

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1998

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

1177 Summer Street, Stamford, Connecticut 06905-5529  
(Principal Executive Office)

Telephone Number: (203) 348-7000

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 and (2) has been subject to such filing requirements for  
the past 90 days.

YES  NO

As of May 1, 1998, there were 28,286,773 Common Shares of the Registrant  
outstanding.

## RAYONIER INC.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

The following unaudited financial statements reflect, in the opinion of Rayonier Inc. (Rayonier or the Company), all adjustments (which include only normal recurring adjustments) necessary for a fair presentation of the results of operations, the financial position and the cash flows for the periods presented. For a full description of accounting policies, please refer to Notes to Consolidated Financial Statements in the 1997 Annual Report on Form 10-K.

RAYONIER INC. AND SUBSIDIARIES  
STATEMENTS OF CONSOLIDATED INCOME  
(UNAUDITED)  
(THOUSANDS OF DOLLARS, EXCEPT PER SHARE DATA)

	Three Months Ended March 31,	
	1998	1997
	-----	-----
SALES	\$ 225,414	\$ 260,138
	-----	-----
Costs and expenses		
Cost of sales	184,179	209,781
Selling and general expenses	8,347	10,505
Other operating income, net	(1,269)	(621)
	-----	-----
	191,257	219,665
	-----	-----
OPERATING INCOME	34,157	40,473
Interest expense	(7,912)	(5,856)
Interest and miscellaneous income, net	295	397
Minority interest	--	(8,079)
	-----	-----
Income before income taxes	26,540	26,935
Provision for income taxes	(8,344)	(8,539)
	-----	-----
NET INCOME	\$ 18,196	\$ 18,396
	=====	=====
NET INCOME PER COMMON SHARE		
Basic EPS	\$ 0.64	\$ 0.63
	=====	=====
Diluted EPS	\$ 0.63	\$ 0.62
	=====	=====

RAYONIER INC. AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS  
 (UNAUDITED)  
 (THOUSANDS OF DOLLARS)

ASSETS	March 31, 1998 -----	December 31, 1997 -----
<b>CURRENT ASSETS</b>		
Cash and short-term investments	\$ 8,457	\$ 10,661
Accounts receivable, less allowance for doubtful accounts of \$4,500 and \$4,481	106,283	115,704
Inventories		
Finished goods	55,979	51,398
Work in process	15,578	17,491
Raw materials	18,509	19,740
Manufacturing and maintenance supplies	25,685	25,519
	-----	-----
Total inventories	115,751	114,148
Timber purchase agreements	30,904	31,758
Other current assets	12,103	13,955
Deferred income taxes	22,791	24,288
	-----	-----
Total current assets	296,289	310,514
<b>OTHER ASSETS</b>		
	57,674	55,791
<b>TIMBER PURCHASE AGREEMENTS</b>		
	32,726	28,248
<b>TIMBER, TIMBERLANDS AND LOGGING ROADS, NET OF DEPLETION AND AMORTIZATION</b>		
	546,875	497,110
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land, buildings, machinery and equipment	1,283,663	1,266,431
Less - accumulated depreciation	579,350	562,536
	-----	-----
	704,313	703,895
	-----	-----
	\$1,637,877	\$1,595,558
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 68,635	\$ 74,269
Bank loans and current maturities	3,703	4,194
Accrued taxes	14,443	10,973
Accrued payroll and benefits	19,088	18,694
Accrued interest	9,381	6,076
Other current liabilities	44,392	66,085
Current reserves for dispositions and discontinued operations	24,828	26,247
	-----	-----
Total current liabilities	184,470	206,538
<b>DEFERRED INCOME TAXES</b>		
	118,155	113,442
<b>LONG-TERM DEBT</b>		
	488,419	421,325
<b>NON-CURRENT RESERVES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS</b>		
	170,493	172,615
<b>OTHER NON-CURRENT LIABILITIES</b>		
	35,884	31,997
<b>MINORITY INTEREST</b>		
	--	16,959
<b>SHAREHOLDERS' EQUITY</b>		
Common Shares, 60,000,000 shares authorized, 28,295,655 and 28,283,634 shares issued and outstanding	100,534	102,175
Retained earnings	539,922	530,507
	-----	-----
	640,456	632,682
	-----	-----
	\$1,637,877	\$1,595,558
	=====	=====



RAYONIER INC. AND SUBSIDIARIES  
 STATEMENTS OF CONSOLIDATED CASH FLOWS  
 (UNAUDITED)  
 (THOUSANDS OF DOLLARS)

	Three Months Ended March 31,	
	1998	1997
	-----	-----
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 18,196	\$ 18,396
Non-cash items included in income		
Depreciation, depletion and amortization	22,913	24,800
Deferred income taxes	4,912	7,239
Increase in other non-current liabilities	3,887	172
Change in accounts receivable, inventories and accounts payable	2,184	(17,358)
Decrease in current timber purchase agreements	854	7,204
Decrease (increase) in other current assets	1,852	(5,440)
Decrease in accrued liabilities	(14,524)	(10,200)
	-----	-----
<b>CASH FROM OPERATING ACTIVITIES</b>	<b>40,274</b>	<b>24,813</b>
	-----	-----
<b>INVESTING ACTIVITIES</b>		
Capital expenditures, net of sales and retirements of \$677 and \$612	(24,275)	(39,622)
Acquisition of Rayonier Timberlands, L.P. Class A Units	(48,821)	--
Expenditures for dispositions and discontinued operations, net of tax benefits of \$1,298 and \$1,095	(2,243)	(1,893)
Change in timber purchase agreements and other assets	(6,361)	1,487
	-----	-----
<b>CASH USED FOR INVESTING ACTIVITIES</b>	<b>(81,700)</b>	<b>(40,028)</b>
	-----	-----
<b>FINANCING ACTIVITIES</b>		
Issuance of debt	143,770	31,734
Repayments of debt	(77,167)	(149)
Dividends paid	(8,781)	(8,770)
Repurchase of Common Shares	(2,313)	(8,167)
Issuance of Common Shares	672	536
Buyout of minority interest	(16,959)	(523)
	-----	-----
<b>CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>39,222</b>	<b>14,661</b>
	-----	-----
<b>CASH AND SHORT-TERM INVESTMENTS</b>		
Decrease in cash and short term investments	(2,204)	(554)
Balance, beginning of period	10,661	3,432
	-----	-----
Balance, end of period	\$ 8,457	\$ 2,878
	=====	=====
<b>Supplemental disclosures of cash flow information</b>		
Cash paid (received) during the period for:		
Interest	\$ 4,703	\$ 4,228
	=====	=====
Income taxes, net of refunds	\$ 3,612	\$ (52)
	=====	=====

RAYONIER INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (UNAUDITED)  
 (THOUSANDS OF DOLLARS, EXCEPT PER SHARE DATA)

## EARNINGS PER COMMON SHARE

In 1997, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share." The following table provides details of the calculation of basic and diluted EPS for the three months ended March 31, 1998 and 1997.

	1998 -----	1997 -----
Net Income	\$ 18,196 =====	\$ 18,396 =====
Shares used for determining basic EPS	28,311,424	29,231,589
Dilutive effect of:		
Stock options	279,187	266,097
Contingent shares	231,084 -----	223,500 -----
Shares used for determining diluted EPS	28,821,695 =====	29,721,186 =====
Basic EPS	\$ 0.64 =====	\$ 0.63 =====
Diluted EPS	\$ 0.63 =====	\$ 0.62 =====

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The sales and operating income of Rayonier's business segments for the three months ended March 31, 1998 and 1997 were as follows (thousands of dollars):

	Three Months Ended March 31,	
	1998	1997
	-----	-----
SALES		
TIMBER AND WOOD PRODUCTS		
Trading and merchandising	\$ 35,157	\$ 56,737
Timberlands management	51,870	49,514
Wood products	29,207	29,663
Intrasegment eliminations	(2,598)	(6,287)
	-----	-----
Total Timber and Wood Products	113,636	129,627
	-----	-----
SPECIALTY PULP PRODUCTS		
Chemical cellulose	67,745	80,216
Fluff and specialty paper pulps	45,114	43,194
	-----	-----
Total Specialty Pulp Products	112,859	123,410
	-----	-----
Intersegment eliminations	(1,081)	(625)
	-----	-----
Total before dispositions	225,414	252,412
Dispositions	--	7,726
	-----	-----
Total sales	\$ 225,414	\$ 260,138
	=====	=====
OPERATING INCOME		
Timber and Wood Products	\$ 29,636	\$ 33,647
Specialty Pulp Products	7,892	12,387
Corporate and other	(3,075)	(4,144)
Intersegment eliminations	(296)	112
	-----	-----
Total before dispositions	34,157	42,002
Dispositions	--	(1,529)
	-----	-----
Total operating income	\$ 34,157	\$ 40,473
	=====	=====

RESULTS OF OPERATIONS

SALES AND OPERATING INCOME

Sales for the first quarter of 1998 were \$225 million, \$35 million or 13 percent lower than the first quarter of 1997. The decline in sales was primarily due to sharply reduced Asian demand for logs, lower chemical cellulose volume, and the absence of disposition sales from the Company's Port Angeles pulp mill, permanently closed in February 1997. Operating income of \$34 million was \$6 million or 16 percent below the prior year, as a result of losses from the Company's medium-density fiberboard (MDF) plant and the effects of weather related wood supply disruptions on the Southeast U.S. pulp and lumber operations, partially offset by stronger Southeast timber prices.



## TIMBER AND WOOD PRODUCTS

Timber and Wood Products' sales for the first quarter of 1998 were \$114 million, \$16 million below last year's results. The decline reflects lower log trading activity in Asian markets. Operating income for the quarter of \$30 million was \$4 million lower than the same period last year due to lower lumber margins and a \$4.7 million loss from the Company's MDF plant in New Zealand, which began commercial operations October 1, 1997.

Trading and merchandising sales of \$35 million were \$22 million lower than 1997, reflecting lower North American and New Zealand export log volumes and selling prices resulting from weakness in Asian wood markets. Operating income improved slightly from 1997, resulting from improved margins in the U.S. domestic market.

Timberlands management sales of \$52 million were \$2 million above last year. Operating income improved \$3 million from 1997 as a result of increased Northwest U.S. timber harvest volume and higher Southeast U.S. timber prices. The increased Northwest volume was driven by a strong domestic housing market, while Southeast timber price improvements were due to unusually wet weather that led to difficult logging conditions and restricted supply.

Wood products sales were in line with the 1997 first quarter. Operating income declined \$8 million from 1997 as a result of losses from the MDF plant, as it developed markets and increased production of its Patinna(TM) brand, and lower lumber margins due to lower lumber sales prices and higher log costs as abnormally wet weather in the Southeast U.S. interrupted wood supply and forced mill downtime.

## SPECIALTY PULP PRODUCTS

Sales of Specialty Pulp Products were \$113 million compared to \$123 million for last year's first quarter. The decline was primarily due to weak fluff pulp markets and lower chemical cellulose production volume caused by wet weather conditions in the Southeast U.S. that interrupted wood supply. Operating income was \$8 million, \$5 million below the 1997 first quarter due to lower chemical cellulose prices and volumes, higher wood costs and mill downtime.

## OTHER INCOME / EXPENSE

Interest expense was \$8 million for the first quarter of 1998, \$2 million higher than 1997, reflecting lower capitalized interest following start up of the MDF plant and interest expense associated with the \$66 million purchase of the publicly traded Class A Units of the Company's U.S. timberlands partnership. Elimination of the minority interest expense in the partnership contributed \$7 million, pretax, to first quarter results.

## NET INCOME

Net income for the first quarter was \$18.2 million or \$0.63 per Common Share, compared to \$18.4 million, or \$0.62 cents per Common Share in 1997. The increase in earnings per share on slightly lower net income resulted from fewer shares outstanding in 1998 due to the Company's share repurchase program.

Second quarter earnings are expected to be slightly higher than the first quarter because of higher pulp and lumber volumes and lower wood costs as weather conditions improve in the Southeast.

## OTHER ITEMS

In January 1998, Rayonier acquired all of the publicly traded Class A Units of its master limited partnership, Rayonier Timberlands, L.P., for a cash purchase price of \$13.00 per unit. The acquisition was accounted for under the purchase method and was financed by the utilization of existing credit facilities.

## LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operating activities of \$40 million for the first three months of 1998 increased \$15 million from 1997 as a result of reduced working capital requirements. EBITDA (defined as earnings from continuing operations before significant non-recurring items, provision for dispositions, interest expense, income taxes and depreciation, depletion and amortization) for the first quarter of 1998 of \$57 million approximated 1997 first quarter results. Cash from operating activities financed capital expenditures of \$25 million, dividends of \$9 million and the repurchase of Common Shares for \$2 million. The Company also increased its borrowings to finance the \$66 million acquisition of the outstanding publicly traded Class A Unit minority interest in Rayonier Timberlands, L.P.

The Company repurchased 52,080 of its own shares during the first three months of 1998 at an average cost of \$44.42. Over the same period in 1997, in connection with an expanded one-year repurchase program, the Company repurchased 214,000 shares at an average cost of \$38.16 per share for \$8 million. First quarter ending debt was \$492 million and the debt-to-capital-ratio was 43.5 percent compared to 40.2 percent at December 31, 1997.

The Company has unsecured credit facilities totaling \$300 million, which were used for direct borrowings of \$10 million and as support for \$150 million of outstanding commercial paper. As of March 31, 1998, the Company had \$140 million of available borrowings under its revolving credit facilities. In addition, through currently effective shelf registration statements filed with the Securities and Exchange Commission, the Company may offer up to \$100 million of new public debt securities. The Company believes that internally generated funds, combined with available external financing, will enable Rayonier to fund capital expenditures, share repurchases, working capital and other liquidity needs for the foreseeable future.

## SAFE HARBOR

Except for the information about past operations and results, the comments in this report are forward-looking and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Changes in the following important factors, among others, could cause actual results to differ materially from those expressed in the forward-looking statements: competitive products and pricing, as well as fluctuations in demand, particularly for specialty fluff pulps and for export and domestic logs and wood products, including MDF; the impact of such market factors on the Company's timber sales in the U.S. and New Zealand; the impact of Asia market conditions on prices and volumes; abnormal weather conditions; production costs for MDF and for specialty pulps, particularly for raw materials and chemicals; governmental policies and regulations affecting the environment, import and export controls and taxes; and interest rate and currency movements.

## ITEM 3. SELECTED OPERATING DATA

	Three Months Ended March 31,	
	----- 1998 ----	----- 1997 ----
<b>TIMBER AND WOOD PRODUCTS</b>		
Trading volume		
North America logs, in millions of board feet	33	45
New Zealand logs, in thousands of cubic meters	151	237
Other logs, in thousands of cubic meters	38	133
Timber sales volume		
Northwest U.S., in millions of board feet	67	59
Southeast U.S., in thousands of short green tons	609	610
New Zealand, in thousands of cubic meters	126	211
Lumber sales volume, in millions of board feet	74	74
Medium-density fiberboard sales volume, in thousands of cubic meters	13	--
Intercompany sales volume		
Northwest U.S. timber, in millions of board feet	2	6
Southeast U.S. timber, in thousands of short green tons	32	25
New Zealand timber, in thousands of cubic meters	60	130
<b>SPECIALTY PULP PRODUCTS</b>		
Pulp sales volume (a)		
Chemical cellulose, in thousands of metric tons	77	89
Fluff and specialty paper pulp, in thousands of metric tons	86	81
Production as a percent of capacity	98.4%	97.9%
(a) Excludes Port Angeles statistics reflected below:		
Chemical cellulose sales, in thousands of metric tons	--	9
Fluff and specialty paper pulp sales, in thousands of metric tons	--	4

11  
 SELECTED SUPPLEMENTAL FINANCIAL DATA (thousands of dollars, except per share data)

GEOGRAPHICAL DATA (NON-U.S.)	Three Months Ended March 31,	
	1998	1997
Sales		
New Zealand	\$ 11,066	\$ 17,151
Other	3,136	8,531
Total	\$ 14,202	\$ 25,682
Operating Income		
New Zealand	\$ (5,280)	\$ 211
Other	(1,249)	(1,017)
Total	\$ (6,529)	\$ (806)
TIMBERLANDS MANAGEMENT		
Sales		
Northwest U.S.	\$ 26,834	\$ 26,370
Southeast U.S.	21,580	17,190
New Zealand	3,456	5,954
Total	\$ 51,870	\$ 49,514
Operating Income		
Northwest U.S.	\$ 20,982	\$ 21,560
Southeast U.S.	16,377	11,843
New Zealand	655	1,200
Total	\$ 38,014	\$ 34,603
EBITDA per Share		
Northwest U.S.	\$ 0.75	\$ 0.74
Southeast U.S.	0.64	0.49
New Zealand	0.08	0.12
Total	\$ 1.47	\$ 1.35

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

On April 20, 1998, the U.S. District Court for the Southern District of Georgia granted summary judgment in favor of Rayonier in the action brought by Powell Duffryn Terminals, Inc. which was reported in Rayonier's 10-K for 1997. The plaintiff filed a Motion for Relief from Judgment with the trial court on April 30, 1998.

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) See Exhibit Index.

(b) Reports on Form 8-K:

Rayonier Inc. filed a Current Report on Form 8-K on January 16, 1998 announcing its election to purchase all of the 5,060,000 outstanding Class A Depositary Units of Rayonier Timberlands, L.P. in January 1998 for a cash purchase price of \$13.00 per unit.

## SIGNATURE

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RAYONIER INC. (Registrant)

BY KENNETH P. JANETTE

-----  
Kenneth P. Janette  
Vice President and Corporate Controller  
(Chief Accounting Officer)

May 13, 1998

## EXHIBIT INDEX

EXHIBIT NO. -----	DESCRIPTION -----	LOCATION -----
2	Plan of acquisition, reorganization, arrangement, liquidation or succession	None
3.1	Amended and restated articles of incorporation	No amendments
3.2	By-laws	No amendments
4	Instruments defining the rights of security holders, including indentures	Not required to be filed. The Registrant hereby agrees to file with the Commission a copy of any instrument defining the rights of holders of the Registrant's long-term debt upon request of the Commission.
10	Material contracts	None
11	Statement re computation of per share earnings	Not required to be filed
12	Statement re computation of ratios	Filed herewith
15	Letter re unaudited interim financial information	None
18	Letter re change in accounting principles	None
19	Report furnished to security holders	None
22	Published report regarding matters submitted to vote of security holders	None
23	Consents of experts and counsel	None
24	Power of attorney	None
27	Financial data schedule	Filed herewith
99	Additional exhibits	None

## RAYONIER INC. AND SUBSIDIARIES

## RATIO OF EARNINGS TO FIXED CHARGES

(UNAUDITED)  
(THOUSANDS OF DOLLARS)

	Three Months Ended March 31,	
	1998	1997
Earnings:		
Net Income	\$18,196	\$18,396
Add:		
Income Taxes	8,344	8,539
Minority Interest	--	8,079
Amortization of Capitalized Interest	566	268
	27,106	35,282
Adjustments to Earnings for Fixed Charges:		
Interest and Other Financial Charges	7,912	5,856
Interest Factor Attributable to Rentals	494	547
	8,406	6,403
EARNINGS AS ADJUSTED	\$35,512	\$41,685
Fixed Charges:		
Fixed Charges above	\$ 8,406	\$ 6,403
Capitalized Interest	96	1,328
TOTAL FIXED CHARGES	\$ 8,502	\$ 7,731
RATIO OF EARNINGS AS ADJUSTED TO TOTAL FIXED CHARGES	4.18	5.39

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