

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2003

OR

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER 1-6780

RAYONIER INC.

Incorporated in the State of North Carolina
I.R.S. Employer Identification Number 13-2607329

50 North Laura Street, Jacksonville, FL 32202
(Principal Executive Office)

Telephone Number: (904) 357-9100

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

YES NO

As of August 1, 2003 there were outstanding 41,914,901 Common Shares of the Registrant.

RAYONIER INC.
FORM 10-Q
JUNE 30, 2003

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PART 1. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

RAYONIER INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)
(Thousands of dollars, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
SALES	\$ 295,867	\$ 269,276	\$ 561,805	\$ 537,980
Costs and Expenses				
Cost of sales	231,350	220,513	469,603	449,551
Selling and general expenses	12,968	10,361	23,011	21,816
Other operating (income) expense, net	(2,400)	(1,363)	(4,004)	(793)
	<u>241,918</u>	<u>229,511</u>	<u>488,610</u>	<u>470,574</u>
OPERATING INCOME	53,949	39,765	73,195	67,406
Interest expense	(12,412)	(15,344)	(24,798)	(30,817)
Interest and miscellaneous income (expense), net	443	(45)	1,491	331
	<u>41,980</u>	<u>24,376</u>	<u>49,888</u>	<u>36,920</u>
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	41,980	24,376	49,888	36,920
Provision for income taxes	(10,308)	(6,783)	(9,980)	(10,350)
	<u>31,672</u>	<u>17,593</u>	<u>39,908</u>	<u>26,570</u>
DISCONTINUED OPERATIONS				
Loss on sale of discontinued operations, net of income tax expense of \$3,260	—	(1,743)	—	(1,743)
Income from discontinued operations, net of income tax expense of \$373 and \$739	—	392	—	816
	<u>—</u>	<u>(1,351)</u>	<u>—</u>	<u>(927)</u>
LOSS FROM DISCONTINUED OPERATIONS	—	(1,351)	—	(927)
NET INCOME	31,672	16,242	39,908	25,643
OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized gain (loss) on hedged transactions, net of income tax expense (benefit) of \$14, \$280, \$(10) and \$474	27	497	(18)	843
	<u>31,699</u>	<u>16,739</u>	<u>39,890</u>	<u>26,486</u>
COMPREHENSIVE INCOME	\$ 31,699	\$ 16,739	\$ 39,890	\$ 26,486
EARNINGS PER COMMON SHARE				
BASIC EARNINGS (LOSS) PER SHARE				
Continuing operations	\$ 0.76	\$ 0.42	\$ 0.96	\$ 0.64
Discontinued operations	—	(0.03)	—	(0.02)
	<u>0.76</u>	<u>0.39</u>	<u>0.96</u>	<u>0.62</u>
Net income	\$ 0.76	\$ 0.39	\$ 0.96	\$ 0.62
DILUTED EARNINGS (LOSS) PER SHARE				
Continuing operations	\$ 0.74	\$ 0.41	\$ 0.94	\$ 0.62
Discontinued operations	—	(0.03)	—	(0.02)
	<u>0.74</u>	<u>0.38</u>	<u>0.94</u>	<u>0.60</u>
Net income	\$ 0.74	\$ 0.38	\$ 0.94	\$ 0.60

See Notes to Condensed Consolidated Financial Statements.

RAYONIER INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Thousands of dollars)

ASSETS

	June 30, 2003	December 31, 2002
CURRENT ASSETS		
Cash and cash equivalents	\$ 46,988	\$ 18,924
Accounts receivable, less allowance for doubtful accounts of \$2,575 and \$2,665	94,425	97,927
Inventory		
Finished Goods	65,002	63,309
Work in process	7,456	7,303
Raw materials	5,896	6,564
Manufacturing and maintenance supplies	7,304	7,895
Total inventory	85,658	85,071
Timber purchase agreements	11,391	10,784
Other current assets	17,068	16,139
Total current assets	255,530	228,845
TIMBER PURCHASE AGREEMENTS	2,812	2,813
TIMBER, TIMBERLANDS AND LOGGING ROADS, NET OF DEPLETION AND AMORTIZATION	998,532	1,023,243
PROPERTY, PLANT AND EQUIPMENT		
Land	17,435	19,847
Buildings	114,224	112,074
Machinery and equipment	1,267,869	1,255,406
Total property, plant and equipment	1,399,528	1,387,327
Less—accumulated depreciation	885,259	846,289
	514,269	541,038
OTHER ASSETS	88,164	91,257
	\$ 1,859,307	\$ 1,887,196
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 59,928	\$ 66,770
Bank loans and current maturities of long-term debt	3,520	3,520
Accrued taxes	13,024	29,994
Accrued payroll and benefits	15,056	18,399
Accrued interest	4,190	8,314
Accrued customer incentives	7,775	11,121
Other current liabilities	18,820	17,734
Current reserves for dispositions and discontinued operations	13,316	15,902
Total current liabilities	135,629	171,754
DEFERRED INCOME TAXES	130,177	110,160
LONG-TERM DEBT	618,679	649,628
NON-CURRENT RESERVES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS	144,646	146,295
OTHER NON-CURRENT LIABILITIES	94,296	99,647
COMMITMENTS AND CONTINGENCIES		
SHAREHOLDERS' EQUITY		
Common Shares, 60,000,000 shares authorized, 41,910,846 and 41,575,794 shares issued and outstanding	84,207	76,613
Retained earnings	682,629	664,037
Accumulated other comprehensive income (loss)	(30,956)	(30,938)
	735,880	709,712
	\$ 1,859,307	\$ 1,887,196

See Notes to Condensed Consolidated Financial Statements.

RAYONIER INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Thousands of dollars)

	Six Months Ended June 30,	
	2003	2002
OPERATING ACTIVITIES		
Income from continuing operations	\$ 39,908	\$ 26,570
Non-cash items included in income from continuing operations:		
Depreciation, depletion and amortization	80,922	81,775
Non-cash cost basis of land sold	4,591	3,273
Deferred income tax provision	7,899	1,748
Decrease in accounts receivable	3,502	68
(Increase) in inventory	(1,699)	(9,649)
(Decrease) increase in accounts payable	(6,842)	1,026
(Increase) decrease in current timber purchase agreements and other current assets	(124)	2,626
(Decrease) increase in accrued liabilities	(15,235)	20,229
(Decrease) increase in other non-current liabilities	(3,399)	3,640
Decrease in timber purchase agreements and other assets	3,509	2,715
Expenditures for dispositions and discontinued operations	(4,235)	(3,565)
	<u>108,797</u>	<u>130,456</u>
CASH PROVIDED BY OPERATING ACTIVITIES OF CONTINUING OPERATIONS		
INVESTING ACTIVITIES		
Capital expenditures, net of sales and retirements of \$536 and \$1,205	(32,740)	(33,597)
	<u>(32,740)</u>	<u>(33,597)</u>
CASH USED FOR INVESTING ACTIVITIES OF CONTINUING OPERATIONS		
FINANCING ACTIVITIES		
Issuance of debt	42,500	41,110
Repayment of debt	(74,045)	(124,855)
Dividends paid	(21,291)	(19,937)
Cash paid in lieu of fractional shares	(173)	—
Repurchase of common shares	—	(1,146)
Issuance of common shares	5,016	13,640
	<u>(47,993)</u>	<u>(91,188)</u>
CASH USED FOR FINANCING ACTIVITIES OF CONTINUING OPERATIONS		
CASH PROVIDED BY DISCONTINUED OPERATIONS		
	<u>—</u>	<u>18,897</u>
CASH AND CASH EQUIVALENTS		
Increase in cash and cash equivalents	28,064	24,568
Balance, beginning of year	18,924	14,123
	<u>46,988</u>	<u>38,691</u>
Balance, end of period		
	<u>\$ 46,988</u>	<u>\$ 38,691</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period:		
Interest	\$ 27,873	\$ 9,707
	<u>27,873</u>	<u>9,707</u>
Income taxes	\$ 10,342	\$ 8,253
	<u>10,342</u>	<u>8,253</u>
NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Note receivable from sale of East Coast New Zealand operations	\$ —	\$ 52,500
	<u>—</u>	<u>52,500</u>

See Notes to Condensed Consolidated Financial Statements.

RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Thousands of dollars unless otherwise stated)

1. BASIS OF PRESENTATION

The unaudited condensed consolidated financial statements of Rayonier Inc. and its subsidiaries (Rayonier or the Company) reflect all adjustments (which include normal recurring adjustments) necessary for a fair presentation of the results of operations, the financial position and the cash flows for the periods presented. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of certain estimates by management in determining the amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. There are risks inherent in estimating, and therefore, actual results could differ from those estimates. For a full description of the Company's significant accounting policies, please refer to the Notes to Consolidated Financial Statements in the 2002 Annual Report on Form 10-K.

New Accounting Standards

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities*. This Interpretation applies to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It also applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise held a variable interest that it acquired on or before January 31, 2003. The Company adopted this Interpretation on July 1, 2003. The Company does not have any unconsolidated variable interests that constitute a majority variable interest requiring consolidation, and as a result, there was no impact on the Company's financial condition, results of operations or cash flows upon adoption.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. This statement amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, for certain decisions made by the Board as part of the Derivatives Implementation Group process and to incorporate clarifications of the definitions of a derivative. SFAS No. 149 is effective for contracts modified or entered into after June 30, 2003 and hedging relationships designated after June 30, 2003. The Company adopted the standard, which is not expected to have any impact on the Company's financial condition, results of operations or cash flows, effective July 1, 2003.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. This statement establishes standards for classifying and measuring certain financial instruments with characteristics of both liabilities and equity. The statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company has not entered into or modified any financial instruments with characteristics outlined in the statement. The Company adopted the standard, which is not expected to have any impact on the Company's financial condition, results of operations or cash flows, effective July 1, 2003.

Reclassifications

Certain items in prior year's condensed consolidated financial statements have been reclassified to conform to the current year presentation.

2. INCENTIVE STOCK PLANS

The Company accounts for stock-based compensation utilizing the intrinsic value based method under Accounting Principles Board Opinion No. 25 (APB No. 25), *Accounting for Stock Issued to Employees*. The 1994 Rayonier Incentive Stock Plan (the 1994 Plan) provides for the grant of incentive stock options, non-qualified stock options, stock appreciation rights, performance shares and restricted stock, subject to certain limitations.

RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Thousands of dollars unless otherwise stated)

Pursuant to the disclosure requirements of SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure*, the following table provides a reconciliation for the three and six months ended June 30, 2003 and 2002 that adds back to reported net income the recorded expense under APB No. 25 (net of related income tax effects), deducts the total fair value expense under SFAS No. 123, *Accounting for Stock-Based Compensation*, (net of related income tax effects), and shows the reported and pro forma earnings per share amounts. For additional information on the Company's incentive stock plans, see Note 18—*Incentive Stock Plans* in the Company's 2002 Annual Report on Form 10-K.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net income, as reported	\$31,672	\$16,242	\$39,908	\$25,643
Total stock-based employee compensation cost included in the determination of net income, net of related tax benefit	1,041	205	2,177	2,074
Total stock-based employee compensation cost determined under fair value method for all awards, net of related tax benefit	(1,314)	(1,520)	(2,629)	(3,041)
Pro forma net income	<u>\$31,399</u>	<u>\$14,927</u>	<u>\$39,456</u>	<u>\$24,676</u>
Earnings per share:				
Basic, as reported	\$ 0.76	\$ 0.39	\$ 0.96	\$ 0.62
Basic, pro forma	\$ 0.75	\$ 0.36	\$ 0.95	\$ 0.60
Diluted, as reported	\$ 0.74	\$ 0.38	\$ 0.94	\$ 0.60
Diluted, pro forma	\$ 0.74	\$ 0.35	\$ 0.93	\$ 0.58

3. EARNINGS PER COMMON SHARE

The shares used for our calculation of earnings per share have been restated to reflect a three-for-two stock split on June 12, 2003. The stock split was effected in the form of a stock dividend increasing the shares of Company common stock outstanding from 27,893,513 to 41,836,950.

RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Thousands of dollars unless otherwise stated)

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

	Three Months Ended June 30,	
	2003	2002
Income from continuing operations	\$ 31,672	\$ 17,593
Loss from discontinued operations	—	(1,351)
Net income	\$ 31,672	\$ 16,242
Shares used for determining basic earnings per common share	41,796,776	41,593,197
Dilutive effect of:		
Stock options	375,483	518,979
Contingent shares	344,249	375,000
Shares used for determining diluted earnings per common share	42,516,508	42,487,176
Basic earnings (loss) per common share		
Continuing operations	\$ 0.76	\$ 0.42
Discontinued operations	—	(0.03)
Net income	\$ 0.76	\$ 0.39
Diluted earnings (loss) per common share		
Continuing operations	\$ 0.74	\$ 0.41
Discontinued operations	—	(0.03)
Net income	\$ 0.74	\$ 0.38
	Six Months Ended June 30,	
	2003	2002
Income from continuing operations	\$ 39,908	\$ 26,570
Loss from discontinued operations	—	(927)
Net income	\$ 39,908	\$ 25,643
Shares used for determining basic earnings per common share	41,734,379	41,442,021
Dilutive effect of:		
Stock options	266,243	495,834
Contingent shares	344,249	375,000
Shares used for determining diluted earnings per common share	42,344,871	42,312,855
Basic earnings (loss) per common share		
Continuing operations	\$ 0.96	\$ 0.64
Discontinued operations	—	(0.02)
Net income	\$ 0.96	\$ 0.62
Diluted earnings (loss) per common share		
Continuing operations	\$ 0.94	\$ 0.62
Discontinued operations	—	(0.02)
Net income	\$ 0.94	\$ 0.60

RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Thousands of dollars unless otherwise stated)

4. SHAREHOLDERS' EQUITY

The common shares outstanding in the analysis of shareholders' equity reflect the three-for-two stock split effected on June 12, 2003. Dividends per share for the six months ended June 30, 2003 and the year ended December 31, 2002, have been calculated using the adjusted share amounts. An analysis of shareholders' equity for the six months ended June 30, 2003, and the year ended December 31, 2002, follows (share and per share amounts actual):

	Common Shares		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Shareholders' Equity
	Shares	Amount			
Balance, January 1, 2002	41,014,773	\$59,721	\$ (702)	\$649,775	\$ 708,794
Net income		—	—	54,172	54,172
Dividends paid (\$0.96 per share)		—	—	(39,910)	(39,910)
Issuance of shares under incentive stock plans	666,021	17,566	—	—	17,566
Repurchase of common shares	(105,000)	(3,144)	—	—	(3,144)
Unrealized gain on hedged transactions		—	697	—	697
Minimum pension liability adjustments		—	(30,933)	—	(30,933)
Tax benefit on exercise of stock options		2,470	—	—	2,470
Balance, December 31, 2002	41,575,794	\$76,613	\$ (30,938)	\$664,037	\$ 709,712
Net income		\$ —	\$ —	\$ 39,908	\$ 39,908
Dividends paid (\$0.51 per share)		—	—	(21,316)	(21,316)
Issuance of shares under incentive stock plans	335,052	6,993	—	—	6,993
Cash in lieu of fractional shares	—	(173)	—	—	(173)
Unrealized gain (loss) on hedged transactions		—	(18)	—	(18)
Tax benefit on exercise of stock options		774	—	—	774
Balance, June 30, 2003	41,910,846	\$84,207	\$ (30,956)	\$682,629	\$ 735,880

5. SEGMENT INFORMATION

Rayonier operates in three reportable segments as defined by SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*: Performance Fibers, Timber and Land, and Wood Products. The Company's remaining operations are combined and reported in a category called "Other Operations" as permitted by SFAS No. 131.

Total assets, sales, and operating income by segment including corporate and disposition operations were as follows:

ASSETS	June 30, 2003	December 31, 2002
Performance Fibers	\$ 525,098	\$ 548,426
Timber and Land	1,077,046	1,107,467
Wood Products	129,020	130,392
Other Operations	38,738	45,940
Corporate	83,714	42,411
Disposition operations	5,691	12,560
Total	\$1,859,307	\$ 1,887,196

RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Thousands of dollars unless otherwise stated)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
SALES				
Performance Fibers	\$ 132,095	\$ 124,110	\$ 260,585	\$ 253,400
Timber and Land	91,580	58,013	152,803	119,404
Wood Products	31,444	38,280	61,424	72,320
Other Operations	41,121	52,969	87,699	100,561
Intersegment Eliminations	(373)	(4,096)	(706)	(7,705)
TOTAL SALES	\$ 295,867	\$ 269,276	\$ 561,805	\$ 537,980
OPERATING INCOME (LOSS)				
Performance Fibers	\$ 2,788	\$ 10,951	\$ 1,547	\$ 17,782
Timber and Land	59,220	31,643	85,012	60,955
Wood Products	(2,337)	(433)	(5,575)	(1,270)
Other Operations	(848)	424	(852)	(1,170)
Corporate and eliminations	(4,874)	(2,820)	(6,937)	(8,891)
TOTAL OPERATING INCOME	\$ 53,949	\$ 39,765	\$ 73,195	\$ 67,406

Operating income (loss) as stated in the preceding tables and as presented in the Condensed Consolidated Statements of Income and Comprehensive Income is equal to segment income (loss). The income (loss) items below "Operating income" in the Condensed Consolidated Statements of Income and Comprehensive Income are not allocated to segments. These items, which include interest (expense) income, miscellaneous income (expense) and income tax (expense) are not considered by Company management to be part of segment operations.

6. DISCONTINUED OPERATIONS

During the second quarter of 2002, the Company sold its New Zealand East Coast timber operations and associated assets for \$64.4 million. In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the sale and results of operations were recorded as discontinued operations. The Company recorded an after-tax loss from discontinued operations of approximately \$1.3 million in the second quarter of 2002, consisting of an after-tax loss of approximately \$1.7 million from the sale of the East Coast operations and after-tax income of \$0.4 million from operating activities. The Company recorded an after-tax loss of \$0.9 million from discontinued operations in the first six months of 2002. Cash provided by discontinued operations for the six months ended June 30, 2002 was \$18.9 million. The East Coast operations in the Condensed Consolidated Statements of Income and Comprehensive Income, Condensed Consolidated Statements of Cash Flows and related Notes for the six months ended June 30, 2002 were presented as a discontinued operation and previously reported in the Company's Timber and Land segment and in the Other Operations category.

Operating results of the discontinued operations are summarized below:

	Three Months Ended June 30,	Six Months Ended June 30,
	2002	2002
Net sales	\$ 11,442	\$ 19,005
Operating income	572	1,365
Income from discontinued operations	392	816

A provision in the Company's original agreement to purchase the East Coast property from the New Zealand government requires the Company, in the event of a sale, to guarantee five years of Crown Forest license obligations commencing 2002, currently estimated at \$1.7 million per year. However, the purchaser is the primary obligor and as such, has posted a performance bond with the New Zealand government.

RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Thousands of dollars unless otherwise stated)

7. FINANCIAL INSTRUMENTS

The Company is exposed to various market risks, including changes in foreign exchange rates, interest rates and commodity prices. The Company's objective is to partially mitigate the economic impact of these market risks. Derivatives are used, as noted below, in accordance with policies and procedures approved by the Finance Committee of the Board of Directors and are managed by a senior executive committee, whose responsibilities include initiating, managing and monitoring resulting exposures. The Company does not enter into such financial instruments for trading purposes.

In the Company's New Zealand timber operations and at its New Zealand medium density fiberboard (MDF) manufacturing facility, certain normal operating expenses, including salaries and wages, wood purchases, contractor and license fees, care and maintenance of timberlands and other production costs incurred in manufacturing MDF, are denominated in New Zealand dollars. Rayonier hedges U.S./New Zealand dollar currency rate risk with respect to these operating expenditures (cash flow hedges).

In the Company's Condensed Consolidated Statements of Income and Comprehensive Income for the three and six months ended June 30, 2003 gains of approximately \$0.5 million and \$1.2 million, respectively, were recorded on foreign currency contracts primarily reflecting realized gains on contracts that matured, plus the time value changes for outstanding contracts. For the three and six months ended June 30, 2002, the realized gains recorded were \$0.1 million and \$0.4 million, respectively. The Company has mark-to-market unrealized after-tax gains on foreign currency contracts of approximately \$0.7 million in "Accumulated other comprehensive income (loss)" (AOCI) in the Condensed Consolidated Balance Sheet recorded as of June 30, 2003. When the forecasted transactions come to fruition and are recorded, the amounts in AOCI are reclassified to the Condensed Consolidated Statements of Income and Comprehensive Income. The Company expects to reclassify the AOCI amount into earnings during the next eleven months.

At June 30, 2003, the Company held foreign currency forward contracts maturing through May 2004 totaling a notional value of \$8.0 million. The largest notional amount of contracts outstanding during the first six months of 2003 totaled \$10.2 million.

In March 2002, the Company entered into an interest rate swap on \$50 million of 6.15 percent fixed rate notes payable maturing in February 2004. The swap converts interest payments from the fixed rate to six month LIBOR plus 2.265 percent. The interest rate swap qualifies as a fair value hedge under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. As such, the net effect from the interest rate swap is recorded as interest expense. The swap agreement settles every May 15 and November 15, until maturity. During the three and six months ended June 30, 2003 the swap agreement reduced the Company's interest expense by \$0.3 million and \$0.6 million, respectively. Interest expense for the three and six months ended June 30, 2002 was reduced by \$0.3 million from the interest rate swap. Based upon current interest rates for similar transactions, the fair value of the interest rate swap at June 30, 2003, resulted in an asset of approximately \$0.9 million and a corresponding increase in debt. As of June 30, 2002, the interest rate swap resulted in an asset of \$0.8 million and a corresponding increase in debt.

On April 9, 2003, the Company's wholly owned subsidiary, Rayonier Timberlands Operating Company, L.P. (RTOC), entered into an interest rate swap on \$40 million of 8.288 percent fixed rate notes payable maturing on December 31, 2007. The swap converts interest payments from the fixed rate to six month LIBOR plus 4.99 percent and qualifies as a fair value hedge under SFAS No. 133. As such, the net effect from the interest rate swap is recorded as interest expense. During the three months ended June 30, 2003, this swap agreement reduced the Company's interest expense by \$0.2 million. Based upon current interest rates for similar transactions, the fair value of the interest rate swap at June 30, 2003, resulted in an asset of approximately \$1.1 million and a corresponding increase in debt.

The Company periodically enters into commodity forward contracts to fix fuel oil 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 costs. The Company does not enter into commodity forwards for trading or speculative purposes. In February 2003, the Company entered into contracts that fixed 90,000 barrels of fuel oil at \$24.90 for the second quarter of 2003 and 60,000 barrels at \$22.82 for the third quarter of 2003. This represents approximately 50 percent and 30 percent of the Company's second and third quarter estimated fuel oil consumption, respectively. The mark to market adjustment on the contracts outstanding as of June 30, 2003 was negligible.

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In July 2003, the Company entered into another forward commodity contract that fixed 30,000 barrels of fuel oil at \$21.55 for the fourth quarter of 2003, which represents approximately 20 percent of the Company's estimated fourth quarter consumption. None of the Company's fuel oil contracts qualify for hedge accounting under SFAS No. 133 and are required to be marked to market with any resulting gain or loss recorded in Other Operating Income/(Expense).

8. GUARANTEES

The Company issues financial guarantees to provide credit support for some creditors in case of default and to serve as collateral for certain self-insurance programs that the Company maintains. As of June 30, 2003, the following were outstanding:

	Maximum Potential Payment	Carrying Amount of Liability
Standby letters of credit (1)	\$ 76,534	\$ 61,410
Guarantees (2)	6,769	—
Surety bonds (3)	13,380	680
Total	\$ 96,683	\$ 62,090

- (1) Approximately \$62 million of the standby letters of credit serve as credit support for industrial revenue bonds. The remaining letters of credit support various insurance coverages, primarily workers' compensation and pollution requirements. These letters of credit expire at various dates during 2003 and 2004 and are typically rolled over as required.
- (2) In conjunction with the sale of the New Zealand East Coast timber operations in 2002, the Company guaranteed five years of Crown Forest license obligations expiring in 2007, estimated at \$1.7 million per year (see Note 6-*Discontinued Operations*). The buyer of the property is the primary obligor and has posted a performance bond with the New Zealand government.
- (3) The Company has issued surety bonds primarily to secure timber in the State of Washington as well as to provide collateral for the Company's workers' compensation self-insurance program in that state. These surety bonds expire at various dates during 2003 and 2004 and are renewed as required.

9. CONTINGENCIES

From time to time, Rayonier may become liable with respect to pending and threatened litigation and environmental and other matters. The following updates or repeats commentary included in the Company's 2002 Annual Report filed on Form 10-K.

Legal Proceedings

The Company is involved in various legal actions, including those involving environmental matters that are discussed more fully in Note 10—*Reserves for Dispositions and Discontinued Operations*. While the ultimate results of these legal actions and related claims cannot be determined, based on discussions with legal counsel the Company does not expect that such actions and claims will have a material adverse effect on the Company's consolidated financial position or results of operations.

In December 2001, the United States commenced a lawsuit against the Company in the United States District Court for the Western Division of Washington to recover costs allegedly incurred by the Environmental Protection Agency (EPA) beginning in 1997 to conduct an Expanded Site Investigation and oversight at the Company's Port Angeles mill site. The EPA currently claims in excess of \$3.0 million in such costs. Rayonier is challenging the EPA's authority to recover portions of these costs, as well as the validity of the amount spent. The Company believes that the ultimate outcome will not have a material adverse impact on the Company's financial position, liquidity or results of operations, and that its reserves at June 30, 2003 adequately include the probable costs to be incurred upon the ultimate resolution of the dispute.

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Between 1985 and 1995, the Company sent contaminated soil excavated in connection with the cleanup of various closed wood processing sites to a third-party processor for recycling. The processing facility closed in 1995 and is the subject of a variety of environmental related charges by the EPA and the Louisiana Department of Environmental Quality. In dispute is disposal liability for approximately 150,000 tons of recycled material from Company sites. This material is still owned and retained by the processor. A consent decree was entered in 1998 approving sale of the processing facility and assumption by the buyer of responsibility for movement of all remaining recycled material to a landfill. The parties were unable to complete the sale and the consent decree was vacated in May 2002. As a result, the status of the sale of the facility and ultimate responsibility for removal and disposal of the recycled material on-site are now uncertain. There are numerous possible outcomes that could determine the Company's ultimate liability, if any. The Company believes that reserves at June 30, 2003 adequately include the probable costs to be incurred upon the ultimate resolution of the dispute.

Environmental Matters

Rayonier is subject to stringent environmental laws and regulations concerning air emissions, water discharges and waste disposal. Such environmental laws and regulations include the Federal Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act, and the Comprehensive Environmental Response, Compensation and Liability Act. The Company closely monitors all of its environmental responsibilities, together with trends in environmental laws and believes that the Company is in compliance with current environmental requirements. It is the opinion of management that expenditures over the next 10 years will be required in the area of environmental compliance. During 1997, the EPA finalized its Cluster Rules governing air emissions but, due to the specialty nature of Rayonier's Performance Fibers products and operations, the agency postponed finalizing water discharge rules and certain air emissions rules governing the Company's Performance Fibers mills. The Company continues to work with the EPA to establish such rules for these mills, but the timing and costs associated with such rulemaking are uncertain. In the opinion of management, future capital costs associated with existing environmental rules will not have a material impact on the Company's consolidated financial position or results of operations.

Federal, state and local laws and regulations intended to protect threatened and endangered species, as well as wetlands and waterways, limit and may prevent timber harvesting, road building and other activities on the Company's timberlands. Over the past several years, the harvest of timber on private lands in the State of Washington has been restricted as a result of the listing of several species of birds and fish under the Endangered Species Act. The Company, through industry groups, has worked with the State of Washington to implement workable protective measures with respect to several endangered species. The effect has been to restrict harvesting on portions of the Company's Washington timberlands. The Company has taken account of these restrictions in its harvest plans. Such efforts are ongoing and, in the opinion of management, will not have a material impact on the Company's consolidated financial position or results of operations. Additionally, a number of environmental groups have filed suit in both federal and state courts challenging various aspects of existing and proposed state and federal regulations. This litigation is not expected to have a material impact on Rayonier's annual harvest volume.

Other Contingencies

On February 22, 2001, the Company received a notice of proposed disallowance from the Internal Revenue Service (IRS), arising from an issue in dispute regarding the Company's 1996-1997 federal tax returns, which could have resulted in an additional tax liability of \$28.3 million. The Company had been discussing this issue with the IRS since 1999, and in the first quarter of 2003 accepted a proposal from the IRS (the Settlement Initiative) in order to expedite the resolution of the matter. Under the Settlement Initiative the maximum disallowance was set at a 90 percent level. Accordingly, the Company adjusted its estimated first quarter 2003 tax provision to recognize a tax benefit of \$2.3 million at a 10 percent minimum allowance threshold. In April 2003, the Company deposited \$6.4 million with the IRS, representing \$3.7 million in tax and \$2.7 million in interest, in anticipation of audit settlements pertaining to this issue. Final resolution of this matter is not likely to occur until after 2003.

10. RESERVES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS

The Company's dispositions and discontinued operations include its Port Angeles, WA, mill, which was closed on February 28, 1997; its wholly owned subsidiary, Southern Wood Piedmont Company (SWP), which ceased operations in 1989; its Eastern Research Division (ERD), which ceased operations in 1981; and other miscellaneous assets held for disposition. SWP has been designated a potentially responsible party (PRP), or has had other claims made against it, under the U.S.

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Comprehensive Environmental Response, Compensation and Liability Act and/or comparable state statutes at various sites where the Company no longer operates, including 10 former wood processing sites.

During the first six months of 2003, expenditures of \$4.2 million for monitoring and remediation activities were charged to the reserves. An analysis of activity in the reserves for dispositions and discontinued operations for the six months ended June 30, 2003 and the year ended December 31, 2002, is as follows:

	<u>June 30, 2003</u>	<u>December 31, 2002</u>
Balance, January 1,	\$ 162,197	\$ 168,704
Expenditures charged to reserves	(4,235)	(9,241)
Additions to reserves	—	2,734
	<hr/>	<hr/>
Balance, end of period	157,962	162,197
Less: Current portion	(13,316)	(15,902)
	<hr/>	<hr/>
Non-current portion of reserves	\$ 144,646	\$ 146,295

Rayonier has identified three SWP sites (Augusta, GA, Spartanburg, SC, and East Point, GA) and Port Angeles, WA as individually material and separate disclosure was presented in the Company's 2002 Form 10-K. There have not been any significant changes in these sites' reserve requirements for the six months ended June 30, 2003, and therefore separate disclosure is not presented herein. For an analysis of the reserve activity for the two years ended December 31, 2002 and a brief description of these individually material sites, see the Company's 2002 Annual Report on Form 10-K, Note 12 to Consolidated Financial Statements.

In addition, the Company is exposed to the risk of reasonably possible additional losses in excess of the established reserves for PRP sites. As of June 30, 2003, this amount is estimated at \$7 million and arises from uncertainty over the effectiveness of treatments, additional contamination that may be discovered, changes in laws, regulations and administrative interpretations and in environmental remediation technology. Excluded from this estimate are two sites for which the Company is not able to determine reasonably possible additional losses. Evaluation of these sites is in preliminary stages and sufficient data is not available to determine the extent of contamination, if any, and necessary remediation.

Rayonier currently estimates that expenditures for environmental remediation and monitoring costs for all dispositions will total approximately \$14 million and \$12 million in 2003 and 2004, respectively. Such costs will be charged against Rayonier's reserves for estimated environmental obligations, which include monitoring and remediation costs. The Company believes such reserves are sufficient for costs expected to be incurred over the next 20 to 25 years with respect to the dispositions and discontinued operations. The amount of actual future environmental costs is dependent on the outcome of negotiations with federal and state agencies and may also be affected by new laws, regulations and administrative interpretations, and changes in environmental remediation technology. Based on information currently available, the Company does not believe that any future changes in estimates, if necessary, would materially affect its consolidated financial position or results of operations.

As of June 30, 2003 and December 31, 2002 Rayonier had \$8.0 million of receivables, net of reserves, from insurance claims included in "Other Assets." Such receivables represent the Company's claim for reimbursements in connection with property damage settlements relating to SWP's discontinued wood processing operations and the ERD.

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

Critical Accounting Policies

The preparation of Rayonier's consolidated financial statements requires the Company to make estimates, assumptions and judgments that affect the Company's assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. The Company bases these estimates and assumptions on historical data and trends, current fact patterns, expectations and other sources of information it believes are reasonable. Actual results may differ from these estimates under different conditions. For a full description of the Company's critical accounting policies, see the Management Discussion and Analysis in the 2002 Annual Report on Form 10-K.

Segment Information

Rayonier operates in three reportable segments: Performance Fibers, Timber and Land, and Wood Products. Performance Fibers includes two major product lines, Cellulose Specialties and Absorbent Materials. The Timber and Land segment's strategies include buying and managing timberlands, selling timber, timberland and certain high-value timberlands (known as higher and better use, or HBU land) to be used for conservation, real estate development and large tract preservation. For presentation purposes, the Company classifies its sales activities into Timber sales and Land sales. Timber sales include all activities that relate to the harvesting of timber, while Land sales include the sale of all timberland tracts, including those designated as HBU. The Wood Products segment includes lumber and MDF. The Company's remaining operations are combined and reported in a category called "Other Operations" as permitted by SFAS No. 131 and include the purchasing and harvesting of timber from third parties, selling logs (timber trading) and trading wood products.

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The amounts and relative contributions to sales and operating income (loss) attributable to each of Rayonier's reportable segments and product lines were as follows (thousands of dollars):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
SALES				
Performance Fibers				
Cellulose Specialties	\$ 91,685	\$ 86,629	\$ 178,806	\$ 177,184
Absorbent Materials	40,410	37,481	81,779	76,216
Total Performance Fibers	132,095	124,110	260,585	253,400
Timber and Land				
Timber	38,527	45,434	82,116	87,748
Land	53,053	12,579	70,687	31,656
Total Timber and Land	91,580	58,013	152,803	119,404
Wood Products				
Lumber	21,790	28,829	42,192	54,645
MDF	9,654	9,451	19,232	17,675
Total Wood Products	31,444	38,280	61,424	72,320
Other Operations	41,121	52,969	87,699	100,561
Intersegment Eliminations	(373)	(4,096)	(706)	(7,705)
TOTAL SALES	\$ 295,867	\$ 269,276	\$ 561,805	\$ 537,980
OPERATING INCOME (LOSS)				
Performance Fibers	\$ 2,788	\$ 10,951	\$ 1,547	\$ 17,782
Timber and Land				
Timber	11,610	20,889	28,317	41,619
Land	47,610	10,754	56,695	19,336
Total Timber and Land	59,220	31,643	85,012	60,955
Wood Products				
Lumber	(1,579)	(190)	(4,138)	(754)
MDF	(758)	(243)	(1,437)	(516)
Total Wood Products	(2,337)	(433)	(5,575)	(1,270)
Other Operations	(848)	424	(852)	(1,170)
Corporate	(7,847)	(5,293)	(12,876)	(11,694)
Intersegment Eliminations and Other	2,973	2,473	5,939	2,803
TOTAL OPERATING INCOME	\$ 53,949	\$ 39,765	\$ 73,195	\$ 67,406

Operating income (loss) as stated in the preceding tables and as presented in the Condensed Consolidated Statements of Income and Comprehensive Income is equal to segment income (loss). The income (loss) items below "Operating income" in the Condensed Consolidated Statements of Income and Comprehensive Income are not allocated to segments. These items, which include interest (expense) income, miscellaneous income (expense) and income tax (expense), are not considered by Company management to be part of segment operations.

Results of Operations

On April 14, 2003, the Company closed a large land sale consisting of 8,834 acres. The \$42 million sale contributed \$39 million to operating income, and \$25 million to net income or \$0.59 per share in the second quarter. The large land sale is referred to as the "Matanzas Marsh" land sale.

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Sales and Operating Income

Sales and operating income for the second quarter of 2003 of \$296 million and \$54 million, respectively, were \$27 and \$14 million above the comparable period in the prior year. The sales increase was primarily due to the Matanzas Marsh land sale and higher performance fibers volume. Operating income improved mainly due to the large land sale and stronger absorbent materials and New Zealand timber prices.

Sales and operating income of \$562 million and \$73 million for the six months ended June 2003 were \$24 million and \$6 million above the same period in the prior year, respectively. The sales increase was primarily due to higher land sales and stronger absorbent materials volume. Operating income increased principally due to higher land sales partially offset by increased performance fibers manufacturing costs and weaker U.S. timber and lumber prices.

Performance Fibers

Sales for the second quarter of 2003 were \$132 million, \$8 million above the prior year second quarter due to higher volumes and prices. Operating income for the second quarter of 2003 of \$3 million was \$8 million below the prior year due to higher manufacturing costs. Manufacturing costs increased due to higher hardwood chip costs as a result of weather-related supply shortages, increased chemical and maintenance costs and an equipment outage at our Jesup, GA mill.

Sales for the six months ended June 30, 2003, were \$261 million, \$7 million above the same period in the prior year due to higher absorbent materials volume and cellulose specialties prices partly offset by lower absorbent material prices. Operating income of \$2 million was \$16 million below the same period in the prior year mainly due to higher manufacturing costs primarily resulting from increased hardwood chip, chemical and energy costs and an equipment outage at our Jesup, GA mill.

Cellulose Specialties

Sales of \$92 million for the second quarter of 2003 were \$5 million above the prior year principally due to a volume increase of 5 percent and a favorable product mix. Prices remained relatively stable. Sales of \$179 million for the six months ended June 30, 2003, were \$2 million above the same period last year, primarily due to a 1 percent price increase due to product mix, while volume was essentially unchanged.

Absorbent Materials

Sales of \$40 million for the second quarter of 2003 were \$3 million above the prior year due to volume and price increases of 5 percent and 3 percent, respectively. The favorable price variance is principally due to a \$30 per metric ton second quarter fluff pulp average price increase, which resulted in a \$15 per metric ton price increase over last year. During the quarter, supply shortages caused fluff pulp prices to increase. Sales of \$82 million for the six months ended June 30, 2003, were \$6 million above the same period in the prior year resulting from a 9 percent volume increase, partly offset by a 2 percent price decline.

Timber and Land

Sales of \$92 million and operating income of \$59 million for the second quarter of 2003 were \$34 million and \$28 million above the prior year second quarter, respectively, primarily due to the Matanzas Marsh land sale partly offset by lower timber sales volume and prices.

Sales and operating income of \$153 million and \$85 million for the six months ended June 30, 2003, were \$33 million and \$24 million, respectively, above the same period in the prior year. These increases were principally due to higher land sales partly offset by lower Northwest U.S. timber volume and U.S. timber prices.

Timber

Sales for the second quarter of 2003 were \$39 million, \$7 million below the prior year second quarter due to decreased timber volume in all operating areas and lower U.S. timber prices partly offset by higher New Zealand timber prices. Operating income of \$12 million for the second quarter of 2003 was \$9 million below the prior year primarily due to lower volume and prices. In the Southeast U.S., markets continued to be weak causing the Company's average pine stumpage prices to decline 13 percent compared to the prior year second quarter. Wet weather in 2003 also continued to make harvesting difficult causing pine volume to decrease 1 percent and hardwood volume to decrease 29 percent. In the Northwest U.S. sales volume of stumpage and delivered logs was 17 percent below prior year reflecting weaker market

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conditions. Average stumpage prices fell 24 percent below the corresponding prior year period. New Zealand experienced significantly higher prices due to the stronger New Zealand dollar on stable domestic stumpage prices and volumes.

Sales of \$82 million and operating income of \$28 million for the six months ended June 30, 2003, were \$6 million and \$13 million below the same period in the prior year, respectively. These decreases were principally due to average price declines in the Northwest U.S. and Southeast U.S. of 2 percent and 11 percent, respectively, along with lower volume partly offset by a 50 percent increase in New Zealand average prices.

Land

Sales for the second quarter of 2003 of \$53 million and operating income of \$48 million increased \$40 million and \$37 million, respectively, from the prior year second quarter. Sales of \$71 million and operating income of \$57 million for the six months ended June 30, 2003, were \$39 million and \$37 million, respectively, above the same period in the prior year. Both the second quarter and year-to-date variances are primarily due to the Matanzas Marsh land sale. Sales and operating income can fluctuate materially from period to period due to the timing of closing real estate transactions.

Wood Products

Sales for the second quarter of 2003 were \$31 million, \$7 million below the prior year second quarter, while an operating loss of \$2 million was unfavorable compared to prior year by \$2 million. Domestic lumber markets continued to weaken due to an oversupply of product from U.S. mills and Canadian imports, despite Canadian import tariffs. The Company's sales volume was 14 percent below prior year second quarter as a result of log shortages and prices were 12 percent below. During the quarter, wet weather conditions reduced the volume of available saw logs, which put pressure on fiber prices, causing the Company to limit its purchases of saw logs for lumber production. MDF sales volumes and prices improved slightly compared to the prior year second quarter; however, manufacturing costs were adversely impacted by the stronger New Zealand dollar.

Sales for the six months ended June 30, 2003 of \$61 million were \$11 million below the same period in the prior year. The operating loss of \$6 million for the six months ended June 30, 2003, was \$4 million unfavorable compared to the loss in the same period in the prior year. These unfavorable variances were principally due to lower lumber volume and prices of 13 percent and 12 percent, respectively, and higher MDF manufacturing costs as a result of the stronger New Zealand dollar.

Other Operations

Sales for the second quarter of 2003 were \$41 million, \$12 million below the prior year second quarter. The operating loss of \$1 million was \$1 million unfavorable to prior year. New Zealand trading operations were adversely impacted by the weaker U.S. dollar resulting in higher procurement and ocean freight costs. Australasian log markets improved slightly during the second quarter but remained oversupplied.

Sales for the six months ended June 30, 2003 of \$88 million were \$13 million below the same period in the prior year while the operating loss of \$1 million for the six months ended June 30, 2003, was unchanged.

Corporate

Corporate expenses of \$8 million for the second quarter of 2003 and \$13 million for the six months ended June 30 were \$3 million and \$1 million above the comparable prior year periods, respectively. The increase was primarily due to higher incentive compensation and other administrative expenses.

Intersegment Eliminations and Other

Income of \$3 million for the second quarter 2003 was essentially at the same level as second quarter 2002, while income for the six months ended June 30, 2003 of \$6 million was \$3 million above the same period in the prior year. The variance for the six-month period was mainly due to favorable balance sheet related foreign exchange translation as the New Zealand dollar appreciated versus the U.S. dollar.

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Other Income / Expense

Interest expense of \$12 million in the second quarter of 2003 and \$25 million in the first six months of 2003 was \$3 million and \$6 million below the comparable prior year periods, respectively, primarily due to lower debt. Interest and miscellaneous income of \$0.4 million in the second quarter of 2003 was \$0.5 million higher than the second quarter of 2002, primarily due to a \$0.5 million Nassau County, Florida bond call premium paid in the second quarter of 2002. Interest and miscellaneous income of \$1 million in the first six months of 2003 was \$1 million above the first six months of 2002, primarily due to \$0.8 million of interest income relating to the settlement of pre-1994 tax audit issues received in the second quarter of 2003, and the bond call premium paid in 2002.

The effective tax rate for the second quarter of 2003 was 24.6 percent compared to 27.8 percent for the prior year second quarter. The lower rate is attributable to increased foreign and other tax credits and the disproportionately high contribution to expected annual income in the second quarter of 2003. The effective tax rate for the six months ended June 30, 2003, was 20.0 percent compared to 28.0 percent for the same period in the prior year. The lower rate is due to lower taxes on foreign operations and the tax benefit arising from audit negotiations in the first quarter of 2003. The Company's effective tax rate continued to be below the U.S. statutory levels primarily due to lower taxes on foreign operations and research and development tax credits.

The following table reconciles the Company's income tax provision at the U.S. statutory tax rate to the reported provision and effective tax rate for the three and six months ended June 30 (millions of dollars):

	Three months ended June 30,			
	2003	%	2002	%
Income tax provision from continuing operations at U.S. statutory rate	\$ 14.7	35.0	\$ 8.5	35.0
State and local taxes, net of federal benefit	0.3	0.6	0.2	0.8
Foreign operations	(4.6)	(10.9)	(1.2)	(5.1)
Tax benefit on foreign sales	(1.1)	(2.7)	(0.8)	(3.4)
Permanent differences	0.6	1.5	0.1	0.5
Research and development tax credits and other, net	0.4	1.1	—	—
Income tax provision from continuing operations as reported	\$ 10.3	24.6	\$ 6.8	27.8
	—	—	—	—
	Six months ended June 30,			
	2003	%	2002	%
Income tax provision from continuing operations at U.S. statutory rate	\$ 17.5	35.0	\$ 12.9	35.0
State and local taxes, net of federal benefit	0.3	0.6	0.3	0.8
Foreign operations	(5.2)	(10.3)	(1.8)	(4.9)
Tax benefit on foreign sales	(1.2)	(2.4)	(1.3)	(3.5)
Permanent differences	0.5	1.1	0.2	0.4
Tax benefit from audit negotiations	(2.3)	(4.7)	—	—
Research and development tax credits and other, net	0.4	0.7	0.1	0.2
Income tax provision from continuing operations as reported	\$ 10.0	20.0	\$ 10.4	28.0
	—	—	—	—

Income from Continuing Operations

Income from continuing operations for the second quarter of 2003 was \$32 million, or \$0.74 per share, compared to \$18 million, or \$0.41 per share for the prior year second quarter. The increase is primarily due to the Matanzas Marsh land sale, stronger absorbent materials and New Zealand timber prices, decreased interest expense and a lower effective tax rate partly offset by higher performance fibers manufacturing costs. Income from continuing operations for the first six months of 2003 of \$40 million, or \$0.94 per share, was \$13 million, or \$0.32 per share above the same period in the prior year. The increase

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was principally due to higher land sales, lower interest expense and a favorable effective tax rate partially offset by higher performance fibers manufacturing costs.

Income (loss) from Discontinued Operations

The Company had no income or expense from discontinued operations in the second quarter of 2003, compared to a loss of \$1.3 million or \$0.03 per share in the second quarter 2002, when the sale of the New Zealand East Coast timber operations occurred. For the six months ended June 30, 2003, there was no income or expense from discontinued operations compared to a loss of \$1 million, or \$0.02 per share in the same period in 2002.

Other Items

The Company expects third quarter 2003 earnings to be lower than second quarter primarily due to the adverse impact of weather-related hardwood chip shortages, seasonally lower Northwest U.S. timber volume, and the absence of a major land sale similar to Matanzas Marsh.

Segment EBITDA

EBITDA, defined as Earnings from Continuing Operations before Interest, Taxes, Depreciation, Depletion and Amortization, is used for evaluating segment cash return on investment and for valuation purposes. EBITDA by segment for the three and six months ended June 30, 2003 and 2002 was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
EBITDA*				
Performance Fibers	\$ 22.0	\$ 30.5	\$ 39.4	\$ 55.3
Timber and Land	76.0	47.0	121.6	98.1
Wood Products	0.9	2.9	0.5	5.3
Other Operations	(0.8)	0.6	(0.7)	(0.9)
Corporate and other	(4.3)	(2.7)	(5.2)	(8.3)
Total	\$ 93.8	\$ 78.3	\$ 155.6	\$ 149.5

* Item 5(a) provides a reconciliation of EBITDA to operating income by segment for the three and six month periods presented above.

Liquidity and Capital Resources

Cash Flow

Cash flow provided by operating activities from continuing operations of \$109 million for the six months ended June 30, 2003, was \$22 million below the same period in the prior year, primarily due to higher working capital requirements, a \$16 million tax deposit, and a \$10 million pension fund contribution, partially offset by higher operating income. Cash provided by operating activities from continuing operations financed capital expenditures of \$33 million, dividends of \$21 million and debt reduction of \$32 million. Cash flow used for financing activities for the six months ended June 30, 2003 was significantly less than the prior year period due to lower net debt repayments partly offset by lower employee stock options exercised. Also during this period, the Company paid \$0.2 million in lieu of fractional common shares in conjunction with the Company's stock split on June 12, while in the prior year the Company repurchased 22,900 of its common shares for \$1.1 million. At June 30, 2003, the Company had cash equivalents (marketable securities with maturities at date of acquisition of 90 days and less) of \$41 million, \$10 million above the amount at June 30, 2002.

In April 2003, the Company deposited \$16 million with the Internal Revenue Service (IRS) representing \$11 million in tax and \$5 million in interest, in anticipation of audit settlements. In January 2003, the Company contributed \$10 million to its pension plans and anticipates an additional contribution of \$1.6 million later this year. The Company also anticipates an increase of \$5 million in environmental spending for 2003 versus 2002 and purchasing in August 2003, \$6 million of machinery and equipment that was previously leased.

The discussion below is presented to enhance the reader's understanding of Rayonier's ability to generate cash, its liquidity and its ability to satisfy rating agency and creditor requirements. This information includes two measures of financial results: Earnings from Continuing Operations before Interest, Taxes, Depreciation, Depletion and Amortization (EBITDA), and Free Cash Flow. These measures are not defined by Generally Accepted Accounting Principles (GAAP) and the discussion of EBITDA and Free Cash Flow is not intended to conflict with or change any of the GAAP disclosures. 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 the financial condition and cash generating ability of the Company. EBITDA is defined by the Securities and Exchange Commission; however, Free Cash Flow as defined may not be comparable to similarly titled measures reported by other companies.

EBITDA is a non-GAAP measure of operating cash generating capacity of the Company. For the second quarter of 2003, EBITDA was \$94 million, \$16 million above the second quarter last year primarily due to the Matanzas Marsh land sale, which contributed \$39 million. EBITDA for the six months ended June 30, 2003 was \$156 million, \$6 million above the prior year period.

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Below is a reconciliation of Cash Provided by Operating Activities of Continuing Operations to EBITDA for the three and six months ended June 30, 2003 and 2002 (millions of dollars):

	Three months ended June 30,	
	2003	2002
Cash Provided by Operating Activities of Continuing Operations	\$ 69.5	\$ 68.8
Income tax expense	10.3	6.8
Interest expense	12.4	15.3
Non-cash cost basis of land sold	(1.6)	(0.6)
Working capital increase (decrease)	17.4	(11.2)
Other balance sheet changes	(14.2)	(0.8)
EBITDA	\$ 93.8	\$ 78.3

	Six months ended June 30,	
	2003	2002
Cash Provided by Operating Activities of Continuing Operations	\$ 108.8	\$ 130.5
Income tax expense	10.0	10.4
Interest expense	24.8	30.8
Non-cash cost basis of land sold	(4.6)	(3.3)
Working capital increase (decrease)	23.0	(14.2)
Other balance sheet changes	(6.4)	(4.7)
EBITDA	\$ 155.6	\$ 149.5

There is one other non-cash expense critical to the economics of our Timber and Land core business: the non-cash cost basis of land sold. EBITDA plus the non-cash cost basis of land sold for the three months ended June 30, 2003 and 2002, totaled \$95 million and \$79 million, respectively, and for the six months ended June 30, 2003 and 2002, totaled \$160 million and \$153 million, respectively.

Free Cash Flow is a non-GAAP measure of cash generated during a period that was available for discretionary capital expenditures, increasing dividends above the prior year level, repurchasing the Company's common shares and/or reducing debt within the period. The Company defines Free Cash Flow as cash provided by operating activities of continuing operations less net custodial capital spending, dividends at the prior year level, required debt repayments and the tax benefit on the exercise of stock options. Net custodial capital spending, a non-GAAP measure, (defined as capital expenditures, net of retirements, required to maintain the Company's current earnings level over the cycle and to keep facilities and equipment in safe and reliable condition as well as in compliance with regulatory requirements) is important to properly evaluate cash requirements, to forecast potential uses of cash and for use in valuation models. The Company has a system in place to classify capital spending projects as either custodial or discretionary prior to approval and to track expenditures accordingly; however, the determination of discretionary versus custodial spending still requires some level of management judgment and such limitation should be considered when using this measure. Free Cash Flow for the six months ended June 30, 2003, was \$57 million, \$19 million below the prior year period. The decrease resulted from higher working capital requirements, a \$16 million tax deposit, and a \$10 million pension contribution, partially offset by higher operating earnings.

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Below is a reconciliation of Cash Provided by Operating Activities of Continuing Operations to Free Cash Flow and of Capital Expenditures, net of sales and retirements to Custodial Capital Spending, net for the respective periods (millions of dollars):

	Six months ended June 30,	
	2003	2002
Cash provided by Operating Activities of		
Continuing Operations	\$ 108.8	\$ 130.5
Custodial capital spending, net	(29.2)	(28.1)
Dividends at prior year level	(20.1)	(19.9)
Required debt repayments	(1.5)	(3.7)
Tax benefit on exercise of stock options	(0.8)	(2.4)
Free Cash Flow	\$ 57.2	\$ 76.4
Capital Expenditures, net of sales and retirements	\$ 32.7	\$ 33.6
Discretionary capital expenditures	(3.5)	(5.5)
Custodial Capital Spending, net	\$ 29.2	\$ 28.1

Debt

At June 30, 2003, debt was \$622 million, \$31 million below the December 31, 2002 level. At June 30, 2003 the debt to capital ratio was 45.8 percent, 2.1 percentage points below the December 31, 2002 level.

The Company has a revolving credit agreement with a group of banks that provide the Company with unsecured credit facilities totaling \$170 million. The revolving credit facilities are used for direct borrowings and in the past, as credit support for a commercial paper program. As of June 30, 2003, the Company had \$170 million of available borrowings under its facility, which expires in November 2004. In connection with the financing of the Smurfit timberland acquisition in 1999, Rayonier Timberlands Operating Company, L.P. (RTOC), a wholly owned subsidiary of the Company, entered into an agreement with a group of banks that provided RTOC with revolving credit facilities totaling \$75 million and a term loan of \$200 million. The balance of the term loan of \$30 million at December 31, 2002 was paid during the first quarter of 2003. RTOC had \$75 million of available borrowings as of June 30, 2003 under the revolving credit portion, which expires in October 2004.

In conjunction with the Company's \$170 million revolving credit facility, certain covenants must be met, including ratios based on the financial institution's own definition of EBITDA (Covenant EBITDA). Covenant EBITDA as defined by the covenant in the bank financing agreement consists of earnings from continuing operations before the cumulative effect of accounting changes and provision for dispositions, income taxes, interest expense, depreciation, depletion, amortization and the non-cash costs of timberland and real estate sales. In addition, there are covenant requirements in effect for RTOC relating to the ratio of consolidated cash flow available for fixed charges to consolidated fixed charges and the ratio of consolidated debt to consolidated cash flow available for fixed charges. The covenants listed below are calculated on a trailing 12-month basis.

The most restrictive long-term debt covenants in effect for Rayonier as of June 30, 2003, are as follows:

	Covenant Requirement	Actual ratio at June 30, 2003	Favorable
Covenant EBITDA to consolidated interest expense should not be less than	2.50 to 1	5.70 to 1	3.20
Total debt to Covenant EBITDA should not exceed	4.00 to 1	1.93 to 1	2.07
RTOC consolidated cash flow available for fixed charges to RTOC consolidated fixed charges should not be less than	1.65 to 1	3.05 to 1	1.40
RTOC consolidated debt to RTOC consolidated cash flow available for fixed charges may not exceed	4.25 to 1	2.25 to 1	2.00

In addition to the covenants listed above, the credit agreements include customary covenants that limit the incurrence of debt, the disposition of assets and the making of certain payments between RTOC and Rayonier. The Company is currently in compliance with all of these covenants and does not anticipate non-compliance in the future.

On July 22, 2003, the Company filed a Form S-3 Registration Statement with the Securities and Exchange Commission to issue up to \$500 million of new public debt or equity securities. Once effective, this registration statement will replace

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the Company's existing \$150 million shelf registration. Management believes that internally generated funds, combined with available external financing as described above, will enable Rayonier to fund capital expenditures, repayments of indebtedness, future acquisitions, dividends, share repurchases, working capital, and other liquidity needs for the foreseeable future.

During the second quarter of 2002, the Company guaranteed five years of Crown forest timberland lease obligations in conjunction with the sale of its New Zealand East Coast operations. As of June 30, 2003, the remaining obligation is estimated at \$1.7 million per year. See *Note 6—Discontinued Operations* in the Notes to the Condensed Consolidated Financial Statements for additional information regarding the guarantee. No material changes in other guarantees or financial instruments such as letters of credit and surety bonds occurred during the first six months of 2003.

New Accounting Standards

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities*. This Interpretation applies to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It also applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise held a variable interest that it acquired on or before January 31, 2003. The Company adopted this Interpretation on July 1, 2003. The Company does not have any unconsolidated variable interests that constitute a majority variable interest requiring consolidation, and as a result, there was no impact on the Company's financial condition, results of operations or cash flows upon adoption.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. This statement amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, for certain decisions made by the Board as part of the Derivatives Implementation Group process and to incorporate clarifications of the definitions of a derivative. SFAS No. 149 is effective for contracts modified or entered into after June 30, 2003 and hedging relationships designated after June 30, 2003. The Company adopted the standard, which is not expected to have any impact on the Company's financial condition, results of operations or cash flows, effective July 1, 2003.

In May 2003, the FASB issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. This statement establishes standards for classifying and measuring certain financial instruments with characteristics of both liabilities and equity. The statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company has not entered into or modified any financial instruments with characteristics outlined in the statement. The Company adopted the standard, which is not expected to have any impact on the Company's financial condition, results of operations or cash flows, effective July 1, 2003.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

The Company is exposed to various market risks, including changes in interest rates, foreign exchange rates and commodity prices. The Company's objective is to minimize the economic impact of these market risks. Derivatives are used in accordance with policies and procedures approved by the Finance Committee of the Board of Directors and are managed by a senior executive committee whose responsibilities include initiating, managing and monitoring resulting exposures. The Company does not enter into financial instruments for trading or speculative purposes. See *Note 7—Financial Instruments* included in the Notes to the Condensed Consolidated Financial Statements.

The fair market value of the Company's long-term fixed interest rate debt is subject to interest rate risk; however, Rayonier intends to hold most of its debt until maturity. Rayonier periodically enters into interest rate swap agreements to manage its exposure to interest rate changes, or in back-to-back arrangements at the time debt is issued in order to cost effectively place the debt. These swaps involve the exchange of fixed and variable interest rate payments without exchanging principal amounts. At June 30, 2003, the Company had two interest rate swap agreements maturing in 2004 and 2007 that resulted in an asset with a fair market value of \$2.0 million. Generally, the fair market value of fixed-interest rate debt will increase as interest rates fall and decrease as interest rates rise.

Most of Rayonier's revenues and expenses are U.S. dollar-denominated. However, the Company does have some risk within its New Zealand operation related to foreign currency pricing and costs and periodically enters into foreign currency forward contracts to partially hedge the risks of foreign currency fluctuations. At June 30, 2003, the Company held foreign currency contracts maturing through May 2004 totaling \$8.0 million. The fair value of outstanding foreign currency contracts at June 30, 2003 was an asset of approximately \$1.1 million. Market risk resulting from a hypothetical 4-cent change in the New

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Zealand dollar/U.S. dollar exchange rate on the outstanding foreign currency contracts amounts to an approximate change of \$0.6 million in pre-tax income/loss.

The Company periodically enters into commodity forward contracts to fix certain fuel oil costs. The forward contracts partially mitigate the risk of a change in Performance Fibers margins resulting from an increase or decrease in fuel oil costs. The Company does not enter into commodity forwards for trading or speculative purposes. In February 2003, the Company entered into contracts that fixed 90,000 barrels of fuel oil at \$24.90 for the second quarter of 2003 and 60,000 barrels at \$22.82 for the third quarter of 2003. This represents approximately 50 percent and 30 percent of the Company's second and third quarter estimated fuel oil consumption, respectively. These contracts do not qualify for hedge accounting under SFAS No. 133 and were marked to market resulting in a negligible increase in "Other Operating Expense" as of June 30, 2003. In July, 2003, the Company entered into a commodity forward contract that fixed 30,000 barrels of fuel oil at \$21.55 for the fourth quarter of 2003. This represents approximately 20 percent of the Company's fourth quarter estimated fuel oil consumption. Consistent with the Company's other fuel oil contracts, this does not qualify for hedge accounting under SFAS No. 133 and will also be marked to market.

For a full description of the Company's market risk, please refer to Item 7, *Management Discussion and Analysis of Financial Condition and Results of Operations*, in the 2002 Annual Report on Form 10-K.

Safe Harbor

Comments about market trends, anticipated earnings, expected pricing and volume levels, projected capital spending levels (including the expected costs of compliance with environmental regulations), sufficiency of reserves, availability of tax deductions and the ultimate effect of legal actions (including those involving environmental matters) are forward-looking and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The following important factors, among others, could cause actual results to differ materially from those expressed in the forward-looking statements: changes in global market trends and world events; interest rate and currency movements; changes in capital markets and the resulting impact on returns on the Company's pension plan assets and certain stock-based incentive plans; fluctuations in demand for cellulose specialties, absorbent materials, timber and wood products; adverse weather conditions; changes in production costs for wood products and performance fibers, particularly for raw materials such as wood, energy and chemicals; unexpected delays in the closing of land sale transactions; and implementation or revision of governmental policies and regulations affecting the environment, import and export controls and taxes. For additional factors that could impact future results, please see the Company's 2002 Annual Report on Form 10-K on file with the Securities and Exchange Commission.

Item 4. Controls and Procedures

On August 4, 2003, the Company's disclosure committee met with the Chief Executive Officer and the Chief Financial Officer (the "certifying officers") to evaluate the Company's disclosure controls and procedures. Based on such evaluation, the certifying officers concluded that, as of June 30, 2003, the Company's disclosure controls and procedures were well designed and effective in seeing that material information regarding the Company is promptly made available to senior management, including the certifying officers, in order to allow the Company to meet its reporting requirements under the Securities Exchange Act of 1934 in a timely manner. The Company's disclosure committee met with the Chief Executive Officer and the Chief Financial Officer again on August 14, 2003 to finalize disclosure in this Form 10-Q.

There were no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2003 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On February 22, 2001, the Company received a notice of proposed disallowance from the Internal Revenue Service (IRS), arising from an issue in dispute regarding the Company's 1996 and 1997 federal tax returns, which could have resulted in an additional tax liability of \$28.3 million. The Company had been discussing this issue with the IRS since 1999 and in the first quarter of 2003; it accepted a proposal from the IRS (the "Settlement Initiative") in order to expedite the resolution of the matter. Under the Settlement Initiative the maximum disallowance was set at a 90 percent level. Accordingly, the Company adjusted its estimated first quarter 2003 tax provision to recognize a tax benefit of \$2.3 million at a 10 percent minimum allowance threshold. Final resolution of this matter is not likely to occur until after 2003. As part of the \$15.7 million in tax

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deposits made in April 2003, the Company deposited \$6.4 million with the IRS, representing \$3.7 million in tax and \$2.7 million in interest, in anticipation of audit settlements pertaining to this issue.

In December 2001, the United States commenced a lawsuit against the Company in the United States District Court for the Western Division of Washington to recover costs allegedly incurred by EPA beginning in 1997 to conduct an Expanded Site Investigation and oversight at the Company's Port Angeles mill site. The EPA currently claims in excess of \$3.0 million in such costs. Rayonier is challenging the EPA's authority to recover portions of these costs, as well as the validity of the amount spent. The Company believes that the ultimate outcome will not have a material adverse impact on the Company's financial position, liquidity or results of operations, and that its reserves at June 30, 2003 adequately include the probable costs to be incurred upon the ultimate resolution of the dispute.

Between 1985 and 1995, the Company sent contaminated soil excavated in connection with the cleanup of various closed wood processing sites to a third-party processor for recycling. The processing facility closed in 1995 and is the subject of a variety of environmental related charges by the EPA and the Louisiana Department of Environmental Quality. In dispute is disposal liability for approximately 150,000 tons of recycled material from Company sites. This material is still owned and retained by the processor. A consent decree was entered in 1998 approving sale of the processing facility and assumption by the buyer of responsibility for movement of all remaining recycled material to a landfill. The parties were unable to complete the sale and the consent decree was vacated in May 2002. As a result, the status of the sale of the facility and ultimate responsibility for removal and disposal of the recycled material on-site are now uncertain. There are numerous possible outcomes that could determine the Company's ultimate liability, if any. The Company believes that reserves at June 30, 2003 adequately include the probable costs to be incurred upon the ultimate resolution of the dispute.

Item 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of Shareholders of the Company was held on May 15, 2003 (the "Annual Meeting"). At that meeting, three directors were elected as follows:

	<u>Votes For</u>	<u>Votes Withheld</u>
Directors of Class III, Terms Expire in 2006		
Rand V. Araskog	20,741,032	3,849,114
W. Lee Nutter	20,558,523	4,031,624
Ronald Townsend	20,750,784	3,839,362

The following directors' terms of office also continued after the Annual Meeting: Ronald M. Gross, Paul G. Kirk, Jr., Katherine D. Ortega, Burnell R. Roberts, Carl S. Sloane and Gordon I. Ulmer.

At the Annual Meeting, a vote was also taken to approve the 2004 Incentive Stock and Management Bonus Plan as follows:

Shares Being Voted

<u>For</u>	<u>Against</u>	<u>Abstain</u>
14,129,428	7,593,930	181,172

Abstentions and broker non-votes, as well as votes withheld, were not considered votes cast and were not counted for or against a matter or nominee.

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Item 5(a). Selected Supplemental Financial Data

	Three Months Ended		Six Months Ended	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
Performance Fibers				
Sales Volume				
Cellulose specialties, in thousands of metric tons	106	101	205	205
Absorbent materials, in thousands of metric tons	69	66	147	136
Production as a percent of capacity	95.9%	99.5%	96.8%	98.0%
Timber and Land				
Sales volume—Timber				
Northwest U.S., in millions of board feet	67	80	144	150
Southeast U.S., in thousands of short green tons	1,144	1,191	2,338	2,432
New Zealand, in thousands of metric tons	148	168	259	289
Timber sales volume—				
Intercompany				
Northwest U.S., in millions of board feet	—	19	—	34
Southeast U.S., in thousands of short green tons	2	3	5	8
New Zealand, in thousands of metric tons	26	10	45	23
Acres sold	12,415	3,995	32,123	22,895
Wood Products				
Lumber sales volume, in millions of board feet	73	86	144	165
Medium-density fiberboard sales volume, in thousands of cubic meters	41	41	82	77

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Item 5(a). Selected Supplemental Financial Data (millions of dollars)

	Three Months Ended		Six Months Ended	
	June 30, 2003	June 30, 2002	June 30, 2003	June 30, 2002
Geographical Data (Non-U.S.)				
Sales				
New Zealand	\$ 22.0	\$ 17.5	\$ 40.5	\$ 37.3
Other	2.9	11.5	7.5	24.8
Total	<u>\$ 24.9</u>	<u>\$ 29.0</u>	<u>\$ 48.0</u>	<u>\$ 62.1</u>
Operating income (loss)				
New Zealand	\$ 1.7	\$ 2.5	\$ 3.2	\$ 1.9
Other	(0.5)	0.4	(0.9)	(1.0)
Total	<u>\$ 1.2</u>	<u>\$ 2.9</u>	<u>\$ 2.3</u>	<u>\$ 0.9</u>
Timber				
Sales				
Northwest U.S.	\$ 15.0	\$ 20.3	\$ 35.3	\$ 37.6
Southeast U.S.	18.3	21.4	37.7	44.1
New Zealand	5.2	3.7	9.1	6.0
Total	<u>\$ 38.5</u>	<u>\$ 45.4</u>	<u>\$ 82.1</u>	<u>\$ 87.7</u>
Operating income (loss)				
Northwest U.S.	\$ 7.3	\$ 14.9	\$ 19.9	\$ 27.8
Southeast U.S.	3.9	6.1	8.1	13.9
New Zealand	0.4	(0.1)	0.3	(0.1)
Total	<u>\$ 11.6</u>	<u>\$ 20.9</u>	<u>\$ 28.3</u>	<u>\$ 41.6</u>

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Item 5(a). Selected Supplemental Financial Data (millions of dollars)

The following tables reconcile EBITDA to operating income by segment for the three and six months ended June 30, 2003 and 2002:

Reconciliation of EBITDA to Operating Income/(Loss) by Segment

Three Months Ended June 30, 2003	Performance Fibers	Timber and Land	Wood Products	Other	Corporate and Eliminations	Total
Operating Income/(Loss)	\$ 2.7	\$ 59.2	\$ (2.3)	\$ (0.9)	\$ (4.8)	\$ 53.9
Depreciation, Depletion & Amortization	19.3	16.8	3.2	0.1	0.1	39.5
Other Non-Operating Income	—	—	—	—	0.4	0.4
EBITDA	\$ 22.0	\$ 76.0	\$ 0.9	\$ (0.8)	\$ (4.3)	\$ 93.8
Three Months Ended June 30, 2002						
Operating Income/(Loss)	\$ 11.0	\$ 31.7	\$ (0.5)	\$ 0.4	\$ (2.8)	\$ 39.8
Depreciation, Depletion & Amortization	19.5	15.3	3.4	0.2	0.2	38.6
Other Non-Operating Expense	—	—	—	—	(0.1)	(0.1)
EBITDA	\$ 30.5	\$ 47.0	\$ 2.9	\$ 0.6	\$ (2.7)	\$ 78.3
Six Months Ended June 30, 2003						
Operating Income/(Loss)	\$ 1.5	\$ 85.0	\$ (5.6)	\$ (0.9)	\$ (6.9)	\$ 73.1
Depreciation, Depletion & Amortization	37.9	36.6	6.1	0.2	0.2	81.0
Other Non-Operating Income	—	—	—	—	1.5	1.5
EBITDA	\$ 39.4	\$ 121.6	\$ 0.5	\$ (0.7)	\$ (5.2)	\$ 155.6
Six Months Ended June 30, 2002						
Operating Income/(Loss)	\$ 17.8	\$ 61.0	\$ (1.3)	\$ (1.2)	\$ (8.9)	\$ 67.4
Depreciation, Depletion & Amortization	37.5	37.1	6.6	0.3	0.3	81.8
Other Non-Operating Income	—	—	—	—	0.3	0.3
EBITDA	\$ 55.3	\$ 98.1	\$ 5.3	\$ (0.9)	\$ (8.3)	\$ 149.5

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Item 6. Exhibits and Reports on Form 8-K

- a) See Exhibit Index
- b) Reports on Form 8-K:
 - 1) Rayonier filed a report on Form 8-K dated April 22, 2003 to report first quarter 2003 earnings.
 - 2) Rayonier filed a report on Form 8-K dated May 8, 2003 to report revised (upward) first quarter 2003 earnings.
 - 3) Rayonier filed a report on Form 8-K dated May 23, 2003 to announce a three-for-two stock split and a 12.5 percent dividend increase.

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: /s/ HANS E. VANDEN NOORT

Hans E. Vanden Noort
Vice President and
Corporate Controller

August 14, 2003

EXHIBIT INDEX

<u>EXHIBIT NO.</u>	<u>DESCRIPTION</u>	<u>LOCATION</u>
2	Plan of acquisition, reorganization, arrangement, liquidation or succession	None
3.1	Amended and restated articles of incorporation	No amendments
3.2	By-laws	Filed herewith
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
31	Certifications	Filed herewith
32	Certification of periodic financial reports under Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith

**BYLAWS
OF
RAYONIER INC.**

Effective July 18, 2003

BYLAWS
OF
RAYONIER INC.

ARTICLE 1 — OFFICES

Section 1. Offices. The principal office of the Corporation shall be located at Jacksonville, Florida. The Corporation may have offices at such other places, either within or without the State of North Carolina, as the Board of Directors may from time to time determine.

ARTICLE 2 — MEETINGS OF SHAREHOLDERS

Section 1. Place of Meeting. Meetings of Shareholders shall be held at such places, either within or without the State of North Carolina, as shall be designated in the notice of the meeting.

Section 2. Annual Meeting. The annual meeting of Shareholders shall be held on such date and at such time as the Board of Directors shall determine each year in advance thereof, for the purpose of electing Directors of the Corporation and the transaction of such other business as may be a proper subject for action at the meeting.

Section 3. Special Meetings. Special meetings of the Shareholders shall be held at such places and times as determined by the Board of Directors in their discretion as provided in the Articles of Incorporation.

Section 4. Notice of Meetings. At least 10 and no more than 60 days prior to any annual or special meeting of Shareholders, the Corporation shall notify Shareholders of the date, time and place of the meeting and, in the case of a special meeting or where otherwise required by the Articles of Incorporation or by law, shall briefly describe the purpose or purposes of the meeting. Only business within the purpose or purposes described in the notice may be conducted at a special meeting. Unless otherwise required by the Articles of Incorporation or by law, the Corporation shall be required to give notice only to Shareholders entitled to vote at the meeting. If an annual or special Shareholders' meeting is adjourned to a different date, time or place, notice thereof need not be given if the new date, time or place is announced at the meeting before adjournment. If a new record date for the adjourned meeting is Bylaws Effective 071803.redfixed pursuant to Article 7, Section 5 hereof, notice of the adjourned meeting shall be given to persons who are Shareholders as of the new record date. If mailed, notice shall be deemed to be effective when deposited in the United States mail with postage thereon prepaid, correctly addressed to the Shareholder's address shown in the Corporation's current record of Shareholders.

Section 5. Quorum. Except as may be provided in the terms of a series of Preferred Stock, a majority of the votes entitled to be cast by a voting group on a matter, represented in person or by proxy at a meeting of Shareholders, shall constitute a quorum for that

voting group for any action on that matter, unless quorum requirements are otherwise fixed by a court of competent jurisdiction acting pursuant to Section 55-7-03 of the General Statutes of North Carolina. Once a share is represented for any purpose at a meeting, it is deemed present for quorum purposes for the remainder of the meeting and any adjournment thereof, unless a new record date is or must be set for the adjournment. Action may be taken by a voting group at any meeting at which a quorum of that voting group is represented, regardless of whether action is taken at that meeting by any other voting group. In the absence of a quorum at the opening of any meeting of Shareholders, such meeting may be adjourned from time to time by a vote of the majority of the shares voting on the motion to adjourn.

Section 6. Voting of Shares. Except as otherwise provided by the Articles of Incorporation or by law, each outstanding share of voting capital stock of the Corporation shall be entitled to one vote on each matter submitted to a vote at a meeting of the Shareholders. Action on a matter by a voting group for which a quorum is present is approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action, unless the vote of a greater number is required by law, by the Articles of Incorporation, by rules of any exchange on which the voting group's stock is listed or by Section 55-10-03(c) of the North Carolina Business Corporation Act (the "NCBCA"). Voting on all matters shall be by ballot vote.

Section 7. Notice of Shareholder Proposal. For business proposed by a Shareholder (other than director nominations) to be a proper subject for action at an Annual Shareholders meeting, in addition to any requirement of law the Shareholder must timely request (by Certified Mail—Return Receipt Requested) that the proposal be included in the Corporation's proxy statement for the meeting, and such request must satisfy all of the provisions of Rule 14a-8 under the Securities Exchange Act of 1934, as amended.

Section 8. Postponement of Shareholders' Meeting. A scheduled annual or special meeting of Shareholders may be postponed by the Board of Directors by public notice given at or prior to the time of the meeting.

ARTICLE 3 — BOARD OF DIRECTORS

Section 1. General Powers. Except as otherwise expressly provided in the Articles of Incorporation or by law, the Board of Directors shall have the exclusive power and authority to direct the management of the business and affairs of the Corporation and shall exercise all corporate powers, and possess all authority, necessary or appropriate to carry out the intent of this provision, and which are customarily exercised by the board of directors of a public company.

Section 2. Number, Term and Qualification. The number, term and qualification of Directors of the Corporation shall be as provided in the Articles of Incorporation.

Section 3. Removal. Directors may be removed from office only for the reasons, if any, specified in the Articles of Incorporation.

Section 4. Vacancies. Vacancies occurring in the Board of Directors shall be filled only as provided in the Articles of Incorporation.

Section 5. Compensation. Compensation for the services of Directors as shall be determined exclusively by the Board of Directors as provided in the Articles of Incorporation.

Section 6. Nominations for Election of Directors. Only persons who are nominated in accordance with the provisions set forth in these Bylaws shall be eligible to be elected as directors at an Annual Shareholders meeting. Nominations of persons for election to the Board of Directors may be made at such meeting of shareholders (i) by or at the direction of the Board of Directors, or (ii) by any shareholder of the Corporation who is a shareholder of record at the time of giving of notice provided for in this Section 6, who shall be entitled to vote for the election of Directors at the meeting and who complies with the notice procedures set forth in this Section 6. Such nominations, other than those made by or at the direction of the Board, shall be made pursuant to timely notice in writing to the Secretary. To be timely, a shareholder's notice shall be delivered to, or mailed and received at, the principal executive offices of the Corporation not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's Annual Shareholders meeting; provided, however, in the event the date of the Annual Shareholders meeting is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, notice by a shareholder must be so delivered not earlier than the 120th day prior to such Annual Shareholders meeting and not later than the close of business on the later of the 90th day prior to such Annual Shareholders meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. Such shareholder's notice shall set forth (a) as to each person whom the shareholder proposes to nominate for election or reelection as a Director, information relating to such person which is substantially the same as that required to be disclosed in solicitations of proxies for election of directors pursuant to Items 7(a) and (b) of Regulation 14A under the Securities Exchange Act of 1934, as amended, and such person's written consent to being named as a nominee and to serving as a director if elected, and (b) as to the shareholder giving the notice, (i) the name and address, as they appear on the Corporation's books, of such shareholder, and (ii) the class and number of shares of the Corporation which are owned of record or beneficially by such shareholder. At the request of the Board of Directors, any person nominated by the Board for election as a Director shall furnish to the Secretary that information required to be set forth in a shareholder's notice of nomination which pertains to the nominee. The chairman of the Annual Shareholders meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the provisions prescribed by these Bylaws and, if the chairman should so determine, the chairman shall so declare to the meeting and the defective nomination shall be disregarded. The foregoing provisions of this Section 6 shall not apply to any Director who is nominated and elected under specified circumstances by holders of any class or series of stock having a preference over the common stock as to dividends or upon liquidation.

ARTICLE 4 — MEETINGS OF DIRECTORS

Section 1. Annual and Regular Meetings. All annual and regular meetings of the Board of Directors shall be held at such places and times as determined by the Board of Directors in their discretion as provided in the Articles of Incorporation.

Section 2. Special Meetings. Special meetings of the Board of Directors shall be held at such places and times as determined by the Board of Directors in their discretion as provided in the Articles of Incorporation.

Section 3. Notice of Meetings. Unless the Board of Directors by resolution determines otherwise in accordance with authority set forth in the Articles of Incorporation, all meetings of the Board of Directors may be held without notice of the date, time, place or purpose of the meeting. The Secretary shall give such notice of any meetings called by the Board by such means of communication as may be specified by the Board.

Section 4. Quorum. The percentage of Directors in office specified in the Articles of Incorporation will constitute a quorum for the transaction of business at any meeting of the Board of Directors.

Section 5. Manner of Acting. A majority of Directors who are present at a meeting at which a quorum is present will constitute the required vote to effect any action taken by the Board of Directors.

Section 6. Action required or permitted to be taken at a meeting of the Board of Directors may be taken without a meeting if the action is taken by all members of the Board. The action must be evidenced by one or more written consents signed by each Director before or after such action, describing the action taken, and included in the minutes or filed with the corporate records. Action taken without a meeting is effective when the last Director signs the consent, unless the consent specifies a different effective date.

Section 7. Meeting by Communications Device. The Board of Directors may permit Directors to participate in any meeting of the Board of Directors by, or conduct the meeting through the use of, any means of communication by which all Directors participating may simultaneously hear each other during the meeting. A Director participating in a meeting by this means is deemed to be present in person at the meeting.

ARTICLE 5 — COMMITTEES

Section 1. Election and Powers. The Board of Directors may have such committees, with such members who shall have such powers and authority as may be determined by the Board of Directors as provided by the Articles of Incorporation. To the extent specified by the Board of Directors or in the Articles of Incorporation, each committee shall have and may exercise the powers of the Board in the management of the business and affairs of the Corporation, except that no committee shall have authority to do the following:

- (a) Authorize distributions.
- (b) Approve or propose to Shareholders action required to be approved by Shareholders.
- (c) Fill vacancies on the Board of Directors or on any of its committees.
- (d) Amend the Articles of Incorporation.

- (e) Adopt, amend or repeal the bylaws.
- (f) Approve a plan of merger not requiring Shareholder approval.
- (g) Authorize or approve the reacquisition of shares, except according to a formula or method prescribed by the Board of Directors.
- (h) Authorize or approve the issuance, sale or contract for sale of shares, or determine the designation and relative rights, preferences and limitations of a class or series of shares, except that the Board of Directors may authorize a committee (or a senior executive officer of the Corporation) to do so within limits specifically prescribed by the Board of Directors.

Section 2. Removal; Vacancies. Unless the Board of Directors by resolution determines otherwise in accordance with authority specified in the Articles of Incorporation, any member of a committee may be removed at any time exclusively by the Board of Directors with or without cause, and vacancies in the membership of a committee as a result of death, resignation, disqualification or removal shall be filled by a majority of the whole Board of Directors.

Section 3. Meetings. The provisions of Article 4 governing meetings of the Board of Directors, action without meeting, notice, waiver of notice and quorum and voting requirements shall apply to the committees of the Board and its members to the extent not otherwise prescribed by the Board in the resolution authorizing the establishment of the committee.

Section 4. Minutes. Each committee shall keep minutes of its proceedings and shall report thereon to the Board of Directors at or before the next meeting of the Board.

ARTICLE 6 — OFFICERS

Section 1. Titles. Pursuant to authority conferred in the Articles of Incorporation, the Board of Directors shall have the exclusive power and authority to elect from time to time such officers of the Corporation, including a Chairman and a President (one of whom shall be the Chief Executive Officer), a Vice Chairman, one or more Executive Vice Presidents, one or more Senior Vice Presidents, one or more Vice Presidents, a Chief Financial Officer, a General Counsel, a Controller, a Treasurer, a Secretary, one or more Assistant Controllers, one or more Assistant Treasurers, and one or more Assistant Secretaries, and such other officers as shall be deemed necessary or desirable from time to time. The officers shall have the authority and perform the duties as set forth herein or as from time to time may be prescribed by the Board of Directors. Any two or more offices may be held by the same individual, but no officer may act in more than one capacity where action of two or more officers is required.

The officers of the Corporation may appoint one or more individuals to hold a position which includes one of the titles indicated above. An individual holding such title by virtue of being so appointed rather than by virtue of being elected to such position by the Board of Directors shall not be an officer of the Corporation for purposes of the Articles of Incorporation

or these Bylaws, but such individual shall have such duties as may be prescribed by the officer or officers appointing him or her.

Section 2. Election; Removal. Pursuant to authority conferred in the Articles of Incorporation, the officers of the Corporation shall be elected exclusively by the Board of Directors and shall serve at the pleasure of the Board as specified at the time of their election, until their successors are elected and qualify, or until the earlier of their resignation or removal. Pursuant to authority conferred in the Articles of Incorporation, any officer may be removed by the Board at any time with or without cause.

Section 3. Compensation. Pursuant to authority conferred in the Articles of Incorporation, the compensation of the officers shall be fixed by the Board of Directors.

Section 4. General Powers of Officers. Except as may be otherwise provided in these bylaws or in the NCBCA, the Chairman, the Vice-Chairman, the President, any Executive Vice President, any Senior Vice President, any Vice President, the Chief Financial Officer, the General Counsel, the Controller, the Treasurer, the Secretary, or any one of them, may (i) execute and deliver in the name of the Corporation, in the name of any division of the Corporation or in both names any agreement, contract, deed, instrument, power of attorney or other document pertaining to the business or affairs of the Corporation or any division of the Corporation, and (ii) delegate to any employee or agent the power to execute and deliver any such agreement, contract, deed, instrument, power of attorney or other document.

Section 5. Chief Executive Officer. The Chief Executive Officer of the Corporation shall report directly to the Board. Except in such instances as the Board may confer powers in particular transactions upon any other officer, and subject to the control and direction of the Board, the Chief Executive Officer shall manage the business and affairs of the Corporation and shall communicate to the Board and any committee thereof reports, proposals and recommendations for their respective consideration or action. He may do and perform all acts on behalf of the Corporation.

Section 6. Chairman. The Chairman shall preside at meetings of the Board of Directors and the Shareholders and shall have such other powers and perform such other duties as the Board may prescribe or as may be prescribed in these bylaws.

Section 7. Vice Chairman. The Vice Chairman shall have such powers and perform such duties as the Board or the Chairman (to the extent he is authorized by the Board of Directors to prescribe the authority and duties of other officers) may from time to time prescribe or as may be prescribed in these bylaws.

Section 8. President. The President shall have such powers and perform such duties as the Board and the Chief Executive Officer (to the extent he is authorized by the Board of Directors to prescribe the authority and duties of other officers) may from time to time prescribe or as may be prescribed in these bylaws.

Section 9. Executive Vice Presidents, Senior Vice Presidents and Vice Presidents. The Executive Vice Presidents, Senior Vice Presidents and Vice Presidents shall have such powers and perform such duties as the Board or the Chief Executive Officer (to the extent he is authorized by the Board of Directors to prescribe the authority and duties of other officers) may from time to time prescribe or as may be prescribed in these bylaws.

Section 10. Chief Financial Officer. The Chief Financial Officer shall have such powers and perform such duties as the Board or the Chief Executive Officer (to the extent he is authorized by the Board of Directors to prescribe the authority and duties of other officers) may from time to time prescribe or as may be prescribed in these bylaws. The Chief Financial Officer shall present to the Board such balance sheets, income statements, budgets and other financial statements and reports as the Board or the Chief Executive Officer (to the extent he is authorized by the Board of Directors to prescribe the authority and duties of other officers) may require and shall perform such other duties as may be prescribed or assigned pursuant to these bylaws and all other acts incident to the position of Chief Financial Officer.

Section 11. Controller. The Controller shall be responsible for the maintenance of adequate accounting records of all assets, liabilities, capital and transactions of the Corporation. The Controller shall prepare such balance sheets, income statements, budgets and other financial statements and reports as the Board or the Chief Executive Officer or the Chief Financial Officer (to the extent they are authorized by the Board of Directors to prescribe the authority and duties of other officers) may require, and shall perform such other duties as may be prescribed or assigned pursuant to these bylaws and all other acts incident to the position of Controller.

Section 12. Treasurer.

(a) The Treasurer shall have the care and custody of all the funds and securities of the Corporation except as may be otherwise ordered by the Board, and shall cause such funds (i) to be invested or reinvested from time to time for the benefit of the Corporation as may be designated by the Board or by the Chairman, the Vice Chairman, the President, the Chief Financial Officer or the Treasurer (to the extent they are authorized by the Board of Directors to make such designations), or (ii) to be deposited to the credit of the Corporation in such banks or depositories as may be designated by the Board or by the Chairman, the President, the Chief Financial Officer or the Treasurer (to the extent they are authorized by the Board of Directors to make such designations), and shall cause such securities to be placed in safekeeping in such manner as may be designated by the Board or by the Chairman, the President, the Chief Financial Officer or the Treasurer (to the extent they are authorized by the Board of Directors to make such designations).

(b) The Treasurer or such other person or persons as may be designated for such purpose by the Board or by the Chairman, the President, the Chief Financial Officer or the Treasurer (to the extent they are authorized by the Board of Directors to make such designations) may endorse in the name and on behalf of the Corporation all instruments for the payment of money, bills of lading, warehouse receipts, insurance policies and other commercial documents requiring such endorsement.

(c) The Treasurer or such other person or persons as may be designated for such purpose by the Board or by the Chairman, the President, the Chief Financial Officer or the Treasurer (to the extent they are authorized by the Board of Directors to make such designations), (i) may sign all receipts and vouchers for payments made to the Corporation; (ii) shall prepare a statement of the cash account of the Corporation to the Board as often as it shall require the same; and (iii) shall enter regularly in books to be kept for that purpose full and accurate account of all moneys received and paid on account of the Corporation and of all securities received and delivered by the Corporation.

(d) The Treasurer shall perform such other duties as may be prescribed or assigned pursuant to these bylaws and all other acts incident to the position of Treasurer.

Section 13. Secretary. The Secretary shall keep the minutes of all proceedings of the Shareholders, the Board and the Committees of the Board. The Secretary shall attend to the giving and serving of all notices of the Corporation, in accordance with the provisions of these bylaws and as required by the laws of the State of North Carolina. The Secretary shall cause to be prepared and maintained (i) at the office of the Corporation a stock ledger containing the names and addresses of all Shareholders and the number of shares held by each and (ii) any list of Shareholders required by law to be prepared for any meeting of Shareholders. The Secretary shall be responsible for the custody of all stock books and of all unissued stock certificates. The Secretary shall be the custodian of the seal of the Corporation. The Secretary shall affix or cause to be affixed the seal of the Corporation to such contracts, instruments and other documents requiring the seal of the Corporation, and when so affixed may attest the same and shall perform such other duties as may be prescribed or assigned pursuant to these bylaws and all other acts incident to the position of Secretary.

Section 14. Voting Upon Securities. Unless otherwise ordered by the Board of Directors, the Chairman, the President, any Executive Vice President, any Senior Vice President or any Vice President shall have full power and authority in behalf of the Corporation to attend, act and vote at meetings of the security holders of any entity in which this Corporation may hold securities, and at such meetings shall possess and may exercise any and all rights and powers incident to the ownership of such securities and which, as the owner, the Corporation might have possessed and exercised if present. The Board of Directors may by resolution from time to time confer such power and authority upon any other person or persons.

Section 15. Continuing Determination by Board. All powers and duties of the officers shall be subject to a continuing determination by the Board of Directors.

ARTICLE 7 — CAPITAL STOCK

Section 1. Certificates. Unless the Board determines otherwise, shares of the capital stock of the Corporation shall be represented by certificates. The name and address of the persons to whom shares of capital stock of the Corporation are issued, with the number of shares and date of issue, shall be entered on the stock transfer records of the Corporation. Certificates for shares of the capital stock of the Corporation shall be in such form not inconsistent with the Articles of Incorporation of the Corporation as shall be approved by the Board of Directors. Each certificate shall be signed (either manually or by facsimile) by (a) the Chairman, the Vice Chairman, the President or any Vice President and by the Secretary, Assistant Secretary, Treasurer or Assistant Treasurer or (b) any two officers designated by the Board of Directors. Each certificate may be sealed with the seal of the Corporation or a facsimile thereof.

Section 2. Transfer of Shares. Transfer of shares shall be made on the stock transfer records of the Corporation, and transfers shall be made only upon surrender of the certificate for the shares sought to be transferred by the record holder or by a duly authorized agent, transferee or legal representative. All certificates surrendered for transfer or reissue shall be canceled before new certificates for the shares shall be issued.

Section 3. Transfer Agent and Registrar. The Board of Directors may appoint one or more transfer agents and one or more registrars of transfers and may require all stock certificates to be signed or countersigned by the transfer agent and registered by the registrar of transfers.

Section 4. Regulations. The Board of Directors may make rules and regulations as it deems expedient concerning the issue, transfer and registration of shares of capital stock of the Corporation.

Section 5. Fixing Record Date. For the purpose of determining Shareholders entitled to notice of or to vote at any meeting of Shareholders, or entitled to receive payment of any dividend, or in order to make a determination of Shareholders for any other purpose, the Board of Directors may fix in advance a date as the record date for the determination of Shareholders. The record date shall be not more than 70 days before the meeting or action requiring a determination of Shareholders. A determination of Shareholders entitled to notice of or to vote at a Shareholders' meeting shall be effective for any adjournment of the meeting unless the Board of Directors fixes a new record date, which it shall do if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting.

Section 6. Lost Certificates. The Board of Directors must authorize the issuance of a new certificate in place of a certificate claimed to have been lost, destroyed or wrongfully taken, upon receipt of (a) an affidavit from the person explaining the loss, destruction or wrongful taking, and (b) a bond from the claimant in a sum as the Corporation may reasonably direct to indemnify the Corporation against loss from any claim with respect to the certificate claimed to have been lost, destroyed or wrongfully taken. The Board of Directors may, in its discretion, waive the affidavit and bond and authorize the issuance of a new certificate in place of a certificate claimed to have been lost, destroyed or wrongfully taken.

ARTICLE 8 — GENERAL PROVISIONS

Section 1. Dividends and other Distributions. The Board of Directors may from time to time declare and the Corporation may pay dividends or make other distributions with respect to its outstanding shares in the manner and upon the terms and conditions provided by law.

Section 2. Seal. The seal of the Corporation shall be any form approved from time to time or at any time by the Board of Directors.

Section 3. Waiver of Notice. Whenever notice is required to be given to a Shareholder, director or other person under the provisions of these bylaws, the Articles of Incorporation or applicable law, a waiver in writing signed by the person or persons entitled to the notice, whether before or after the date and time stated in the notice, and delivered to the Corporation shall be equivalent to giving the notice.

Section 4. Depositaries. The Chairman, the President, the Chief Financial Officer, and the Treasurer are each authorized to designate depositaries for the funds of the Corporation deposited in its name or that of a division of the Corporation, or both, and the signatories with respect thereto in each case, and from time to time, to change such depositaries and signatories, with the same force and effect as if each such depositary and the signatories with respect thereto and changes therein had been specifically designated or authorized by the Board;

and each depository designated by the Board or by the Chairman, the President, the Chief Financial Officer, or the Treasurer shall be entitled to rely upon the certificate of the Secretary or any Assistant Secretary of the Corporation or of a division of the Corporation setting forth the fact of such designation and of the appointment of the officers of the Corporation or of the Division or of both or of other persons who are to be signatories with respect to the withdrawal of funds deposited with such depository, or from time to time the fact of any change in any depository or in the signatories with respect thereto.

Section 5. Signatories. Unless otherwise designated by the Board or by the Chairman, the President, the Chief Financial Officer or the Treasurer, all notes, drafts, checks, acceptances, orders for the payment of money shall be (a) signed by the Treasurer or any Assistant Treasurer and (b) countersigned by the Controller or any Assistant Controller, or either signed or countersigned by the Chairman, the Vice Chairman, the President, any Executive Vice President, any Senior Vice President or any Vice President in lieu of either the officers designated in (a) or the officers designated in (b) of this Section.

Section 6. Fiscal Year. The fiscal year of the Corporation shall be fixed by the Board of Directors.

Section 7. Amendment. These bylaws may be amended or repealed by the Board of Directors, including any bylaw adopted, amended or repealed by the Shareholders generally. These bylaws may be amended or repealed by the Shareholders even though the bylaws may also be amended or repealed by the Board of Directors.

Rayonier Inc. and Subsidiaries
Ratio of Earnings to Fixed Charges
(Unaudited, in thousands of dollars)

	Six Months Ended June 30,	
	2003	2002
Earnings:		
Net Income	\$ 39,908	\$ 25,643
Add:		
(Income) / loss from discontinued operations	—	927
Income tax	9,980	10,350
Amortization of capitalized interest	1,245	1,313
	<u>51,133</u>	<u>38,233</u>
Adjustments to earnings for Fixed Charges:		
Interest and other financial charges	24,798	30,817
Interest factor attributable to rentals	412	817
	<u>25,210</u>	<u>31,634</u>
Earnings as adjusted	<u>\$ 76,343</u>	<u>\$ 69,867</u>
Total Fixed Charges Above	<u>\$ 25,210</u>	<u>\$ 31,634</u>
Ratio of earnings as adjusted to total fixed charges	<u>3.03</u>	<u>2.21</u>
Effective tax rate	<u>20%</u>	<u>28%</u>

CERTIFICATIONS

I, W. L. Nutter, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rayonier Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. Disclosed in this report any changes in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal controls over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2003

/s/ W. L. NUTTER

W. L. Nutter
Chairman, President and Chief Executive Officer, Rayonier Inc.

I, Gerald J. Pollack, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Rayonier Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and
 - c. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 14, 2003

/s/ GERALD J. POLLACK

Gerald J. Pollack
Senior Vice President and Chief Financial Officer, Rayonier Inc.

CERTIFICATION OF PERIODIC FINANCIAL REPORTS UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certify that this Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained herein fairly presents, in all material respects, the financial condition and results of operations of Rayonier Inc.

/s/ W. L. NUTTER

W. L. Nutter
Chairman, President and
Chief Executive Officer

August 14, 2003

/s/ GERALD J. POLLACK

Gerald J. Pollack
Senior Vice President and
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Rayonier and will be retained by Rayonier and furnished to the Securities and Exchange Commission or its staff upon request.
