

RAYONIER INC
Form 10-K
February 23, 2011
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 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 No. 13-2607329

1301 RIVERPLACE BOULEVARD

JACKSONVILLE, FL 32207

(Principal Executive Office)

Telephone Number: (904) 357-9100

Securities registered pursuant to Section 12(b) of the Exchange Act,

all of which are registered on the New York Stock Exchange:

Common Shares

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. YES
NO

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).

YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The aggregate market value of the Common Shares of the registrant held by non-affiliates at the close of business on June 30, 2010 was \$3,497,091,557 based on the closing sale price as reported on the New York Stock Exchange.

As of February 11, 2011, there were outstanding 81,072,140 Common Shares of the registrant.

Portions of the registrant's definitive proxy statement to be filed with the Securities and Exchange Commission in connection with the 2011 annual meeting of the shareholders of the registrant scheduled to be held May 19, 2011, are incorporated by reference in Part III hereof.

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All other financial statement schedules have been omitted because they are not applicable, the required matter is not present, or the required information has been otherwise supplied in the financial statements or the notes thereto.

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PART I

When we refer to we, us, our, the Company, or Rayonier, we mean Rayonier Inc. and its consolidated subsidiaries. References herein to Notes to Financial Statements refer to the Notes to the Consolidated Financial Statements of Rayonier Inc. included in Item 8 of this Report.

Note About Forward-Looking Statements

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 similar language. Forward-looking statements are not guarantees of future performance and undue reliance should not be placed on these statements. The risk factors contained in Item 1A *Risk Factors*, among others, could cause actual results to differ materially from those expressed in forward-looking statements that are made in this document.

Forward-looking statements are only as of the date they are made, and the Company undertakes no duty to update its forward-looking statements except as required by law. You are advised, however, to review any further disclosures we make on related subjects in our subsequent Forms 10-Q, 10-K, 8-K and other reports to the SEC.

Item 1. BUSINESS

General

We are a leading international forest products company primarily engaged in activities associated with timberland management, the sale and entitlement of real estate, and the production and sale of high value specialty cellulose fibers and fluff pulp. We own, lease or manage approximately 2.4 million acres of timberland and real estate located in the United States and New Zealand. We believe that Rayonier is the seventh largest private timberland owner in the U.S. Included in this property is approximately 0.2 million acres of high value real estate located primarily along the coastal corridor from Savannah, Georgia to Daytona Beach, Florida. We own and operate two specialty cellulose mills in the United States. In addition, we manufacture lumber in three sawmills in Georgia and engage in the trading of logs. For information on sales, operating income and identifiable assets by reportable segment, see Item 7 *Management's Discussion and Analysis of Financial Condition and Results of Operations* and Note 4 *Segment and Geographical Information*.

Our corporate strategy is to:

Increase the size and quality of our timberland holdings through cash-accretive timberland acquisitions while selling timberland that no longer meets our strategic or financial return requirements.

Extract maximum value from our higher and better use (HBU) properties. This includes entitling development property and maintaining a rural HBU sales program for conservation, recreation and industrial uses.

Differentiate our Performance Fibers business by developing and improving customer specific applications. We emphasize operational excellence to ensure quality, reliability and efficiency. We are also evaluating the conversion of our absorbent material production line at the Jesup, Georgia mill to produce cellulose specialties.

We originated as the Rainier Pulp & Paper Company founded in Shelton, Washington in 1926. In 1937, we became Rayonier Incorporated, a public company traded on the New York Stock Exchange (NYSE), until 1968 when we became a wholly-owned subsidiary of ITT Corporation (ITT). On February 28, 1994, Rayonier again became an independent public company after ITT distributed all of Rayonier's Common Shares to ITT stockholders. Our shares are publicly traded on the NYSE under the symbol RYN. We are a North Carolina corporation with executive offices located at 1301 Riverplace Boulevard, Jacksonville, Florida 32207. Our telephone number is (904) 357-9100.

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The Company is a Real Estate Investment Trust (REIT). Under this structure, we are generally not required to pay federal income taxes on our earnings from timber harvest operations and other REIT-qualifying activities contingent upon meeting applicable distribution, income, asset, shareholder and other tests.

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In July 2010, we completed a reorganization of our operating structure by forming a new operating entity, Rayonier Operating Company LLC (ROC), that will allow us to become an umbrella partnership real estate investment trust (UPREIT). The UPREIT structure will enable us to acquire timberland assets and other properties by issuing ROC equity interests to sellers. Currently, ROC is wholly-owned by Rayonier.

Our principal businesses are conducted through two entities. Our U.S. timber operations are primarily conducted by a wholly-owned REIT subsidiary, Rayonier Forest Resources, L.P. Our non-REIT qualifying operations, which are subject to corporate-level tax, are held by our wholly-owned taxable REIT subsidiary, Rayonier TRS Holdings Inc. (TRS). These operations include our Performance Fibers, Wood Products and trading businesses, as well as the sale and entitlement of HBU properties.

Timber

Our Timber segment owns, leases or manages approximately 2.3 million acres of timberlands, and sells standing timber (primarily at auction to third parties) and delivered logs. We also generate non-timber income from other land related activities. See chart in Item 2 *Properties* for additional information.

Our Eastern U.S. timberland holdings consist of approximately 1.6 million acres in Alabama, Arkansas, Florida, Georgia, Louisiana, New York, Oklahoma and Texas. The predominant tree species across these timberlands are loblolly and slash pine. Hardwoods include red oak, sweet gum, black gum, red maple, cypress, black cherry, sugar maple and yellow birch. Our Eastern U.S. timber is primarily a mix of sawtimber and pulpwood. The average rotation (harvest) age for timber from the Eastern U.S. (primarily Southern pine), excluding New York, is between 21 and 24 years. Due to slower timber growth rates, the harvest age on the New York timberlands (primarily specialty hardwoods) ranges widely from 40 to 80 years. End-use markets for our Eastern timber include pulp, paper and wood products facilities.

Our Western U.S. timberlands consist of approximately 0.4 million acres of primarily second and third growth softwood timber in western Washington with approximately 51 percent hemlock, 36 percent Douglas-fir and the remainder western red cedar, spruce and red alder. Rotation age for timber from the Western U.S. ranges from 35 to 50 years, and is primarily composed of sawtimber.

In addition, we have a 26 percent interest in a New Zealand joint venture (JV), which we manage. The JV owns or leases approximately 0.3 million acres of primarily radiata pine timberland.

Merchantable timber inventory is an estimate of timber volume based on the earliest economically harvestable age. Estimates are based on an inventory system that involves periodic statistical sampling. Adjustments are made on the basis of growth estimates, harvest information, environmental restrictions and market conditions. Timber located in swamplands, restricted or environmentally sensitive areas is not included in the merchantable inventory shown below.

The following table sets forth the estimated volumes of merchantable timber in the U.S. by location and type, as of December 31, 2010:

Location	Softwood	Hardwood	Total	Equivalent total, in thousands of short green	
				tons	%
Eastern, in thousands of short green tons	32,885	20,639	53,524	53,524	84
Western, in millions of board feet	1,208	72	1,280	9,987	16
				63,511	100

We manage our timberlands in accordance with the requirements of the Sustainable Forestry Initiative® (SFI) program, a comprehensive system of environmental principles, objectives and performance measures that combines the perpetual growing and harvesting of trees with the protection of wildlife, plants, soil and water quality. Through application of our site-specific silvicultural expertise and financial discipline, we manage timber in a way that optimizes site preparation, tree species selection, competition control, use of fertilization and timing of thinning and final harvest. We also have a genetic tree improvement program aimed to enhance the productivity and quality of our timber. In addition,

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non-timber income opportunities associated with our timberlands such as recreational licenses and specialty forest products, as well as considerations for the future higher and better uses of the land, are integral parts of our site-specific management philosophy. All these activities are designed to maximize value while complying with SFI requirements.

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Real Estate

Our Real Estate subsidiary owns approximately 0.1 million acres of land. We segregate our real estate holdings into three groups: HBU development, HBU rural (including conservation properties) and non-strategic timberlands. Development properties are predominantly located in the 11 coastal counties between Savannah, Georgia and Daytona Beach, Florida. Our strategy is to pursue and obtain entitlements for selected development properties, to sell rural properties at a premium to timberland values and to divest non-strategic timberland holdings that do not meet our investment criteria.

Performance Fibers

We are a leading manufacturer of high value specialty cellulose fibers and absorbent materials with production facilities in Jesup, Georgia and Fernandina Beach, Florida, which have a combined annual capacity of approximately 745,000 metric tons. These facilities manufacture more than 25 different grades of fibers. The Jesup facility can produce approximately 590,000 metric tons, or 79 percent of our total capacity, and the Fernandina Beach facility can produce approximately 155,000 metric tons, or 21 percent of our total capacity. This segment has two major product lines:

Cellulose specialties We are a leading producer of specialty cellulose products, most of which are used in dissolving chemical applications that require a highly purified form to produce cellulose acetate and ethers that create high value, technologically demanding products. Our products are used in a wide variety of end uses such as: cigarette filters, liquid crystal display screens, acetate textile fibers, pharmaceuticals, cosmetics, rigid packaging, photographic film, impact-resistant plastics, high-tenacity rayon yarn for tires and industrial hoses, detergents, food casings, food products, thickeners for oil well-drilling muds, lacquers, paints, printing inks and explosives. In addition, cellulose specialties include high value specialty paper applications used for decorative laminates, automotive air and oil filters, shoe innersoles, battery separators, circuit boards and filter media for the food industry.

Absorbent materials We are a producer of fibers for absorbent hygiene products. These fibers are typically referred to as fluff fibers and are used as an absorbent medium in products such as disposable baby diapers, feminine hygiene products, incontinence pads, convalescent bed pads, industrial towels and wipes, and non-woven fabrics.

Approximately 61 percent of Performance Fibers sales are exported, primarily to customers in Asia and Europe. Approximately 95 percent of Performance Fibers sales are made directly by Rayonier personnel, with the remainder through independent sales agents. We have long-term contracts with the world's largest manufacturers of acetate-based products and other key customers that extend into 2013 and 2014 and represent a significant majority of our high value cellulose specialties production.

We are currently in the evaluation stage to convert our existing absorbent materials line at Jesup, Georgia to produce high purity cellulose specialties. The evaluation is expected to be completed in mid-year 2011, and if the project is approved, production would be scheduled to begin in 2013. The project is estimated to cost between \$250 million and \$300 million. The new line would increase capacity for high purity cellulose specialties by approximately 190,000 metric tons, while eliminating all absorbent materials capacity of approximately 260,000 metric tons.

Wood Products

Our Wood Products business segment manufactures and sells dimension lumber. We operate three lumber manufacturing facilities in the U.S. that produce Southern pine lumber, which is generally used for residential and industrial construction. Located in Baxley, Swainsboro and Eatonton, Georgia, the mills have a combined annual capacity of approximately 375 million board feet of lumber and 700,000 short green tons of wood chips. In 2010, we continued to operate at reduced production levels due to decreased demand from a weak housing market and expect to operate at reduced production levels in 2011 unless market conditions improve.

Lumber sales are primarily made by Rayonier personnel to customers in the southeastern U.S. Approximately 73 percent of our lumber mills wood chip production is sold at market prices to our Jesup, Georgia performance fibers facility. In 2010, these purchases represented approximately 11 percent of that facility's total wood consumption.

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Other

The primary business of our Other segment is trading logs.

Discontinued Operations and Dispositions

Included in the Consolidated Balance Sheets are environmental liabilities relating to prior dispositions and discontinued operations, which include our Port Angeles, Washington performance fibers mill that was closed in 1997; our wholly-owned subsidiary, Southern Wood Piedmont Company (SWP), which ceased operations other than environmental investigation and remediation activities in 1989; our Eastern Research Division, which ceased operations in 1981; and other miscellaneous assets held for disposition. See Note 14 *Liabilities for Dispositions and Discontinued Operations* for additional information.

Foreign Sales and Operations

Sales from non-U.S. operations comprised approximately seven percent of consolidated 2010 sales. See Note 4 *Segment and Geographical Information* for additional information.

Intellectual Property

We own numerous patents, trademarks and trade secrets, and have developed significant know-how, particularly relating to our Performance Fibers business. We intend to continue to take such steps as are necessary to protect our intellectual property, including filing patent applications for inventions that are deemed important to our business operations. Our U.S. patents generally have a duration of 20 years from the date of filing.

Competition

Timber markets in both our Eastern and Western regions are relatively fragmented. In the Eastern region, we compete with Plum Creek Timber Company, Timberland Investment Management Organizations (TIMO) such as Hancock Timber Resource Group, Resource Management Services, Forest Investment Associates and The Campbell Group, and other numerous large and small privately held timber companies. In the Western region, Weyerhaeuser, Hancock Timber Resource Group, Green Diamond Resource Company, Longview Timber, The Campbell Group, Port Blakely Tree Farms, Pope Resources and the State of Washington Department of Natural Resources are significant competitors. Other competition in the Western region consists of log imports from Canada. In all markets, price is the principal method of competition.

In Performance Fibers, we market high purity, specialty cellulose fibers worldwide against competition from domestic and foreign producers. Major competitors include Buckeye Technologies, Borregaard, Neucel, Sappi Saiccor, Sateri Holdings and Tembec. Product performance, technical service and price are principal methods of competition. During 2010, Cosmo Specialty Fibers announced plans to re-open a specialty cellulose fiber mill located in Cosmopolis, Washington, which was closed in 2006 by its previous owner, Weyerhaeuser. Additionally, Sateri Holdings announced in December 2010 plans to expand the capacity of its specialty cellulose fiber production line in Bahia, Brazil. The new market capacity is not expected to adversely affect the results of our Performance Fibers segment in 2011. However, it is difficult to determine how market dynamics may impact our business in 2012 and beyond.

Additionally, in Performance Fibers we market absorbent materials against competition from domestic and foreign producers. Major competitors include Weyerhaeuser, GP Cellulose, Domtar and International Paper. Price and customer service are the principal methods of competition.

Our Wood Products business competes with a number of lumber producers throughout the U.S. and Canada, but particularly with sawmills throughout Georgia and Florida. Our Wood Products business represents a de minimus amount of North American capacity.

Customers

In 2010, a group of customers under the common control of Eastman Chemical Company (and its affiliates) and Celanese represented approximately 20 and 15 percent of our Performance Fibers segment's sales, respectively, and 14 and 10 percent of consolidated sales, respectively. The loss of either of these customers could have a material adverse effect on the Company and the Performance Fibers segment's results of operations.

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Seasonality

Our Western region's timber sales are generally lower in the third quarter due to greater availability of non-Rayonier timber during the drier summer harvesting period. Our Wood Products segment may experience higher seasonal demand in the second and third quarters when demand for new housing has typically increased. Our Performance Fibers and Real Estate segments' results are normally not impacted by seasonal changes.

Environmental Matters

See Item 1A *Risk Factors*, Item 3 *Legal Proceedings*, Item 7 *Management's Discussion and Analysis of Financial Condition and Results of Operations - Environmental Regulation*, and Note 14 *Liabilities for Dispositions and Discontinued Operations*.

Raw Materials

The manufacturing of our Performance Fibers products and lumber requires significant amounts of wood. Timber harvesting can be restricted by stringent regulatory requirements, adverse weather conditions and legal challenges from various environmental groups. The supply of timber is directly affected by price and demand fluctuations in wood products, pulp and paper markets, and weather.

Our Performance Fibers and lumber mills obtain their logs primarily through open market purchases made by our wood procurement organization, which negotiates prices and volumes with independent third party suppliers who deliver to our facilities. A limited amount of Performance Fibers log purchases are made directly from the Timber segment at prevailing market prices.

Our Performance Fibers mills utilize a significant amount of chemicals, most of which are purchased under supply agreements at prevailing market prices.

Our Performance Fibers mills use a substantial amount of residual biomass to produce their own energy, but also require significant amounts of fuel oil and natural gas. These raw materials are subject to significant changes in prices and availability. To reduce cost, we have completed a number of capital projects in recent years to reduce fossil fuel consumption, including a power boiler replacement at our Fernandina Beach, Florida facility, which consumes primarily wood waste. We continually pursue reductions in usage and costs of other key raw materials, supplies and contract services at our Performance Fibers and lumber mills and do not foresee any material constraints in the near term from pricing or availability.

Research and Development

The research and development efforts of our Performance Fibers business are primarily directed at further developing existing core products and technologies, improving the quality of cellulose fiber grades, absorbent materials and related products, improving manufacturing efficiency and environmental controls, and reducing fossil fuel consumption.

The research and development activities of our timber operations include genetic tree improvement and applied silvicultural programs to identify management practices that will improve financial returns from our timberlands.

Employee Relations

We currently employ approximately 1,800 people, of whom approximately 1,700 are in the United States. Approximately 900 of our hourly Performance Fibers employees are covered by collective bargaining agreements. The majority of our hourly employees are represented by one of several labor unions. We believe relations with our employees are satisfactory.

Availability of Reports and Other Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and amendments to those reports filed or furnished pursuant to Sections 13(a) or 14 of the Securities Exchange Act of 1934 are made available to the public free of charge in the Investor Relations section of our website www.rayonier.com, shortly after we electronically file such material with, or furnish them to, the Securities and Exchange Commission (SEC). Our corporate governance guidelines and charters of all Committees of our Board of Directors are

also available on our website.

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Item 1A. RISK FACTORS

Our operations are subject to a number of risks, including those listed below. When considering an investment in our securities, you should carefully read and consider these risks, together with all other information in this Report. If any of the events described in the following risk factors actually occur, our business, financial condition or operating results, as well as the market price of our securities, could be materially adversely affected.

Business and Operating Risks

The cyclical nature of our businesses could adversely affect our results of operations.

Our financial performance is affected by the cyclical nature of the forest products and real estate industries. The markets for timber, real estate, performance fibers and wood products are influenced by a variety of factors beyond our control. For example, the demand for real estate can be affected by changes in interest rates, availability and terms of financing, local economic conditions, the employment rate, new housing starts, population growth and demographics. The demand for sawtimber is primarily affected by the level of new residential and commercial construction activity, and currently sawtimber pricing continues to be below historic levels. The supply of timber and logs has historically increased during favorable pricing environments, which then causes downward pressure on prices. Both our Real Estate and Timber businesses have been negatively impacted by the current economic downturn, primarily due to the decline in housing starts, excess supply of existing housing inventory, unemployment and the tightening of credit availability for real estate and construction related projects.

The forest products and real estate industries are highly competitive.

Some of our competitors in the forest products businesses have greater financial and operating resources and own more timberlands than we do. Some of our forest products competitors may also be lower-cost producers in some of the businesses in which we operate. In addition, wood products are subject to significant competition from a variety of non-wood and engineered wood products. We are also subject to competition from various forest products, including logs and pulp products imported from foreign countries to the United States as well as to the export markets served by us. To the extent there is a significant increase in competitive pressures from substitute products or other domestic or foreign suppliers, our business, and in particular product pricing, could be adversely affected. With respect to our Real Estate business, one of our key strategies is to engage in activities that add long term value to our properties, including obtaining entitlements. Many of our competitors in this segment have greater experience in real estate entitlement than we do.

Changes in energy and raw material prices could impact our operating results and financial condition.

Energy and raw material costs, such as oil, natural gas, wood and chemicals, are a significant operating expense, particularly for the Performance Fibers and Wood Products businesses. The prices of raw materials and energy can be volatile and are susceptible to rapid and substantial increases due to factors beyond our control, such as changing economic conditions, political unrest, instability in energy-producing nations, and supply and demand considerations. For example, caustic soda, a key raw material for Performance Fibers, has historically had significant price volatility. Oil and natural gas costs have also substantially increased in recent years and we have experienced, at times, limited availability of hardwood, primarily due to wet weather conditions which impact harvesting and result in increased costs for some Performance Fibers products. Increases in production costs could have a material adverse effect on our business, financial condition and results of operations. In addition, in our Timber, Performance Fibers and Wood Products businesses, the rising cost of fuel, and its impact on the cost and availability of transportation for our products, both domestically and internationally, and the cost and availability of third party logging and trucking services, could have a material adverse effect on our business, financial condition and results of operations.

Changes in global economic conditions, market trends and world events could impact customer demand.

The global reach of our business, particularly the Performance Fibers business and our interest in the New Zealand JV, causes us to be subject to unexpected, uncontrollable and rapidly changing events and circumstances in addition to those experienced in the U.S. The current global economic and financial market situation is an example of such changes. Adverse changes in the following factors, among others, could have a negative impact on our business and results of operations:

exposure to currencies other than the United States dollar;

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regulatory, social, political, labor or economic conditions in a specific country or region; and,

trade protection laws, policies and measures and other regulatory requirements affecting trade and investment, including loss or modification of exemptions for taxes and tariffs, and import and export licensing requirements.

Our businesses are subject to extensive environmental laws and regulations that may restrict or adversely impact our ability to conduct our business.

Environmental laws and regulations are constantly changing, and are generally becoming more restrictive. Laws, regulations and related judicial decisions, and administrative interpretations affecting our business are subject to change and new laws and regulations that may affect our business are frequently enacted. These changes may adversely affect our ability to harvest and sell timber, operate our manufacturing facilities, remediate contaminated properties and/or entitle real estate. These laws and regulations may relate to, among other things, the protection of timberlands and endangered species, timber harvesting practices, recreation and aesthetics, protection and restoration of natural resources, air and water quality, and remedial standards for contaminated property and groundwater. Over time, the complexity and stringency of these laws and regulations have increased markedly and the enforcement of these laws and regulations has intensified. Moreover, environmental policies of the current administration are in the aggregate more restrictive for industry and landowners than those of the previous administration. For example, in 2010, the U.S. Environmental Protection Agency (EPA) pursued a number of initiatives which could, if implemented, impose additional operational and pollution control obligations on industrial facilities like those of Rayonier, especially in the area of air emissions and wastewater and stormwater control. In another example, the EPA recently issued regulations which significantly tighten emissions limits of certain air pollutants from industrial boilers. In addition, as a result of certain 2010 judicial rulings and EPA initiatives, such as the EPA s recently proposed numeric nutrient regulations affecting Florida s rivers and streams, silvicultural practices on our timberlands could be impacted in the future. Nonetheless, irrespective of any particular presidential administration, environmental laws and regulations will likely continue to become more restrictive and over time could adversely affect our operating results.

If regulatory and environmental permits are delayed, restricted or rejected, a variety of our operations could be adversely affected. In connection with a variety of operations on our properties, we are required to seek permission from government agencies in the states and countries in which we operate to perform certain activities. Any of these agencies could delay review of, or reject, any of our filings. In our Timber business, any delay associated with a filing could result in a delay or restriction in replanting, thinning, insect control, fire control or harvesting, any of which could have an adverse effect on our operating results. For example, in Washington State, we are required to file a Forest Practice Application for each unit of timberland to be harvested. These applications may be denied, conditioned or restricted by the regulatory agency or appealed by other parties, including citizen groups. Appeals or actions of the regulatory agencies could delay or restrict timber harvest activities pursuant to these permits. Delays or harvest restrictions on a significant number of applications could have an adverse effect on our operating results. In our Performance Fibers and Wood Products businesses, many modifications and capital projects at our manufacturing facilities require one or more environmental permits, or amendments to existing permits. Delays in obtaining these permits could have an adverse effect on our results of operations.

Environmental groups and interested individuals may seek to delay or prevent a variety of operations. We expect that environmental groups and interested individuals will intervene with increasing frequency in the regulatory processes in the states and countries where we own, lease or manage timberlands, and operate mills. For example, in Washington State, environmental groups and interested individuals may appeal individual forest practice applications or file petitions with the Forest Practices Board to challenge the regulations under which forest practices are approved. These and other challenges could materially delay or prevent operations on our properties. Also, interveners at times may bring legal action in Florida in opposition to entitlement and change of use of timberlands to commercial, industrial or residential use. Delays or restrictions due to the intervention of environmental groups or interested individuals could adversely affect our operating results. In addition to intervention in regulatory proceedings, interested groups and individuals may file or threaten to file lawsuits that seek to prevent us from obtaining permits, implementing capital improvements or pursuing operating plans. Any lawsuit or even a threatened lawsuit could delay harvesting on our timberlands, impact how we operate or limit our ability to invest in our mills. Among the remedies that could be enforced in a lawsuit is a judgment preventing or restricting harvesting on a portion of our timberlands, or adversely affecting the timing, projected operating benefits or cost of capital projects at our mills.

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The impact of existing regulatory restrictions on future harvesting activities may be significant. Federal, state and local laws and regulations, as well as those of other countries, which are intended to protect threatened and endangered species, as well as waterways and wetlands, limit and may prevent timber harvesting, road building and other activities on our timberlands. The threatened and endangered species restrictions apply to activities that would adversely impact a protected species or significantly degrade its habitat. The size of the area subject to restriction will vary depending on the protected species at issue, the time of year and other factors, but can range from less than one to several thousand acres. A number of species that naturally live on or near our timberlands, including the northern spotted owl, marbled murrelet, bald eagle, several species of salmon and trout in the Northwest, and the red cockaded woodpecker, bald eagle, wood stork, Red Hills salamander and flatwoods salamander in the Southeast, are protected under the Federal Endangered Species Act or similar state laws. Other species, such as the gopher tortoise, are currently under review for possible protection. As we gain additional information regarding the presence of threatened or endangered species on our timberlands, or if other regulations, such as those that require buffers to protect water bodies, become more restrictive, the amount of our timberlands subject to harvest restrictions could increase.

Our Performance Fibers and Wood Products mills are subject to stringent environmental laws and regulations concerning air emissions, wastewater discharge, water usage and waste handling and disposal. Many of our operations are subject to stringent environmental laws, regulations and permits which contain conditions that govern how we operate our facilities and, in many cases, how much product we can produce. These laws, regulations and permits, now and in the future, may restrict our current production and limit our ability to increase production, and impose significant costs on our operations with respect to environmental compliance. It is expected that, overall, costs will likely increase over time as environmental laws, regulations and permit conditions become more stringent, and as the expectations of the communities in which we operate become more demanding.

We currently own or may acquire properties which may require environmental remediation or otherwise be subject to environmental and other liabilities. We currently own, or formerly operated, manufacturing facilities and discontinued operations, or may acquire timberlands and other properties, which are subject to environmental liabilities, such as remediation of soil, sediment and groundwater contamination and other existing or potential liabilities. For more detail, see Note 14 *Liabilities for Dispositions and Discontinued Operations*. The cost of investigation and remediation of contaminated properties could increase operating costs and adversely affect financial results. Although we believe we currently have adequate reserves for the investigation and remediation of our properties, legal requirements relating to assessment and remediation of these properties continue to become more stringent and there can be no assurance that actual expenditures will not exceed our expectations, or that other unknown liabilities will not be discovered in the future.

Entitlement and development of real estate entails a lengthy, uncertain and costly approval process.

Entitlement and development of real estate entails extensive approval processes involving multiple regulatory jurisdictions. It is common for a project to require multiple approvals, permits and consents from federal, state and local governing and regulatory bodies. For example, in Florida, real estate projects must generally comply with the provisions of the Local Government Comprehensive Planning and Land Development Regulation Act (the Growth Management Act) and local land use and development regulations. In addition, in Florida, development projects that exceed certain specified regulatory thresholds require approval of a comprehensive Development of Regional Impact (DRI) application. Compliance with the Growth Management Act, local land development regulations and the DRI process is usually lengthy and costly and significant conditions can be imposed on a developer with respect to a particular project. In addition, development of properties containing delineated wetlands may require one or more permits from the federal government. Any of these issues can materially affect the cost and timing of our real estate projects.

The real estate entitlement process is frequently a political one, which involves uncertainty and often extensive negotiation and concessions in order to secure the necessary approvals and permits. A significant amount of our development property is located in counties in which local governments face challenging issues relating to growth and development, including zoning and future land use, public services, water availability, transportation and other infrastructure and funding for same, and the requirements of state law, especially in the case of Florida under the Growth Management Act and DRI process. In addition, anti-development groups are active, especially in Florida, by filing litigation to oppose particular entitlement activities and development projects, and in seeking legislation and other anti-growth limitations on real estate development activities. We expect that this type of anti-growth activity may continue in the future.

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Issues affecting real estate development also include the availability of potable water for new development projects. For example, in Georgia, the Legislature enacted the Comprehensive Statewide Watershed Management Planning Act, which, among other things, created a governmental entity called the Georgia Water Council which was charged with preparing a comprehensive water management plan for the state and presenting it to the Georgia Legislature. It is unclear at this time how the plan will affect the cost and timing of real estate development along the I-95 coastal corridor in southern Georgia, where the Company has significant real estate holdings. Concerns about the availability of potable water also exists in certain Florida counties, which could impact growth.

Changes in the interpretation or enforcement of these laws, the enactment of new laws regarding the use and development of real estate, changes in the political composition of state and local governmental bodies, and the identification of new facts regarding our properties could lead to new or greater costs and delays and liabilities that could materially adversely affect our business, profitability or financial condition.

Changes in demand for our real estate and delays in the timing of real estate transactions may affect our revenues and operating results.

A number of factors, including changes in demographics, tightening of credit, high unemployment and a slowing of commercial or residential real estate development, particularly along the I-95 coastal corridor in Florida and Georgia, could reduce the demand for our properties and negatively affect our results of operations. The current decline in the housing market in particular, together with the tightening of real state lending standards and availability, certainly had such an effect in 2010 and is expected to continue into 2011.

In addition, there are inherent uncertainties in the timing of real estate transactions that could adversely affect our operating results. Delays in the completion of transactions or the termination of potential transactions can be caused by factors beyond our control. These events have in the past and may in the future adversely affect our operating results.

The impacts of climate-related initiatives, at the international, federal and state levels, remain uncertain at this time.

Currently, there are numerous international, federal and state-level initiatives and proposals addressing domestic and global climate issues. Within the U.S., most of these proposals would regulate and/or tax, in one fashion or another, the production of carbon dioxide and other greenhouse gases to facilitate the reduction of carbon compound emissions to the atmosphere, and provide tax and other incentives to produce and use more clean energy. In 2011, we believe the potential for climate change legislation at the federal level to be unlikely.

In late 2009, the EPA issued an endangerment finding under the Clear Air Act (CAA) with respect to certain greenhouse gases, which could lead to the regulation of carbon dioxide as a criteria pollutant under the CAA and have significant ramifications for Rayonier and the industry in general. In this regard, the EPA has published various proposed regulations, which are currently subject to numerous legal challenges, affecting the operation of existing and new industrial facilities that emit carbon dioxide. In addition, as a result of the EPA's decision to regulate greenhouse gases under the CAA, the states will now have to consider them in permitting new or modified facilities.

On the international front, various efforts, including the United Nations-sponsored Cancun, Mexico conference in December 2010, did not result in a binding agreement to replace the Kyoto Protocol, which expires in 2012.

Overall, it is likely that future legislative and regulatory activity in this area will in some way impact Rayonier, but it is unclear at this time whether such impact will be, in the aggregate, positive or negative, or material. For example, while Rayonier's Performance Fibers mills produce greenhouses gases and utilize fossil fuels, they also generate a substantial amount of their energy from wood fiber (often referred to as biomass), which may be viewed more favorably than fossil fuels in future legislative and regulatory proposals, but that is uncertain at this time. However, environmental groups have generally opposed the use of biomass for energy production due to their concerns about deforestation. Our extensive timber holdings and the biomass they produce may provide opportunities for us to benefit from new legislation and regulation, especially due to the potential benefits available from carbon capture and sequestration opportunities, sale of carbon credits and renewable portfolio standards that mandate the use of non-fossil fuels by electricity generators, which could lead to increased demand for biomass products from our forests. We continue to monitor political and regulatory developments in this area, but their overall impact on Rayonier, from a cost, benefit and financial performance standpoint, remains uncertain at this time.

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Investment returns on pension assets may be lower than expected, requiring us to make significant additional cash contributions to our plans.

We sponsor several defined benefit pension plans, which cover many of our salaried and hourly employees. The Federal Pension Protection Act of 2006 requires that certain capitalization levels be maintained in each of these plans. Because it is unknown what the investment return on pension assets will be in future years, no assurances can be given that future plan contributions required by applicable law will not be material. See Note 19 *Employee Benefit Plans* for additional information about these plans, including funded status.

Our joint venture partners may have interests that differ from ours and may take actions that adversely affect us.

We participate in a joint venture in New Zealand, and may enter into other joint venture projects; for example, as part of our real estate strategy. A joint venture involves potential risks such as:

not having voting control over the joint venture;

the venture partners at any time may have economic or business interests or goals that are inconsistent with ours;

the venture partners may take actions contrary to our instructions or requests, or contrary to our policies or objectives with respect to the investment; and,

the venture partners could experience financial difficulties.

Actions by our venture partners may subject property owned by the joint venture to liabilities greater than those contemplated by the joint venture agreement or to other adverse consequences.

We may be unsuccessful in carrying out our land acquisition strategy.

We have pursued, and intend to continue to pursue, acquisitions of timberland and real estate properties that meet our investment criteria. Our timberland and real estate acquisitions may not perform in accordance with our expectations. We anticipate financing any such acquisitions through cash from operations, borrowings under our credit facilities, the use of equity, proceeds from equity or debt offerings or proceeds from asset dispositions, or any combination thereof. The failure to identify and complete suitable timberland and real estate property acquisitions, and the failure of any acquisitions to perform to our expectations, could adversely affect our operating results.

Our failure to maintain satisfactory labor relations could have a material adverse effect on our business.

Approximately 50 percent of our work force is unionized. These workers are exclusively in our Performance Fibers business. As a result, we are required to negotiate the wages, benefits and other terms with these employees collectively. Our financial results could be adversely affected if labor negotiations were to restrict the efficiency of our operations. In addition, our inability to negotiate acceptable contracts with any of these unions as existing agreements expire could result in strikes or work stoppages by the affected workers. If the unionized employees were to engage in a strike or other work stoppage, or other employees were to become unionized, we could experience a significant disruption of our operations, which could have a material adverse effect on our business, results of operations and financial condition.

Weather and other natural conditions may limit our timber harvest and sales.

Weather conditions, timber growth cycles and restrictions on access may limit harvesting of our timberlands, as may other factors, including damage by fire, insect infestation, disease, prolonged drought and natural disasters such as wind storms and hurricanes.

We do not insure against losses of timber from any causes, including fire.

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The volume and value of timber that can be harvested from our timberlands may be reduced by fire, insect infestation, severe weather, disease, natural disasters and other causes beyond our control. A reduction in our timber inventory could adversely affect our financial results and cash flows. As is typical in the forestry industry, we do not maintain insurance for any loss to our timber, including losses due to these causes.

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A significant portion of the timberland that we own, lease or manage is concentrated in limited geographic areas.

We own, lease or manage approximately 2.4 million acres of timberland and real estate located primarily in the United States and New Zealand. Over 75 percent of our timberlands are located in four states: Alabama, Florida, Georgia and Washington. Accordingly, if the level of production from these forests substantially declines, or if the demand for timber in those regions declines, it could have a material adverse effect on our overall production levels and our revenues.

We are dependent upon attracting and retaining key personnel.

We believe that our success depends, to a significant extent, upon our ability to attract and retain key senior management and operations management personnel. Our failure to recruit and retain these key personnel could adversely affect our financial condition or results of operations.

Market interest rates may influence the price of our common shares.

One of the factors that may influence the price of our common shares is our annual dividend yield as compared to yields on other financial instruments. Thus, an increase in market interest rates will result in higher yields on other financial instruments, which could adversely affect the price of our common shares.

We have a significant amount of debt and the capacity to incur significant additional debt.

As of December 31, 2010, we had \$768 million of debt outstanding. See Item 7 *Management's Discussion and Analysis of Financial Condition and Results of Operations - Contractual Financial Obligations* for the payment schedule of our long-term debt obligations. We expect that existing cash, cash equivalents, marketable securities, cash provided from operations and our bank credit facilities will be sufficient to meet ongoing cash requirements. Moreover, we have the borrowing capacity to incur significant additional debt and may do so if we enter into one or more strategic, merger, acquisition or other corporate or investment opportunities, or otherwise invest capital in one or more of our businesses. However, failure to generate sufficient cash as our debt becomes due, or to renew credit lines prior to their expiration, may adversely affect our business, financial condition, operating results and cash flow.

REIT and Tax-Related Risks

If we fail to remain qualified as a REIT, we will have reduced funds available for distribution to our shareholders because our REIT income will be subject to taxation.

We intend to operate in accordance with REIT requirements pursuant to the Internal Revenue Code of 1986, as amended (the *Code*). For example, as a REIT, we generally will not pay corporate-level tax on income we distribute to our shareholders (other than the income of TRS) as long as we distribute at least 90 percent of our REIT taxable income (determined without regard to the dividends paid deduction) and 95 percent of our net capital gains. Qualification as a REIT involves the application of highly technical and complex provisions of the Code, which are subject to change, perhaps retroactively, and which are not within our control. We cannot assure that we will remain qualified as a REIT or that new legislation, U.S. Treasury regulations, administrative interpretations or court decisions will not significantly affect our ability to remain qualified as a REIT or the federal income tax consequences of such qualification.

If in any taxable year we fail to qualify as a REIT, we will suffer the following negative results:

we will not be allowed a deduction for dividends paid to shareholders in computing our REIT taxable income; and,

we will be subject to federal income tax on our REIT taxable income.

In addition, we will be disqualified from treatment as a REIT for the four taxable years following the year during which the qualification was lost, unless we are entitled to relief under certain provisions of the Code. As a result, our net income and the cash available for distribution to our shareholders could be reduced for up to five years or longer.

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If we fail to remain qualified as a REIT, we may need to borrow funds or liquidate some investments or assets to pay the additional tax liability. Accordingly, cash available for distribution to our shareholders would be reduced.

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The extent of our use of taxable REIT subsidiaries may affect the price of our common shares relative to the share price of other REITs.

We conduct a significant portion of our business activities through one or more taxable REIT subsidiaries. Our use of taxable REIT subsidiaries enables us to engage in non-REIT qualifying business activities such as the production and sale of performance fibers and wood products, real estate entitlement activities and sale of HBU property and other real estate (as a dealer), and sale of logs. Taxable REIT subsidiaries are subject to corporate-level tax. Therefore, we pay income taxes on the income generated by our taxable REIT subsidiaries. Under the Code, no more than 25 percent of the value of the gross assets of a REIT may be comprised of securities of one or more taxable REIT subsidiaries. This limitation may affect our ability to increase the size of our taxable REIT subsidiaries' operations. Furthermore, our use of taxable REIT subsidiaries may cause the market to value our common shares differently than the shares of other REITs, which may not use taxable REIT subsidiaries as extensively as we use them.

Lack of shareholder ownership and transfer restrictions in our articles of incorporation may affect our ability to qualify as a REIT.

In order to qualify as a REIT, an entity cannot have five or fewer individuals who own, directly or indirectly after applying attribution of ownership rules, 50 percent or more of the value of its outstanding shares during the last six months in each calendar year. Although it is not required by law or the REIT provisions of the Code, almost all REITs have adopted ownership and transfer restrictions in their articles of incorporation or organizational documents which seek to assure compliance with that rule. While we are not in violation of the ownership rules, we do not have, nor do we have any current plans to adopt, share ownership and transfer restrictions. As such, the possibility exists that five or fewer individuals could acquire 50 percent or more of the value of our outstanding shares, which could result in our disqualification as a REIT.

We may be limited in our ability to fund distributions using cash generated through our taxable REIT subsidiaries.

The ability of the REIT to receive dividends from our taxable REIT subsidiaries is limited by provisions of the Code. Specifically, at least 75 percent of gross income for each taxable year as a REIT must be derived from passive real estate sources including sales of our standing timber and other types of qualifying real estate income and no more than 25 percent of our gross income may consist of dividends from our taxable REIT subsidiaries and other non-real estate income.

This limitation on our ability to receive dividends from our taxable REIT subsidiaries may impact our ability to fund cash distributions to our shareholders using cash flows from our taxable REIT subsidiaries. We can, however, under current law, issue stock dividends for up to 90 percent of our regular dividend distribution through 2011. The net income of our taxable REIT subsidiaries is not required to be distributed, and income that is not distributed will not be subject to the REIT income distribution requirement.

Certain of our business activities are potentially subject to prohibited transactions tax.

As a REIT, we will be subject to a 100 percent tax on any net income from prohibited transactions. In general, prohibited transactions are sales or other dispositions of property to customers in the ordinary course of business. Sales of performance fibers and wood products which we produce and sales of logs constitute prohibited transactions. In addition, dealer sales of timberlands or other real estate constitute prohibited transactions.

We intend to avoid the 100 percent prohibited transactions tax by conducting activities that would otherwise be prohibited transactions through one or more taxable REIT subsidiaries. We may not, however, always be able to identify timberland properties that will become part of our dealer real estate sales business. Therefore, if we sell timberlands which we incorrectly identify as property not held for sale to customers in the ordinary course of business or which subsequently become properties held for sale to customers in the ordinary course of business, we face the potential of being subject to the 100 percent prohibited transactions tax.

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Our cash dividends are not guaranteed and may fluctuate.

Generally, REITs are required to distribute 90 percent of their ordinary taxable income, but not their net capital gains income. However, a REIT must pay corporate level tax on its undistributed capital gains. Accordingly, we do not believe that we are required to distribute material amounts of cash since substantially all of our taxable income is treated as capital gains income. Our Board of Directors, in its sole discretion, determines the amount of quarterly dividends to be provided to our shareholders based on consideration of a number of factors. These factors include, but are not limited to, our results of operations, cash flow and capital requirements, economic conditions, tax considerations, borrowing capacity and other factors, including debt covenant restrictions that may impose limitations on cash payments, future acquisitions and divestitures, harvest levels, changes in the price and demand for our products and general market demand for timberlands, including those timberland properties that have higher and better uses. Consequently, our dividend levels may fluctuate.

Alternative fuel mixture and cellulosic biofuel producer credit(s).

The Company has disclosed information concerning its eligibility for the alternative fuel mixture and cellulosic biofuel producer tax credits. See Note 3 *Alternative Fuel Mixture Credit (AFMC)* and *Cellulosic Biofuel Producer Credit (CBPC)* for additional information. Under applicable law, which expired on December 31, 2009, the tax credits were earned through the burning of qualifying fuels on or before such date. There can be no assurance that the Internal Revenue Service (IRS) will not challenge the Company's eligibility for, and amount of, such tax credits.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. PROPERTIES

The following table details the significant properties we own, lease, or manage by reportable segment (acres in millions):

Segment/Operations	Location	Total Acres	Fee-Owned Acres	Long-Term Leased Acres	Managed Acres
Timber	Eastern region	1.6	1.3	0.3	
	Western region	0.4	0.4		
	New Zealand(a)	0.3			0.3
	<i>Total Timber Acres</i>	2.3	1.7	0.3	0.3
Real Estate	U.S.	0.1	0.1		
	<i>Total Timberland and Real Estate Acres</i>	2.4	1.8	0.3	0.3

		Capacity/Function	Owned/Leased
Performance Fibers	Jesup, Georgia	590,000 metric tons of pulp	Owned
	Fernandina Beach, Florida	155,000 metric tons of pulp	Owned
	Jesup, Georgia	Research Facility	Owned
Wood Products(b)	Baxley, Georgia	160 million board feet of lumber	Owned
	Swainsboro, Georgia	125 million board feet of lumber	Owned

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	Eatonton, Georgia	90 million board feet of lumber	Owned
Wood Chipping Facilities			Owned
	Offerman, Georgia	690,000 short green tons of wood chips	
	Eastman, Georgia	350,000 short green tons of wood chips	Owned
	Barnesville, Georgia	350,000 short green tons of wood chips	Owned
	Jarratt, Virginia	250,000 short green tons of wood chips	Owned
Corporate and Other	Jacksonville, Florida	Corporate Headquarters	Leased

- (a) Represents acres under Rayonier management, owned by the New Zealand JV. Rayonier owned a 26 percent interest at December 31, 2010.
- (b) These locations also have a combined annual production capacity of approximately 700,000 short green tons of wood chips.

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Our manufacturing facilities are maintained through ongoing capital investments, regular maintenance and equipment upgrades. During 2010, our Performance Fibers manufacturing facilities produced at or near capacity levels for most of the year. The Wood Products sawmills produced at a reduced capacity due to decreased demand from a weak housing market.

Item 3. LEGAL PROCEEDINGS

The Company has been named as a defendant in various lawsuits and claims arising in the normal course of business. While we have procured reasonable and customary insurance covering risks normally occurring in connection with our businesses, we have in certain cases retained some risk through the operation of self-insurance, primarily in the areas of workers' compensation, property insurance and general liability. In our opinion, these other lawsuits and claims, both individually and in the aggregate, are not expected to have a material adverse effect on our financial position, results of operations, or cash flow.

Discussed below is one of our ongoing environmental proceedings. For further information on our environmental proceedings, see Note 14 *Liabilities for Dispositions and Discontinued Operations*.

Financial Assurance Notice of Violation (NOV) In June 2009, the EPA sent SWP an information request under section 3007 of the Resource Conservation and Recovery Act (RCRA), pursuant to which it sought information relating to the financial assurance SWP had provided annually from 2004 through 2009 relating to certain of its sites. Financial assurance, which can be in various forms, is required to be submitted annually under applicable RCRA and other regulations for sites requiring remediation and post-closure monitoring under RCRA and other environmental laws, to ensure that adequate financial resources are available to meet a party's environmental obligations. For the years in question, SWP provided its required financial assurance through a Rayonier corporate guaranty of SWP's obligations, which is permitted under the applicable regulations. SWP responded to the information request in August 2009, and in February 2010, SWP received an NOV from the EPA relating to this issue. In the NOV, the EPA advised that it believed that SWP's prior submissions of financial assurance were insufficient and did not meet certain requirements. In November, 2010, the EPA and SWP commenced negotiations to resolve this matter. To date, the EPA has not stated or sought any specific penalty amount. We expect this matter to be resolved in 2011 if a settlement can be reached; otherwise, it may result in a formal enforcement action by the EPA. While there can be no assurances, we do not believe that this matter will have a material adverse effect on the Company's financial condition.

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The table below reflects, for the quarters indicated, the dividends declared per share and the range of market prices of our Common Shares as reported in the consolidated transaction reporting system of the NYSE, the only exchange on which our shares are listed, under the trading symbol RYN.

	High	Low	Dividends
2010			
Fourth Quarter	\$ 54.52	\$ 48.20	\$ 0.54
Third Quarter	\$ 51.29	\$ 43.14	\$ 0.50
Second Quarter	\$ 50.72	\$ 41.57	\$ 0.50
First Quarter	\$ 46.41	\$ 39.70	\$ 0.50
2009			
Fourth Quarter	\$ 43.92	\$ 37.88	\$ 0.50
Third Quarter	\$ 45.00	\$ 33.63	\$ 0.50
Second Quarter	\$ 41.79	\$ 29.35	\$ 0.50
First Quarter	\$ 32.40	\$ 22.28	\$ 0.50

For information about covenants of our credit facility that could restrict our ability to pay cash dividends in the future, see Note 11 *Debt Debt Covenants*.

On February 18, 2011, the Company announced a first quarter dividend of 54 cents per share payable March 31, 2011, to shareholders of record on March 10, 2011. There were approximately 9,334 shareholders of record of our Common Shares on February 11, 2011.

Issuer Repurchases

In 1996, we began a Common Share repurchase program (the anti-dilutive program) to minimize the dilutive effect on earnings per share of our employee incentive stock plans. This program limits the number of shares that may be purchased each year to the greater of 1.5 percent of outstanding shares at the beginning of the year or the number of incentive shares issued to employees during the year. In October 2000 and July 2003, our Board of Directors authorized the purchase of additional shares totaling 1.4 million. These shares were authorized separately from the anti-dilutive program, and neither have expiration dates. In 2010, there were no shares repurchased under these plans. As of December 31, 2010, there were 2,483,169 shares available for repurchase.

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Stock Performance Graph

The following graph compares the performance of Rayonier's Common Shares (assuming reinvestment of dividends) with a broad-based market index (Standard & Poor's (S&P) 500), and two industry-specific indices (the S&P 1500 Paper and Forest Products Index and the National Association of Real Estate Investment Trusts (NAREIT) Equity REIT Index).

The table and related information shall not be deemed to be filed with the SEC, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filing.

The data in the following table was used to create the above graph as of December 31:

	2005	2006	2007	2008	2009	2010
Rayonier Inc.	\$ 100	\$ 108	\$ 130	\$ 91	\$ 129	\$ 168
S&P 500®	\$ 100	\$ 116	\$ 122	\$ 77	\$ 97	\$ 112
S&P® 1500 Paper & Forest Products Index	\$ 100	\$ 106	\$ 106	\$ 43	\$ 86	\$ 93
NAREIT Equity REIT	\$ 100	\$ 135	\$ 114	\$ 71	\$ 91	\$ 116

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The following financial data should be read in conjunction with our Consolidated Financial Statements.

	2010	At or For the Years Ended December 31,			2006
		2009	2008	2007	
	(dollar amounts in millions, except per share data)				
Profitability:					
Sales	\$ 1,315	\$ 1,169	\$ 1,271	\$ 1,225	\$ 1,230
Operating income(a)	282	410	226	247	230
Income from continuing operations(b)	218	313	149	174	171
Net income(b)	218	313	149	174	176
Diluted earnings per common share:					
Continuing operations	2.68	3.91	1.87	2.20	2.19
Net income	2.68	3.91	1.87	2.20	2.26
Financial Condition:					
Total assets	\$ 2,364	\$ 2,253	\$ 2,082	\$ 2,068	\$ 1,965
Total debt	768	700	747	721	659
Shareholders' equity	1,252	1,146	939	1,000	918
Shareholders' equity per share	15.51	14.41	11.91	12.78	11.94
Cash Flows:					
Cash provided by operating activities(c)	\$ 495	\$ 307	\$ 340	\$ 324	\$ 307
Capital expenditures	138	92	105	97	105
Purchase of timberlands, real estate and other	5		234	27	299
Depreciation, depletion and amortization	143	158	168	165	136
Cash dividends paid	164	158	157	151	144
Non-GAAP Financial Measures:					
EBITDA(d)					
Timber	\$ 92	\$ 77	\$ 116	\$ 146	\$ 152
Real Estate	75	80	101	98	91
Performance Fibers	272	242	205	209	153
Wood Products	5	(6)	(2)	(2)	4
Other Operations	1	(3)	3	(3)	2
Corporate and other(a)	(20)	178	(28)	(36)	(28)
Total EBITDA	\$ 425	\$ 568	\$ 395	\$ 412	\$ 374
Debt to EBITDA	1.8 to 1	1.2 to 1	1.9 to 1	1.8 to 1	1.8 to 1
Performance Ratios (%):					
Operating income to sales	21	35	18	20	19
Return on equity(e)	18	30	15	18	19
Return on capital(e)	11	18	9	11	11
Debt to capital	38	38	44	42	42
Other:					
Timberland and real estate acres owned, leased, or managed, in millions of acres	2.4	2.5	2.6	2.5	2.7
Dividends paid per share	\$ 2.04	\$ 2.00	\$ 2.00	\$ 1.94	\$ 1.88

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	For the Years Ended December 31,				
	2010	2009	2008	2007	2006
<i>Selected Operating Data:</i>					
Timber					
Timber sales volume					
Western U.S. in millions of board feet	164	166	232	254	274
Eastern U.S. in thousands of short green tons	4,980	6,401	6,824	6,168	4,740
Real Estate acres sold					
Development					
Rural	472	789	501	4,356	9,377
Non-Strategic Timberlands	15,868	15,628	15,845	12,817	16,874
	44,556	53,703	49,801		
Total Acres Sold	60,896	70,120	66,147	17,173	26,251
Performance Fibers					
Sales volume (thousands of metric tons)					
Cellulose specialties	480	464	471	467	474
Absorbent materials	238	270	253	259	272
Total	718	734	724	726	746
Wood Products					
Lumber sales volume in millions of board feet	243	224	321	329	350

- (a) The 2010 results include a gain of \$12 million from the sale of a portion of the Company's interest in its New Zealand JV. The 2009 results include income of \$205 million related to the AFMC. The 2007 results include an \$11 million loss from wildfires on timberlands in southeast Georgia and northeast Florida.
- (b) The 2010 results include a tax benefit of \$24 million for the CBPC and a gain of \$12 million from the sale of a portion of the Company's interest in its New Zealand JV. The 2009 results include income of \$193 million related to the AFMC.
- (c) The 2010 results include a cash refund from the IRS of \$189 million related to the AFMC.
- (d) EBITDA is defined as earnings before interest, taxes, depreciation, depletion and amortization. EBITDA is a non-GAAP 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. We reconcile EBITDA to Net Income for the Consolidated Company and Operating Income for the Segments, as those are the nearest GAAP measure for each. See the following page for a reconciliation of Operating Income to EBITDA in total and by segment. See Item 7 *Management's Discussion and Analysis of Financial Condition and Results of Operations - Performance and Liquidity Indicators* for a reconciliation of Net Income to EBITDA.
- (e) Return on equity is calculated by dividing income from continuing operations by the average of the opening (1/1/XX) and ending (12/31/XX) shareholders' equity for each period presented. Return on capital is calculated by dividing income from continuing operations by the sum of average shareholders' equity and average outstanding debt.

Table of Contents**Index to Financial Statements****Reconciliation of Operating Income (Loss) by Segment to EBITDA by Segment**

(dollars in millions)

	Timber	Real Estate	Performance Fibers	Wood Products	Other	Corporate and other	Total
2010							
Operating income(a)	\$ 33	\$ 53	\$ 214	\$ 2	\$ 1	\$ (21)	\$ 282
Add: Depreciation, depletion and amortization	59	22	58	3		1	143
EBITDA(a)	\$ 92	\$ 75	\$ 272	\$ 5	\$ 1	\$ (20)	\$ 425
2009							
Operating income (loss)(b)	\$ 7	\$ 56	\$ 184	\$ (11)	\$ (3)	\$ 177	\$ 410
Add: Depreciation, depletion and amortization	70	24	58	5		1	158
EBITDA(b)	\$ 77	\$ 80	\$ 242	\$ (6)	\$ (3)	\$ 178	\$ 568
2008							
Operating income (loss)	\$ 31	\$ 80	\$ 149	\$ (7)	\$ 3	\$ (30)	\$ 226
Add: Depreciation, depletion and amortization	85	21	56	5		2	169
EBITDA	\$ 116	\$ 101	\$ 205	\$ (2)	\$ 3	\$ (28)	\$ 395
2007							
Operating income (loss)	\$ 60	\$ 93	\$ 141	\$ (8)	\$ (3)	\$ (36)	\$ 247
Add: Depreciation, depletion and amortization	86	5	68	6			165
EBITDA	\$ 146	\$ 98	\$ 209	\$ (2)	\$ (3)	\$ (36)	\$ 412
2006							
Operating income (loss)	\$ 99	\$ 89	\$ 80	\$ (3)	\$ 1	\$ (36)	\$ 230
Add: Depreciation, depletion and amortization	53	2	73	7	1		136
Add: Discontinued operations						9	9
Less: Non-operating expense						(1)	(1)
EBITDA	\$ 152	\$ 91	\$ 153	\$ 4	\$ 2	\$ (28)	\$ 374

(a) Corporate and other includes a gain of \$12 million from the sale of a portion of the Company's interest in its New Zealand JV. See Note 6 *Joint Venture Investment* for additional information.

(b) Corporate and other includes \$205 million related to the AFMC. See Note 3 *Alternative Fuel Mixture Credit (AFMC) and Cellulosic Biofuel Producer Credit (CBPC)* for additional information.

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Executive Summary

Our revenues, operating income and cash flows are primarily derived from three core business segments: Timber, Real Estate and Performance Fibers. We own or lease (under long-term agreements) approximately 2.1 million acres of timberland and real estate in Alabama, Arkansas, Florida, Georgia, Louisiana, New York, Oklahoma, Texas and Washington. We believe we are the seventh largest private landowner in the United States. Our Real Estate business seeks to maximize the value of our properties which are more valuable for development, recreational or conservation uses than for growing timber, and sell our non-strategic timberland. Our Performance Fibers business has been a supplier of premier cellulose specialty grades of pulp for over eighty years.

We have consistently generated strong cash flows and operating results by focusing on the following critical financial measures: segment operating income and EBITDA, cash available for distribution in total and on a per-share basis, debt to EBITDA ratio, debt to capital ratio, return on equity, return on fair market value (Timber and Real Estate) and return on capital employed (Performance Fibers). Key non-financial measures include safety and environmental performance, quality, production as a percent of capacity and various yield statistics.

Our focus is on cash generation, effective allocation of capital and maximizing returns for shareholders. Our strategy consists of the following key elements:

Increase the size and quality of our timberland holdings through cash-accretive timberland acquisitions while selling timberland that no longer meets our strategic or financial return requirements. This strategy, which requires a disciplined approach and rigorous adherence to strategic and financial metrics, can result in significant year-to-year variation in timberland acquisitions and divestitures. For example, we acquired 110,000 acres of timberland in 2008, none in 2009 and 3,000 acres in 2010. We sold approximately 45,000 and 54,000 acres of non-strategic timberland in 2010 and 2009, respectively.

Extract maximum value from our HBU properties. We will continue entitlement activity on development property while maintaining a rural HBU program of sales for conservation, recreation and industrial uses. During 2010 we entitled 1,800 acres in Florida and 3,000 acres in Georgia. We are actively working to entitle another 32,000 acres in Florida.

Differentiate our Performance Fibers business by developing and improving customer specific applications. We will emphasize operational excellence to ensure quality, reliability and efficiency. We are also evaluating the conversion of our absorbent material production line at the Jesup, Georgia mill to produce cellulose specialties.

We continuously evaluate our capital structure. Our year-end debt-to-capital ratio was 38 percent and our debt-to-EBITDA ratio was 1.8 times. We believe that a debt-to-EBITDA ratio of up to three times is appropriate to keep our weighted-average cost of capital low while maintaining an investment grade debt rating as well as retaining the flexibility to actively pursue growth opportunities.

We have historically had conservative leverage and believe in keeping ample liquidity and flexibility. Maintaining an investment grade debt rating has been a key element of this overall financial strategy as it historically allowed access to corporate debt markets even in difficult economic conditions. We have \$245 million of available borrowing capacity on our revolving credit facility as of December 31, 2010. We expect to renegotiate this facility in the second quarter of 2011, ahead of its August 2011 expiration.

In 2009 we qualified for a tax credit, the AFMC, based on the use of alternative fuels in our Performance Fibers mills. This tax credit totaled \$215 million and expired on December 31, 2009. We applied about \$22 million of the credit against 2009 tax payments and another \$4 million against 2010 estimated tax payments. The remaining \$189 million was refunded in mid-2010 after the filing of our 2009 tax return, providing significant additional liquidity. In 2010, we determined that we qualified for another alternative fuel based credit, the CBPC, after an IRS ruling. The CBPC benefit totals about \$24 million and will be realized in 2011 through refunds of prior year taxes and reductions in 2011 tax payments. We expect to use the remaining cash for strategic growth opportunities, capital expenditures in our Performance Fibers mills and for the conversion of the absorbent materials production line as noted above, if that project proceeds.

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We maintain four qualified defined benefit plans and one unfunded plan to provide benefits in excess of amounts allowable under current tax law. We contributed \$50 million to our qualified pension plans in 2010. This contribution along with a 15 percent return on pension assets resulted in an improvement in our funded status. At December 31, 2010, our qualified plans were underfunded \$18 million versus \$65 million at December 31, 2009. Our unfunded plans liabilities decreased from \$28 million at December 31, 2009 to \$26 million at December 31, 2010. We are not required to make any pension contributions in 2011 and do not expect to make any discretionary contributions.

Our strategic capital is expected to be allocated primarily to our Timber segment, with the remainder in Performance Fibers and Real Estate. We have a \$93 million note payable which matures at December 31, 2011. We expect to repay this note using cash on hand. However, we may refinance this debt and possibly incur additional debt in connection with strategic growth opportunities.

In 2010, our annual dividend was \$2.04 per share, reflecting a fourth quarter increase in the quarterly dividend to \$0.54 per share. Our 2011 dividend payments are expected to total \$175 million assuming no change in the current rate.

Overall, we believe we have adequate liquidity and sources of capital to run our businesses efficiently and effectively and to maximize the value of assets under management. We expect cash flow from operations to adequately cover planned capital expenditures, interest expense and dividends in 2011.

Operational Strategies

Timber is sold primarily through an auction process, although it is also marketed through log supply agreements, particularly in the Western region. We operate Timber as a stand-alone business, requiring our mills to compete with third-party bidders for timber, primarily at auction. This promotes realizing market value, generating a true measure of fair value returns in Timber and minimizing the possibility of our manufacturing facilities being subsidized with below market-cost wood. We focus on optimizing Timber returns by continually improving productivity and yields through advanced silvicultural practices which take into account soil, climate and biological considerations. We also actively pursue other non-timber sources of income, primarily hunting and other recreational licenses. Finally, we evaluate timberland acquisitions and pursue those that meet various financial and strategic criteria.

A significant portion of our acreage is more valuable for development, recreational or conservation purposes than for growing timber. To maximize the value of our development properties, our strategy is to engage in value-added entitlement activities versus selling real estate in bulk without entitlements. We continue to seek entitlements for holdings in the Southeast and currently have approximately 7,900 acres of entitled land in Georgia and 1,800 acres of entitled land in Florida. Additionally, in 2010 we continued our strategy of selling non-strategic timberland holdings that do not meet our investment criteria, which enables us to redeploy capital to higher return assets.

In Performance Fibers, the focus has been to improve our position as a premier supplier of cellulose specialties, which comprised 67 percent of our 2010 sales volume; the remainder of our volume is in absorbent materials consisting primarily of fluff pulp. We are a market leader in cellulose specialties, utilizing our considerable technical applications expertise to customize products to exacting specifications, which allows differentiation from most competitors. Fluff pulp is a semi-commodity with limited opportunity for differentiation other than by price and customer service. There are a number of much larger companies in the fluff pulp market and we are not a market leader.

Cost control is a critical element to remaining competitive in the Performance Fibers markets. The keys to success are operating continuously, safely, and efficiently while closely managing raw material and conversion costs. Capital expenditures typically are directed toward cost reduction, product enhancements, environmental requirements and efficiency projects. Historically, we have used a significant amount of fossil fuels to operate our mills. To reduce variability and cost, we completed a number of capital projects to reduce fossil fuel consumption, including a power boiler replacement at our Fernandina Beach, Florida facility, which primarily consumes wood waste.

Our capital expenditures totaled \$138 million in 2010. For 2011, capital expenditures (excluding strategic acquisitions and the potential absorbent material production line conversion) are expected to range from \$140 million to \$145 million. The majority of this increase is planned for silvicultural investments in our timberlands. In Performance Fibers, we expect to again undertake significant cost reduction and efficiency projects.

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Industry and Market Conditions

Timber and lumber markets rebounded in 2010, benefiting from weather-related supply constraints, particularly early in the year. Additionally, there was increasing export demand on the west coast for logs and lumber, driven primarily by China. However, domestic demand for saw timber remained weak due to the anemic housing market. Demand for pulpwood remained relatively stable. We maintained our timber harvest levels on our Washington property at prior year levels. We continued to harvest primarily pulpwood on our southeastern holdings, although volumes declined reflecting a return to more normal thinning levels. In 2011, we expect Timber results to exceed 2010 reflecting higher prices and increased volumes from our Washington property.

In Real Estate, our sales mix was consistent with prior year as demand for non-strategic timberlands and rural property held steady, while demand for development property remained soft due to the weak housing market and overall economic decline. We expect similar conditions in the near term, but also expect non-strategic timberland sales to be only one third of 2010 volume as we wind down that program.

In Performance Fibers, acetate and ethers market demand remains strong. Sales are typically made under one to five year contracts, which establish prices and target volumes at the beginning of the year and buffer some of the changes in supply and demand typically seen in worldwide commodity pulp and paper markets. We have long-term contracts with the world's largest manufacturers of acetate-based products and other key customers that extend into 2013 and 2014 and represent a significant majority of our high value cellulose specialties production. Our recognized technical and market leadership has allowed us to maintain strong pricing across our cellulose specialties product lines. In 2009, a small amount of new capacity from competitors in the Southern hemisphere came on-line. This new volume did not affect our 2010 results. Another mill which had been shut down for four years has changed ownership with the announced intention of producing cellulose specialties. We do not expect this new capacity to adversely impact our results in 2011; however, it is unclear how these market dynamics may impact our business in 2012 and beyond.

Absorbent materials prices increased in 2010 reflecting economic growth in Asia. Our prices are expected to decline in 2011 from 2010 levels. Sales of absorbent materials are typically made with an annual volume agreement that allows price to move with the market during the year.

Critical Accounting Policies and Use of Estimates

The preparation of financial statements requires us to make estimates, assumptions and judgments that affect our assets, liabilities, revenues and expenses, and to disclose contingent assets and liabilities in our Annual Report on Form 10-K. 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.

Merchantable inventory and depletion costs as determined by forestry timber harvest models

Significant assumptions and estimates are used in the recording of timberland inventory cost and depletion. Merchantable standing timber inventory is estimated by our forestry technical services group annually, using industry-standard computer software. The inventory calculation takes into account growth, in-growth (annual transfer of oldest pre-merchantable age class into merchantable inventory), timberland sales and the annual harvest specific to each business unit. The age at which timber is considered merchantable is reviewed periodically and updated for changing harvest practices, future harvest age profiles and biological growth factors.

An annual depletion rate is established for each particular region by dividing merchantable inventory book cost by standing merchantable inventory. Pre-merchantable records are maintained for each planted year age class, recording acres planted, stems per acre and costs of planting and tending. Changes in the assumptions and/or estimations used in these calculations may affect our timber inventory and depletion costs. Factors that can impact timber volume include weather changes, losses due to natural causes, differences in actual versus estimated growth rates and changes in the age when timber is considered merchantable. A three percent company-wide change in estimated standing merchantable inventory would cause 2010 depletion expense to change by approximately \$2 million.

An acquisition of timberlands can also affect the depletion rate. Upon the acquisition of timberland, we make a determination on whether to combine the newly acquired merchantable timber with an existing depletion pool or to create a new separate pool. The determination is based on the geographic location of the new timber, the customers/markets that will be served and species mix.

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Depreciation and impairment of long-lived assets

Depreciation expense is computed using the units-of-production method for the Performance Fibers plant and equipment and the straight-line method on all other property, plant and equipment over the useful economic lives of the assets involved. We believe that these depreciation methods are the most appropriate under the circumstances as they most closely match revenues with expenses versus other generally accepted accounting methods. Long-lived assets are periodically reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Cash flows used in such impairment analyses are based on long-range plan projections, which take into account recent sales and cost data as well as macroeconomic drivers such as customer demand and industry capacity. The physical life of equipment, however, may be shortened by economic obsolescence caused by environmental regulation, competition or other causes.

Beginning in the fourth quarter of 2008, our Wood Products sawmills curtailed production due to weak market conditions. In 2011, we expect to continue to operate at reduced production levels unless market conditions improve. Based on long range plan projections, we estimate that our carrying amount is recoverable through future operations.

Environmental costs associated with dispositions and discontinued operations

At December 31, 2010, we had \$93 million of accrued liabilities for environmental costs relating to past dispositions and discontinued operations. Numerous cost assumptions are used in estimating these obligations. Factors affecting these estimates include significant changes in contamination, discharge or treatment volumes, requirements to perform additional or different remediation, changes in environmental remediation technology, additional findings of contaminated soil, groundwater or sediment off-site, remedy selection, changes in law or interpretation of existing law and the outcome of negotiations with governmental agencies. We periodically review our environmental liabilities and also engage third-party consultants to assess our ongoing remediation of contaminated sites. A significant change in any of the estimates could have a material effect on the results of our operations. Typically, these cost estimates do not vary significantly on a quarter to quarter basis. In 2010 and 2009, we increased the liability by \$3 million and \$2 million, respectively. See Note 14 *Liabilities for Dispositions and Discontinued Operations* for additional information.

Determining the adequacy of pension and other postretirement benefit assets and liabilities

We have four qualified benefit plans which cover most of our U.S. workforce and an unfunded plan to provide benefits in excess of amounts allowable under current tax law to certain participants in the qualified plans. Three of these plans are closed to new participants and the fourth plan will be closed to new participants effective March 1, 2011. Pension expense for all plans was \$10 million in 2010. Numerous estimates and assumptions are required to determine the proper amount of pension and postretirement liabilities and annual expense to record in our financial statements. The key assumptions include discount rate, return on assets, salary increases, health care cost trends, mortality rates, longevity and service lives of employees. Although there is authoritative guidance on how to select most of these assumptions, we exercise some degree of judgment when selecting these assumptions based on input from our actuary. Different assumptions, as well as actual versus expected results, would change the periodic benefit cost and funded status of the benefit plans recognized in the financial statements.

In determining pension expense in 2010, a \$22 million return was assumed based on an expected long-term rate of return of 8.5 percent. The actual return for 2010 was a gain of \$36 million, or 15 percent. Our long-term return assumption was established based on historical long-term rates of return on broad equity and bond indices, discussions with our actuary and investment advisors and consideration of the actual annualized rate of return from 1994 (the date of our spin-off from ITT Corporation) through 2010. At the end of 2010, we reviewed this assumption for reasonableness and determined that the 2010 long-term rate of return assumption should remain at 8.5 percent. At December 31, 2010, our asset mix consisted of 67 percent equities, 30 percent bonds and 3 percent real estate. We do not expect this mix to change materially in the near future.

The Company's pension plans were underfunded by \$44 million at December 31, 2010, a \$49 million improvement in funding status from December 31, 2009 due primarily to employer contributions and favorable asset returns. In 2010, we made discretionary pension contributions of \$50 million, compared to contributions of \$10 million in 2009, of which \$8 million was mandatory. We made discretionary contributions of \$8 million in 2008. Future requirements will vary depending on actual investment performance, changes in valuation assumptions, interest rates, requirements under the Pension Protection Act and other employee related matters. See Note 19 *Employee Benefit Plans* for additional information.

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In determining future pension obligations, we select a discount rate based on information supplied by our actuary. The actuarial rates are developed by models which incorporate high quality (AAA and AA rated), long-term corporate bond rates into their calculations. The discount rate was 5.25 percent and 5.80 percent at December 31, 2010 and 2009, respectively. Future pension expense will be impacted by many factors including actual investment performance, changes in discount rates, timing of contributions and other employee related matters.

The sensitivity of pension expense and projected benefit obligation to changes in economic assumptions is highlighted below:

Change in Assumption	Impact on:	
	Pension Expense	Projected Benefit Obligation
25 bp decrease in discount rate	+1.0 million	+11.0 million
25 bp increase in discount rate	-1.0 million	-10.5 million
25 bp decrease in long-term return on assets	+0.6 million	
25 bp increase in long-term return on assets	-0.6 million	

Realizability of both recorded and unrecorded tax assets and liabilities

As a REIT, our Timber operations are generally not subject to income taxation. Our income taxes can vary significantly based on the mix of income between our REIT and TRS businesses, thereby impacting our effective tax rate and the amount of taxes paid during fiscal periods. Also, our projection of estimated income tax for the year and our provision for quarterly income taxes, in accordance with generally accepted accounting principles, may have significant variability. Similarly, the assessment of the ability to realize certain deferred tax assets, or estimate deferred tax liabilities, may be subjective.

We have recorded certain deferred tax assets that we believe will be realized in future periods. These assets are reviewed periodically in order to assess their realizability. This review requires us to make assumptions and estimates about future profitability affecting the realization of these tax benefits. If the review indicates that the realizability may be less than likely, a valuation allowance is recorded at that time.

Our income tax returns are subject to examination by U.S. federal, state, and foreign taxing authorities. In evaluating the tax benefits associated with various tax filing positions, we record a tax benefit for an uncertain tax position if it is more-likely-than-not to be realized upon ultimate settlement of the issue. We record a liability for an uncertain tax position that does not meet this criterion. The liabilities for unrecognized tax benefits are adjusted in the period in which it is determined the issue is settled with the taxing authorities, the statute of limitations expires for the relevant taxing authority to examine the tax position or when new facts or information becomes available. See Note 8 *Income Taxes* for additional information on our unrecognized tax benefits.

Table of Contents**Index to Financial Statements****Summary of our results of operations for the three years ended December 31:**

Financial Information (in millions)	2010	2009	2008
Sales			
Timber			
Eastern	\$ 102	\$ 104	\$ 112
Western	66	47	78
New Zealand	9	8	9
Total Timber	177	159	199
Real Estate			
Development	3	3	5
Rural	28	32	48
Non-Strategic Timberlands	65	66	74
Total Real Estate	96	101	127
Performance Fibers			
Cellulose specialties	686	658	600
Absorbent materials	195	181	198
Total Performance Fibers	881	839	798
Wood Products	68	51	86
Other Operations	102	38	61
Intersegment Eliminations	(9)	(19)	
Total Sales	\$ 1,315	\$ 1,169	\$ 1,271
Operating Income (Loss)			
Timber	\$ 33	\$ 7	\$ 31
Real Estate	53	56	80
Performance Fibers	214	184	149
Wood Products	2	(11)	(7)
Other Operations	1	(3)	3
Corporate and other(a)	(21)	177	(30)
Operating Income	282	410	226
Interest Expense	(50)	(53)	(50)
Interest/Other Income	1	2	2
Income Tax Expense(b)	(15)	(46)	(29)
Net Income	\$ 218	\$ 313	\$ 149

- (a) The 2010 results include a gain of \$12 million from the sale of a portion of the Company's interest in its New Zealand JV. See Note 6 *Joint Venture Investment* for additional information. The 2009 results include income of \$205 million related to the AFMC. See Note 3 *Alternative Fuel Mixture Credit (AFMC) and Cellulosic Biofuel Producer Credit (CBPC)* for additional information.
- (b) The 2010 results include a tax benefit of \$24 million for the CBPC. The 2009 results include a tax expense of \$12 million related to the AFMC.

Table of Contents**Index to Financial Statements****Results of Operations, 2010 versus 2009***Timber*

Sales (in millions)	2009	Changes Attributable to:		2010
		Price	Volume/ Mix/Other	
Eastern	\$ 104	\$ 14	\$ (16)	\$ 102
Western	47	18	1	66
New Zealand	8		1	9
Total Sales	\$ 159	\$ 32	\$ (14)	\$ 177

Operating Income/(Loss) (in millions)	2009	Changes Attributable to:			2010
		Price	Volume/ Mix	Cost/Other	
Eastern	\$ 17	\$ 14	\$ (5)	\$	\$ 26
Western	(7)	18	(1)	(3)	7
New Zealand/Other	(3)			3	
Total Operating Income	\$ 7	\$ 32	\$ (6)	\$	\$ 33

In the Eastern region, 2010 sales declined from the prior year as higher prices mainly due to weather-related supply constraints were more than offset by lower volumes as thinnings returned to more normalized levels. Average prices rose \$4.10 per short green ton, or 25 percent, for the year, while volumes declined 22 percent. Operating income improved from 2009 due to higher margins.

In the Western region, sales and operating income improved from prior year periods primarily due to higher prices driven largely by stronger export demand. The 41 percent average price improvement was somewhat offset by a one percent decline in volumes as well as increased costs, mainly for road maintenance.

In February 2010, our New Zealand JV, Matariki Forestry Group (Matariki), sold a 35 percent interest in the JV to a new investor for NZ\$167 million. The investment was for newly issued capital by Matariki which was used entirely to pay down a portion of the outstanding NZ\$367 million debt. The transaction reduced our ownership interest in Matariki from 40 percent to 26 percent. Rayonier continues to manage the JV. The New Zealand sales represent timberland management fees for services provided to the JV. The operating income primarily represents equity earnings related to the JV's timber activities which have increased from 2009 mainly due to improved export demand.

Real Estate

Our real estate holdings are primarily in the southeastern U.S. We segregate these real estate holdings into three groups: HBU development, HBU rural and non-strategic timberlands. Our strategy is to extract maximum value from our HBU properties. We pursue entitlement activity on development property while maintaining a rural HBU program of sales for conservation, recreation and industrial uses.

Sales (in millions)	2009	Changes Attributable to:		2010
		Price	Volume/ Mix	
Development	\$ 3	\$	\$	\$ 3

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Rural	32	(4)		28
Non-Strategic Timberlands	66	10	(11)	65
Total Sales	\$ 101	\$ 6	\$ (11)	\$ 96

	2009	Changes Attributable to:			2010
		Price	Volume/ Mix	Cost/Other	
Operating Income (in millions)					
Total Operating Income	\$ 56	\$ 6	\$ (7)	\$ (2)	\$ 53

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Full year sales and operating income were \$5 million and \$3 million below the prior year, respectively, primarily due to a 14 percent decline in rural prices reflecting a change in geographic mix. A 17 percent decline in non-strategic timberland acres sold due to timing of sales was mostly offset by an increase of \$215 per acre, or 17 percent, due to location and site characteristics.

Performance Fibers

Sales (in millions)	2009	Changes Attributable to:		2010
		Price	Volume/ Mix	
Cellulose specialties	\$ 658	\$ 4	\$ 24	\$ 686
Absorbent materials	181	36	(22)	195
Total Sales	\$ 839	\$ 40	\$ 2	\$ 881

Cellulose specialties sales improved as prices increased \$8 per ton, and volumes increased 4 percent from the prior year period reflecting strong demand. The 2010 price increase was mostly offset by the removal of a 2009 cost-based surcharge.

Absorbent materials sales increased as prices rose \$153 per ton, or 24 percent, mainly due to tight supply. Sales volumes declined by 12 percent due to the timing of customer orders, a shift in production to cellulose specialties and production issues.

Operating Income (in millions)	2009	Changes Attributable to:			2010
		Price	Volume/ Mix	Cost/Other	
Total Operating Income	\$ 184	\$ 40	\$ 5	\$ (15)	\$ 214

In 2010, operating income improved from 2009 primarily due to higher absorbent materials and cellulose specialties prices as well as an increase in cellulose specialties volumes. Full year costs were above 2009 mainly due to an increase in wood, chemical and transportation costs.

Wood Products

Sales (in millions)	2009	Changes Attributable to:		2010
		Price	Volume	
Total Sales	\$ 51	\$ 13	\$ 4	\$ 68

Operating (Loss) Income (in millions)	2009	Changes Attributable to:		2010
		Price	Costs	
Total Operating (Loss) Income	\$ (11)			