)	-	(66,650)
Dividends paid	(79,990)	-	-	-	-	(79,990)
Proceeds from the issuance of common shares	12,232	-	-	-	-	12,232
Excess tax benefits on stock-based compensation	-	-	3,951	-	-	3,951
Debt issuance costs	-	-	(535)	-	-	(535)
Repurchase of common shares	(5,997)	-	-	-	-	(5,997)
Distributions to parent	-	(25,000)	(27,598)	(20,000)	72,598	-
<b>CASH (USED FOR) PROVIDED</b>						
<b>BY FINANCING ACTIVITIES</b>	(78,755)	(25,000)	46,168	(25,000)	72,598	(9,989)
<b>EFFECT OF EXCHANGE RATE</b>						
<b>CHANGES ON CASH</b>	-	-	(75)	-	-	(75)
<b>CASH AND CASH</b>						
<b>EQUIVALENTS</b>						
Change in cash and cash equivalents	38,382	-	184,371	46,467	-	269,220

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Balance, beginning of year	2,895	-	69,722	2,347	-	74,964
Balance, end of period	\$ 41,277	\$ -	\$ 254,093	\$ 48,814	\$ -	\$ 344,184

**Table of Contents****RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollar amounts in thousands unless otherwise stated)****CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS****For the Six Months Ended June 30, 2009**

	<b>Rayonier Inc. (Parent Guarantor)</b>	<b>Rayonier TRS Holdings Inc. (Issuer)</b>	<b>Subsidiaries of Rayonier TRS Holdings Inc. (Non-guarantors)</b>	<b>All Other Subsidiaries (Non- guarantors)</b>	<b>Consolidating Adjustments</b>	<b>Total Consolidated</b>
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	\$ 80,210	\$ 15,000	\$ 11,925	\$ 125,320	\$ (105,241)	\$ 127,214
<b>INVESTING ACTIVITIES</b>						
Capital expenditures	(4)	-	(36,215)	(16,482)	2,594	(50,107)
Change in restricted cash	-	-	-	(1,144)	-	(1,144)
Other	-	-	(1,693)	(444)	-	(2,137)
<b>CASH USED FOR INVESTING ACTIVITIES</b>	(4)	-	(37,908)	(18,070)	2,594	(53,388)
<b>FINANCING ACTIVITIES</b>						
Issuance of debt	-	-	-	30,000	-	30,000
Repayment of debt	-	-	-	(30,000)	-	(30,000)
Dividends paid	(78,929)	-	-	-	-	(78,929)
Proceeds from the issuance of common shares	3,698	-	-	-	-	3,698
Excess tax benefits on stock-based compensation	-	-	891	-	-	891
Repurchase of common shares	(1,388)	-	-	-	-	(1,388)
Distributions to Parent	-	(15,000)	(16,647)	(71,000)	102,647	-
<b>CASH USED FOR FINANCING ACTIVITIES</b>	(76,619)	(15,000)	(15,756)	(71,000)	102,647	(75,728)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	-	-	106	-	-	106
<b>CASH AND CASH EQUIVALENTS</b>						
Change in cash and cash equivalents	3,587	-	(41,633)	36,250	-	(1,796)
Balance, beginning of year	9,741	-	47,082	4,862	-	61,685
Balance, end of period	\$ 13,328	\$ -	\$ 5,449	\$ 41,112	\$ -	\$ 59,889





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

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

The Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) is intended to provide a reader of our financial statements with a narrative from the perspective of management on our financial condition, results of operations, liquidity, and certain other factors which may affect future results. Our MD&A should be read in conjunction with the 2009 Annual Report on Form 10-K.

### **Forward - Looking Statements**

Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, provide a safe harbor for forward-looking statements to encourage companies to provide prospective information about their companies. Certain statements in this document regarding anticipated financial outcomes including earnings guidance, if any, business and market conditions, outlook and other similar statements relating to Rayonier's future financial and operational performance, are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and other federal securities laws. These forward-looking statements are identified by the use of words such as may, will, should, expect, estimate, believe, anticipate and other similar language.

Forward looking statements are subject to future events, risks and uncertainties (many of which are beyond our control or are currently unknown to us) as well as potentially inaccurate estimates, assumptions and judgments by us that could cause actual results to differ materially from results contemplated by our forward-looking statements. Some of these events, risks and uncertainties are set forth in Item 1A *Risk Factors* in our 2009 Annual Report on Form 10-K. Forward-looking statements are not guarantees of future performance and undue reliance should not be placed on these statements.

### **Critical Accounting Policies and Use of Estimates**

The preparation of our consolidated financial statements requires us to make estimates, assumptions and judgments that affect our assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. We base these estimates and assumptions on historical data and trends, current fact patterns, expectations and other sources of information we believe are reasonable. Actual results may differ from these estimates under different conditions. For a full description of our critical accounting policies, see Item 7 *Management's Discussion and Analysis of Financial Condition and Results of Operations* in the 2009 Annual Report on Form 10-K.

### **Segments**

We are a leading international forest products company primarily engaged in timberland management, the sale and entitlement of real estate, and the production and sale of high value specialty cellulose fibers and fluff pulp. We operate in four reportable business segments: Timber, Real Estate, Performance Fibers, and Wood Products. The Timber sales include all activities which relate 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. The Performance Fibers segment includes two major product lines, cellulose specialties and absorbent materials. The Wood Products segment is comprised of lumber operations. Our remaining operations include harvesting and selling timber acquired from third parties (log trading). These operations are combined and reported in Other Operations. Sales between operating segments are made based on fair market value, and intercompany sales, purchases and profits or losses are eliminated in consolidation.

We evaluate financial performance based on the operating income of the segments. Operating income, as presented in the Condensed Consolidated Statements of Income and Comprehensive Income, is equal to segment income (loss). Certain income (loss) items in the Condensed 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 Company management to be part of segment operations.

**Table of Contents****Results of Operations, Three and Six Months Ended June 30, 2010 Compared to Three and Six Months Ended June 30, 2009.**

<b>Financial Information (in millions)</b>	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Sales</b>				
Timber	\$ 48.9	\$ 43.6	\$ 96.0	\$ 78.5
Real Estate				
Development	0.4	1.2	1.6	1.4
Rural	4.2	5.8	7.6	9.6
Non-Strategic Timberlands	8.1	34.4	36.5	57.0
<b>Total Real Estate</b>	<b>12.7</b>	<b>41.4</b>	<b>45.7</b>	<b>68.0</b>
Performance Fibers				
Cellulose specialties	162.6	134.7	319.9	291.4
Absorbent materials	39.3	42.4	81.8	89.3
<b>Total Performance Fibers</b>	<b>201.9</b>	<b>177.1</b>	<b>401.7</b>	<b>380.7</b>
Wood Products	21.6	12.5	37.5	24.3
Other operations	30.3	9.0	47.4	14.7
Intersegment Eliminations	(3.2)	(4.9)	(5.9)	(8.1)
<b>Total Sales</b>	<b>\$ 312.2</b>	<b>\$ 278.7</b>	<b>\$ 622.4</b>	<b>\$ 558.1</b>
<b>Operating Income (Loss)</b>				
Timber	\$ 8.7	\$ 0.4	\$ 16.9	\$ (1.9)
Real Estate	4.1	24.2	21.5	38.6
Performance Fibers	45.0	34.7	89.9	75.5
Wood Products	4.3	(2.6)	4.3	(6.1)
Other operations	0.7	(2.1)	1.3	(1.3)
Corporate and other expenses / eliminations <sup>1</sup>	(6.5)	79.6	(0.7)	72.6
<b>Total Operating Income</b>	<b>56.3</b>	<b>134.2</b>	<b>133.2</b>	<b>177.4</b>
Interest Expense	(12.2)	(12.2)	(24.7)	(24.8)
Interest / Other income	0.4	0.3	0.6	0.3
Income tax expense	(5.9)	(14.5)	(13.6)	(19.2)
<b>Net Income</b>	<b>\$ 38.6</b>	<b>\$ 107.8</b>	<b>\$ 95.5</b>	<b>\$ 133.7</b>
<b>Diluted Earnings Per Share</b>	<b>\$ 0.48</b>	<b>\$ 1.35</b>	<b>\$ 1.18</b>	<b>\$ 1.68</b>

- <sup>1</sup> The six months ended June 30, 2010 includes a first quarter gain of \$12.4 million from the sale of a portion of the Company's interest in its New Zealand joint venture. See Note 3 *Joint Venture Investment* for additional information. The three and six months ended June 30, 2009 include \$85.9 million related to the alternative fuel mixture credit. See Note 2 *Alternative Fuel Mixture Credit ( AFMC )* for additional information.

**Table of Contents****TIMBER**

Sales (in millions)	Changes Attributable to:				
	2009	Price	Volume/Mix	Other	2010
<b>Three months ended June 30,</b>					
Eastern	\$ 30.9	\$ 5.6	\$ (7.0)	\$ 0.3	\$ 29.8
Western	10.7	5.7	-	0.2	16.6
New Zealand	2.0	-	-	0.5	2.5
<b>Total Sales</b>	<b>\$ 43.6</b>	<b>\$ 11.3</b>	<b>\$ (7.0)</b>	<b>\$ 1.0</b>	<b>\$ 48.9</b>
<b>Six months ended June 30,</b>					
Eastern	\$ 54.7	\$ 8.8	\$ (4.7)	\$ 0.5	\$ 59.3
Western	20.0	8.2	3.7	-	31.9
New Zealand	3.8	-	-	1.0	4.8
<b>Total Sales</b>	<b>\$ 78.5</b>	<b>\$ 17.0</b>	<b>\$ (1.0)</b>	<b>\$ 1.5</b>	<b>\$ 96.0</b>

In the Eastern region, average prices rose 33 percent and 35 percent in the three and six months ended June 30, 2010 compared to the prior year periods, respectively, primarily from restricted timber supply caused by wet weather conditions. Prices in 2010 were also impacted by improved timber demand and a shift in sales mix. Volumes declined 28 percent and 20 percent in second quarter and year-to-date 2010 from the prior year periods, respectively, primarily due to lower thinning volumes in second quarter 2010. Year-to-date volumes were also unfavorably impacted by the restricted hardwood supply in first quarter 2010 caused by wet weather.

In the Western region, prices increased 51 percent and 34 percent in the three and six months ended June 30, 2010 from the respective 2009 periods reflecting improved export demand and tight supply. Overall volumes declined 7 percent for second quarter but increased 15 percent for the six months as we accelerated the year's harvest schedule to first quarter to capitalize on increased prices. The sales impact of the volume decline in second quarter 2010 was offset by a mix shift to higher-priced delivered logs.

New Zealand sales represent timberland management fees for services provided to the joint venture, of which Rayonier has a 26 percent equity interest.

Operating Income (Loss) (in millions)	Changes Attributable to:				
	2009	Price	Volume/Mix	Cost/Other	2010
<b>Three months ended June 30,</b>					
Eastern	\$ 3.4	\$ 5.6	\$ (2.1)	\$ (1.5)	\$ 5.4
Western	(2.4)	5.7	(0.6)	(0.3)	2.4
New Zealand/Other	(0.6)	-	-	1.5	0.9
<b>Total Operating Income</b>	<b>\$ 0.4</b>	<b>\$ 11.3</b>	<b>\$ (2.7)</b>	<b>\$ (0.3)</b>	<b>\$ 8.7</b>
<b>Six months ended June 30,</b>					
Eastern	\$ 6.3	\$ 8.8	\$ (2.9)	\$ 1.5	\$ 13.7
Western	(6.3)	8.2	(0.2)	1.1	2.8
New Zealand/Other	(1.9)	-	-	2.3	0.4
<b>Total Operating Income (Loss)</b>	<b>\$ (1.9)</b>	<b>\$ 17.0</b>	<b>\$ (3.1)</b>	<b>\$ 4.9</b>	<b>\$ 16.9</b>

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In the Eastern region, second quarter operating income improved from the 2009 period as higher sales prices more than offset lower volumes as well as increased costs primarily from depletion and logging expenses due to sales mix. For year-to-date 2010, operating income improved from the prior year period reflecting increased sales as well as lower costs due to geographic sales mix and improved production and transportation costs.

In the Western region, operating income in the second quarter improved from the prior year period as higher prices more than offset the decline in volume and slight increase in costs. In the six months ended June 30, 2010, operating income increased from the prior year period reflecting higher prices and favorable logging costs. Year-to-date operating income was also impacted by an unfavorable shift in sales mix.

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New Zealand operating income primarily represents equity earnings related to the joint venture's timber activities which have increased from the prior year periods due primarily to improved export demand.

**REAL ESTATE**

Sales (in millions)	Changes Attributable to:			
	2009	Price	Volume/Mix	2010
<b>Three months ended June 30,</b>				
Development	\$ 1.2	\$ 0.1	\$ (0.9)	\$ 0.4
Rural	5.8	(1.9)	0.3	4.2
Non-Strategic Timberlands	34.4	1.1	(27.4)	8.1
<b>Total Sales</b>	<b>\$ 41.4</b>	<b>\$ (0.7)</b>	<b>\$ (28.0)</b>	<b>\$ 12.7</b>
<b>Six months ended June 30,</b>				
Development	\$ 1.4	\$ (0.7)	\$ 0.9	\$ 1.6
Rural	9.6	(3.8)	1.8	7.6
Non-Strategic Timberlands	57.0	1.8	(22.3)	36.5
<b>Total Sales</b>	<b>\$ 68.0</b>	<b>\$ (2.7)</b>	<b>\$ (19.6)</b>	<b>\$ 45.7</b>

Operating Income (in millions)	Changes Attributable to:				
	2009	Price	Volume/Mix	Cost/Other	2010
<b>Three months ended June 30,</b>					
<b>Total Operating Income</b>	<b>\$ 24.2</b>	<b>\$ (0.7)</b>	<b>\$ (17.9)</b>	<b>\$ (1.5)</b>	<b>\$ 4.1</b>
<b>Six months ended June 30,</b>					
<b>Total Operating Income</b>	<b>\$ 38.6</b>	<b>\$ (2.7)</b>	<b>\$ (11.8)</b>	<b>\$ (2.6)</b>	<b>\$ 21.5</b>

For second quarter 2010, sales and operating income were \$29 million and \$20 million below 2009, respectively. Year-to-date, sales and operating income were \$22 million and \$17 million below 2009, respectively. The unfavorable results were primarily driven by fewer non-strategic timberland acres sold. Second quarter 2009 included 31,000 acres of non-strategic timberland sales compared to 6,000 in second quarter 2010. The 2010 periods were also negatively impacted by a decline in rural prices primarily due to geographic mix.

**PERFORMANCE FIBERS**

Sales (in millions)	Changes Attributable to:			
	2009	Price	Volume/Mix	2010
<b>Three months ended June 30,</b>				
Cellulose specialties	\$ 134.7	\$ (7.9)	\$ 35.8	\$ 162.6
Absorbent materials	42.4	6.1	(9.2)	39.3
<b>Total Sales</b>	<b>\$ 177.1</b>	<b>\$ (1.8)</b>	<b>\$ 26.6</b>	<b>\$ 201.9</b>

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<b>Six months ended June 30,</b>					
Cellulose specialties	\$	291.4	\$ (10.8)	\$ 39.3	\$ 319.9
Absorbent materials		89.3	4.0	(11.5)	81.8
<b>Total Sales</b>	\$	380.7	\$ (6.8)	\$ 27.8	\$ 401.7

Cellulose specialties sales improved in both 2010 periods as increased volume reflecting stronger demand more than offset a decline in prices from the prior year periods due to the third quarter 2009 removal of a cost-based surcharge. Volumes rose 27

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percent and 14 percent for the three and six months ended June 30, 2010, respectively, while prices declined five percent and three percent for the quarter and six months ended June 30, 2010 from the prior year periods.

While absorbent materials prices improved by 19 percent and five percent for the three and six months ended June 30, 2010 due to strong demand, sales declined in both periods reflecting a 22 percent and 14 percent decrease in volumes for the three and six months, respectively, due to the timing of customer orders, a shift in production to cellulose specialties and pre-shutdown production issues.

Operating Income (in millions)	Changes Attributable to:				2010
	2009	Price	Volume/Mix	Costs/Other	
<b>Three months ended June 30,</b>					
<b>Total Operating Income</b>	\$ 34.7	\$ (1.8)	\$ 11.5	\$ 0.6	\$ 45.0
<b>Six months ended June 30,</b>					
<b>Total Operating Income</b>	\$ 75.5	\$ (6.8)	\$ 11.3	\$ 9.9	\$ 89.9

Operating income improved in both 2010 periods primarily due to increased cellulose specialties volumes, higher absorbent materials prices and lower chemical costs offset in part by higher wood costs.

**WOOD PRODUCTS**

Sales (in millions)	Changes Attributable to:			2010
	2009	Price	Volume	
<b>Three months ended June 30,</b>				
<b>Total Sales</b>	\$ 12.5	\$ 7.4	\$ 1.7	\$ 21.6
<b>Six months ended June 30,</b>				
<b>Total Sales</b>	\$ 24.3	\$ 11.0	\$ 2.2	\$ 37.5

Operating (Loss) Income (in millions)	Changes Attributable to:			2010
	2009	Price	Volume/Mix/Costs	
<b>Three months ended June 30,</b>				
<b>Total Operating (Loss) Income</b>	\$ (2.6)	\$ 7.4	\$ (0.5)	\$ 4.3
<b>Six months ended June 30,</b>				
<b>Total Operating (Loss) Income</b>	\$ (6.1)	\$ 11.0	\$ (0.6)	\$ 4.3

Sales and operating income improved from the prior year periods primarily due to increased prices resulting from supply constraints caused by wet weather conditions. Prices rose 52 percent and 41 percent for the three and six months ended June 30, 2010 from the prior year periods. Although below historical averages, volumes increased 13 percent and nine percent in second quarter and year-to-date 2010 from the 2009 periods, respectively, reflecting higher production to capitalize on improved pricing. Operating income was unfavorably impacted by higher costs, primarily wood prices, in both 2010 periods.

**OTHER OPERATIONS**

Sales and operating income increased from the prior year periods. The improvement in operating income was primarily driven by foreign exchange gains and higher earnings from log trading.





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### ***Corporate and Other Expenses***

The six months ended June 30, 2010 results include a first quarter gain of \$12 million from the sale of a portion of the Company's interest in its New Zealand joint venture. See Note 3 *Joint Venture Investment* for additional information. The three and six months ended June 30, 2009 results include \$86 million relating to the alternative fuel mixture credit. See Note 2 *Alternative Fuel Mixture Credit ( AFMC )* for additional information. Excluding these special items, corporate and other expenses were \$6 million for the three months ended June 30, 2010 and 2009 and \$13 million for the six months ended June 30, 2010 and 2009.

### ***Interest Expense and Other Income, Net***

For the three and six months ended June 30, 2010, interest and other expenses were comparable to the prior year periods as higher average debt balances were offset by interest income related to a favorable IRS settlement and lower average interest rates.

### ***Income Tax Expense***

Second quarter effective tax rates before discrete items were 19.1 percent and 21.5 percent in 2010 and 2009, respectively. For the six months, the effective tax rates were 17.6 percent and 20.2 percent in 2010 and 2009, respectively. The decreased rates in 2010 were due to proportionately higher earnings from the REIT.

Including discrete items, the effective tax rates for the quarter and year-to-date were 13.4 percent and 12.4 percent compared to 11.9 percent and 12.6 percent in 2009, respectively.

### ***Outlook***

With solid performance in the first half, we are well positioned for strong full year results. In Timber, by acting quickly to pull forward stumpage volume, we effectively locked in higher prices. In Real Estate, we are expecting an increase in rural and conservation sales in the second half while reducing our sales of non-strategic timberland. With strategic investments in our mills lowering costs and enabling us to meet increasing demand for our cellulose specialties and absorbent materials products, we are on track for another strong year in Performance Fibers.

As a result we are again increasing our 2010 guidance. We now expect earnings of \$2.05 per share to \$2.20 per share for 2010, excluding the gain on the New Zealand joint venture transaction, and Cash Available for Distribution of \$360 million to \$380 million.

### ***Employee Relations***

In April 2010, collective bargaining agreements covering approximately 240 hourly employees at our Fernandina Beach, Florida Performance Fibers mill expired. Negotiations have now been successfully concluded and on July 29 the unions ratified a new four-year agreement. See Item 1 *Business* and Item 1A *Risk Factors*, respectively, in the 2009 Annual Report on Form 10-K for more information on employee relations.

### ***Liquidity and Capital Resources***

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

#### ***\$75 million Five-Year Term Loan Agreement***

In March 2010, TRS borrowed \$75 million under a five-year term loan agreement with a group of banks at LIBOR plus 275 basis points. We expect to use these funds for general corporate purposes.

**Table of Contents****Summary of Liquidity and Financing Commitments (in millions of dollars)**

	As of June 30, 2010	As of December 31, 2009
Cash and cash equivalents <sup>1</sup>	\$ 344	\$ 75
Total debt	764	700
Shareholders' equity	1,182	1,146
Total capitalization (total debt plus equity)	1,946	1,846
Debt to capital ratio	39%	38%

<sup>1</sup> Cash and cash equivalents consisted primarily of time deposits with original maturities of 90 days or less.

**Cash Provided by Operating Activities (in millions of dollars)**

	2010	2009	Increase
Six months ended June 30,	\$ 356	\$ 127	\$ 229

Cash provided by operating activities for the six months ended June 30, 2010 increased primarily due to a cash refund of \$189 million related to the AFMC received in April 2010. See Note 2 *Alternative Fuel Mixture Credit ( AFMC )* for additional information. Excluding the impact of the AFMC, cash provided by operating activities increased by approximately \$40 million primarily due to improved operating results and lower working capital requirements related to the timing of payments.

**Cash Used for Investing Activities (in millions of dollars)**

	2010	2009	Increase
Six months ended June 30,	\$ 77	\$ 53	\$ 24

Cash used for investing activities increased primarily due to a planned increase in capital expenditures for cost reduction and efficiency projects as well as environmental expenditures at our Jesup, Georgia Performance Fibers mill required under a 2008 consent decree. Additionally, restricted cash increased over prior year due to the timing of a like-kind exchange ( LKE ) transaction.

**Cash Used for Financing Activities (in millions of dollars)**

	2010	2009	Decrease
Six months ended June 30,	\$ 10	\$ 76	\$ 66

Cash used for financing activities decreased mainly due to higher net borrowings of \$60 million in 2010 versus no net borrowings in 2009.

**Expected 2010 Expenditures**

The amount of tax payments were de minimus during the first six months of 2010 compared to payments of \$5 million in the same period 2009. Cash payments for income taxes during 2010 are anticipated to be between \$18 million and \$22 million. A cash refund of \$189 million related to the AFMC was received in April 2010. The credit was effective for alternative fuel used in operations through December 31, 2009. See Note 2 *Alternative Fuel Mixture Credit ( AFMC )* for additional information. We made no discretionary pension contributions in the first six months of 2010; however, discretionary pension contributions may be in the \$40 million to \$50 million range later in the year, funded primarily by proceeds from the AFMC. Capital expenditures in 2010 are forecasted to be between \$140 million and \$145 million compared to \$92 million in 2009. Expenditures related to dispositions and discontinued operations were \$4 million for the first six months of 2010 and 2009. Full year 2010 expenditures of approximately \$10 million are anticipated.

*Performance and Liquidity Indicators*

The discussion below is presented to enhance the reader's understanding of our operating performance, liquidity, ability to generate cash and satisfy rating agency and creditor requirements. This information includes two measures of financial results:

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Earnings before Interest, Taxes, Depreciation, Depletion and Amortization ( EBITDA ) and Adjusted Cash Available for Distribution ( Adjusted CAD ). These measures are not defined by Generally Accepted Accounting Principles ( GAAP ) and the discussion of EBITDA and Adjusted CAD is not intended to conflict with or change any of the GAAP disclosures described above. Management considers these measures to be important to estimate the enterprise and shareholder values of the Company as a whole and of its core segments, and for allocating capital resources. In addition, analysts, investors and creditors use these measures when analyzing our operating performance, financial condition and cash generating ability. Management uses EBITDA as a performance measure and Adjusted CAD as a liquidity measure. EBITDA is defined by the Securities and Exchange Commission. Adjusted CAD as defined, however, may not be comparable to similarly titled measures reported by other companies.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Net Income	\$ 38.6	\$ 107.8	\$ 95.5	\$ 133.7
Income tax expense	5.9	14.5	13.6	19.2
Interest, net	11.8	11.9	24.1	24.5
Depreciation, depletion and amortization	33.2	48.2	76.5	86.7
<b>EBITDA</b>	<b>\$ 89.5</b>	<b>\$ 182.4</b>	<b>\$ 209.7</b>	<b>\$ 264.1</b>

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

EBITDA by Segment	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Timber	\$ 25.9	\$ 22.4	\$ 50.9	\$ 37.5
Real Estate	6.6	36.3	33.5	56.1
Performance Fibers	57.2	47.4	117.9	102.5
Wood Products	5.4	(1.3)	6.5	(3.7)
Other Operations	0.7	(2.1)	1.3	(1.3)
Corporate and other	(6.3)	79.7(a)	(0.4)(b)	73.0(a)
Total	\$ 89.5	\$ 182.4	\$ 209.7	\$ 264.1

(a) 2009 results include \$85.9 million related to the AFMC.

(b) Six months ended June 30, 2010 includes a gain of \$12.4 million from the sale of a portion of the Company's interest in the New Zealand joint venture. See Note 3 - *Joint Venture Investment* for additional information.

For the three months ended June 30, 2010, EBITDA was \$93 million below the prior year period primarily due to the inclusion of \$86 million in the 2009 results related to the AFMC. Excluding the AFMC, lower sales in the Real Estate segment were partially offset by higher operating results in the other segments.

For the six months ended June 30, 2010, EBITDA was \$54 million below the prior year period primarily due to the inclusion of \$86 million in the 2009 results related to the AFMC. Excluding the AFMC, EBITDA was \$32 million above prior year primarily due to higher operating results

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and a \$12 million gain from the sale of a portion of Rayonier's interest in its New Zealand joint venture in the 2010 period.

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

	Timber	Real Estate	Performance Fibers	Wood Products	Other Operations	Corporate and other	Total
<b>Three Months Ended June 30, 2010</b>							
Operating income (loss)	\$ 8.7	\$ 4.1	\$ 45.0	\$ 4.3	\$ 0.7	\$ (6.5)	\$ 56.3
Add: Depreciation, depletion and amortization	17.2	2.5	12.2	1.1	-	0.2	33.2
EBITDA	\$ 25.9	\$ 6.6	\$ 57.2	\$ 5.4	\$ 0.7	\$ (6.3)	\$ 89.5
<b>Three Months Ended June 30, 2009</b>							
Operating income (loss)	\$ 0.4	\$ 24.2	\$ 34.7	\$ (2.6)	\$ (2.1)	\$ 79.6(a)	\$ 134.2
Add: Depreciation, depletion and amortization	22.0	12.1	12.7	1.3	-	0.1	48.2
EBITDA	\$ 22.4	\$ 36.3	\$ 47.4	\$ (1.3)	\$ (2.1)	\$ 79.7	\$ 182.4
<b>Six Months Ended June 30, 2010</b>							
Operating income (loss)	\$ 16.9	\$ 21.5	\$ 89.9	\$ 4.3	\$ 1.3	\$ (0.7)(b)	\$ 133.2
Add: Depreciation, depletion and amortization	34.0	12.0	28.0	2.2	-	0.3	76.5
EBITDA	\$ 50.9	\$ 33.5	\$ 117.9	\$ 6.5	\$ 1.3	\$ (0.4)	\$ 209.7
<b>Six Months Ended June 30, 2009</b>							
Operating (loss) income	\$ (1.9)	\$ 38.6	\$ 75.5	\$ (6.1)	\$ (1.3)	\$ 72.6(a)	\$ 177.4
Add: Depreciation, depletion and amortization	39.4	17.5	27.0	2.4	-	0.4	86.7
EBITDA	\$ 37.5	\$ 56.1	\$ 102.5	\$ (3.7)	\$ (1.3)	\$ 73.0	\$ 264.1

(a) 2009 results include \$85.9 million related to the AFMC.

(b) Six months ended June 30, 2010 results include a gain of \$12.4 million from the sale of a portion of the Company's interest in the New Zealand joint venture. See Note 3 *Joint Venture Investment* for additional information.

Adjusted CAD is a non-GAAP measure of cash generated during a period which is available for dividend distribution, repurchasing common shares, debt reduction and for strategic acquisitions net of associated financing (e.g. realizing LKE tax benefits). We define Cash Available for Distribution (CAD) as Cash Provided by Operating Activities adjusted for capital spending, the tax benefits associated with certain strategic acquisitions, the change in committed cash, and other items which include cash provided by discontinued operations, proceeds from matured energy forward contracts, excess tax benefits on stock based compensation and the change in capital expenditures purchased on account. Committed cash represents outstanding checks that have been drawn on our zero balance bank accounts but have not been paid. In compliance with Securities and Exchange Commission requirements for non-GAAP measures, we reduce CAD by mandatory debt repayments which results in the measure entitled Adjusted CAD.

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

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	Six Months Ended June 30,	
	2010	2009
Cash used for investing activities	\$ (76.5)	\$ (53.4)
Cash used for financing activities	\$ (10.0)	\$ (75.7)
Cash provided by operating activities	\$ 355.8	\$ 127.2
Capital expenditures	(71.3)	(50.1)
Change in committed cash	9.9	20.5
Other	8.8	(1.2)
CAD	303.2	96.4
Mandatory debt repayments	-	-
Adjusted CAD	\$ 303.2	\$ 96.4



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For the six months ended June 30, 2010, adjusted CAD was \$207 million higher than the prior year period primarily due to the receipt of \$189 million related to the AFMC and lower working capital requirements. Adjusted CAD generated in any period is not necessarily indicative of amounts that may be generated in future periods.

### ***Liquidity Facilities***

We have a \$250 million unsecured revolving credit facility at an interest rate of LIBOR plus 40 basis points. The facility expires in August 2011. At June 30, 2010, the available borrowing capacity was \$245 million.

In connection with our installment notes, \$75 million five-year term loan agreement, and \$250 million revolving credit facility, covenants must be met, including ratios based on the facility's definition of EBITDA, Funds from Operations, and ratios of cash flows to fixed charges. At June 30, 2010, we are in compliance with all of these covenants.

In addition to these financial covenants, the installment notes, five-year term loan agreement and credit facility include customary covenants that limit the incurrence of debt, the disposition of assets, and the making of certain payments between RFR and Rayonier among others. An asset sales covenant in the RFR installment note-related agreements requires us, subject to certain exceptions, to either reinvest cumulative timberland sales proceeds for individual sales greater than \$10 million (the excess proceeds) in timberland-related investments and activities or, once the amount of excess proceeds not reinvested exceeds \$50 million, to offer the note holders prepayment of the notes ratably in the amount of the excess proceeds. As of December 31, 2009, the excess proceeds were \$19.8 million. During March 2010, the excess proceeds exceeded the \$50 million limit and as a result, repayment of \$53.0 million was offered to the note holders. The note holders declined the offer and the excess proceeds were reset to zero. As of June 30, 2010, the excess proceeds were \$12.2 million.

### ***Contractual Financial Obligations and Off-Balance Sheet Arrangements***

We have no material changes to the Contractual Financial Obligations table as presented in Item 7 *Management's Discussion and Analysis of Financial Condition and Results of Operations* of our 2009 Annual Report on Form 10-K. See Note 10 *Guarantees* for details on the letters of credit, surety bonds and guarantees as of June 30, 2010.

### ***New or Recently Adopted Accounting Pronouncements***

For information on new or recently adopted accounting pronouncements, see Note 1 *Basis of Presentation and New Accounting Pronouncements*.

**Table of Contents***Sales Volumes by Segment:*

	Three Months Ended June 30, Six Months Ended June 30,			
	2010	2009	2010	2009
<b>Timber</b>				
Western region, in millions of board feet	40	43	87	75
Eastern region, in thousands of short green tons	1,449	2,019	2,864	3,591
<b>Real Estate</b>				
Acres sold				
Development	64	213	374	223
Rural	2,948	2,793	4,950	4,162
Non-strategic timberlands	6,227	30,594	30,223	49,663
<b>Total</b>	<b>9,239</b>	<b>33,600</b>	<b>35,547</b>	<b>54,048</b>
<b>Performance Fibers</b>				
Sales Volume				
Cellulose specialties, in thousands of metric tons	115	91	226	199
Absorbent materials, in thousands of metric tons	51	65	112	130
<b>Lumber</b>				
Sales volume, in millions of board feet	65	57	120	110

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**Item 3. Quantitative and Qualitative Disclosures about Market Risk  
Market and Other Economic Risks**

Our exposures to market risk have not changed materially since December 31, 2009. For quantitative and qualitative disclosures about market risk, see Item 7A - *Quantitative and Qualitative Disclosures about Market Risk* in our 2009 Annual Report on Form 10-K.

**Item 4. Controls and Procedures**

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

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

Based on an evaluation of our disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that the design and operation of the disclosure controls and procedures were effective as of June 30, 2010.

In the quarter ended June 30, 2010, based upon the evaluation required by paragraph (d) of SEC Rule 13a-15, there were no changes in our internal control over financial reporting that would materially affect or are reasonably likely to materially affect our internal control over financial reporting.

**Table of Contents****PART II. OTHER INFORMATION****Item 5. Other Information**

On July 29, 2010, we completed a reorganization of our operating structure (the "Restructuring"). In connection with the Restructuring, Rayonier Inc. ("Rayonier") formed a new operating entity, named Rayonier Operating Company LLC ("ROC"), and entered into a contribution, conveyance and assumption agreement with ROC pursuant to which Rayonier contributed all of its assets to ROC in exchange for the assumption by ROC of all of Rayonier's liabilities and obligations. Rayonier now conducts and intends to continue to conduct its business through ROC, which owns all of the assets previously owned by Rayonier. As the sole member of ROC, Rayonier generally has the exclusive power under ROC's operating agreement to manage and conduct the business of ROC. Currently, ROC is wholly owned by Rayonier.

Among other advantages, the Restructuring will allow Rayonier to adopt a structure commonly referred to as an umbrella partnership real estate investment trust (or "UPREIT"). The UPREIT structure may enable us to acquire timberland assets and other properties from sellers on a tax deferred basis, because by accepting ROC equity interests in exchange for such assets sellers may be able to defer taxable gain otherwise required to be recognized by them upon disposition of these assets. ROC equity interests may also offer sellers diversification and liquidity in their investments and other benefits afforded to REIT shareholders. If Rayonier ever decides to acquire timberlands or other properties in exchange for equity interests in ROC (such that ROC would no longer be a wholly owned subsidiary of Rayonier), we would expect to amend and restate ROC's operating agreement.

In addition, as a result of the Restructuring, ROC became (i) a borrower under Rayonier's \$250 million unsecured revolving credit facility, and a guarantor of the obligations of the other borrowers (who, like ROC, are also subsidiaries of Rayonier) under the revolving credit facility, by entering into an assignment and assumption agreement and joinder agreement, respectively, each for the benefit of the lenders under the revolving credit facility and (ii) a guarantor of the outstanding 3.75% Senior Exchangeable Notes due 2012 and 4.50% Senior Exchangeable Notes due 2015 (collectively, the "Exchangeable Notes") issued by Rayonier TRS Holdings Inc., by entering into, in each case, a supplemental indenture to the respective indenture governing such Exchangeable Notes.

Copies of the limited liability company agreement for ROC, the contribution, conveyance and assumption agreement relating to the Restructuring, the assignment and assumption agreement and the joinder to the guarantee agreement relating to the revolving credit facility, and the supplemental indentures relating to the Exchangeable Notes are filed as exhibits to this Quarterly Report on Form 10-Q.

**Item 6. Exhibits**

3.1	Amended and Restated Articles of Incorporation	Incorporated by reference to Exhibit 3.1 to the Registrant's May 25, 2010 Form 8-K
3.2	Bylaws	Incorporated by reference to Exhibit 3.2 to the Registrant's October 21, 2009 Form 8-K
3.3	Limited Liability Company Agreement of Rayonier Operating Company LLC	Filed herewith
10.1	Rayonier Incentive Stock Plan, as amended	Incorporated by reference to Exhibit 10.1 to the Registrant's May 25, 2010 Form 8-K
10.2	Rayonier Inc. Excess Benefit Plan, as amended	Filed herewith
10.3	Rayonier Inc. Excess Savings and Deferred Compensation Plan, as amended	Filed herewith
10.4	Form of Rayonier Inc. Excess Savings and Deferred Compensation Plan Agreements	Filed herewith

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10.5	Election Form for the Performance Share Deferral Program	Filed herewith
10.6	Five Year Revolving Credit Agreement, dated as of August 4, 2006, among Rayonier Inc., Rayonier TRS Holdings Inc., and Rayonier Forest Resources, L.P., as borrowers, and the lenders and issuing banks from time to time parties thereto	Filed herewith
10.7	Contribution, Conveyance and Assumption Agreement, dated as of July 29, 2010, between Rayonier Inc. and Rayonier Operating Company LLC relating to the Restructuring.	Filed herewith
10.8	Assignment and Assumption Agreement, dated as of July 29, 2010, between Rayonier Inc. and Rayonier Operating Company LLC relating to the Revolving Credit Agreement.	Filed herewith
10.9	Joinder to Guarantee Agreement, dated as of July 29, 2010, between Rayonier Operating Company LLC and Credit Suisse AG (formerly known as Credit Suisse) acting through its Cayman Islands Branch, as administrative agent, relating to the Revolving Credit Agreement.	Filed herewith
10.10	First Supplemental Indenture, dated as of July 29, 2010, to the Indenture related to the 3.75% Senior Exchangeable Notes due 2012 dated as of October 16, 2007, among Rayonier TRS Holdings Inc., Rayonier Inc., Rayonier Operating Company LLC and The Bank of New York Mellon Trust Company, N.A., as trustee.	Filed herewith
10.11	First Supplemental Indenture, dated as of July 29, 2010, to the Indenture related to the 4.50% Senior Exchangeable Notes due 2015 dated as of August 12, 2009, among Rayonier TRS Holdings Inc., Rayonier Inc., Rayonier Operating Company LLC and The Bank of New York Mellon Trust Company, N.A., as trustee.	Filed herewith
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act	Filed herewith
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act	Filed herewith
32	Certification pursuant to Section 906 of the Sarbanes-Oxley Act	Furnished herewith
101	The following financial information from our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2010, formatted in Extensible Business Reporting Language ( XBRL ), includes: (i) the Condensed Consolidated Statements of Income and Comprehensive Income for the Three and Six Months Ended June 30, 2010 and 2009; (ii) the Condensed Consolidated Balance Sheets as of June 30, 2010 and December 31, 2009; (iii) the Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2010 and 2009; and (iv) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.	Furnished herewith pursuant to Rule 406T of Regulation S-T

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**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.

By: /s/ HANS E. VANDEN NOORT  
Hans E. Vanden Noort

*Senior Vice President and Chief Financial Officer  
(Principal Accounting Officer)*

July 30, 2010