RAYONIER INC
Form 10-Q
April 30, 2009
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ________ to ________

COMMISSION FILE NUMBER 1-6780

# RAYONIER INC.

**Incorporated in the State of North Carolina**

**I.R.S. Employer Identification Number 13-2607329**

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

**(Principal Executive Office)**

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

Indicate by check mark whether the registrant (l) has filed all reports required to be filed by Section l3 or l5(d) of the Securities Exchange Act of l934 during the preceding l2 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES x NO ¨

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 (Section 232.405 of this chapter) 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer x | Accelerated filer ¨ |
| Non-accelerated filer ¨ (Do not check if a smaller reporting company) | Smaller reporting company ¨ |

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

YES ¨ NO x

As of April 27, 2009, there were outstanding 78,991,988 Common Shares of the Registrant.

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**RAYONIER INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

**AND COMPREHENSIVE INCOME**

**(Unaudited)**

**(Dollars in thousands, except per share data)**

| | Three Months Ended March 31, 2009 | 2008 |
|---|---|---|
| **SALES** | $ 274,370 | $ 275,123 |
| Costs and Expenses | | |
| Cost of sales | 219,392 | 202,408 |
| Selling and general expenses | 14,667 | 14,800 |
| Other operating income, net | (3,259) | (1,622) |
| | 230,800 | 215,586 |
| **OPERATING INCOME** | 43,570 | 59,537 |
| Interest expense | (12,593) | (12,541) |
| Interest and miscellaneous income, net | 74 | 1,417 |
| **INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES** | 31,051 | 48,413 |
| Income tax expense | (5,227) | (9,675) |
| **INCOME FROM CONTINUING OPERATIONS** | 25,824 | 38,738 |
| **DISCONTINUED OPERATIONS, NET (Note 2)** | | |
| Income from discontinued operations, net of income tax benefit (expense) of $502 and ($82) | 97 | 960 |
| **NET INCOME** | 25,921 | 39,698 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | |
| Foreign currency translation adjustment | (4,878) | 4,097 |
| Joint venture cash flow hedges | (2,350) | |
| Amortization of pension and postretirement plans, net of income tax expense of $466 and $561 | 425 | 1,346 |
| **COMPREHENSIVE INCOME** | $ 19,118 | $ 45,141 |
| **EARNINGS PER COMMON SHARE** | | |
| **BASIC EARNINGS PER SHARE** | | |
| Continuing Operations | $ 0.33 | $ 0.50 |
| Discontinued Operations | | 0.01 |
| Net Income | $ 0.33 | $ 0.51 |

| | | | | |
|---|---|---|---|---|
| **DILUTED EARNINGS PER SHARE** | | | | |
| Continuing Operations | $ | 0.33 | $ | 0.49 |
| Discontinued Operations | | | | 0.01 |
| Net Income | $ | 0.33 | $ | 0.50 |

See Notes to Condensed Consolidated Financial Statements.

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**RAYONIER INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

**(Unaudited)**

**(Dollars in thousands)**

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash and cash equivalents | $ 57,454 | $ 61,685 |
| Accounts receivable, less allowance for doubtful accounts of $991 and $1,130 | 71,896 | 72,549 |
| Inventory | | |
| Finished goods | 81,933 | 78,389 |
| Work in process | 8,248 | 7,412 |
| Raw materials | 11,935 | 8,400 |
| Manufacturing and maintenance supplies | 2,399 | 2,477 |
| Total inventory | 104,515 | 96,678 |
| Other current assets | 43,936 | 39,971 |
| Assets held for sale (Note 2) | 49,832 | 56,093 |
| Total Current Assets | 327,633 | 326,976 |
| **TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION** | 1,238,930 | 1,254,978 |
| **PROPERTY, PLANT AND EQUIPMENT** | | |
| Land | 25,086 | 24,432 |
| Buildings | 123,725 | 124,143 |
| Machinery and equipment | 1,252,385 | 1,243,911 |
| Total property, plant and equipment | 1,401,196 | 1,392,486 |
| Less - accumulated depreciation | (1,047,388) | (1,041,779) |
| | 353,808 | 350,707 |
| **OTHER ASSETS** | 148,934 | 149,202 |
| **TOTAL ASSETS** | $ 2,069,305 | $ 2,081,863 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| **CURRENT LIABILITIES** | | |
| Accounts payable | $ 73,615 | $ 70,011 |
| Bank loans and current maturities | 620 | 620 |
| Accrued interest | 13,668 | 4,202 |
| Liabilities associated with assets held for sale (Note 2) | 5,699 | 6,227 |
| Current liabilities for dispositions and discontinued operations (Note 11) | 8,400 | 8,214 |
| Other current liabilities | 65,990 | 73,677 |
| Total Current Liabilities | 167,992 | 162,951 |
| **LONG-TERM DEBT** | 748,033 | 746,591 |

| | | |
|---|---|---|
| **NON-CURRENT LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS (Note 11)** | 94,857 | 96,361 |
| **PENSION AND OTHER POSTRETIREMENT BENEFITS (Note 13)** | 121,688 | 121,440 |
| **OTHER NON-CURRENT LIABILITIES** | 14,914 | 15,583 |
| **COMMITMENTS AND CONTINGENCIES (Notes 10 and 12)** | | |
| **SHAREHOLDERS EQUITY** | | |
| Common Shares, 120,000,000 shares authorized, 78,978,816 and 78,814,431 shares issued and outstanding | 530,538 | 527,302 |
| Retained earnings | 496,382 | 509,931 |
| Accumulated other comprehensive loss | (105,099) | (98,296) |
| **TOTAL SHAREHOLDERS EQUITY** | 921,821 | 938,937 |
| **TOTAL LIABILITIES AND SHAREHOLDERS EQUITY** | $ 2,069,305 | $ 2,081,863 |

See Notes to Condensed Consolidated Financial Statements.

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**RAYONIER INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

**(Dollars in thousands)**

| | Three Months Ended March 31, 2009 | 2008 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Net income | $ 25,921 | $ 39,698 |
| Non-cash items included in income: | | |
| Depreciation, depletion and amortization | 38,519 | 33,503 |
| Non-cash cost of real estate sold | 3,490 | 2,566 |
| Non-cash stock-based incentive compensation expense | 4,338 | 3,729 |
| Amortization of convertible debt discount | 1,442 | 1,343 |
| Deferred income tax (benefit) expense | (1,238) | 3,296 |
| Excess tax benefits on stock-based compensation | (68) | (954) |
| Other | 2,231 | 1,411 |
| Changes in operating assets and liabilities: | | |
| Receivables | (1,408) | 941 |
| Inventories | (6,470) | 3,845 |
| Accounts payable | (1,755) | 2,684 |
| Other current assets | (770) | 77 |
| Accrued liabilities | 3,516 | 10,718 |
| Other assets | (454) | (781) |
| Other non-current liabilities | (217) | (69) |
| Expenditures for dispositions and discontinued operations | (2,285) | (1,771) |
| CASH PROVIDED BY OPERATING ACTIVITIES | 64,792 | 100,236 |
| **INVESTING ACTIVITIES** | | |
| Capital expenditures | (29,828) | (31,831) |
| Purchase of timberlands | | (19,567) |
| Change in restricted cash | (2,964) | 10,013 |
| Other | 4,118 | 3,153 |
| CASH USED FOR INVESTING ACTIVITIES | (28,674) | (38,232) |
| **FINANCING ACTIVITIES** | | |
| Issuance of debt | 20,000 | |
| Repayment of debt | (20,000) | (55,000) |
| Dividends paid | (39,416) | (39,128) |
| Repurchase of common shares | (1,388) | (3,488) |
| Proceeds from the issuance of common shares | 218 | 596 |
| Excess tax benefits on stock-based compensation | 68 | 954 |
| CASH USED FOR FINANCING ACTIVITIES | (40,518) | (96,066) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH** | 169 | (150) |
| **CASH AND CASH EQUIVALENTS** | | |
| Decrease in cash and cash equivalents | (4,231) | (34,212) |

| | | | | |
|---|---|---|---|---|
| Balance, beginning of year | | 61,685 | | 181,081 |
| Balance, end of period | $ | 57,454 | $ | 146,869 |
| **SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION** | | | | |
| Cash paid (received) during the period: | | | | |
| Interest | $ | 1,217 | $ | 641 |
| Income taxes | $ | 729 | $ | (262) |
| Non-cash investing activity: | | | | |
| Capital assets purchased on account | $ | 14,034 | $ | 14,037 |

See Notes to Condensed Consolidated Financial Statements.

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**RAYONIER INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

## 1. BASIS OF PRESENTATION AND NEW ACCOUNTING PRONOUNCEMENTS

***Basis of Presentation***

The unaudited condensed consolidated financial statements and notes thereto of Rayonier Inc. and its subsidiaries ( Rayonier or the Company ) were prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission. In the opinion of management, these financial statements and notes reflect all adjustments (including normal recurring adjustments) necessary for a fair presentation of the results of operations, financial position and cash flows for the periods presented. These statements and notes should be read in conjunction with the financial statements and supplementary data included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the Securities and Exchange Commission.

***New Accounting Pronouncements***

In March 2008, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133* ( SFAS 161 ). This Statement requires enhanced disclosures about an entity s derivative and hedging activities, including (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ( SFAS 133 ), and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. The Company adopted the provisions of SFAS 161 effective January 1, 2009. See Note 8 *Financial Instruments* for the Company s disclosures about its derivative instruments and hedging activities.

In May 2008, the FASB issued FASB Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* ( FSP APB 14-1 ). FSP APB 14-1 requires that entities with convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) separately account for the liability and equity components in a manner that reflects the entity s nonconvertible debt borrowing rate when interest expense is recognized in subsequent periods. The Company adopted FSP APB 14-1 on January 1, 2009 and retrospectively applied the fair value of the equity component net of accumulated amortization in 2007 and 2008. The adoption of FSP APB 14-1 resulted in the recognition of a $23.7 million debt discount, an $8.7 million deferred tax liability and a $15.0 million increase to shareholders equity, net of income taxes as of December 31, 2008. The Company recorded additional interest expense, net of tax benefits, related to the amortization of the debt discount of $0.9 million, or $.01 per diluted share, in both the three months ended March 31, 2009 and 2008, and $3.5 million and $0.7 million during the years ended 2008 and 2007, respectively. See Note 14 *Convertible Debt* for additional information on the Company s convertible debt.

In December 2008, the FASB issued FSP No. FAS 132(R)-1, *Employers Disclosures about Postretirement Benefit Plan Assets*. The FSP amends SFAS No. 132(R) to require disclosure of investment policies, strategies, categories of plan assets and information about the fair value measurements of plan assets of a defined pension or other postretirement plan. The disclosures are effective for fiscal years ending after December 15, 2009.

## 2. ASSETS HELD FOR SALE

The Company holds a 40 percent interest in a joint venture ( JV ) that owns or leases approximately 329,000 acres of New Zealand timberlands. In addition to the investment, Rayonier New Zealand Limited ( RNZL ), a wholly-owned subsidiary of Rayonier Inc., serves as the manager of the JV forests and operates a log trading business. Rayonier s Board of Directors approved a plan to offer to sell the Company s 40 percent interest in the JV as well as the operations of RNZL. Collectively, the Company s JV interest and RNZL operations qualify as a component of an entity under SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* As a result, the operating results of the JV and

RNZL have been segregated from continuing operations in the Condensed Consolidated Statements of Income and Comprehensive Income and reported as discontinued operations for all periods presented. The assets and liabilities are classified as "Assets held for sale" and "Liabilities associated with assets held for sale" in the Condensed Consolidated Balance Sheets. The JV and the related management activities performed by RNZL were previously reported in the Timber segment while the log trading operations of RNZL were reported in Other for segment purposes.

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**RAYONIER INC. AND SUBSIDIARIES**

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

**(Unaudited)**

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

Operating results of the discontinued operations are summarized below:

| | Three Months Ended March 31, 2009 | Three Months Ended March 31, 2008 |
|---|---|---|
| Sales | $ 5,015 | $ 9,070 |
| Equity in (loss) income of New Zealand JV | (1,237) | 972 |
| Operating (loss) income | (405) | 1,042 |
| Income tax benefit (expense) | 502 | (82) |
| Net income from discontinued operations | 97 | 960 |

The assets and liabilities of discontinued operations are summarized below:

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| Assets | | |
| Accounts receivable, net | $ 10,010 | $ 7,373 |
| Other current assets | 699 | 767 |
| Property and equipment, net | 82 | 102 |
| Other assets | 4,849 | 4,901 |
| Investment in JV | 34,192 | 42,950 |
| Total assets held for sale | $ 49,832 | $ 56,093 |
| Liabilities | | |
| Accounts payable | $ 689 | $ 702 |
| Other current liabilities | 1,107 | 2,247 |
| Deferred tax liability | 3,903 | 3,278 |
| Total liabilities associated with assets held for sale | $ 5,699 | $ 6,227 |

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**RAYONIER INC. AND SUBSIDIARIES**

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

**(Unaudited)**

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

## 3. EARNINGS PER COMMON SHARE

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

| | Three Months Ended March 31, 2009 | 2008 |
|---|---|---|
| Income from continuing operations | $ 25,824 | $ 38,738 |
| Income from discontinued operations | 97 | 960 |
| Net income (1) | $ 25,921 | $ 39,698 |
| Shares used for determining basic earnings per common share | 78,806,973 | 78,254,220 |
| Dilutive effect of: | | |
| Stock options | 221,962 | 705,050 |
| Performance and restricted shares | 243,542 | 253,017 |
| Shares used for determining diluted earnings per common share | 79,272,477 | 79,212,287 |
| Basic earnings per common share: | | |
| Continuing operations | $ 0.33 | $ 0.50 |
| Discontinued operations | | 0.01 |
| Net income (1) | $ 0.33 | $ 0.51 |
| Diluted earnings per common share: | | |
| Continuing operations | $ 0.33 | $ 0.49 |
| Discontinued operations | | 0.01 |
| Net income (1) | $ 0.33 | $ 0.50 |

(1) 2008 has been restated as a result of adopting FSP APB 14-1. See Note 1 *Basis of Presentation and New Accounting Pronouncements*.

## 4. INCOME TAXES

Rayonier is a real estate investment trust ( REIT ). In general, only the Company s taxable REIT subsidiaries, whose businesses include the Company s non-REIT qualified activities, are subject to U.S. federal and state corporate income taxes. However, the Company is subject to U.S. federal corporate income tax on built-in gains (the excess of fair market value over tax basis for property held by the Company upon REIT election at January 1, 2004) on taxable sales of such built-in gain property during the first 10 years following the election to be taxed as a REIT. Accordingly, the provision for corporate income taxes relates principally to current and deferred taxes on income from taxable REIT subsidiary operations and on certain property sales.

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**RAYONIER INC. AND SUBSIDIARIES**

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

**(Unaudited)**

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

***Provision for Income Taxes from Continuing Operations***

The following tables reconcile the Company s income tax provision at the U.S. statutory tax rate to the reported provision and effective tax rate (dollars in millions):

| | Three months ended March 31, | | | |
|---|---|---|---|---|
| | **2009** | **%** | **2008** | **%** |
| Income tax provision at U.S. statutory rate | $ (10.9) | (35.0) | $ (16.9) | (35.0) |
| REIT income not subject to federal tax | 4.6 | 14.7 | 7.3 | 15.1 |
| Permanent differences/other | 0.3 | 0.9 | (0.4) | (0.6) |
| Income tax provision before discrete items | $ (6.0) | (19.4) | $ (10.0) | (20.5) |
| Other adjustments | 0.8 | 2.6 | 0.3 | 0.5 |
| Income tax expense as reported | $ (5.2) | (16.8) | $ (9.7) | (20.0) |

The Company s effective tax rate is below the 35 percent U.S. statutory tax rate primarily due to tax benefits associated with being a REIT and like-kind exchange ( LKE ) transactions. The effective rate from continuing operations before discrete items was comparable to the prior period.

***FIN 48 Disclosures***

There were no significant changes to the Company s uncertain tax positions in the first quarter of 2009. For a detail of the Company s uncertain tax positions refer to Note 9 *Income Taxes* in the 2008 Annual Report on Form 10-K.

## 5. RESTRICTED DEPOSITS

For certain real estate sales to qualify for LKE treatment, the sales proceeds must be deposited with a third party intermediary and accounted for as restricted cash until qualifying replacement property is acquired. In the event that LKE purchases are not completed, the proceeds are returned to the Company and reclassified as cash after 180 days. As of March 31, 2009 and December 31, 2008, the Company had $4.5 million and $1.5 million, respectively, of proceeds from real estate sales classified as restricted cash in Other assets, which were on deposit with an LKE intermediary.

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollars in thousands unless otherwise stated)

## 6. SHAREHOLDERS EQUITY

An analysis of shareholders equity for the three months ended March 31, 2009 and the year ended December 31, 2008 is shown below (share amounts not in thousands):

| | Common Shares | | | Accumulated Other | |
|---|---|---|---|---|---|
| | Shares | Amount (1) | Retained Earnings (1) | Comprehensive Income (Loss) | Shareholders Equity |
| **Balance, December 31, 2007** | 78,216,696 | $ 506,650 | $ 518,618 | $ (25,638) | $ 999,630 |
| Net income | | | 148,583 | | 148,583 |
| Dividends ($2.00 per share) | | | (157,270) | | (157,270) |
| Issuance of shares under incentive stock plans | 690,031 | 8,265 | | | 8,265 |
| Stock-based compensation | | 13,344 | | | 13,344 |
| Excess tax benefit on stock-based compensation | | 3,248 | | | 3,248 |
| Repurchase of common shares | (92,296) | (3,979) | | | (3,979) |
| Net loss from pension and postretirement plans | | | | (65,527) | (65,527) |
| Retiree medical benefit plan amendment | | | | 16,377 | 16,377 |
| Foreign currency translation adjustment | | | | (23,508) | (23,508) |
| Other | | (226) | | | (226) |
| **Balance, December 31, 2008** | 78,814,431 | $ 527,302 | $ 509,931 | $ (98,296) | $ 938,937 |
| Net income | | | 25,921 | | 25,921 |
| Dividends ($.50 per share) | | | (39,470) | | (39,470) |
| Issuance of shares under incentive stock plans | 213,747 | 218 | | | 218 |
| Stock-based compensation | | 4,338 | | | 4,338 |
| Excess tax benefit on stock-based compensation | | 68 | | | 68 |
| Repurchase of common shares | (49,362) | (1,388) | | | (1,388) |
| Amortization of pension and postretirement plans | | | | 425 | 425 |
| Foreign currency translation adjustment | | | | (4,878) | (4,878) |
| Joint venture cash flow hedges | | | | (2,350) | (2,350) |
| **Balance, March 31, 2009** | $ 78,978,816 | $ 530,538 | $ 496,382 | $ (105,099) | $ 921,821 |

(1) Restated as a result of adopting FSP APB 14-1. See Note 1 *Basis of Presentation and New Accounting Pronouncements.*

## 7. SEGMENT INFORMATION

Rayonier operates in four reportable business segments as defined by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*: Timber, Real Estate, Performance Fibers, and Wood Products. Timber sales include all activities that relate to the harvesting of timber. Real Estate sales include all property sales, including those designated for higher and better use ( HBU ). The assets of the Real Estate segment include HBU property held by the Company s real estate subsidiary, TerraPointe LLC, and parcels under contract previously in the Timber segment. Allocations of depletion expense and non-cash costs of real estate sold are recorded when the Real Estate segment sells an asset from the Timber segment. The Performance Fibers segment includes two major product lines, cellulose specialties and absorbent materials. The Wood Products segment is comprised of the Company s lumber operations. The Company s remaining operations include harvesting and selling timber acquired from third parties (log trading). These operations are combined and reported in Other Operations. Sales between operating segments are made based on fair market value and intercompany profit or loss is eliminated in consolidation. The Company evaluates financial performance based on the operating income of the segments.

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

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**RAYONIER INC. AND SUBSIDIARIES**

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

**(Unaudited)**

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

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

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| **ASSETS** | | |
| Timber | $ 1,279,221 | $ 1,277,825 |
| Real Estate | 76,976 | 73,021 |
| Performance Fibers | 508,977 | 495,659 |
| Wood Products | 25,342 | 26,573 |
| Other Operations | 18,478 | 19,056 |
| Assets Held for Sale | 49,832 | 56,093 |
| Corporate and other | 110,479 | 133,636 |
| **TOTAL** | $ 2,069,305 | $ 2,081,863 |

| | Three Months Ended March 31, | |
|---|---|---|
| | 2009 | 2008 |
| **SALES** | | |
| Timber | $ 33,177 | $ 44,701 |
| Real Estate | 26,593 | 29,351 |
| Performance Fibers | 203,635 | 174,926 |
| Wood Products | 11,752 | 18,912 |
| Other Operations | 2,433 | 7,233 |
| Intersegment Eliminations | (3,220) | |
| **TOTAL** | $ 274,370 | $ 275,123 |

| | Three Months Ended March 31, | |
|---|---|---|
| | 2009 | 2008 |
| **OPERATING INCOME (LOSS)** | | |
| Timber | $ (1,156) | $ 10,802 |
| Real Estate | 14,413 | 21,768 |
| Performance Fibers | 40,849 | 37,056 |
| Wood Products | (3,573) | (2,544) |
| Other Operations | (46) | (313) |
| Corporate and other | (6,917) | (7,232) |
| **TOTAL** | $ 43,570 | $ 59,537 |

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollars in thousands unless otherwise stated)

| | Three Months Ended March 31, 2009 | Three Months Ended March 31, 2008 |
|---|---|---|
| **DEPRECIATION, DEPLETION AND AMORTIZATION** | | |
| Timber | $ 17,436 | $ 18,067 |
| Real Estate | 5,389 | 2,695 |
| Performance Fibers | 14,288 | 11,164 |
| Wood Products | 1,218 | 1,444 |
| Other Operations | 1 | 8 |
| Corporate and other | 187 | 125 |
| **TOTAL** | $ 38,519 | $ 33,503 |

**8. FINANCIAL INSTRUMENTS**

***Commodity Swap Agreements***

The Company enters into commodity forward contracts to fix some of its fuel oil and natural gas costs at its Performance Fibers mills. The forward contracts partially mitigate the risk of a change in Performance Fibers margins resulting from an increase or decrease in fuel oil and natural gas prices. At March 31, 2009, the Company had hedges through the end of 2009 on 68,400 gallons of fuel oil. The Company s commodity forward contracts do not qualify for hedge accounting under SFAS 133 and instead are required to be marked-to-market. The mark-to-market adjustments are recorded in Other operating income, net.

The following table presents the location of all assets and liabilities associated with the Company s hedging instruments within the Condensed Consolidated Balance Sheets:

| Derivatives not designated as hedging instruments under SFAS 133 | Balance Sheet Location | Fair Value at: March 31, 2009 | Fair Value at: December 31, 2008 |
|---|---|---|---|
| Fuel oil contracts | Other current liabilities | $ (2,135) | $ (3,825) |

The following table presents the impact of derivative instruments and their location within the Condensed Consolidated Statement of Income and Comprehensive Income:

| Derivatives not designated as hedging instruments under SFAS 133 | Location of Gain or (Loss) recognized in income | Three Months Ended March 31, 2009 | Three Months Ended March 31, 2008 |
|---|---|---|---|
| Fuel oil contracts | Other operating income, net | $ 337 | $ 243 |

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**RAYONIER INC. AND SUBSIDIARIES**

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

**(Unaudited)**

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

## 9. FAIR VALUE MEASUREMENTS

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

| Asset (liability) | Carrying Value at March 31, 2009 | Level 2 |
|---|---|---|
| Commodity swap agreements | $ (2,135) | $ (2,135) |
| Investment in QSPE | 2,757 | 2,757 |

## 10. GUARANTEES

The Company provides financial guarantees as required by creditors, insurance programs and state and foreign governmental agencies. As of March 31, 2009, the following financial guarantees were outstanding:

| | Maximum Potential Payment | Carrying Amount of Liability |
|---|---|---|
| Standby letters of credit (1) | $ 45,069 | $ 39,247 |
| Guarantees (2) | 4,483 | 63 |
| Surety bonds (3) | 10,863 | 1,982 |
| Total | $ 60,415 | $ 41,292 |

(1) Approximately $39 million of the standby letters of credit serve as credit support for industrial revenue bonds. The remaining letter of credit supports obligations under various insurance related agreements, primarily workers compensation and pollution liability policy requirements. These letters of credit expire at various dates during 2009, and will be renewed as required.

(2) In conjunction with RNZL s sale of timberlands to the New Zealand JV in October 2005, the Company guaranteed five years of Crown Forest license obligations. The JV is the primary obligor and has posted a bank performance bond with the New Zealand government. If the JV fails to pay the obligation, the New Zealand government will demand payment from the bank that posted the bond. If the bank defaults on the bond, the Company would then have to perform. As of March 31, 2009, two annual payments, of $1.0 million each, remain. This guarantee expires in 2010.

In conjunction with a timberland sale and note monetization in the first quarter of 2004, the Company issued a make-whole agreement pursuant to which it guaranteed $2.5 million of obligations of a qualified special purpose entity that was established to complete the monetization. At March 31, 2009 and December 31, 2008, the Company has recorded a de minimus liability to reflect the fair market value of its obligation to perform under the make-whole agreement.

(3) Rayonier issued surety bonds primarily to secure timber in the State of Washington and to provide collateral for the Company s workers compensation self-insurance program in Washington and Georgia. These surety bonds expire at various dates during 2009 and 2010, and are renewed as required.

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**RAYONIER INC. AND SUBSIDIARIES**

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

**(Unaudited)**

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

## 11. LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS

An analysis of activity in the liabilities for dispositions and discontinued operations for the three months ended March 31, 2009 and the year ended December 31, 2008, is as follows:

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| Balance, January 1, | $ 104,575 | $ 113,685 |
| Expenditures charged to liabilities | (2,285) | (7,660) |
| Increase (reduction) to liabilities | 967 | (1,450) |
| Balance, end of period | 103,257 | 104,575 |
| Less: Current portion | (8,400) | (8,214) |
| Non-current portion | $ 94,857 | $ 96,361 |

The Company believes established liabilities are sufficient for costs expected to be incurred over the next 20 years with respect to its dispositions and discontinued operations. The Company is exposed to the risk of reasonably possible additional losses in excess of the established liabilities. As of March 31, 2009, this amount could range up to $32 million and arises from uncertainty over the availability or effectiveness of certain remediation technologies, additional or different contamination that may be discovered, development of new or improved environmental remediation technologies, changes in applicable law and the exercise of discretion in interpretation of applicable law and regulations by governmental agencies.

For additional information on the Company s environmental liabilities refer to Note 15 *Liabilities for Dispositions and Discontinued Operations,* in the 2008 Annual Report on Form 10-K.

## 12. CONTINGENCIES

From time to time, Rayonier becomes subject to pending and threatened litigation and environmental and other matters. For additional information refer to Note 16 *Contingencies* in the 2008 Annual Report on Form 10-K.

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

## 13. EMPLOYEE BENEFIT PLANS

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

**RAYONIER INC. AND SUBSIDIARIES**

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

**(Unaudited)**

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

The net periodic benefit costs for the Company s pension and postretirement plans (medical and life insurance) are shown in the following table:

| | Pension Three Months Ended March 31, | | Postretirement Three Months Ended March 31, | |
|---|---|---|---|---|
| | **2009** | **2008** | **2009** | **2008** |
| Components of Net Periodic Benefit Cost | | | | |
| Service cost | $ 1,842 | $ 1,586 | $ 90 | $ 164 |
| Interest cost | 4,349 | 3,824 | 301 | 628 |
| Expected return on plan assets | (5,291) | (4,817) | | |
| Amortization of prior service cost | 354 | 329 | 22 | 179 |
| Amortization of plan amendment | | | (2,392) | |
| Amortization of losses | 1,349 | 1,118 | 1,558 | 281 |
| Net periodic benefit cost | $ 2,603 | $ 2,040 | $ (421) | $ 1,252 |

The Company made no pension contributions in the first quarter of 2009. The Company is required to make pension contributions of approximately $8 million in 2009, but may elect to make additional discretionary contributions.

**14. CONVERTIBLE DEBT**

In October 2007, TRS issued $300 million of 3.75% Senior Exchangeable Notes due 2012. The notes are guaranteed by Rayonier Inc., and are non-callable. The $300 million in principal will be settled in cash and any excess exchange value will be settled at the option of the Company in either cash or stock of Rayonier Inc. Note holders may convert their notes subject to certain conversion provisions including the market price of the Company s common stock and the trading price of the convertible notes. The initial exchange rate is 18.24 shares per $1,000 principal based on an exchange price equal to 122 percent of the stock s closing price of $44.93 on October 10, 2007, or $54.81 per share.

In separate transactions, TRS and Rayonier, respectively, purchased an exchangeable note and sold warrants based on 5,472,991 underlying shares of Rayonier Inc. These transactions had the effect of increasing the conversion premium from 22 percent to 40 percent or to $62.90 per share. On exercise of the hedge, TRS will receive shares of Rayonier Inc. common stock equal to the difference between the then market price and the strike price of $54.81. The holders of the warrants receive net shares from Rayonier if the share price is above $62.90 at maturity of the warrants.

The purchased hedge and sold warrants are not part of the terms of the notes and will not affect the note holders rights. Likewise, the note holders will not have any rights with respect to the hedge or the warrants. The purchased hedge and the sold warrants meet the definition of derivatives under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities.* However, because these instruments have been determined to be indexed to the Company s own stock in accordance with EITF Issue No. 01-6, *The Meaning of Indexed to a Company s Own Stock*, and have been recorded in shareholders equity in the Condensed Consolidated Balance Sheet (as determined under EITF Issue No. 00-19, *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock*), the instruments meet the scope exception of SFAS No. 133 and are not subject to the mark-to-market provisions of that standard.

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**RAYONIER INC. AND SUBSIDIARIES**

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

**(Unaudited)**

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

The amounts related to the convertible debt in the Condensed Consolidated Balance Sheets are as follows:

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| Liabilities: | | |
| Principal amount of debt | $ 300,000 | $ 300,000 |
| Unamortized discount | (22,306) | (23,748) |
| Net carrying amount of debt | $ 277,694 | $ 276,252 |
| Equity: | | |
| Common stock | $ 19,243 | $ 19,243 |

The unamortized discount will be amortized through October 2012.

The amount of interest related to the convertible debt recognized in the Condensed Consolidated Statements of Income and Comprehensive Income are as follows:

| | Three Months Ended March 31, 2009 | 2008 |
|---|---|---|
| Contractual interest coupon | $ 2,813 | $ 2,813 |
| Amortization of debt discount | 1,442 | 1,343 |
| Total interest expense recognized | $ 4,255 | $ 4,156 |

The effective interest rate on the liability component for the three months ended March 31, 2009 and 2008 was 6.21%.

## 15. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| Foreign currency translation adjustments | $ 5,911 | $ 10,789 |
| Joint venture cash flow hedges | (2,350) | |
| Unrecognized components of employee benefit plans, net of tax | (108,660) | (109,085) |
| Total | $ (105,099) | $ (98,296) |

During the three months ended March 31, 2009, the decrease in net foreign currency translation adjustments was due to the weakening of the New Zealand dollar against the U.S. dollar.

**16. SUBSEQUENT EVENT**

On April 8, 2009, Rayonier received notification from the Internal Revenue Service that its application for registration as an alternative fuel mixer had been approved. As a result, the Company expects to be eligible for a tax credit equal to $0.50 per gallon of black or red liquor (biomass-based fuels generated as part of the pulping process) burned as part of an alternative fuel mixture used at its Performance Fibers mills from January 19, 2009 through the expiration of the tax credit, currently December 31, 2009. The Company believes that approximately $40 million in tax credits were generated in the first quarter of 2009, which will be recognized in the second quarter 2009 financial statements. Through the date of this filing, the Company believes that approximately $60 million in tax credits have been generated in 2009. Starting in the second quarter, credits will be recognized in the period they are earned.

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**RAYONIER INC. AND SUBSIDIARIES**

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

**(Unaudited)**

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

**17. CONSOLIDATING FINANCIAL STATEMENTS**

In October 2007, Rayonier TRS Holdings Inc. ( TRS ), a wholly-owned subsidiary of Rayonier Inc., issued $300 million of 3.75% Senior Exchangeable Notes due 2012. The notes are guaranteed by Rayonier Inc. and are non-callable. In connection with these exchangeable notes, the Company provides the following condensed consolidating financial information in accordance with SEC Regulation S-X Rule 3-10, *Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered*. Each entity in the consolidating financial information follows the same accounting policies as described in the consolidated financial statements, except for the use of the equity method of accounting to reflect ownership interests in wholly-owned subsidiaries which are eliminated upon consolidation and the allocation of certain expenses of Rayonier Inc., incurred for the benefit of its subsidiaries.

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**RAYONIER INC. AND SUBSIDIARIES**

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

**(Dollar amounts in thousands unless otherwise stated)**

**CONDENSED CONSOLIDATING STATEMENTS OF INCOME**
**For the Three Months Ended March 31, 2009**

| | Rayonier Inc. (Parent Guarantor) | Rayonier TRS Holdings Inc. (Issuer) | Subsidiaries of Rayonier TRS Holdings Inc. (Non-guarantors) | All Other Subsidiaries (Non-guarantors) | Consolidating Adjustments | Total Consolidated |
|---|---|---|---|---|---|---|
| **SALES** | $ | $ | $ 232,660 | $ 51,216 | $ (9,506) | $ 274,370 |
| Costs and Expenses | | | | | | |
| Cost of sales | | | 195,263 | 34,543 | (10,414) | 219,392 |
| Selling and general expenses | 2,489 | | 11,336 | 842 | | 14,667 |
| Other operating income, net | (105) | | (815) | (2,339) | | (3,259) |
| **OPERATING (LOSS) INCOME** | (2,384) | | 26,876 | 18,170 | 908 | 43,570 |
| Interest expense | (110) | (4,607) | (6,718) | (1,158) | | (12,593) |
| Interest and miscellaneous income, net | 795 | (773) | (1,202) | 1,283 | (29) | 74 |
| Equity in income from subsidiaries | 29,459 | 13,705 | | | (43,164) | |
| **INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES** | 27,760 | 8,325 | 18,956 | 18,295 | (42,285) | 31,051 |
| Income tax (expense) benefit | (1,090) | 1,964 | (6,101) | | | (5,227) |
| **INCOME FROM CONTINUING OPERATIONS** | 26,670 | 10,289 | 12,855 | 18,295 | (42,285) | 25,824 |
| **DISCONTINUED OPERATIONS, NET** | | | | | | |
| (Loss) Income on discontinued operations, net of tax | (753) | | 850 | | | 97 |
| **NET INCOME** | $ 25,917 | $ 10,289 | $ 13,705 | $ 18,295 | $ (42,285) | $ 25,921 |

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**RAYONIER INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Dollar amounts in thousands unless otherwise stated) (Continued)**

**CONDENSED CONSOLIDATING STATEMENTS OF INCOME**
**For the Three Months Ended March 31, 2008**

| | Rayonier Inc. (Parent Guarantor) | Rayonier TRS Holdings Inc. (Issuer) | Subsidiaries of Rayonier TRS Holdings Inc. (Non-guarantors) | All Other Subsidiaries (Non-guarantors) | Consolidating Adjustments | Total Consolidated |
|---|---|---|---|---|---|---|
| **SALES** | $ | $ | $ 219,776 | $ 92,692 | $ (37,345) | $ 275,123 |
| Costs and Expenses | | | | | | |
| Cost of sales | | | 180,111 | 33,756 | (11,459) | 202,408 |
| Selling and general expenses | 2,526 | | 11,520 | 754 | | 14,800 |
| Other operating (income) expense, net | (202) | | 359 | (1,779) | | (1,622) |
| **OPERATING (LOSS) INCOME** | (2,324) | | 27,786 | 59,961 | (25,886) | 59,537 |
| Interest expense | 536 | (4,482) | (6,616) | (1,979) | | (12,541) |
| Interest and miscellaneous income, net | 887 | (773) | (51) | 1,354 | | 1,417 |
| Equity in income from subsidiaries | 40,105 | 9,952 | | | (50,057) | |
| **INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES** | 39,204 | 4,697 | 21,119 | 59,336 | (75,943) | 48,413 |
| Income tax (expense) benefit | (529) | 1,957 | (11,103) | | | (9,675) |
| **INCOME FROM CONTINUING OPERATIONS** | 38,675 | 6,654 | 10,016 | 59,336 | (75,943) | 38,738 |
| **DISCONTINUED OPERATIONS, NET** | | | | | | |
| Income (loss) on discontinued operations, net of tax | 1,024 | | (64) | | | 960 |
| **NET INCOME** | $ 39,699 | $ 6,654 | $ 9,952 | $ 59,336 | $ (75,943) | $ 39,698 |

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**RAYONIER INC. AND SUBSIDIARIES**

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

**(Dollar amounts in thousands unless otherwise stated)**

**CONDENSED CONSOLIDATING BALANCE SHEETS**
**As of March 31, 2009**

| | Rayonier Inc. (Parent Guarantor) | Rayonier TRS Holdings Inc. (Issuer) | Subsidiaries of Rayonier TRS Holdings Inc. (Non-guarantors) | All Other Subsidiaries (Non-guarantors) | Consolidating Adjustments | Total Consolidated |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| CURRENT ASSETS | | | | | | |
| Cash and cash equivalents | $ 1,695 | $ | $ 30,196 | $ 25,563 | $ | $ 57,454 |
| Accounts receivable, less allowance for doubtful accounts | | | 68,306 | 3,590 | | 71,896 |
| Inventory | | | 109,274 | | (4,759) | 104,515 |
| Intercompany interest receivable | | | | 1,261 | (1,261) | |
| Other current assets | 3,677 | | 36,714 | 3,545 | | 43,936 |
| Assets held for sale | 54,188 | | (4,356) | | | 49,832 |
| Total current assets | 59,560 | | 240,134 | 33,959 | (6,020) | 327,633 |
| TIMBER AND TIMBERLANDS NET OF DEPLETION AND AMORTIZATION | 1,807 | | 90,139 | 1,146,984 | | 1,238,930 |
| NET PROPERTY, PLANT AND EQUIPMENT | 1,975 | | 349,763 | 1,474 | 596 | 353,808 |
| INVESTMENT IN SUBSIDIARIES | 983,850 | 476,833 | | | (1,460,683) | |
| INTERCOMPANY/NOTES RECEIVABLE | 7,850 | | | 1,573 | (9,423) | |
| OTHER ASSETS | 23,794 | 5,860 | 513,104 | 9,064 | (402,888) | 148,934 |
| TOTAL ASSETS | $ 1,078,836 | $ 482,693 | $ 1,193,140 | $ 1,193,054 | $ (1,878,418) | $ 2,069,305 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | | | | | |
| CURRENT LIABILITIES | | | | | | |
| Accounts payable | $ 2,501 | $ | $ 69,326 | $ 1,788 | $ | $ 73,615 |
| Bank loans and current maturities | | | 620 | | | 620 |
| Accrued interest | 812 | 5,188 | 6,542 | 1,126 | | 13,668 |
| Liabilities associated with assets held for sale | 53 | | 5,646 | | | 5,699 |
| Current liabilities for dispositions and discontinued operations | | | 8,400 | | | 8,400 |
| Other current liabilities | 10,827 | | 41,410 | 13,753 | | 65,990 |
| Total current liabilities | 14,193 | 5,188 | 131,944 | 16,667 | | 167,992 |
| LONG-TERM DEBT | 20,000 | 277,694 | 397,760 | 52,579 | | 748,033 |
| NON-CURRENT LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS | | | 94,857 | | | 94,857 |

| | | | | | | |
|---|---|---|---|---|---|---|
| PENSION AND OTHER POSTRETIREMENT BENEFITS | 87,893 | | 33,795 | | | 121,688 |
| OTHER NON-CURRENT LIABILITIES | 11,650 | | 2,569 | 23,629 | (22,934) | 14,914 |
| INTERCOMPANY PAYABLE | 23,279 | | 55,382 | 5,502 | (84,163) | |
| TOTAL LIABILITIES | 157,015 | 282,882 | 716,307 | 98,377 | (107,097) | 1,147,484 |
| TOTAL SHAREHOLDERS EQUITY | 921,821 | 199,811 | 476,833 | 1,094,677 | (1,771,321) | 921,821 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | $ 1,078,836 | $ 482,693 | $ 1,193,140 | $ 1,193,054 | $ (1,878,418) | $ 2,069,305 |

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**RAYONIER INC. AND SUBSIDIARIES**

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

**(Dollar amounts in thousands unless otherwise stated)**

**CONDENSED CONSOLIDATING BALANCE SHEETS**
**As of December 31, 2008**

| | Rayonier Inc. (Parent Guarantor) | Rayonier TRS Holdings Inc. (Issuer) | Subsidiaries of Rayonier TRS Holdings Inc. (Non-guarantors) | All Other Subsidiaries (Non-guarantors) | Consolidating Adjustments | Total Consolidated |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| CURRENT ASSETS | | | | | | |
| Cash and cash equivalents | $ 9,741 | $ | $ 47,082 | $ 4,862 | $ | $ 61,685 |
| Accounts receivable, less allowance for doubtful accounts | | | 69,151 | 3,398 | | 72,549 |
| Inventory | | | 102,746 | | (6,068) | 96,678 |
| Intercompany interest receivable | | | | 1,772 | (1,772) | |
| Other current assets | 5,766 | | 29,820 | 4,385 | | 39,971 |
| Assets held for sale | 63,046 | | (6,953) | | | 56,093 |
| Total current assets | 78,553 | | 241,846 | 14,417 | (7,840) | 326,976 |
| TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION | 1,807 | | 92,189 | 1,160,982 | | 1,254,978 |
| NET PROPERTY, PLANT AND EQUIPMENT | 2,151 | | 347,108 | 1,448 | | 350,707 |
| INVESTMENT IN SUBSIDIARIES | 990,391 | 482,206 | | | (1,472,597) | |
| INTERCOMPANY/NOTES RECEIVABLE | 26,673 | | 25,250 | 6,744 | (58,667) | |
| OTHER ASSETS | 24,223 | 6,265 | 508,153 | 5,891 | (395,330) | 149,202 |
| TOTAL ASSETS | $ 1,123,798 | $ 488,471 | $ 1,214,546 | $ 1,189,482 | $ (1,934,434) | $ 2,081,863 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | | | | | |
| CURRENT LIABILITIES | | | | | | |
| Accounts payable | $ 2,943 | $ | $ 66,149 | $ 919 | $ | $ 70,011 |
| Bank loans and current maturities | | | 620 | | | 620 |
| Accrued interest | 781 | 2,375 | 1,046 | | | 4,202 |
| Liabilities associated with assets held for sale | 53 | | 6,174 | | | 6,227 |
| Current liabilities for dispositions and discontinued operations | | | 8,214 | | | 8,214 |
| Other current liabilities | 15,297 | (9,833) | 52,148 | 16,065 | | 73,677 |
| Total current liabilities | 19,074 | (7,458) | 134,351 | 16,984 | | 162,951 |
| LONG-TERM DEBT | 20,000 | 276,252 | 397,760 | 52,579 | | 746,591 |
| NON-CURRENT LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS | | | 96,361 | | | 96,361 |

| | | | | | | |
|---|---|---|---|---|---|---|
| PENSION AND OTHER POSTRETIREMENT BENEFITS | 87,562 | | 33,878 | | | 121,440 |
| OTHER NON-CURRENT LIABILITIES | 12,363 | | 2,512 | 17,110 | (16,402) | 15,583 |
| INTERCOMPANY PAYABLE | 45,862 | | 67,478 | 5,502 | (118,842) | |
| TOTAL LIABILITIES | 184,861 | 268,794 | 732,340 | 92,175 | (135,244) | 1,142,926 |
| TOTAL SHAREHOLDERS EQUITY | 938,937 | 219,677 | 482,206 | 1,097,307 | (1,799,190) | 938,937 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | $ 1,123,798 | $ 488,471 | $ 1,214,546 | $ 1,189,482 | $ (1,934,434) | $ 2,081,863 |

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**RAYONIER INC. AND SUBSIDIARIES**

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

**(Dollar amounts in thousands unless otherwise stated)**

**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**
**For the Three Months Ended March 31, 2009**

| | Rayonier Inc. (Parent Guarantor) | Rayonier TRS Holdings Inc. (Issuer) | Subsidiaries of Rayonier TRS Holdings Inc. (Non-guarantors) | All Other Subsidiaries (Non-guarantors) | Consolidating Adjustments | Total Consolidated |
|---|---|---|---|---|---|---|
| **CASH PROVIDED BY OPERATING ACTIVITIES** | $ 32,543 | $ 15,000 | $ 14,702 | $ 56,915 | $ (54,368) | $ 64,792 |
| **INVESTING ACTIVITIES** | | | | | | |
| Capital expenditures | (3) | | (20,153) | (9,672) | | (29,828) |
| Purchase of timberlands | | | | (2,594) | 2,594 | |
| Change in restricted cash | | | | (2,964) | | (2,964) |
| Other | | | 4,102 | 16 | | 4,118 |
| **CASH USED FOR INVESTING ACTIVITIES** | (3) | | (16,051) | (15,214) | 2,594 | (28,674) |
| **FINANCING ACTIVITIES** | | | | | | |
| Issuance of debt | | | | 20,000 | | 20,000 |
| Repayment of debt | | | | (20,000) | | (20,000) |
| Dividends paid | (39,416) | | | | | (39,416) |
| Issuance of common shares | 218 | | | | | 218 |
| Excess tax benefits on stock-based compensation | | | 68 | | | 68 |
| Repurchase of common shares | (1,388) | | | | | (1,388) |
| Distributions to / from Parent | | (15,000) | (15,774) | (21,000) | 51,774 | |
| **CASH USED FOR FINANCING ACTIVITIES** | (40,586) | (15,000) | (15,706) | (21,000) | 51,774 | (40,518) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH** | | | 169 | | | 169 |
| **CASH AND CASH EQUIVALENTS** | | | | | | |
| Change in cash and cash equivalents | (8,046) | | (16,886) | 20,701 | | (4,231) |
| Balance, beginning of year | 9,741 | | 47,082 | 4,862 | | 61,685 |
| Balance, end of period | $ 1,695 | $ | $ 30,196 | $ 25,563 | $ | $ 57,454 |

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**RAYONIER INC. AND SUBSIDIARIES**

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

**(Dollar amounts in thousands unless otherwise stated)**

**CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS**
**For the Three Months Ended March 31, 2008**

| | Rayonier Inc. (Parent Guarantor) | Rayonier TRS Holdings Inc. (Issuer) | Subsidiaries of Rayonier TRS Holdings Inc. (Non-guarantors) | All Other Subsidiaries (Non-guarantors) | Consolidating Adjustments | Total Consolidated |
|---|---|---|---|---|---|---|
| **CASH PROVIDED BY OPERATING ACTIVITIES** | $ 22,503 | $ 29,167 | $ 18,775 | $ 89,791 | $ (60,000) | $ 100,236 |
| **INVESTING ACTIVITIES** | | | | | | |
| Capital expenditures | | | (22,321) | (9,510) | | (31,831) |
| Purchase of timberlands | | | (3,857) | (15,710) | | (19,567) |
| Change in restricted cash | | | | 10,013 | | 10,013 |
| Investment In Subsidiaries | | 833 | | | (833) | |
| Other | | | 3,883 | (730) | | 3,153 |
| **CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES** | | 833 | (22,295) | (15,937) | (833) | (38,232) |
| **FINANCING ACTIVITIES** | | | | | | |
| Repayment of debt | | | | (55,000) | | (55,000) |
| Dividends paid | (39,128) | | | | | (39,128) |
| Issuance of common shares | 596 | | | | | 596 |
| Excess tax benefits on stock-based compensation | | | 954 | | | 954 |
| Repurchase of common shares | (3,488) | | | | | (3,488) |
| Repayment of intercompany | 15,000 | | | (15,000) | | |
| Distributions to / from Parent | | (30,000) | (30,833) | | 60,833 | |
| **CASH USED FOR FINANCING ACTIVITIES** | (27,020) | (30,000) | (29,879) | (70,000) | 60,833 | (96,066) |
| **EFFECT OF EXCHANGE RATE CHANGES ON CASH** | | | (150) | | | (150) |
| **CASH AND CASH EQUIVALENTS** | | | | | | |
| Change in cash and cash equivalents | (4,517) | | (33,549) | 3,854 | | (34,212) |
| Balance, beginning of year | 4,211 | | 173,029 | 3,841 | | 181,081 |
| Balance, end of period | $ (306) | $ | $ 139,480 | $ 7,695 | $ | $ 146,869 |

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

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

Our Management s Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) is intended to provide a reader of our financial statements with a narrative from the perspective of our management on our financial condition, results of operations, liquidity, and certain other factors which may affect our future results. Our MD&A should be read in conjunction with our 2008 Annual Report on Form 10-K.

**Forward - Looking Statements**

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

Forward looking statements are subject to future events, risks and uncertainties - many of which are beyond our control or are currently unknown to us as well as potentially inaccurate estimates, assumptions and judgments by us that could cause actual results to differ materially from results contemplated by our forward-looking statements. Some of these events, risks and uncertainties are set forth in Item 1A *Risk Factors* in our 2008 Annual Report on Form 10-K. Forward-looking statements are not guarantees of future performance and undue reliance should not be placed on these statements.

**Critical Accounting Policies and Use of Estimates**

The preparation of our consolidated financial statements requires us to make estimates, assumptions and judgments that affect our assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. We base these estimates and assumptions on historical data and trends, current fact patterns, expectations and other sources of information we believe are reasonable. Actual results may differ from these estimates under different conditions. For a full description of our critical accounting policies, see Item 7 *Management s Discussion and Analysis of Financial Condition and Results of Operations* in the 2008 Annual Report on Form 10-K.

**Segments**

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 operate in four reportable business segments: Timber, Real Estate, Performance Fibers, and Wood Products. Timber sales include all activities that relate to the harvesting of timber. Real Estate sales currently include the sale of all properties, including those designated for higher and better use ( HBU ). The assets of the Real Estate segment include HBU property held by the Company s real estate subsidiary, TerraPointe LLC, and certain parcels previously reported in the Timber segment. The Performance Fibers segment includes two major product lines, cellulose specialties and absorbent materials. The Wood Products segment is comprised of the Company s lumber operations. Our remaining operations include harvesting and selling timber acquired from third parties (log trading). These operations are combined and reported in an Other category.

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

In August 2008, the New Zealand joint venture decided to offer the business for sale and this process is ongoing. Accordingly, we classified our interest in the joint venture as held for sale and its operations are shown as discontinued operations (see Note 2 *Assets Held for Sale*). These operations were previously included in the Timber and Other segments. The Timber and Other segments shown below have been restated to exclude the New Zealand operations. See Note 7 *Segment Information,* of the Notes to Condensed Consolidated Financial Statements in this quarterly report for additional information regarding segment reporting.

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**Results of Operations, Three Months Ended March 31, 2009 Compared to Three Months Ended March 31, 2008**

| Financial Information (in millions) | Three Months Ended March 31, 2009 | Three Months Ended March 31, 2008 |
|---|---|---|
| **Sales** | | |
| Timber | $ 33.2 | $ 44.7 |
| Real Estate | | |
| Development | 0.2 | 0.8 |
| Rural | 3.8 | 23.9 |
| Non-Strategic Timberlands | 22.6 | 4.7 |
| Total Real Estate | 26.6 | 29.4 |
| Performance Fibers | | |
| Cellulose Specialties | 156.7 | 132.7 |
| Absorbent Materials | 46.9 | 42.2 |
| Total Performance Fibers | 203.6 | 174.9 |
| Wood Products | 11.8 | 18.9 |
| Other operations | 2.4 | 7.2 |
| Intersegment Eliminations | (3.2) | |
| **Total Sales** | $ 274.4 | $ 275.1 |
| **Operating Income (Loss)** | | |
| Timber | $ (1.2) | $ 10.8 |
| Real Estate | 14.4 | 21.8 |
| Performance Fibers | 40.8 | 37.1 |
| Wood Products | (3.6) | (2.5) |
| Other operations | | (0.3) |
| Corporate and other | (6.8) | (7.4) |
| **Total Operating Income** | 43.6 | 59.5 |
| Interest expense | (12.6) | (12.5) |
| Interest and miscellaneous income, net | | 1.4 |
| Income tax expense | (5.2) | (9.7) |
| **Income from Continuing Operations** | 25.8 | 38.7 |
| **Discontinued Operations, Net** | 0.1 | 1.0 |
| **Net Income** | $ 25.9 | $ 39.7 |
| **Diluted Earnings Per Share from Continuing Operations** | $ 0.33 | $ 0.49 |

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***TIMBER***

| Sales (in millions) | 2008 | Changes Attributable to: Price | Volume/Mix | 2009 |
|---|---|---|---|---|
| Three months ended March 31, | | | | |
| Eastern | $ 24.1 | $ (5.2) | $ 5.0 | $ 23.9 |
| Western | 20.6 | (3.7) | (7.6) | 9.3 |
| Total Sales | $ 44.7 | $ (8.9) | $ (2.6) | $ 33.2 |

| Operating Income (Loss) (in millions) | 2008 | Changes Attributable to: Price | Volume/Mix | Cost/Other | 2009 |
|---|---|---|---|---|---|
| Three months ended March 31, | | | | | |
| Eastern | $ 2.5 | $ (5.2) | $ 0.2 | $ 5.5 | $ 3.0 |
| Western | 8.6 | (3.7) | (5.1) | (3.7) | (3.9) |
| Other | (0.3) | | | | (0.3) |
| Total Operating Income (Loss) | $ 10.8 | $ (8.9) | $ (4.9) | $ 1.8 | $ (1.2) |

Sales and operating income declined $12 million from first quarter 2008. In the Eastern region, sales were comparable to the prior year period reflecting a 20 percent increase in sales volumes, offset by a 17 percent decline in prices due to weak demand and a sales mix shift from sawtimber to pulpwood. Operating income also benefited from lower depletion expense due to sales mix.

In the Western region, sales and operating income were down from the prior year period as weak demand due to sawmill curtailments continued to negatively impact prices and volumes. Average Western region prices declined 22 percent and volumes declined 44 percent compared to the prior year period. Operating income was further impacted by higher depletion costs from a second quarter 2008 timberland acquisition.

Based on current conditions, the Company expects to operate at reduced harvest levels, particularly in the Northwest.

***REAL ESTATE***

| Sales (in millions) | 2008 | Changes Attributable to: Price | Volume/Mix | 2009 |
|---|---|---|---|---|
| Three months ended March 31, | | | | |
| Development | $ 0.8 | $ | $ (0.6) | $ 0.2 |
| Rural | 23.9 | (1.2) | (18.9) | 3.8 |
| Non-Strategic Timberlands | 4.7 | 0.5 | 17.4 | 22.6 |
| Total Sales | $ 29.4 | $ (0.7) | $ (2.1) | $ 26.6 |

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| Operating Income (in millions) | | Changes Attributable to: | | | |
|---|---|---|---|---|---|
| | 2008 | Price | Volume/Mix | Cost | 2009 |
| Three months ended March 31, | | | | | |
| Total Operating Income | $ 21.8 | $ (0.7) | $ (4.7) | $ (2.0) | $ 14.4 |

In first quarter 2009, sales and operating income declined from first quarter 2008 as lower rural property volumes and prices were only partially offset by a 15,000 acre increase in non-strategic timberland sales at per acre pricing comparable to the prior year period.

***PERFORMANCE FIBERS***

| Sales (in millions) | | Changes Attributable to: | | |
|---|---|---|---|---|
| | 2008 | Price | Volume/Mix | 2009 |
| Three months ended March 31, | | | | |
| Cellulose Specialties | $ 132.7 | $ 23.0 | $ 1.0 | $ 156.7 |
| Absorbent Materials | 42.2 | (1.4) | 6.1 | 46.9 |
| Total Sales | $ 174.9 | $ 21.6 | $ 7.1 | $ 203.6 |

In first quarter 2009, cellulose specialty prices increased 17 percent due to continued strong demand while absorbent material prices declined 3 percent as a result of softening fluff demand. Sales volumes increased 1 percent and 16 percent for cellulose specialties and absorbent materials, respectively. First quarter 2008 absorbent material volumes were impacted by unplanned maintenance outages.

| Operating Income (in millions) | | Changes Attributable to: | | | |
|---|---|---|---|---|---|
| | 2008 | Price | Volume/Mix | Costs | 2009 |
| Three months ended March 31, | | | | | |
| Total Operating Income | $ 37.1 | $ 21.6 | $ 1.0 | $ (18.9) | $ 40.8 |

Performance Fibers operating income was $4 million higher than the prior year period as higher prices, improved volumes and lower maintenance costs were largely offset by higher caustic costs.

***WOOD PRODUCTS***

| Sales (in millions) | | Changes Attributable to: | | |
|---|---|---|---|---|
| | 2008 | Price | Volume/Mix | 2009 |
| Three months ended March 31, | | | | |
| Total Sales | $ 18.9 | $ (1.7) | $ (5.4) | $ 11.8 |

In first quarter 2009, wood products sales were $7 million below the prior year period due to lower volumes and prices resulting from the weak housing market. Based on current conditions, we are operating below capacity at two of our mills and expect to continue at these levels until market conditions improve.

| Operating Loss (in millions) | | Changes Attributable to: | | | |
|---|---|---|---|---|---|
| | 2008 | Price | Volume/Mix | Costs | 2009 |
| Three months ended March 31, | | | | | |
| Total Operating Loss | $ (2.5) | $ (1.7) | $ | $ 0.6 | $ (3.6) |

Wood Products operating results declined $1 million as lower prices were partially offset by improved wood costs.

***OTHER OPERATIONS***

First quarter sales of $2 million were $5 million below the prior year period due to reduced log trading activity, while operating results improved slightly to breakeven.

***Corporate and Other Expenses***

Corporate and other expenses improved by $1 million from the prior year period due to general cost reductions.

***Interest Expense and Miscellaneous Income, Net***

Interest and other, net increased $1 million from first quarter 2008 due to higher average net debt balances.

***Income Tax Expense***

The first quarter effective tax rate from continuing operations before discrete items of 19.4 percent was comparable to the prior period rate of 20.5 percent. Including discrete items, the first quarter 2009 effective tax rate from continuing operations was 16.8 percent compared to 20.0 percent in the prior year period. See Note 4 *Income Taxes* for additional information.

***Outlook***

We expect to generate solid cash flows well in excess of our $2.00 per share dividend in 2009, despite the difficult economy. Our conservative debt levels, manageable debt maturities and strong balance sheet provide significant operating flexibility.

We expect that the weak housing market will continue to negatively impact our timber businesses, particularly in the Northwest, and anticipate holding even more volume off the market. In Real Estate, we expect steady demand for our rural and non-strategic timberlands. Performance Fibers earnings are expected to remain strong and in line with 2008.

***Employee Relations***

In March 2009, new collective bargaining agreements were approved by the four unions representing approximately 700 employees at our Jesup mill. The new agreements run through June 2012. See Item 1 *Business* in the 2008 Annual Report on Form 10-K for more information on employee relations.

**Liquidity and Capital Resources**

Historically, our operations have generally produced consistent cash flows and required limited capital resources. Short-term borrowings have helped fund cyclicality and seasonality in working capital needs and long-term debt has been used to fund major acquisitions. While we have no major debt coming due until December 31, 2009 when $122 million in installment notes will mature, the current turmoil in the financial markets may impact our ability to obtain, and may increase the costs of, short-term and long-term borrowings. We anticipate refinancing these notes by accessing the corporate debt markets, or by borrowing under our revolving bank facility which has $145 million of capacity as of March 31, 2009.

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

| | As of March 31, 2009 | As of December 31, 2008 |
|---|---|---|
| Cash and cash equivalents (1) | $ 57 | $ 62 |
| Total debt (2) | 749 | 747 |
| Shareholders equity (2) | 922 | 939 |
| Total capitalization (total debt plus equity) (2) | 1,671 | 1,686 |
| Debt to capital ratio (2) | 45% | 44% |

(1) Cash and cash equivalents consisted primarily of marketable securities with original maturities of 90 days or less.
(2) Restated as a result of adopting FSP APB 14-1. See Note 1 *Basis of Presentation and New Accounting Pronouncements*.

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

| | 2009 | 2008 | Decrease |
|---|---|---|---|
| Three months ended March 31, | $ 65 | $ 100 | $ 35 |

Cash provided by operating activities decreased $35 million primarily from lower earnings and higher working capital requirements due to higher inventory levels, increased inventory costs and the timing of payments.

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

| | 2009 | 2008 | Decrease |
|---|---|---|---|
| Three months ended March 31, | $ 29 | $ 38 | $ 9 |

Cash used for investing activities decreased primarily due to the absence of any timberland acquisitions in 2009 compared to the purchase of $20 million of timberlands in 2008, partially offset by changes in restricted cash during the comparable quarters.

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

| | 2009 | 2008 | Decrease |
|---|---|---|---|
| Three months ended March 31, | $ 41 | $ 96 | $ 55 |

Cash used for financing activities primarily decreased due to the repayment of $55 million in outstanding debt in 2008 compared to net repayments of $0 in 2009.

***Expected 2009 Expenditures***

We made no pension contributions in the first quarter of 2009. We have mandatory pension contributions of approximately $8 million due in 2009, although we may elect to make additional discretionary contributions. Income tax payments totaled approximately $0.7 million in the first quarter of 2009 compared to refunds of $0.3 million in the first quarter of 2008. We expect net tax payments to be $6 million for full year 2009, compared to $13 million for full year 2008. We do not expect to make any federal income tax payments related to our 2009 TRS operations as we anticipate offsetting the TRS federal income tax liability with alternative fuel tax credits. See Note 16 *Subsequent Event* for additional information. Capital expenditures in 2009 are forecasted to be between $85 million and $88 million. Environmental expenditures related to dispositions and discontinued operations were $2 million for the three months ended March 31, 2009. Full year expenditures of $8 million are anticipated.

***Liquidity Performance Indicators***

The discussion below is presented to enhance the reader s understanding of our liquidity, ability to generate cash and satisfy rating agency and creditor requirements. This information includes two measures of financial results: Earnings before Interest, Taxes, Depreciation, Depletion and Amortization ( EBITDA ) and Adjusted Cash Available for Distribution ( Adjusted CAD ). These measures are not defined by Generally Accepted Accounting Principles ( GAAP ) and the discussion of EBITDA and Adjusted CAD is not intended to conflict with or change any of the GAAP disclosures discussed above. Management considers these measures to be important to estimate the enterprise and shareholder values of the Company as a whole and of its core segments, and for allocating capital resources. In addition, analysts, investors and creditors use these measures when analyzing our financial condition and cash generating ability. EBITDA is defined by the Securities and Exchange Commission. Adjusted CAD as defined, however, may not be comparable to similarly titled measures reported by other companies.

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Below is a reconciliation of Cash Provided by Operating Activities to EBITDA for the respective periods (in millions of dollars):

| | Three Months Ended March 31, 2009 | Three Months Ended March 31, 2008 |
|---|---|---|
| Cash provided by operating activities | $ 64.8 | $ 100.2 |
| Non-cash cost of real estate sold | (3.5) | (2.6) |
| Income tax expense | 4.7 | 9.8 |
| Interest, net | 12.5 | 11.1 |
| Other balance sheet changes | 3.2 | |