

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 SEPTEMBER 30, 1998

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-6780

RAYONIER INC.

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

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

Telephone Number: (203) 348-7000

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

YES NO

As of October 29, 1998, there were 27,854,509 Common Shares of the Registrant
outstanding.

RAYONIER INC.
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
	----	----	----	----
SALES	\$ 258,740	\$ 266,853	\$ 738,165	\$ 817,064
	-----	-----	-----	-----
Costs and expenses				
Cost of sales	223,663	216,726	618,143	666,867
Selling and general expenses	7,960	10,402	25,719	30,636
Other operating expense (income), net	1,749	(2,169)	(394)	(3,881)
	-----	-----	-----	-----
	233,372	224,959	643,468	693,622
	-----	-----	-----	-----
OPERATING INCOME	25,368	41,894	94,697	123,442
Interest expense	(9,092)	(6,080)	(26,076)	(17,987)
Interest and miscellaneous income (expenses), net	64	(523)	561	431
Minority interest	--	(5,072)	--	(19,359)
	-----	-----	-----	-----
Income before income taxes	16,340	30,219	69,182	86,527
Provision for income taxes	(3,499)	(6,978)	(19,705)	(25,129)
	-----	-----	-----	-----
NET INCOME	\$ 12,841	\$ 23,241	\$ 49,477	\$ 61,398
	=====	=====	=====	=====
NET INCOME PER COMMON SHARE				
Basic EPS	\$ 0.46	\$ 0.81	\$ 1.75	\$ 2.12
	=====	=====	=====	=====
Diluted EPS	\$ 0.45	\$ 0.79	\$ 1.72	\$ 2.08
	=====	=====	=====	=====

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

ASSETS

	September 30, 1998 ----	December 31, 1997 ----
CURRENT ASSETS		
Cash and short-term investments	\$ 8,791	\$ 10,661
Accounts receivable, less allowance for doubtful accounts of \$4,349 and \$4,481	112,443	115,704
Inventories		
Finished goods	55,841	51,398
Work in process	16,391	17,491
Raw materials	18,130	19,740
Manufacturing and maintenance supplies	22,816	25,519
	-----	-----
Total inventories	113,178	114,148
Timber purchase agreements	37,464	31,758
Other current assets	13,742	13,955
Deferred income taxes	17,908	24,288
	-----	-----
Total current assets	303,526	310,514
OTHER ASSETS	62,883	55,791
TIMBER PURCHASE AGREEMENTS	25,274	28,248
TIMBER, TIMBERLANDS AND LOGGING ROADS, NET OF DEPLETION AND AMORTIZATION	545,675	497,110
PROPERTY, PLANT AND EQUIPMENT		
Land, buildings, machinery and equipment	1,306,903	1,266,431
Less - accumulated depreciation	612,517	562,536
	-----	-----
	694,386	703,895
	-----	-----
	\$1,631,744	\$1,595,558
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 66,796	\$ 74,269
Bank loans and current maturities	3,850	4,194
Accrued taxes	12,784	10,973
Accrued payroll and benefits	20,618	18,694
Accrued interest	10,827	6,076
Other current liabilities	39,661	66,085
Current reserves for dispositions and discontinued operations	24,975	26,247
	-----	-----
Total current liabilities	179,511	206,538
DEFERRED INCOME TAXES	118,723	113,442
LONG-TERM DEBT	504,066	421,325
NON-CURRENT RESERVES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS	162,345	172,615
OTHER NON-CURRENT LIABILITIES	30,771	31,997
MINORITY INTEREST	--	16,959
SHAREHOLDERS' EQUITY		
Common Shares, 60,000,000 shares authorized, with shares issued and outstanding of 27,878,409 and 28,283,634	82,537	102,175
Retained earnings	553,791	530,507
	-----	-----
	636,328	632,682
	-----	-----
	\$1,631,744	\$1,595,558
	=====	=====

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

	Nine Months Ended September 30,	
	1998	1997
	----	----
OPERATING ACTIVITIES		
Net income	\$ 49,477	\$ 61,398
Non-cash items included in income		
Depreciation, depletion and amortization	74,601	71,247
Deferred income taxes	7,427	9,971
Write-off of property, plant and equipment	--	2,100
(Decrease) increase in other non-current liabilities	(1,226)	2,687
Change in accounts receivable, inventories and accounts payable	(3,242)	19,946
(Increase) decrease in current timber purchase agreements	(5,706)	5,461
Decrease in other current assets	213	1,215
(Decrease) increase in accrued liabilities	(17,938)	3,673
	-----	-----
CASH FROM OPERATING ACTIVITIES	103,606	177,698
	-----	-----
INVESTING ACTIVITIES		
Capital expenditures, net of sales, retirements and reclassifications of \$4,714 and \$(236)	(64,836)	(106,076)
Acquisition of Rayonier Timberlands, L.P. Class A Units	(48,821)	--
Expenditures for dispositions and discontinued operations, net of tax benefits of \$4,234 and \$7,013	(7,308)	(12,115)
Change in timber purchase agreements and other assets	(4,118)	4,861
	-----	-----
CASH USED FOR INVESTING ACTIVITIES	(125,083)	(113,330)
	-----	-----
FINANCING ACTIVITIES		
Issuance of debt	204,877	225,117
Repayments of debt	(122,480)	(221,234)
Dividends paid	(26,193)	(25,963)
Repurchase of Common Shares	(21,890)	(35,331)
Issuance of Common Shares	2,252	2,216
Buyout of minority interest	(16,959)	(1,769)
	-----	-----
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	19,607	(56,964)
	-----	-----
CASH AND SHORT-TERM INVESTMENTS		
(Decrease) increase in cash and short term investments	(1,870)	7,404
Balance, beginning of period	10,661	3,432
	-----	-----
Balance, end of period	\$ 8,791	\$ 10,836
	=====	=====
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	\$ 21,519	\$ 19,493
	=====	=====
Income taxes	\$ 12,547	\$ 6,191
	=====	=====

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

1. EARNINGS PER COMMON SHARE

In 1997, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share." The following table provides details of the calculation of basic and diluted EPS for the three and nine months ended September 30, 1998 and 1997.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998 ----	1997 ----	1998 ----	1997 ----
Net Income	\$ 12,841 =====	\$ 23,241 =====	\$ 49,477 =====	\$ 61,398 =====
Shares used for determining basic EPS	28,079,736	28,685,581	28,219,896	28,956,747
Dilutive effect of:				
Stock options	241,123	488,039	283,410	373,605
Contingent shares	231,084	223,500	231,084	223,500
	-----	-----	-----	-----
Shares used for determining diluted EPS	28,551,943 =====	29,397,120 =====	28,734,390 =====	29,553,852 =====
Basic EPS	\$ 0.46 =====	\$ 0.81 =====	\$ 1.75 =====	\$ 2.12 =====
Diluted EPS	\$ 0.45 =====	\$ 0.79 =====	\$ 1.72 =====	\$ 2.08 =====

2. NEW ACCOUNTING STANDARD

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 establishes accounting and reporting standards requiring that derivative instruments be recorded on the balance sheet as either an asset or liability measured at fair value. SFAS No.133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met.

SFAS No.133 is effective for fiscal years beginning after June 15, 1999, but may be adopted as of the beginning of any fiscal quarter after issuance. SFAS No.133 is not expected to have a material impact on the Company's consolidated financial position or results of operations.

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

The sales and operating income of Rayonier's business segments for the three and nine months ended September 30, 1998 and 1997 were as follows (thousands of dollars):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
	----	----	----	----
SALES				
TIMBER AND WOOD PRODUCTS				
Trading and merchandising	\$ 74,872	\$ 64,989	\$ 162,878	\$ 199,299
Timberlands management	33,806(a)	43,986	135,698(a)	137,645
Wood products	32,079	34,898	93,562	103,198
Intrasegment eliminations	(2,850)	(6,089)	(8,674)	(18,007)
	-----	-----	-----	-----
Total Timber and Wood Products	137,907	137,784	383,464	422,135
	-----	-----	-----	-----
SPECIALTY PULP PRODUCTS				
Chemical cellulose	74,848	76,243	218,379	243,309
Fluff and specialty paper pulps	46,293	49,236	138,191	132,393
	-----	-----	-----	-----
Total Specialty Pulp Products	121,141	125,479	356,570	375,702
	-----	-----	-----	-----
Intersegment eliminations	(308)	(682)	(1,869)	(1,660)
	-----	-----	-----	-----
Total before dispositions	258,740	262,581	738,165	796,177
Dispositions	--	4,272	--	20,887
	-----	-----	-----	-----
Total sales	\$ 258,740	\$ 266,853	\$ 738,165	\$ 817,064
	=====	=====	=====	=====
OPERATING INCOME				
Timber and Wood Products	\$ 15,248(b)	\$ 31,421	\$ 75,724(b)	\$ 100,112
Specialty Pulp Products	12,585	13,861	28,170	35,272
Corporate and other	(2,408)	(4,159)	(9,120)	(12,506)
Intersegment eliminations	(57)	(8)	(77)	143
	-----	-----	-----	-----
Total before dispositions	25,368	41,115	94,697	123,021
Dispositions	--	779	--	421
	-----	-----	-----	-----
Total operating income	\$ 25,368	\$ 41,894	\$ 94,697	\$ 123,442
	=====	=====	=====	=====

(a) Includes salvage timber sales of \$1.7 million.

(b) Operating income was reduced by \$6.7 million resulting from Southeast U.S. forest fires during the third quarter of 1998, including \$4.0 million on lower pricing for salvage timber and \$2.7 million on the write-off of destroyed timber assets and other fire related expenses.

RESULTS OF OPERATIONS

SALES AND OPERATING INCOME

Sales for the third quarter of 1998 were \$259 million, \$8 million or 3 percent lower than the third quarter of 1997. Sales for the nine months ended September 30, 1998 of \$738 million were \$79 million or 10 percent lower than the prior year. Sales for both periods declined primarily due to reduced Asian demand for logs, lower chemical cellulose pulp volume, decreased lumber selling prices and the absence of sales from the Company's Port Angeles pulp mill, permanently closed in February 1997. These

reductions were partially offset by additional sales from the Company's new medium-density fiberboard (MDF) and wood products trading businesses.

Operating income for the third quarter of 1998 of \$25 million was \$17 million less than the prior year. Operating income for the nine-month period was \$95 million, \$29 million or 23 percent less than the prior year. The declines resulted from lower lumber and log pricing, reduced chemical cellulose pulp shipments, losses at the Company's MDF plant in New Zealand which began commercial operations October 1, 1997, and forest fire losses. Forest fires in the Southeast U.S. in early July damaged pre-merchantable timber resulting in a \$2.7 million write-off of timber assets and \$4 million in reduced timber sales revenue due to lower realized prices for fire-damaged timber. In addition, unusually wet weather conditions in the first half of the year disrupted production schedules and raised the cost of wood fiber at the Company's pulp and sawmills in the Southeast U.S.

TIMBER AND WOOD PRODUCTS

Timber and Wood Products' sales for the three month period ended September 30, 1998 were \$138 million, comparable to last year's results. Sales for the nine-month period were \$383 million, \$39 million below 1997, reflecting lower log trading activity in Asian markets and lower lumber prices. Operating income for the quarter of \$15 million was \$16 million lower than the same period last year. Year to date operating income of \$76 million was \$24 million lower than 1997. The declines resulted from the forest fires described above, lower lumber margins and losses at the Company's MDF plant in New Zealand, which began commercial operations October 1, 1997.

Trading and merchandising sales of \$163 million for the nine month period were \$36 million lower than 1997, reflecting significantly lower export log volumes from North America and New Zealand and reduced selling prices due to weakness in Asian markets, partly offset by sales from a newly established wood products trading business. Operating income was lower than 1997 due to lower log trading margins.

Timberlands management sales of \$136 million for the nine-month period were \$2 million below last year due to lower prices in the Northwest U.S. and lower prices and volumes in New Zealand. Operating income improved from 1997 as a result of a strong Southeast U.S. timber market in the first half of the year, when unusually wet weather conditions led to restricted supply, and stronger Southeast U.S. land sales. Third quarter operating income included the \$6.7 million adverse impact associated with the Southeast U.S. forest fires.

Wood products sales of \$94 million for the nine month period were \$10 million lower than 1997. Operating income declined as a result of lower lumber sales prices and higher log costs, and losses from the MDF business.

SPECIALTY PULP PRODUCTS

Sales of Specialty Pulp Products for the three-month period were \$121 million, \$4 million lower than last year. Sales for the first nine months of 1998 were \$357 million, \$19 million lower than 1997. The declines were primarily due to reduced customer demand for chemical cellulose pulps. Operating income for the first nine months was \$28 million, \$7 million lower than 1997, as a result of lower chemical cellulose volumes, higher wood and production costs in the first half of the year, partially offset by slightly higher selling prices. Third quarter operating income of \$13 million was \$1 million below 1997 due to lower chemical cellulose volumes and higher wood costs.

CORPORATE AND OTHER

Corporate and other costs for the third quarter and first nine months of 1998 were favorable to 1997, reflecting lower administrative and general expenses.

OTHER INCOME / EXPENSE

Interest expense of \$26 million for the first nine months of 1998 was \$8 million higher than 1997, reflecting lower capitalized interest following start up of the New Zealand MDF plant and interest expense associated with the \$66 million purchase in January of the publicly traded Class A Units of the Company's U.S. timberlands partnership. The effect of that purchase was to eliminate the minority interest in the partnership earnings, which was \$19 million in the first nine months of 1997. The positive impact was partially offset by higher interest and depletion costs in 1998.

The effective tax rate of 28.5 percent for the first nine months of 1998 is comparable to 1997. The effective tax rates are below U.S. statutory rates as 1998 includes tax benefits associated with a weaker New Zealand currency while 1997 reflects higher research and investment tax credits.

NET INCOME

Net income for the third quarter was \$12.8 million or \$0.45 per Common Share, compared to \$23.2 million, or \$0.79 cents per Common Share in 1997. Net income for the nine months ended September 30, 1998 was \$49.5 million or \$1.72 per Common Share, compared to \$61.4 million, or \$2.08 per Common Share earned last year.

The forest fires in the Southeast U.S. in early July reduced earnings by approximately 15 cents per share in the third quarter. The impact included a charge of 5 cents per share to reflect the loss of pre-merchantable timber and a reduction in earnings of 10 cents per share from the sale of fire-damaged timber.

OTHER ITEMS

The soft global economic situation continues to affect specialty pulp, timber and wood products markets, and prices are expected to remain under pressure at least through the first quarter of next year. However, log export markets appear to have stabilized due to supply restrictions in Russia and China combined with worldwide timber harvest reductions due to low selling prices. Overall fourth quarter timber harvest activity for the Company, primarily by Northwest U.S. customers, is expected to be stronger than in the third quarter.

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

YEAR 2000 COMPLIANCE

Rayonier began its company-wide Year 2000 Project in 1996 and expects all phases to be completed by the end of the third quarter of 1999. The Project is designed to identify Year 2000 problems and take corrective action covering business and process control systems, networking communications, personal computer applications, embedded microprocessors and third party supplier and customer risks. The Company has engaged outside consultants to advise on, assist in and monitor compliance. The project team reports directly to the Company's senior executive officers and regularly provides program updates to the Audit Committee of the Board of Directors.

The estimated total amount expended on the Year 2000 Project through the third quarter of 1998 was less than \$1 million and the Company estimates that future costs could range up to \$2 million. Many of the Company's systems were upgraded or replaced in the ordinary course of business during the last five years, and costs related to those upgrades and replacements are not included in the Year 2000 Project expenses.

The Company believes that with the completion of its Year 2000 Project as scheduled, the risks will be minimized and the possibility of significant interruptions of operations reduced. However, if the Company and its third party suppliers and customers do not complete in a timely manner their assessment, remediation and testing for Year 2000 compliance, there can be no assurance that Year 2000 problems will not materially adversely affect the Company's results of operations or its relationships with its suppliers and customers. The Company has not yet been able to clearly identify the most reasonably likely worst case scenarios and the appropriate contingency plans for such scenarios. As the Company completes all phases of its Year 2000 Project, it will prepare contingency plans to deal with any areas where it determines that risks of non-compliance are significant.

LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operating activities of \$104 million for the first nine months of 1998 decreased \$74 million from 1997 as a result of lower income and increased working capital requirements. EBITDA (defined as earnings from continuing operations before significant non-recurring items, provision for dispositions, interest expense, income taxes and depreciation, depletion and amortization) for the nine months of 1998 of \$170 million decreased \$6 million from 1997 results. Cash from operating activities and additional borrowings helped to finance capital expenditures of \$70 million, dividends of \$26 million and the repurchase of Common Shares for \$22 million. The Company also increased its borrowings to finance the \$66 million acquisition of the outstanding publicly traded Class A Unit minority interest in Rayonier Timberlands L.P. Third quarter ending debt was \$508 million and the debt-to-capital-ratio was 44.4 percent compared to 40.2 percent at December 31, 1997.

The Company repurchased 516,079 of its shares during the first nine months of 1998 at an average cost of \$42.42 for a total of \$22 million. Over the same period of 1997, the Company repurchased 840,500 shares at an average cost of \$42.04 per share for a total of \$35 million. In July 1998, the Company's Board of Directors increased the authorized number of common shares to be repurchased by 200,000. All of these shares were repurchased in the third quarter of 1998. In October 1998, the Board authorized the repurchase of an additional one million shares through December 31, 2000. These share repurchases are in addition

to the 1.5 percent of outstanding shares normally repurchased each year to offset the dilutive effect of incentive stock programs on earnings per share.

The Company has unsecured credit facilities totaling \$300 million, which were used for direct borrowings of \$40 million and as support for \$150 million of outstanding commercial paper. As of September 30, 1998, the Company had \$110 million of available borrowings under its revolving credit facilities. In addition, through currently effective shelf registration statements filed with the Securities and Exchange Commission, the Company may offer up to \$200 million of new public debt securities. The Company believes that internally generated funds, combined with available external financing, will enable Rayonier to fund capital expenditures, share repurchases, working capital and other liquidity needs for the foreseeable future.

SAFE HARBOR

Comments about market trends and anticipated earnings and activities in the fourth quarter and in the first quarter of next year and disclosures about the Company's project to address Year 2000 compliance are forward-looking and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Changes in factors referred to in such comments and disclosures as well as changes in the following additional important factors, among others, could cause actual results to differ materially from those expressed in the forward-looking statements: changes in the estimates of fire damage; final results of negotiations with the Company's property insurance carrier; competitive products and pricing, as well as fluctuations in demand, particularly for specialty fluff pulps, export and domestic logs, and wood products (including MDF); the impact of such market factors on the Company's timber sales in the U.S. and New Zealand; the impact of global market conditions on prices and volumes; production costs for MDF and for specialty pulps, particularly for raw materials such as wood and chemicals; governmental policies and regulations affecting the environment, import and export controls and taxes; and interest rate and currency movements.

ITEM 3. SELECTED OPERATING DATA

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
	----	----	----	----
TIMBER AND WOOD PRODUCTS				
Log trading volume				
North America, in millions of board feet	61	54	130	174
New Zealand, in thousands of cubic meters	174	277	550	802
Other, in thousands of cubic meters	47	56	136	247
Timber sales volume				
Northwest U.S., in millions of board feet	30	39	154	147
Southeast U.S., in thousands of short green tons	558(a)	567	1,788(a)	1,711
New Zealand, in thousands of cubic meters	280	336	650	835
Lumber sales volume, in millions of board feet	84	85	241	248
Medium-density fiberboard sales volume, in thousands of cubic meters	24	--	61	--
Intercompany timber sales volume				
Northwest U.S., in millions of board feet	3	1	8	11
Southeast U.S., in thousands of short green tons	12	22	62	60
New Zealand in thousands of cubic meters	103	175	257	446
SPECIALTY PULP PRODUCTS (b)				
Pulp sales volume				
Chemical cellulose, in thousands of metric tons	82	88	245	277
Fluff and specialty paper pulp, in thousands of metric tons	87	94	262	255
Production as a percent of capacity	98.6%	102.9%	98.6%	100.1%

(a) Includes salvage timber sales of 177 resulting from the Southeast U.S. forest fires.

(b) Excludes 1997 third quarter and nine months sales by the Port Angeles pulp mill of 4 and 22, respectively, for chemical cellulose and 0 and 5, respectively, for fluff and specialty paper pulp.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998 ----	1997 ----	1998 ----	1997 ----
GEOGRAPHICAL DATA (NON-U.S.)				
Sales				
New Zealand	\$ 15,349	\$ 24,284	\$ 42,960	\$ 63,865
Other	2,981	4,247	11,094	19,854
Total	<u>\$ 18,330</u>	<u>\$ 28,531</u>	<u>\$ 54,054</u>	<u>\$ 83,719</u>
Operating Income				
New Zealand	\$ (3,361)	\$ 4,333	\$ (11,863)	\$ 6,723
Other	(363)	(1,737)	(2,530)	(3,679)
Total	<u>\$ (3,724)</u>	<u>\$ 2,596</u>	<u>\$ (14,393)</u>	<u>\$ 3,044</u>
TIMBERLANDS MANAGEMENT				
Sales				
Northwest U.S.	\$ 11,609	\$ 16,373	\$ 59,032	\$ 63,193
Southeast U.S.	15,139(a)	16,837	60,274(a)	49,578
New Zealand	7,058	10,776	16,392	24,874
Total	<u>\$ 33,806</u>	<u>\$ 43,986</u>	<u>\$ 135,698</u>	<u>\$ 137,645</u>
Operating Income				
Northwest U.S.	\$ 7,486	\$ 10,660	\$ 42,961	\$ 47,257
Southeast U.S.	7,218(b)	10,979	41,560	33,906
New Zealand	1,616	2,897	4,717	6,201
Total	<u>\$ 16,320</u>	<u>\$ 24,536</u>	<u>\$ 89,238</u>	<u>\$ 87,364</u>
EBITDA per Share				
Northwest U.S.	\$ 0.30	\$ 0.38	\$ 1.60	\$ 1.64
Southeast U.S.	0.37	0.44	1.74	1.38
New Zealand	0.15	0.21	0.41	0.50
Total	<u>\$ 0.82</u>	<u>\$ 1.03</u>	<u>\$ 3.75</u>	<u>\$ 3.52</u>

(a) Includes salvage timber sales of \$1.7 million.

(b) Operating income was reduced by \$6.7 million due to the Southeast U.S. forest fires, including \$4.0 million on lower pricing for salvage timber and \$2.7 million on the write-off of destroyed timber assets and other fire related expenses.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On April 20, 1998, the U.S. District Court for the Southern District of Georgia granted summary judgment in favor of Rayonier in the action brought by Powell-Duffryn Terminals which was reported in Rayonier's 10-K for 1997. The plaintiffs filed a notice of appeal on June 10, 1998 with the U.S. Court of Appeals for the Eleventh Circuit.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) See Exhibit Index.

(b) Rayonier Inc. filed a Current Report on Form 8-K on September 25, 1998 with a press release issued on that date.

SIGNATURE

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

RAYONIER INC. (Registrant)

BY KENNETH P. JANETTE

Kenneth P. Janette

Vice President and Corporate Controller
(Chief Accounting Officer)

November 12, 1998

EXHIBIT INDEX

EXHIBIT NO. -----	DESCRIPTION -----	LOCATION -----
2	Plan of acquisition, reorganization, arrangement, liquidation or succession	None
3.1	Amended and restated articles of incorporation	No amendments
3.2	By-laws	No amendments
4	Instruments defining the rights of security holders, including indentures	Not required to be filed. The Registrant hereby agrees to file with the Commission a copy of any instrument defining the rights of holders of the Registrant's long-term debt upon request of the Commission.
10.1	Rayonier 1994 Incentive Stock Plan, as amended	Filed herewith
11	Statement re computation of per share earnings	Not required to be filed
12	Statement re computation of ratios	Filed herewith
15	Letter re unaudited interim financial information	None
18	Letter re change in accounting principles	None
19	Report furnished to security holders	None
22	Published report regarding matters submitted to vote of security holders	None
23	Consents of experts and counsel	None
24	Power of attorney	None
27	Financial data schedule	Filed herewith
99	Additional exhibits	None

1994 RAYONIER INCENTIVE STOCK PLAN

1. PURPOSE

The purpose of the 1994 Rayonier Incentive Stock Plan is to motivate and reward superior performance on the part of employees of Rayonier and its subsidiaries and to thereby attract and retain employees of superior ability. In addition, the Plan is intended to further opportunities for stock ownership by such employees in order to increase their proprietary interest in Rayonier and, as a result, their interest in the success of the Company. Awards will be made, in the discretion of the Committee, to Key Employees (including officers and directors who are also employees) whose responsibilities and decisions directly affect the performance of any Participating Company and its subsidiaries. Such incentive awards may consist of stock options, stock appreciation rights payable in stock or cash, performance shares, restricted stock or any combination of the foregoing, as the Committee may determine.

2. DEFINITIONS

When used herein, the following terms shall have the following meanings:

"Act" means the Securities Exchange Act of 1934.

"Award" means an award granted to any Key Employee in accordance with the provisions of the Plan in the form of Options, Rights, Performance Shares or Restricted Stock, or any combination of the foregoing.

"Award Agreement" means the written agreement evidencing each Award granted to a Key Employee under the Plan.

"Beneficiary" means the beneficiary or beneficiaries designated pursuant to Section 10 to receive the amount, if any, payable under the Plan upon the death of a Key Employee.

"Board" means the Board of Directors of the Company.

"CHANGE IN CONTROL" HAS THE MEANING SPECIFIED IN THE RETIREMENT PLAN.

"Code" means the Internal Revenue Code of 1986, as now in effect or as hereafter amended. (All citations to sections of the Code are to such sections as they may from time to time be amended or renumbered.)

"Committee" means the Compensation and Management Development Committee of the Board or such other committee as may be designated by the Board to administer the Plan.

"Company" means Rayonier Inc. and its successors and assigns.

"Fair Market Value", unless otherwise indicated in the provisions of this Plan, means, as of any date, the composite closing price for one share of Stock on the New York Stock Exchange or, if no sales of Stock

have taken place on such date, the composite closing price on the most recent date on which selling prices were quoted, the determination to be made in the discretion of the Committee.

"Incentive Stock Option" means a stock option qualified under Section 422 of the Code.

"Key Employee" means an employee (including any officer or director who is also an employee) of any Participating Company whose responsibilities and decisions, in the judgment of the Committee, directly affect the performance of the Company and its subsidiaries.

"Limited Stock Appreciation Right" means a stock appreciation right which shall become exercisable automatically upon the occurrence of an Acceleration Event as described in Section 9 of the Plan.

"Option" means an option awarded under Section 5 of the Plan to purchase Stock of the Company, which option may be an Incentive Stock Option or a non-qualified stock option.

"Participating Company" means the Company or any subsidiary or other affiliate of the Company; provided, however, for Incentive Stock Options only, "Participating Company" means the Company or any corporation which at the time such Option is granted qualifies as a "subsidiary" of the Company under Section 425(f) of the Code.

"Performance Share" means a performance share awarded under Section 6 of the Plan.

"Plan" means the 1994 Rayonier Incentive Stock Plan, as the same may be amended, administered or interpreted from time to time.

"Plan Year" means the calendar year.

"Retirement" means eligibility to receive immediate retirement benefits under a Participating Company pension plan.

"Restricted Stock" means Stock awarded under Section 7 of the Plan subject to such restrictions as the Committee deems appropriate or desirable.

"Retirement Plan" means the Retirement Plan for Salaried Employees of Rayonier Inc., as amended effective July 18, 1997, and as the same may be thereafter amended from time to time prior to the occurrence of a Change in Control.

"Right" means a stock appreciation right awarded in connection with an option under Section 5 of the Plan.

"Stock" means the common shares of the Company.

"Total Disability" means the complete and permanent inability of a Key Employee to perform all of his or her duties under the terms of his or her employment with any Participating Company, as determined by the Committee upon the basis of such evidence, including independent medical reports and data, as the Committee deems appropriate or necessary.

"Voting Securities" means any securities of the Company that vote generally in the election of directors.

3. SHARES SUBJECT TO THE PLAN

The aggregate number of shares of Stock which may be awarded under the Plan in any Plan Year shall be subject to an annual limit. The maximum number of shares of Stock for which Awards may be granted under the Plan in each Plan Year shall be 1.5 percent (1.5%) of the total of the issued and outstanding shares of Stock reported in the Annual Report on Form 10-K of the Company for the fiscal year ending immediately prior to any Plan Year. Any unused portion of the annual limit for any Plan Year shall be carried forward and be made available for awards in succeeding Plan Years.

No more than twenty percent (20%) of such total number of shares on a cumulative basis shall be available for restricted stock and performance shares Awards. In addition to the foregoing, in no event shall more than one million (1,000,000) shares of Stock be cumulatively available for Awards of incentive stock options under the Plan. For any Plan Year, no individual employee may receive an Award of stock options for more than ten percent (10%) of the annual limit on available shares applicable to that Plan Year.

Subject to the above limitations, shares of Stock to be issued under the Plan may be made available from the authorized but unissued shares, or from shares purchased in the open market. For the purpose of computing the total number of shares of Stock available for Awards under the Plan, there shall be counted against the foregoing limitations the number of shares of Stock which equal the value of performance share Awards, in each case determined as at the dates on which such Awards are granted. If any Awards under the Plan are forfeited, terminated, expire unexercised, are settled in cash in lieu of Stock or are exchanged for other Awards, the shares of Stock which were theretofore subject to such Awards shall again be available for Awards under the Plan to the extent of such forfeiture or expiration of such Awards. Further, any shares that are exchanged (either actually or constructively) by optionees as full or partial payment to the Company of the purchase price of shares being acquired through the exercise of a stock option granted under the Plan may be available for subsequent Awards, provided however, that such shares may be awarded only to those participants who are not directors or executive officers (as that term is defined in the rules and regulations under Section 16 of the Exchange Act).

4. GRANT OF AWARDS AND AWARD AGREEMENTS

(a) Subject to the provisions of the Plan, the Committee shall (i) determine and designate from time to time those Key Employees or groups of Key Employees to whom Awards are to be granted; (ii) determine the form or forms of Award to be granted to any Key Employee; (iii) determine the amount or number of shares of Stock subject to each Award; and (iv) determine the terms and conditions of each Award.

(b) Each Award granted under the Plan shall be evidenced by a written Award Agreement. Such agreement shall be subject to and incorporate the express terms and conditions, if any, required under the Plan or required by the Committee.

5. STOCK OPTIONS AND RIGHTS

(a) With respect to Options and Rights, the Committee shall (i) authorize the granting of Incentive Stock Options, non-qualified stock options, or a combination of Incentive Stock Options and non-qualified stock options; (ii) authorize the granting of Rights which may be granted in connection with all or part of any Option granted under this Plan, either concurrently with the grant of the option or at any time thereafter during the term of the Option; (iii) determine the number of shares of Stock subject to each Option or the number of shares of Stock that shall be used to determine the value of a Right; and (iv) determine the time or times when and the manner in which each Option or Right shall be exercisable and the duration of the exercise period.

(b) Any option issued hereunder which is intended to qualify as an Incentive Stock Option shall be subject to such limitations or requirements as may be necessary for the purposes of Section 422 of the Code or any regulations and rulings thereunder to the extent and in such form as determined by the Committee in its discretion.

(c) Rights may be granted only to Key Employees who may be considered directors or officers of the Company for purposes of Section 16 of the Act.

(d) The exercise period for a non-qualified stock option and any related Right shall not exceed ten years and two days from the date of grant, and the exercise period for an Incentive Stock Option and any related Right shall not exceed ten years from the date of grant.

(e) The Option price per share shall be determined by the Committee at the time any Option is granted and shall be not less than the Fair Market Value of one share of Stock on the date the Option is granted.

(f) No part of any Option or Right may be exercised until the Key Employee who has been granted the Award shall have remained in the employ of a Participating Company for such period after the date of grant as the Committee may specify, if any, and the Committee may further require exercisability in installments; provided, however, the period during which a Right is exercisable shall commence no earlier than six months following the date the Option or Right is granted.

(g) The purchase price of the shares as to which an Option shall be exercised shall be paid to the Company at the time of exercise either in cash or Stock already owned by the optionee having a total Fair Market Value equal to the purchase price, or a combination of cash and Stock having a total fair market value, as so determined, equal to the purchase price. The Committee shall determine acceptable methods for tendering Stock as payment upon exercise of an Option and may impose such limitations and prohibitions on the use of Stock to exercise an Option as it deems appropriate.

(h) Unless Section 9 shall provide otherwise, Rights granted to a director or officer shall terminate when such person ceases to be considered a director or officer of the Company subject to Section 16 of the Act.

(i) In case of termination of employment, the following provisions shall apply:

(A) If a Key Employee who has been granted an Option shall die before such Option has expired, his or her Option may be exercised in full by the person or persons to whom the Key Employee's rights under the Option pass by will, or if no such person has such right, by his or her executors or administrators, at any time, or from time to time, within five years after the date of the

Key Employee's death or within such other period, and subject to such terms and conditions as the Committee may specify, but not later than the expiration date specified in Section 5(d) above.

(B) If the Key Employee's employment by any Participating Company terminates because of his or her Retirement or Total Disability, he or she may exercise his or her Options in full at any time, or from time to time, within five years after the date of the termination of his or her employment or within such other period, and subject to such terms and conditions as the Committee may specify, but not later than the expiration date specified in Section 5(d) above. Any such Options not fully exercisable immediately prior to such optionee's retirement shall become fully exercisable upon such retirement unless the Committee, in its sole discretion, shall otherwise determine.

(C) Except as provided in Section 9, if the Key Employee shall voluntarily resign before eligibility for Retirement or he or she is terminated for cause as determined by the Committee, the Options or Rights shall be cancelled coincident with the effective date of the termination of employment.

(D) If the Key Employee's employment terminates for any other reason, he or she may exercise his or her Options, to the extent that he or she shall have been entitled to do so at the date of the termination of his or her employment, at any time, or from time to time, within three months after the date of the termination of his or her employment or within such other period, and subject to such terms and conditions as the Committee may specify, but not later than the expiration date specified in Section 5(d) above.

(j) No Option or Right granted under the Plan shall be transferable other than by will or by the laws of descent and distribution. During the lifetime of the optionee, an Option or Right shall be exercisable only by the Key Employee to whom the Option or Right is granted.

(k) With respect to an Incentive Stock Option, the Committee shall specify such terms and provisions as the Committee may determine to be necessary or desirable in order to qualify such Option as an "incentive stock option" within the meaning of Section 422 of the Code.

(1) With respect to the exercisability and settlement of Rights:

(i) Upon exercise of a Right, the Key Employee shall be entitled, subject to such terms and conditions the Committee may specify, to receive upon exercise thereof all or a portion of the excess of (A) the Fair Market Value of a specified number of shares of Stock at the time of exercise, as determined by the Committee, over (B) a specified amount which shall not, subject to Section 5(e), be less than the Fair Market Value of such specified number of shares of Stock at the time the Right is granted. Upon exercise of a Right, payment of such excess shall be made as the Committee shall specify in cash, the issuance or transfer to the Key Employee of whole shares of Stock with a Fair Market Value at such time equal to any excess, or a combination of cash and shares of Stock with a combined Fair Market Value at such time equal to any such excess, all as determined by the Committee. The Company will not issue a fractional share of Stock and, if a fractional share would otherwise be issuable, the Company shall pay cash equal to the Fair Market Value of the fractional share of Stock at such time.

(ii) For the purposes of Subsection (i) of this Section 5(1), in the case of any such Right or portion thereof, other than a Right related to an Incentive Stock Option,

exercised for cash during a "window period" specified by Rule 16b-3 under the Act, the Fair Market Value of the Stock at the time of such exercise shall be the highest composite daily closing price of the Stock during such window period.

(iii) In the event of the exercise of such Right, the Company's obligation in respect of any related Option or such portion thereof will be discharged by payment of the Right so exercised.

6. PERFORMANCE SHARES

(a) Subject to the provisions of the Plan, the Committee shall (i) determine and designate from time to time those Key Employees or groups of Key Employees to whom Awards of Performance Shares are to be made, (ii) determine the Performance Period (the "Performance Period") and Performance Objectives (the "Performance Objectives") applicable to such Awards, (iii) determine the form of settlement of a Performance Share and (iv) generally determine the terms and conditions of each such Award. At any date, each Performance Share shall have a value equal to the Fair Market Value of a share of Stock at such date; provided that the Committee may limit the aggregate amount payable upon the settlement of any Award.

(b) The Committee shall determine a Performance Period of not less than two nor more than five years. Performance Periods may overlap and Key Employees may participate simultaneously with respect to Performance Shares for which different Performance Periods are prescribed.

(c) The Committee shall determine the Performance Objectives of Awards of Performance Shares. Performance Objectives may vary from Key Employee to Key Employee and between groups of Key Employees and shall be based upon such performance criteria or combination of factor as the Committee may deem appropriate, including, but not limited to, minimum earnings per share or return on equity. If during the course of a Performance Period there shall occur significant events which the Committee expects to have a substantial effect on the applicable Performance Objectives during such period, the Committee may revise such Performance Objectives.

(d) At the beginning of a Performance Period, the Committee shall determine for each Key Employee or group of Key Employees the number of Performance Shares or the percentage of Performance Shares which shall be paid to the Key Employee or member of the group of Key Employees if Performance Objectives are met in whole or in part.

(e) If a Key Employee terminates service with all Participating Companies during a Performance Period because of death, Total Disability, Retirement, or under other circumstances where the Committee in its sole discretion finds that a waiver would be in the best interests of the Company, that Key Employee may, as determined by the Committee, be entitled to an Award of Performance Shares at the end of the Performance Period based upon the extent to which the Performance Objectives were satisfied at the end of such period, which Award, in the discretion of the Committee, may be maintained without change or reduced and prorated for the portion of the Performance Period during which the Key Employee was employed by any Participating Company; provided, however, the Committee may provide for an earlier payment in settlement of such Performance Shares in such amount and under such terms and conditions as the Committee deems appropriate or desirable. If a Key Employee terminates service with all Participating Companies during a Performance Period for any other reason, then such Key Employee shall not be entitled to any Award with respect to that Performance Period unless the Committee shall otherwise determine.

(f) Each Award of a Performance Share shall be paid in whole shares of Stock, or cash, or a combination of Stock and cash either as a lump sum payment or in annual installments, all as the Committee shall determine, with payment to commence as soon as practicable after the end of the relevant Performance Period.

7. RESTRICTED STOCK

(a) Restricted Stock shall be subject to a restriction period (after which restrictions will lapse) which shall mean a period commencing on the date the Award is granted and ending on such date as the Committee shall determine (the "Restriction Period"). The Committee may provide for the lapse of restrictions in installments where deemed appropriate.

(b) Except when the Committee determines otherwise pursuant to Section 7(d), if a Key Employee terminates employment with all Participating Companies for any reason before the expiration of the Restriction Period, all shares of Restricted Stock still subject to restriction shall be forfeited by the Key Employee and shall be reacquired by the Company.

(c) Except as otherwise provided in this Section 7, no shares of Restricted Stock received by a Key Employee shall be sold, exchanged, transferred, pledged, hypothecated or otherwise disposed of during the Restriction Period.

(d) In cases of death, Total Disability or Retirement or in cases of special circumstances, the Committee may, in its sole discretion when it finds that a waiver would be in the best interests of the Company, elect to waive any or all remaining restrictions with respect to such Key Employee's Restricted Stock.

(e) The Committee may require, under such terms and conditions as it deems appropriate or desirable, that the certificates for Stock delivered under the Plan may be held in custody by a bank or other institution, or that the Company may itself hold such shares in custody until the Restriction Period expires or until restrictions thereon otherwise lapse, and may require, as a condition of any Award of Restricted Stock that the Key Employee shall have delivered a stock power endorsed in blank relating to the Restricted Stock.

(f) Nothing in this Section 7 shall preclude a Key Employee from exchanging any shares of Restricted Stock subject to the restrictions contained herein for any other shares of Stock that are similarly restricted.

(g) Subject to Section 7(e) and Section 8, each Key Employee entitled to receive Restricted Stock under the Plan shall be issued a certificate for the shares of Stock. Such certificate shall be registered in the name of the Key Employee, and shall bear an appropriate legend reciting the terms, conditions and restrictions, if any, applicable to such Award and shall be subject to appropriate stop-transfer orders.

8. CERTIFICATES FOR AWARDS OF STOCK

(a) The Company shall not be required to issue or deliver any certificates for shares of Stock prior to (i) the listing of such shares on any stock exchange on which the Stock may then be listed and (ii) the completion of any registration or qualification of such shares under any federal or state law, or any ruling or regulation of any government body which the Company shall, in its sole discretion, determine to be necessary or advisable.

(b) All certificates for shares of Stock delivered under the Plan shall also be subject to such stop-transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Stock is then listed and any applicable federal or state securities laws, and the Committee may cause a legend or legends to be placed on any such certificates to make appropriate reference to such restrictions. The foregoing provisions of this Section 8(b) shall not be effective if and to the extent that the shares of Stock delivered under the Plan are covered by an effective and current registration statement under the Securities Act of 1933, or if and so long as the Committee determines that application of such provisions is no longer required or desirable. In making such determination, the Committee may rely upon an opinion of counsel for the Company.

(c) Except for the restrictions on Restricted Stock under Section 7, each Key Employee who receives Stock in settlement of an Award of Stock, shall have all of the rights of a shareholder with respect to such shares, including the right to vote the shares and receive dividends and other distributions. No Key Employee awarded an Option, a Right or Performance Share shall have any right as a shareholder with respect to any shares covered by his or her Option, Right or Performance Share prior to the date of issuance to him or her of a certificate or certificates for such shares.

9. CHANGE IN CONTROL

Notwithstanding any provisions in this Plan to the contrary:

(a) Each outstanding Option granted under the Plan shall become immediately exercisable in full for the aggregate number of shares covered thereby and all related Rights shall also become exercisable upon the occurrence of a Change in Control and shall continue to be exercisable in full for cash for a period of 60 calendar days beginning on the date that such Change in Control occurs and ending on the 60th calendar day following that date; provided, however, that (A) no Right shall become exercisable earlier than six months following the date the Right is granted, and (B) no Option or Right shall be exercisable beyond the expiration date of its original term.

(b) Options and Rights shall not terminate and shall continue to be fully exercisable for a period of seven months following the occurrence of a Change in Control in the case of an employee who is terminated other than for just cause or who voluntarily terminates his or her employment because he or she in good faith believes that as a result of such Change in Control he or she is unable effectively to discharge his or her present duties or the duties of the position he or she occupied just prior to the occurrence of such Change in Control. For purposes of Section 9 only, termination shall be for "just cause" only if such termination is based on fraud, misappropriation or embezzlement on the part of the employee which results in a final conviction of a felony. Under no circumstances, however, shall any Option or Right be exercised beyond the expiration date of its original term.

(c) Any Right or portion thereof may be exercised for cash within the 60-calendar-day period following the occurrence of a Change in Control with settlement, except in the case of a Right related to an Incentive Stock Option, based on the "Formula Price" which shall be the highest of (A) the highest composite daily closing price of the Stock during the period beginning on the 60th calendar day prior to the date on which the Right is exercised and ending on the date such Right is exercised, (B) the highest gross price paid for the Stock during the same period of time, as reported in a report on Schedule 13D filed with the Securities and Exchange Commission or (C) the highest gross price paid or to be paid for a share of Stock (whether by way of exchange, conversion,

distribution upon merger, liquidation or otherwise) in any of the transactions set forth in the definition of "Change in Control" in the Retirement Plan.

(d) Upon the occurrence of a Change in Control, Limited Stock Appreciation Rights shall automatically be granted as to any Option with respect to which Rights are not then outstanding; provided, however, that Limited Stock Appreciation Rights shall be provided at the time of grant of any Incentive Stock Option subject to exercisability upon the occurrence of a Change in Control. Limited Stock Appreciation Rights shall entitle the holder thereof, upon exercise of such rights and surrender of the related Option or any portion thereof, to receive, without payment to the Company (except for applicable withholding taxes), an amount in cash equal to the excess, if any, of the Formula Price as that term is defined in Section 9 over the option price of the Stock as provided in such Option; provided that in the case of the exercise of any such Limited Stock Appreciation Right or portion thereof related to an Incentive Stock Option, the Fair Market Value of the Stock at the time of such exercise shall be substituted for the Formula Price. Each such Limited Stock Appreciation Right shall be exercisable only during the period beginning on the first business day following the occurrence of such Change in Control and ending on the 60th calendar day following such date and only to the same extent the related Option is exercisable. In the case of persons who are considered directors or officers of the Company for purposes of Section 16 of the Act, Limited Stock Appreciation Rights shall not be so exercisable until they have been outstanding for at least six months. Upon exercise of a Limited Stock Appreciation Right and surrender of the related Option, or portion thereof, such Option, to the extent surrendered, shall not thereafter be exercisable.

(e) The restrictions applicable to Awards of Restricted Stock issued pursuant to Section 7 shall lapse upon the occurrence of a Change in Control and the Company shall issue stock certificates without a restrictive legend. Key Employees holding Restricted Stock on the date of a Change in Control may tender such Restricted Stock to the Company which shall pay the Formula Price as that term is defined in Section 9; provided, such Restricted Stock must be tendered to the Company within 60 calendar days of the Change in Control.

(f) If a Change in Control occurs during the course of a Performance Period applicable to an Award of Performance Shares pursuant to Section 6, then the Key Employee shall be deemed to have satisfied the Performance Objectives and settlement of such Performance Shares shall be based on the Formula Price, as defined in this Section 9.

10. BENEFICIARY

(a) Each Key Employee shall file with the Company a written designation of one or more persons as the Beneficiary who shall be entitled to receive the Award, if any, payable under the Plan upon his or her death. A Key Employee may from time-to-time revoke or change his or her Beneficiary designation without the consent of any prior Beneficiary by filing a new designation with the Company. The last such designation received by the Company shall be controlling; provided, however, that no designation, or change or revocation thereof, shall be effective unless received by the Company prior to the Key Employee's death, and in no event shall it be effective as of a date prior to such receipt.

(b) If no such Beneficiary designation is in effect at the time of a Key Employee's death, or if no designated Beneficiary survives the Key Employee or if such designation conflicts with law, the Key Employee's estate shall be entitled to receive the Award, if any, payable under the Plan upon his or her death. If the Committee is in doubt as to the right of any person to receive such Award, the Company may retain such Award, without liability for any interest thereon, until the Committee determines the rights thereto, or the

Company may pay such Award into any court of appropriate jurisdiction and such payment shall be a complete discharge of the liability of the Company therefor.

11. ADMINISTRATION OF THE PLAN

(a) Each member of the Committee shall be both a member of the Board and a "non-employee director" within the meaning of Rule 16b-3(b)(3)(i) under the Act or successor rule or regulation. No member of the Committee shall be, or shall have been, eligible to receive an Award under the Plan or any other plan maintained by any Participating Company to acquire stock, stock options, stock appreciation rights, performance shares or restricted stock of a Participating Company at any time within the one year immediately preceding the member's appointment to the Committee.

(b) All decisions, determinations or actions of the Committee made or taken pursuant to grants of authority under the Plan shall be made or taken in the sole discretion of the Committee and shall be final, conclusive and binding on all persons for all purposes.

(c) The Committee shall have full power, discretion and authority to interpret, construe and administer the Plan and any part thereof, and its interpretations and constructions thereof and actions taken thereunder shall be, except as otherwise determined by the Board, final, conclusive and binding on all persons for all purposes.

(d) The Committee's decisions and determinations under the Plan need not be uniform and may be made selectively among Key Employees, whether or not such Key Employees are similarly situated.

(e) The Committee may, in its sole discretion, delegate such of its powers as it deems appropriate.

(f) If a Change in Control has not occurred and if the Committee determines that a Key Employee has taken action inimical to the best interests of any Participating Company, the Committee may, in its sole discretion, terminate in whole or in part such portion of any Option (including any related Right) as has not yet become exercisable at the time of termination, terminate any Performance Share Award for which the Performance Period has not been completed or terminate any Award of Restricted Stock for which the Restriction Period has not lapsed.

12. AMENDMENT, EXTENSION OR TERMINATION

The Board may, at any time, amend or terminate the Plan and, specifically, may make such modifications to the Plan as it deems necessary to avoid the application of Section 162(m) of the Code and the Treasury regulations issued thereunder. However, no amendment shall, without approval by a majority of the Company's stockholders, (a) alter the group of persons eligible to participate in the Plan, (b) except as provided in Section 13 increase the maximum number of shares of Stock which are available for Awards under the Plan or (c) extend the period during which awards may be granted beyond December 31, 2003. If a Change in Control has occurred, no amendment or termination shall impair the rights of any person with respect to a prior Award.

13. ADJUSTMENTS IN EVENT OF CHANGE IN COMMON STOCK

In the event of any recapitalization, reclassification, split-up or consolidation of shares of Stock or, stock dividend, merger or consolidation of the Company or sale by the Company of all or a portion of its

assets, the Committee may make such adjustments in the Stock subject to Awards, including Stock subject to purchase by an Option, or the terms, conditions or restrictions on Stock or Awards, including the price payable upon the exercise of such Option, as the Committee deems equitable.

14. MISCELLANEOUS

(a) Except as provided in Section 9, nothing in this Plan or any Award granted hereunder shall confer upon any employee any right to continue in the employ of any Participating Company or interfere in any way with the right of any Participating Company to terminate his or her employment at any time. No Award payable under the Plan shall be deemed salary or compensation for the purpose of computing benefits under any employee benefit plan or other arrangement of any Participating Company for the benefit of its employees unless the Company shall determine otherwise. No Key Employee shall have any claim to an Award until it is actually granted under the Plan. To the extent that any person acquires a right to receive payments from the Company under this Plan, such right shall be no greater than the right of an unsecured general creditor of the Company. All payments to be made hereunder shall be paid from the general funds of the Company and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts except as provided in Section 7(e) with respect to Restricted Stock.

(b) The Committee may cause to be made, as a condition precedent to the payment of any Award, or otherwise, appropriate arrangements with the Key Employee or his or her Beneficiary, for the withholding of any federal, state, local or foreign taxes.

(c) The Plan and the grant of Awards shall be subject to all applicable federal and state laws, rules, and regulations and to such approvals by any government or regulatory agency as may be required.

(d) The terms of the Plan shall be binding upon the Company and its successors and assigns.

(e) Captions preceding the sections hereof are inserted solely as a matter of convenience and in no way define or limit the scope or intent of any provision hereof.

15. EFFECTIVE DATE, TERM OF PLAN AND SHAREHOLDER APPROVAL

The effective date of the Plan was March 1, 1994 and was approved by the Company's shareholders within twelve months before such date. The Plan was amended and restated effective October 16, 1998. No Award shall be granted under this Plan after the Plan's termination date. The Plan's termination date shall be December 31, 2003. The Plan will continue in effect for existing Awards as long as any such Award is outstanding.

RAYONIER INC. AND SUBSIDIARIES
RATIO OF EARNINGS TO FIXED CHARGES
(UNAUDITED)
(THOUSANDS OF DOLLARS)

	Nine Months Ended September 30,	
	1998	1997
	----	----
Earnings:		
Net Income	\$ 49,477	\$ 61,398
Add:		
Income Taxes	19,705	25,129
Minority Interest	--	19,359
Amortization of Capitalized Interest	1,679	806
	-----	-----
	70,861	106,692
Adjustments to Earnings for Fixed Charges:		
Interest and Other Financial Charges	26,076	17,987
Interest Factor Attributable to Rentals	1,480	1,640
	-----	-----
	27,556	19,627
	-----	-----
EARNINGS AS ADJUSTED	\$ 98,417	\$126,319
	=====	=====
Fixed Charges:		
Fixed Charges above	\$ 27,556	\$ 19,627
Capitalized Interest	194	4,849
	-----	-----
TOTAL FIXED CHARGES	\$ 27,750	\$ 24,476
	=====	=====
RATIO OF EARNINGS AS ADJUSTED TO		
TOTAL FIXED CHARGES	3.55	5.16
	=====	=====

5
1,000

9-MOS
DEC-31-1998
JAN-01-1998
SEP-30-1998
8,791
0
116,792
4,349
113,178
303,526
1,306,903
612,517
1,631,744
179,511
504,066
0
0
82,537
553,791
1,631,744
738,165
738,165
618,143
618,143
24,764
0
26,076
69,182
19,705
49,477
0
0
0
49,477
1.75
1.72