RAYONIER INC
Form 10-Q
August 03, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 1-6780
Incorporated in the State of North Carolina
I.R.S. Employer Identification No. 13-2607329
1 RAYONIER WAY
WILDLIGHT, FL 32097
(Principal Executive Office)
Telephone Number: (904) 357-9100

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

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

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

As of July 27, 2018, there were outstanding 129,459,659 Common Shares of the registrant.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
SALES	$245,906	$200,964	$449,101	$395,455
Costs and Expenses				
Cost of sales	184,418	144,610	322,906	281,438
Selling and general expenses	11,502	10,246	20,504	19,836
Other operating income, net (Note 15)	(1,659)	(785)	(3,029)	(1,973)
	194,261	154,071	340,381	299,301
OPERATING INCOME	51,645	46,893	108,720	96,154
Interest expense	(8,102)	(8,631)	(16,155)	(17,046)
Interest and other miscellaneous income, net	2,905	4	3,525	522
INCOME BEFORE INCOME TAXES	46,448	38,266	96,090	79,630
Income tax expense (Note 8)	(7,110)	(7,493)	(14,047)	(13,774)
NET INCOME	39,338	30,773	82,043	65,856
Less: Net income attributable to noncontrolling interest	3,080	4,612	5,246	5,853
NET INCOME ATTRIBUTABLE TO RAYONIER INC.	36,258	26,161	76,797	60,003
OTHER COMPREHENSIVE (LOSS) INCOME				
Foreign currency translation adjustment, net of income tax expense of $0, $0, $0 and $0	(29,760)	21,484	(20,072)	23,916
Cash flow hedges, net of income tax (expense) benefit of ($2,008), $1,180, ($1,640) and $1,148	529	(1,988)	17,143	565
Amortization of pension and postretirement plans, net of income tax expense of $0, $0, $0 and $0	178	116	338	233
Total other comprehensive (loss) income	(29,053)	19,612	(2,591)	24,714
COMPREHENSIVE INCOME	10,285	50,385	79,452	90,570
Less: Comprehensive (loss) income attributable to noncontrolling interest	(5,011)	9,595	(528)	11,247
COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.	$15,296	$40,790	$79,980	$79,323
EARNINGS PER COMMON SHARE (Note 11)				
Basic earnings per share attributable to Rayonier Inc.	$0.28	$0.20	$0.60	$0.48
Diluted earnings per share attributable to Rayonier Inc.	$0.28	$0.20	$0.59	$0.47
Dividends declared per share	$0.27	$0.25	$0.52	$0.50

See Notes to Consolidated Financial Statements.

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

	June 30, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$106,611	$112,653
Accounts receivable, less allowance for doubtful accounts of $23 and $23	54,340	27,693
Inventory (Note 16)	19,125	24,141
Prepaid expenses	15,774	15,993
Other current assets	2,840	3,047
Total current assets	198,690	183,527
TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION	2,406,425	2,462,066
HIGHER AND BETTER USE TIMBERLANDS AND REAL ESTATE DEVELOPMENT	86,955	80,797
INVESTMENTS (NOTE 6)		
PROPERTY, PLANT AND EQUIPMENT		
Land	3,962	3,962
Buildings	23,142	23,618
Machinery and equipment	4,432	4,440
Construction in progress	545	627
Total property, plant and equipment, gross	32,081	32,647
Less — accumulated depreciation	(9,149)	(9,269)
Total property, plant and equipment, net	22,932	23,378
RESTRICTED CASH (NOTE 17)	69,638	59,703
OTHER ASSETS	66,422	49,010
TOTAL ASSETS	$2,851,062	$2,858,481
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$27,692	$25,148
Current maturities of long-term debt (Note 5)	—	3,375
Accrued taxes	5,299	3,781
Accrued payroll and benefits	6,690	9,662
Accrued interest	4,995	5,054
Deferred revenue	17,674	9,721
Other current liabilities	21,538	11,807
Total current liabilities	83,888	68,548
LONG-TERM DEBT, NET OF DEFERRED FINANCING COSTS (NOTE 5)	972,285	1,022,004
PENSION AND OTHER POSTRETIREMENT BENEFITS (NOTE 14)	30,230	31,905
OTHER NON-CURRENT LIABILITIES	51,782	43,084
COMMITMENTS AND CONTINGENCIES (NOTES 7 and 9)		
SHAREHOLDERS' EQUITY		
Common Shares, 480,000,000 shares authorized, 129,451,268 and 128,970,776 shares issued and outstanding	880,560	872,228
Retained earnings	716,328	707,378
Accumulated other comprehensive income (Note 18)	16,601	13,417
TOTAL RAYONIER INC. SHAREHOLDERS' EQUITY	1,613,489	1,593,023

Noncontrolling interest	99,388	99,917
TOTAL SHAREHOLDERS' EQUITY	1,712,877	1,692,940
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$2,851,062	$2,858,481

See Notes to Consolidated Financial Statements.

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RAYONIER INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)
(Dollars in thousands, except share data)

	Common Shares			Accumulated		
	Shares	Amount	Retained Earnings	Other Comprehensive Income	Non-controlling Interest	Shareholders' Equity
Balance, December 31, 2016	122,904,368	$709,867	$700,887	$856	$85,142	$1,496,752
Cumulative-effect adjustment due to adoption of ASU No. 2016-16	—	—	(14,365)	—	—	(14,365)
Net income	—	—	148,842	—	12,737	161,579
Dividends ($1.00 per share)	—	—	(127,986)	—	—	(127,986)
Issuance of shares under incentive stock plans	322,314	4,751	—	—	—	4,751
Stock-based compensation	—	5,396	—	—	—	5,396
Repurchase of common shares	(5,906)	(176)	—	—	—	(176)
Actuarial change and amortization of pension and postretirement plan liabilities	—	—	—	(208)	—	(208)
Foreign currency translation adjustment	—	—	—	7,416	1,698	9,114
Cash flow hedges	—	—	—	5,353	340	5,693
Issuance of shares under equity offering, net of costs	5,750,000	152,390	—	—	—	152,390
Balance, December 31, 2017	128,970,776	$872,228	$707,378	$13,417	$99,917	$1,692,940
Net income	—	—	76,797	—	5,246	82,043
Dividends ($0.52 per share)	—	—	(67,847)	—	—	(67,847)
Issuance of shares under incentive stock plans	561,475	7,824	—	—	—	7,824
Stock-based compensation	—	3,474	—	—	—	3,474
Repurchase of common shares	(80,983)	(2,966)	—	—	—	(2,966)
Amortization of pension and postretirement plan liabilities	—	—	—	338	—	338
Foreign currency translation adjustment	—	—	—	(15,251)	(4,821)	(20,072)
Cash flow hedges	—	—	—	18,097	(954)	17,143
Balance, June 30, 2018	129,451,268	$880,560	$716,328	$16,601	$99,388	$1,712,877

See Notes to Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2018	2017
OPERATING ACTIVITIES		
Net income	$82,043	$65,856
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, depletion and amortization	80,920	67,895
Non-cash cost of land and improved development	14,936	7,359
Stock-based incentive compensation expense	3,474	2,892
Deferred income taxes	13,653	15,214
Amortization of losses from pension and postretirement plans	338	233
Gain on sale of large disposition of timberlands	—	(28,183)
Other	(5,466)	1,719
Changes in operating assets and liabilities:		
Receivables	(26,203)	(10,421)
Inventories	1,014	(1,772)
Accounts payable	4,448	5,141
Income tax receivable/payable	(84)	(126)
All other operating activities	12,510	2,508
CASH PROVIDED BY OPERATING ACTIVITIES	181,583	128,315
INVESTING ACTIVITIES		
Capital expenditures	(25,920)	(29,840)
Real estate development investments	(4,501)	(5,599)
Purchase of timberlands	(31,234)	(237,235)
Net proceeds from large disposition of timberlands	—	42,029
Rayonier office building under construction	—	(5,573)
Other	113	1,033
CASH (USED FOR) INVESTING ACTIVITIES	(61,542)	(235,185)
FINANCING ACTIVITIES		
Issuance of debt	1,014	63,389
Repayment of debt	(54,389)	(60,422)
Dividends paid	(67,053)	(62,825)
Proceeds from the issuance of common shares under incentive stock plan	7,824	3,206
Proceeds from the issuance of common shares from equity offering, net of costs	—	152,390
Repurchase of common shares	(2,966)	—
CASH (USED FOR) PROVIDED BY FINANCING ACTIVITIES	(115,570)	95,738
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(578)	1,855
CASH, CASH EQUIVALENTS AND RESTRICTED CASH (a)		
Change in cash, cash equivalents and restricted cash	3,893	(9,277)
Balance, beginning of year	172,356	157,617
Balance, end of period	$176,249	$148,340
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period:		
Interest (b)	$14,858	$16,546
Income taxes	302	376

Non-cash investing activity:		
Capital assets purchased on account	6,646	5,284

(a) Due to the adoption of ASU No. 2016-18, restricted cash is now included with cash and cash equivalents when reconciling the beginning-of-year and end-of-period total amounts shown and therefore changes in restricted cash are no longer reported as investing activities. Prior period amounts have been restated to conform to current period presentation. For additional information and a reconciliation of cash, see Note 17 — Restricted Cash.

(b) Interest paid is presented net of patronage payments received of $3.8 million and $3.0 million for the six months ended June 30, 2018 and June 30, 2017, respectively. For additional information on patronage payments, see Note 5 — Debt in the 2017 Form 10-K.

See Notes to Consolidated Financial Statements.

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

1. BASIS OF PRESENTATION

The unaudited consolidated financial statements and notes thereto of Rayonier Inc. and its subsidiaries (“Rayonier” or the “Company”) have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”). The year-end balance sheet information was derived from audited financial statements not included herein. In the opinion of management, these financial statements and notes reflect any adjustments (all of which are normal recurring adjustments) necessary for a fair presentation of the results of operations, financial position and cash flows for the periods presented. These statements and notes should be read in conjunction with the financial statements and supplementary data included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, as filed with the SEC (the “2017 Form 10-K”).

SUMMARY OF UPDATES TO SIGNIFICANT ACCOUNTING POLICIES

REVENUE

See Note 2 — Revenue for significant accounting policies related to revenue that were revised upon adoption of Accounting Standards Codification (“ASC”) 606.

COST OF SALES

Cost of sales associated with real estate sold includes the cost of the land, the cost of any timber on the property that was conveyed to the buyer, any real estate development costs and any closing costs including sales commissions that may be borne by the Company. As allowed under GAAP, the Company expenses closing costs, including sales commissions, when incurred for all real estate sales with future performance obligations expected to be satisfied within one year. When developed residential or commercial land is sold, the cost of sales includes actual costs incurred and estimates of future development costs benefiting the property sold through completion. Costs are allocated to each sold unit or lot based upon the relative sales value. For purposes of allocating development costs, estimates of future revenues and development costs are re-evaluated periodically throughout the year, with adjustments being allocated prospectively to the remaining units available for sale.

For a full description of our significant accounting policies, see Note 2 — Summary of Significant Accounting Policies in the 2017 Form 10-K.

RECENTLY ADOPTED STANDARDS

The Company adopted Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606), on January 1, 2018. The Company elected to use the modified retrospective method to contracts that were not completed at the date of adoption. The Company also elected not to retrospectively restate contracts modified prior to January 1, 2018. A cumulative effect of adoption adjustment to the opening balance of retained earnings was not recorded as there was no accounting impact to any contracts with customers not completed at the date of adoption. See Note 2 — Revenue for additional information.

In March 2017, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires that an employer report the service cost component of net periodic benefit cost in the Consolidated Statements of Income in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. Additionally, the other components of net periodic benefit cost (interest cost, expected return on plan assets and amortization of losses or gains) are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. ASU No. 2017-07 is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods, and is required to be applied retrospectively to all periods presented beginning in the period of adoption. Rayonier adopted ASU No. 2017-07 during the first quarter ended March 31, 2018 and applied the update retrospectively to all periods presented. See Note 14 — Employee Benefit Plans for the components of net periodic benefit cost and the location of these items in the Consolidated Statements of Income and Comprehensive Income.

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

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the Consolidated Statements of Cash Flows. ASU No. 2016-18 is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. ASU No. 2016-18 is required to be applied retrospectively to all periods presented beginning in the period of adoption. Rayonier adopted ASU No. 2016-18 in the first quarter ended March 31, 2018 and applied the update retrospectively to all periods presented. Restricted cash is now included with cash and cash equivalents when reconciling the beginning-of-year and end-of-period total amounts shown on the Consolidated Statements of Cash Flows and therefore changes in restricted cash are no longer reported as cash flow activities. See Note 17 — Restricted Cash for additional information, including the nature of restrictions on the Company's cash, cash equivalents, and restricted cash.

Rayonier adopted ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Receipts and Cash Payments in the first quarter ended March 31, 2018 with no material impact on the consolidated financial statements.

NEW ACCOUNTING STANDARDS

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which currently requires lessees to recognize most leases on their balance sheets related to the rights and obligations created by those leases. ASU No. 2016-02 also requires additional qualitative and quantitative disclosures related to the nature, timing and uncertainty of cash flows arising from leases. In January 2018, the FASB issued ASU No. 2018-01, Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842. This update provides an optional transition practical expedient not to evaluate under ASU No. 2016-02 existing or expired land easements that were not previously accounted for as leases under the current leases guidance. An entity that elects this practical expedient should evaluate new or modified land easements under ASU No. 2016-02, once adopted. An entity that does not elect this practical expedient should evaluate all existing or expired land easements in connection with the adoption of ASU No. 2016-02 to assess whether they meet the definition of a lease. This standard is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and is required to be applied on a modified retrospective basis beginning at the earliest period presented. Early adoption is permitted. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which will make more financial and non-financial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. It is intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. ASU No. 2017-12 is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. Early adoption is permitted and the amended presentation and disclosure guidance is required to be applied on a prospective basis. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement—Reporting Comprehensive Income (Topic 220) Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, to allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments in this update also require certain disclosures about stranded tax effects.

ASU No. 2018-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. ASU No. 2018-02 is required to be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. Early adoption is permitted in any interim period for which financial statements have not yet been issued. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-03, Technical Corrections and Improvements to Financial Instruments —Overall (Subtopic 825-10), to clarify certain provisions of ASU No. 2016-01 and amend other provisions. ASU No. 2018-03 is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. Early adoption is permitted for entities that have adopted ASU 2016-01. The Company anticipates the adoption of this standard will not have a significant impact on the Company's consolidated financial statements.

SUBSEQUENT EVENTS

The Company has evaluated events occurring from June 30, 2018 to the date of issuance of these Consolidated Financial Statements for potential recognition or disclosure in the consolidated financial statements. No events were identified that warranted recognition or disclosure.

2. REVENUE

ADOPTION OF ASC 606

For information on the adoption of ASC 606, including changes to significant accounting policies and required transition disclosures, see Note 1 — Basis of Presentation.

REVENUE RECOGNITION

The Company recognizes revenues when control of promised goods or services ("performance obligations") is transferred to customers, in an amount that reflects the consideration expected to be entitled to in exchange for those goods or services ("transaction price"). The Company generally satisfies performance obligations within a year of entering into a contract and therefore has applied the disclosure exemption found under ASC 606-10-50-14. Unsatisfied performance obligations as of June 30, 2018 are primarily due to advances on stumpage contracts and unearned license revenue. These performance obligations are expected to be satisfied within the next twelve months. The Company generally collects payment within a year of satisfying performance obligations and therefore has elected not to adjust revenues for a financing component.

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

The following table presents our revenue from contracts with customers disaggregated by product type for the three and six months ended June 30, 2018 and 2017:

Three Months Ended	Southern Timber	Pacific Northwest Timber	New Zealand Timber	Real Estate	Trading	Elim.	Total
June 30, 2018							
Pulpwood	$20,300	$4,625	$7,788	—	$3,804	—	$36,517
Sawtimber	15,776	26,654	61,219	—	42,162	—	145,811
Hardwood	1,214	—	—	—	—	—	1,214
Total Timber Sales	37,290	31,279	69,007	—	45,966	—	183,542
License Revenue, Primarily From Hunting	3,936	103	142	—	—	—	4,181
Other Non-Timber/Carbon Revenue	6,589	749	504	—	—	—	7,842
Agency Fee Income	—	—	—	—	167	—	167
Total Non-Timber Sales	10,525	852	646	—	167	—	12,190
Improved Development	—	—	—	1,345	—	—	1,345
Unimproved Development	—	—	—	—	—	—	—
Rural	—	—	—	4,827	—	—	4,827
Non-strategic / Timberlands	—	—	—	43,688	—	—	43,688
Large Dispositions	—	—	—	—	—	—	—
Total Real Estate Sales	—	—	—	49,860	—	—	49,860
Revenue from Contracts with Customers	47,815	32,131	69,653	49,860	46,133	—	245,592
Other Non-Timber Sales, Primarily Lease	232	82	—	—	—	—	314
Intersegment	—	—	—	—	29	(29)	—
Total Revenue	$48,047	$32,213	$69,653	$49,860	$46,162	($29)	$245,906
June 30, 2017							
Pulpwood	$15,170	$2,803	$6,450	—	$3,711	—	$28,134
Sawtimber	14,580	16,648	46,403	—	37,996	—	115,627
Hardwood	1,027	—	—	—	—	—	1,027
Total Timber Sales	30,777	19,451	52,853	—	41,707	—	144,788
License Revenue, Primarily from Hunting	3,808	93	72	—	—	—	3,973
Other Non-Timber Revenue	753	858	86	—	—	—	1,697
Agency Fee Income	—	—	—	—	330	—	330
Total Non-Timber Sales	4,561	951	158	—	330	—	6,000
Improved Development	—	—	—	143	—	—	143
Unimproved Development	—	—	—	2,500	—	—	2,500
Rural	—	—	—	5,493	—	—	5,493
Non-strategic / Timberlands	—	—	24,311	17,484	—	—	41,795
Large Dispositions	—	—	—	—	—	—	—
Total Real Estate Sales	—	—	24,311	25,620	—	—	49,931
Revenue from Contracts with Customers	35,338	20,402	77,322	25,620	42,037	—	200,719
Other Non-Timber Sales, Primarily Lease	190	55	—	—	—	—	245
Total Revenue	$35,528	$20,457	$77,322	$25,620	$42,037	—	$200,964

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

Six Months Ended	Southern Timber	Pacific Northwest Timber	New Zealand Timber	Real Estate	Trading	Elim.	Total
June 30, 2018							
Pulpwood	$41,904	$8,044	$13,632	—	$8,062	—	$71,642
Sawtimber	31,713	53,721	105,964	—	76,987	—	268,385
Hardwood	1,811	—	—	—	—	—	1,811
Total Timber Sales	75,428	61,765	119,596	—	85,049	—	341,838
License Revenue, Primarily From Hunting	8,024	128	194	—	—	—	8,346
Other Non-Timber/Carbon Revenue	7,781	1,554	2,827	—	—	—	12,162
Agency Fee Income	—	—	—	—	289	—	289
Total Non-Timber Sales	15,805	1,682	3,021	—	289	—	20,797
Improved Development	—	—	—	2,465	—	—	2,465
Unimproved Development	—	—	—	7,446	—	—	7,446
Rural	—	—	—	6,480	—	—	6,480
Non-strategic / Timberlands	—	—	—	69,533	—	—	69,533
Large Dispositions	—	—	—	—	—	—	—
Total Real Estate Sales	—	—	—	85,924	—	—	85,924
Revenue from Contracts with Customers	91,233	63,447	122,617	85,924	85,338	—	448,559
Other Non-Timber Sales, Primarily Lease	402	140	—	—	—	—	542
Intersegment	—	—	—	—	35	(35)	—
Total Revenue	$91,635	$63,587	$122,617	$85,924	$85,373	($35)	$449,101
June 30, 2017							
Pulpwood	$34,146	$6,162	$11,611	—	$6,547	—	$58,466
Sawtimber	27,603	38,081	81,982	—	69,137	—	216,803
Hardwood	1,743	—	—	—	—	—	1,743
Total Timber Sales	63,492	44,243	93,593	—	75,684	—	277,012
License Revenue, Primarily from Hunting	7,638	190	119	—	—	—	7,947
Other Non-Timber Revenue	3,142	1,804	173	—	—	—	5,119
Agency Fee Income	—	—	—	—	618	—	618
Total Non-Timber Sales	10,780	1,994	292	—	618	—	13,684
Improved Development	—	—	—	143	—	—	143
Unimproved Development	—	—	—	2,500	—	—	2,500
Rural	—	—	—	12,232	—	—	12,232
Non-strategic / Timberlands	—	—	24,311	23,083	—	—	47,394
Large Dispositions	—	—	—	41,951	—	—	41,951
Total Real Estate Sales	—	—	24,311	79,909	—	—	104,220
Revenue from Contracts with Customers	74,272	46,237	118,196	79,909	76,302	—	394,916
Other Non-Timber Sales, Primarily Lease	394	145	—	—	—	—	539
Total Revenue	$74,666	$46,382	$118,196	$79,909	$76,302	—	$395,455

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REVENUE RECOGNITION FOR TIMBER SALES AND NON-TIMBER INCOME

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

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

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

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

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

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The following table presents our timber sales disaggregated by contract type for the three and six months ended June 30, 2018 and 2017:

Three Months Ended	Southern Timber	Pacific Northwest Timber	New Zealand Timber	Trading	Total
June 30, 2018					
Stumpage Pay-as-Cut	$19,855	—	—	—	$19,855
Stumpage Lump Sum	256	4,605	—	—	4,861
Stumpage Agreed Volume	—	—	—	—	—
Total Stumpage	20,111	4,605	—	—	24,716
Delivered Wood (Domestic)	15,166	26,674	25,647	1,567	69,054
Delivered Wood (Export)	2,013	—	43,360	44,399	89,772
Total Delivered	17,179	26,674	69,007	45,966	158,826
Total Timber Sales	$37,290	$31,279	$69,007	$45,966	$183,542
June 30, 2017					
Stumpage Pay-as-Cut	$18,249	—	—	—	$18,249
Stumpage Lump Sum	2,247	—	—	—	2,247
Stumpage Agreed Volume	—	54	—	—	54
Total Stumpage	20,496	54	—	—	20,550
Delivered Wood (Domestic)	10,281	19,397	20,598	1,317	51,593
Delivered Wood (Export)	—	—	32,255	40,390	72,645
Total Delivered	10,281	19,397	52,853	41,707	124,238
Total Timber Sales	$30,777	$19,451	$52,853	$41,707	$144,788

Six Months Ended	Southern Timber	Pacific Northwest Timber	New Zealand Timber	Trading	Total
June 30, 2018					
Stumpage Pay-as-Cut	$42,364	—	—	—	$42,364
Stumpage Lump Sum	2,074	9,711	—	—	11,785
Stumpage Agreed Volume	—	—	—	—	—
Total Stumpage	44,438	9,711	—	—	54,149
Delivered Wood (Domestic)	28,543	52,054	45,750	2,504	128,851
Delivered Wood (Export)	2,447	—	73,846	82,545	158,838
Total Delivered	30,990	52,054	119,596	85,049	287,689
Total Timber Sales	$75,428	$61,765	$119,596	$85,049	$341,838
June 30, 2017					
Stumpage Pay-as-Cut	$38,352	—	—	—	$38,352

Stumpage Lump Sum	5,043	2,580	—	—	7,623
Stumpage Agreed Volume	—	1,234	—	—	1,234
Total Stumpage	43,395	3,814	—	—	47,209
Delivered Wood (Domestic)	20,097	40,429	39,443	2,324	102,293
Delivered Wood (Export)	—	—	54,150	73,360	127,510
Total Delivered	20,097	40,429	93,593	75,684	229,803
Total Timber Sales	$63,492	$44,243	$93,593	$75,684	$277,012

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REVENUE RECOGNITION FOR REAL ESTATE SALES
The Company recognizes revenue on sales of real estate generally at the point in time when cash has been received, the sale has closed, and control has passed to the buyer. A deposit of 5% is generally required at the time a purchase and sale agreement is executed, with the balance due at closing. On sales of real estate containing future performance obligations, revenue is recognized using the input method based on costs incurred to date relative to the total costs expected to fulfill the performance obligations in the contract with the customer.
REVENUE RECOGNITION FOR LOG TRADING
Log trading revenue is generally recognized when procured logs are delivered to the buyer and control has passed. For domestic log trading, control is considered passed to the buyer as the logs are delivered to the customer's facility. For export log trading, control is considered passed to the buyer upon delivery onto the export vessel. The Trading segment also includes sales from log agency contracts, whereby the Company acts as an agent managing export services on behalf of third parties. Revenue for log agency fees are recognized net of related costs.
Contract Balances
The timing of revenue recognition, invoicing and cash collections results in accounts receivable and deferred revenue (contract liabilities) on the Consolidated Balance Sheets. Accounts receivable are recorded when the Company has an unconditional right to consideration for completed performance under the contract. Contract liabilities relate to payments received in advance of performance under the contract. Contract liabilities are recognized as revenue as (or when) the Company performs under the contract.
The following tables summarizes revenue recognized during the three and six months ended June 30, 2018 and 2017 that was included in the contract liability balance at the beginning of each year:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenue recognized from contract liability balance at the beginning of the year (a)	$5,429	$3,809	$11,800	$8,592

(a) Revenue recognized was primarily from hunting licenses and the use of advances on pay-as-cut timber sales.
3. JOINT VENTURE INVESTMENT
MATARIKI FORESTRY GROUP
The Company maintains a controlling financial interest in Matariki Forestry Group (the "New Zealand JV"), a joint venture that owns or leases approximately 411,000 legal acres of New Zealand timberland. Accordingly, the Company consolidates the New Zealand JV's balance sheet and results of operations. The portions of the consolidated financial position and results of operations attributable to the New Zealand JV's 23% noncontrolling interest are shown separately within the Consolidated Statements of Income and Comprehensive Income and Consolidated Statements of Changes in Shareholders' Equity. Rayonier New Zealand Limited ("RNZ"), a wholly-owned subsidiary of Rayonier Inc., serves as the manager of the New Zealand JV.

4. SEGMENT AND GEOGRAPHICAL INFORMATION
Sales between operating segments are made based on estimated fair market value, and intercompany sales, purchases and profits (losses) are eliminated in consolidation. The Company evaluates financial performance based on segment operating income and Adjusted EBITDA. Asset information is not reported by segment, as the Company does not produce asset information by segment internally.

Operating income as presented in the Consolidated Statements of Income and Comprehensive Income is equal to segment income. Certain income (loss) items in the Consolidated Statements of Income and Comprehensive Income are not allocated to segments. These items, which include interest expense, interest and other miscellaneous income

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and income tax expense, are not considered by management to be part of segment operations and are included under "Corporate and other" or "unallocated interest expense and other."
The following tables summarize the segment information for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
SALES	2018	2017	2018	2017
Southern Timber	$48,047	$35,528	$91,635	$74,666
Pacific Northwest Timber	32,213	20,457	63,587	46,382
New Zealand Timber	69,653	77,322	122,617	118,196
Real Estate (a)	49,860	25,620	85,924	79,909
Trading	46,162	42,037	85,373	76,302
Intersegment Eliminations	(29)	—	(35)	—
Total	$245,906	$200,964	$449,101	$395,455

(a) The six months ended June 30, 2017 includes $42.0 million of Large Dispositions.

	Three Months Ended June 30,		Six Months Ended June 30,	
OPERATING INCOME (LOSS)	2018	2017	2018	2017
Southern Timber	$15,651	$9,655	$27,878	$23,594
Pacific Northwest Timber	5,625	(1,535)	10,299	(2,413)
New Zealand Timber	17,768	26,804	33,725	37,046
Real Estate (a)	18,864	16,133	46,918	45,798
Trading	227	1,141	376	2,239
Corporate and other	(6,490)	(5,305)	(10,476)	(10,110)
Total Operating Income	51,645	46,893	108,720	96,154
Unallocated interest expense and other	(5,197)	(8,627)	(12,630)	(16,524)
Total Income before Income Taxes	$46,448	$38,266	$96,090	$79,630

(a) The six months ended June 30, 2017 includes $28.2 million of Large Dispositions.

	Three Months Ended June 30,		Six Months Ended June 30,	
DEPRECIATION, DEPLETION AND AMORTIZATION	2018	2017	2018	2017
Southern Timber	$14,940	$11,904	$30,919	$24,356
Pacific Northwest Timber	9,381	7,075	18,885	17,285
New Zealand Timber (a)	8,026	15,456	13,743	20,863
Real Estate (b)	13,739	2,596	16,805	13,303
Trading	—	—	—	—
Corporate and other	297	92	568	192
Total	$46,383	$37,123	$80,920	$75,999

(a) The three and six months ended June 30, 2017 includes $8.9 million of timber cost basis expensed in conjunction with a timberland sale.
(b) The six months ended June 30, 2017 includes $8.1 million from Large Dispositions.

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NON-CASH COST OF LAND AND IMPROVED DEVELOPMENT	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Southern Timber	—	—	—	—
Pacific Northwest Timber	—	—	—	—
New Zealand Timber	—	128	—	128
Real Estate (a)	13,312	2,752	14,936	12,974
Trading	—	—	—	—
Total	$13,312	$2,880	$14,936	$13,102

(a) The six months ended June 30, 2017 includes $5.7 million from Large Dispositions.

5. DEBT

Rayonier’s debt consisted of the following at June 30, 2018:

	June 30, 2018
Term Credit Agreement borrowings due 2024 at a variable interest rate of 3.6% at June 30, 2018 (a)	$350,000
Senior Notes due 2022 at a fixed interest rate of 3.75%	325,000
Incremental Term Loan Agreement borrowings due 2026 at a variable interest rate of 3.9% at June 30, 2018 (b)	300,000
Total debt	975,000
Less: Deferred financing costs	(2,715)
Long-term debt, net of deferred financing costs	$972,285

(a) As of June 30, 2018, the periodic interest rate on the term loan facility was LIBOR plus 1.625%. The Company estimates the effective fixed interest rate on the term loan facility to be approximately 3.3% after consideration of interest rate swaps and estimated patronage refunds.

(b) As of June 30, 2018, the periodic interest rate on the incremental term loan was LIBOR plus 1.900%. The Company estimates the effective fixed interest rate on the incremental term loan facility to be approximately 2.8% after consideration of interest rate swaps and estimated patronage refunds.

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

2018	—
2019	—
2020	—
2021	—
2022	325,000
Thereafter	650,000
Total Debt	$975,000

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2018 DEBT ACTIVITY

During the six months ended June 30, 2018, the Company made a repayment of $50.0 million on the Revolving Credit Facility. As of June 30, 2018, the Company had available borrowings of $189.6 million under the Revolving Credit Facility, net of $10.4 million to secure its outstanding letters of credit.

In addition, the New Zealand JV made borrowings and repayments of $1.0 million on its working capital facility. As of June 30, 2018, draws totaling NZ$40.0 million remain available on the working capital facility. The New Zealand JV also fully repaid its shareholder loan held by the noncontrolling interest party during the six months ended June 30, 2018.

DEBT COVENANTS

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

In addition to these financial covenants listed above, the Senior Notes, Term Credit Agreement, Incremental Term Loan Agreement and Revolving Credit Facility include customary covenants that limit the incurrence of debt and the disposition of assets, among others. At June 30, 2018, the Company was in compliance with all applicable covenants.

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

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

An analysis of higher and better use timberlands and real estate development investments from December 31, 2017 to June 30, 2018 is shown below:

	Higher and Better Use Timberlands and Real Estate Development Investments		
	Land and Timber	Development Investments	Total
Non-current portion at December 31, 2017	$59,653	$21,144	$80,797
Plus: Current portion (a)	6,702	11,648	18,350
Total Balance at December 31, 2017	66,355	32,792	99,147
Non-cash cost of land and improved development	(1,034)	(1,853)	(2,887)
Timber depletion from harvesting activities and basis of timber sold in real estate sales	(929)	—	(929)
Capitalized real estate development investments (b)	—	4,500	4,500
Capital expenditures (silviculture)	47	—	47
Intersegment transfers	1,325	—	1,325
Total Balance at June 30, 2018	65,764	35,439	101,203

Less: Current portion (a)	(4,241)	(10,007)	(14,248)
Non-current portion at June 30, 2018	$61,523	$25,432	$86,955

(a) The current portion of Higher and Better Use Timberlands and Real Estate Development Investments is recorded in Inventory. See Note 16 — Inventory for additional information.
(b) Capitalized real estate development investments include $0.3 million of capitalized interest.

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7. COMMITMENTS

The Company leases certain buildings, machinery, and equipment under various operating leases. The Company also has long-term lease agreements on certain timberlands in the Southern U.S. and New Zealand. U.S. leases typically have initial terms of approximately 30 to 65 years, with renewal provisions in some cases. New Zealand timberland lease terms range between 30 and 99 years. Such leases are generally non-cancellable and require minimum annual rental payments.

At June 30, 2018, the future minimum payments under non-cancellable operating leases, timberland leases and other commitments were as follows:

	Operating Leases	Timberland Leases (a)	Commitments (b)	Total
Remaining 2018	$590	$5,689	$7,641	$13,920
2019	1,032	8,873	5,121	15,026
2020	850	8,495	3,403	12,748
2021	736	8,497	1,573	10,806
2022	705	8,260	956	9,921
Thereafter (c)	708	147,321	1,510	149,539
	$4,621	$187,135	$20,204	$211,960

(a) The majority of timberland leases are subject to increases or decreases based on either the Consumer Price Index, Producer Price Index or market rates.

(b) Commitments include $1.7 million of pension contribution requirements remaining in 2018 based on actuarially determined estimates and IRS minimum funding requirements, payments expected to be made on derivative financial instruments (foreign exchange contracts and interest rate swaps), construction of the Company’s Wildlight development project and other purchase obligations. For additional information on the pension contribution see Note 15 — Employee Benefit Plans in the 2017 Form 10-K.

(c) Includes 20 years of future minimum payments for perpetual Crown Forest Licenses (“CFL”). A CFL consists of a license to use public or government owned land to operate a commercial forest. The CFL's extend indefinitely and may only be terminated upon a 35-year termination notice from the government. If no termination notice is given, the CFLs renew automatically each year for a one-year term. As of June 30, 2018, the New Zealand JV has three CFL’s under termination notice that are currently being relinquished as harvest activities are concluding, as well as two fixed term CFL’s expiring in 2062. The annual license fee is determined based on current market rental value, with triennial rent reviews.

8. INCOME TAXES

The operations conducted by the Company’s REIT entities are generally not subject to U.S. federal and state income tax. The New Zealand JV is subject to corporate level tax in New Zealand. Non-REIT qualifying operations are conducted by the Company’s TRS. The primary businesses performed in Rayonier’s TRS include log trading and certain real estate activities, such as the sale, entitlement and development of HBU properties. For the three and six months ended June 30, 2018, the Company recorded income tax expense of $7.1 million and $14.0 million, respectively. For the three and six months ended June 30, 2017, the Company recorded income tax expense of $7.5 million and $13.8 million, respectively.

PROVISION FOR INCOME TAXES

The Company’s effective tax rate is below the 21.0% U.S. statutory rate due to tax benefits associated with being a REIT. The Company’s annualized effective tax rate (“AETR”) as of June 30, 2018 and June 30, 2017 was 14.5% and 17.3%, respectively. The increase in income tax expense and the decrease in AETR for the three and six months ended

June 30, 2018 is principally related to the New Zealand JV.

In accordance with GAAP, the Company recognizes the impact of a tax position if a position is “more-likely-than-not” to prevail. For the six months ended June 30, 2018, there were no material changes in uncertain tax positions.

U.S. TAX REFORM

The Tax Cuts and Jobs Act (the “Act”) was signed into law on December 22, 2017 making significant changes to the Internal Revenue Code. Changes include a permanent reduction in the U.S. statutory corporate income tax rate from 35% to 21% beginning January 1, 2018 and a one-time transition tax on the deemed repatriation of deferred foreign earnings in 2017.

The SEC issued Staff Accounting Bulletin 118 (“SAB 118”), which provides additional clarification regarding the application of ASC Topic 740 when registrants do not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting for certain income tax effects of the Act for the reporting period in which the Act was enacted. SAB 118 provides a measurement period beginning in the reporting period that includes the Act’s enactment date and ending when the registrant has obtained, prepared, and analyzed the information needed in order to complete the accounting requirements, but in no circumstances should the measurement period extend beyond one year from the enactment date.

The Company has not completed its assessment of the accounting implications of the Act. However, the Company reasonably calculated an estimate of the impact of the Act in the 2017 year end income tax provision and recorded $0.1 million of additional income tax expense as of December 31, 2017. This amount was offset by the Alternative Minimum Tax credit benefit, resulting in a zero net effect to income tax expense. This provisional amount is related to the one-time transition tax on the deemed repatriation of deferred foreign earnings as of December 31, 2017. The remeasurement of certain deferred tax assets and liabilities resulting from the permanent reduction in the U.S. statutory corporate tax rate resulted in a provisional amount of zero as the change in rate was offset by a change in the valuation allowance.

As the Company completes its analysis of the Act, it may make adjustments to the provisional amounts. No adjustments have been made to the provisional amounts as of the six months ended June 30, 2018. However, any subsequent adjustments to these amounts will be recorded to current tax expense in the quarter the analysis is complete.

The Act subjects a U.S. shareholder to current tax on global intangible low-taxed income (“GILTI”) earned by certain foreign subsidiaries effective January 1, 2018. For the current year, the Company’s REIT entity has a GILTI income inclusion of $1.7 million. The FASB Staff Q&A, Topic 740 No. 5, Accounting for Global Intangible Low-Taxed Income, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred. Due to the Company’s REIT status and the corresponding distribution requirement, the Company has neither a deferred tax related to GILTI nor any current tax expense.

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9. CONTINGENCIES

Following the Company's November 10, 2014 earnings release and filing of the restated interim financial statements for the quarterly periods ended March 31 and June 30, 2014, (the "November 2014 Announcement"), on November 26, 2014, December 29, 2014, January 26, 2015, February 13, 2015, and May 12, 2015, the Company received separate letters from shareholders requesting that the Company investigate or pursue derivative claims against certain officers and directors related to the November 2014 Announcement (the "Derivative Claims"). Although these demands do not identify any claims against the Company, the Company has certain obligations to advance expenses and provide indemnification to certain current and former officers and directors of the Company. The Company has also incurred expenses as a result of costs arising from the investigation of the claims alleged in the various demands.

Following the Company's receipt of the Derivative Claims, it entered into a series of tolling agreements with the shareholders from whom it received demands (the "Demand Shareholders"). The last of these tolling agreements ended in March of 2017. On October 13, 2017, one of the Demand Shareholders filed an action in the United States District Court for the Middle District of Florida, currently styled Molloy v. Boynton, et al., Civil Action No. 3:17-cv-01157-TJC-MCR (the "Derivative Lawsuit"). The complaint alleges breaches of fiduciary duties and unjust enrichment and names as defendants former officers, Paul G. Boynton, Hans E. Vanden Noort and N. Lynn Wilson, and former directors, C. David Brown, II, Mark E. Gaumond, James H. Miller, Thomas I. Morgan and Ronald Townsend (the former officers and directors named as defendants are collectively the "Individual Defendants").
In November 2017, the parties reached an agreement to resolve all claims brought in the Derivative Lawsuit and agreed to negotiate in good faith regarding the amount of attorneys' fees and expenses to be paid to the Demand Shareholders' counsel, subject to court approval. The parties executed a term sheet on November 27, 2017, and agreed to schedule a mediation regarding the amount of attorneys' fees and expenses. On November 30, 2017, Rayonier and certain of the Individual Defendants who had been served with the complaint filed an unopposed Motion to Stay or, in the Alternative, to Extend Time to Respond to the Complaint in order to allow the parties time to attempt to resolve the Derivative Lawsuit without further litigation. On December 6, 2017, the Court entered an order staying the case, directing that the case be administratively closed, and ordering the parties to file a joint status report with the Court not later than March 15, 2018. At December 31, 2017, the case was stayed, some of the Individual Defendants had not yet been served, none of the defendants had filed any responsive pleading or dispositive motion, and the Company could not determine whether there was a likelihood a material loss had been incurred nor could the range of any such loss be estimated.
On March 13, 2018, the Demand Shareholders, Rayonier, certain of Rayonier's directors' and officers' insurance carriers, and certain of the Individual Defendants participated in a mediation, at the conclusion of which the parties reached an agreement in principle to settle the case and amended the term sheet to memorialize such agreement. On April 17, 2018, Plaintiff filed with the Court Plaintiff's Unopposed Motion for Preliminary Approval of Derivative Settlement and Memorandum of Legal Authority in Support ("Motion for Preliminary Approval"). The terms of the proposed settlement (the "Settlement") are contained in the Stipulation and Agreement of Settlement (the "Stipulation"), which was attached to the Motion for Preliminary Approval and filed with the Court. The Stipulation, executed by all parties, included the material terms of the term sheet. Pursuant to the terms of the Settlement, which is subject to Court approval and objections by shareholders, the Company agreed to certain governance reforms and to cause certain of its directors' and officers' liability insurance carriers to fund a settlement payment for the Demand Shareholders' attorneys' fees and expenses as well as incentive awards to the Demand Shareholders in the aggregate amount of $1.995 million. The payments agreed to on March 13, 2018, including the realized amount to be funded by the insurance carriers, were reflected in the Company's Consolidated Financial Statements as of June 30, 2018.

The Company has also 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 large deductible insurance plans, primarily in the areas of executive risk, property, automobile and general liability. These pending lawsuits and claims, either individually or in the aggregate, are not expected to have a material adverse effect on the Company's financial position, results of operations, or cash flow.

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

10. GUARANTEES

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

As of June 30, 2018, the following financial guarantees were outstanding:

Financial Commitments	Maximum Potential