RAYONIER INC
Form 10-Q
November 10, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2014
OR

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

For the transition period from to

Commission File Number 1-6780
RAYONIER INC.
Incorporated in the State of North Carolina
I.R.S. Employer Identification No. 13-2607329
225 WATER STREET, SUITE 1400
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 (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES x NO o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
YES x NO o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
YES o NO x

As of November 3, 2014, there were outstanding 126,726,146 Common Shares of the registrant.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

RAYONIER INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME
(Unaudited)
(Dollars in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
SALES	$149,829	$159,261	$456,161	$421,203
Costs and Expenses				
Cost of sales	118,088	129,002	357,083	333,523
Selling and general expenses	8,806	13,104	35,904	41,204
Other operating income, net (Note 20)	(9,144)	(2,814)	(20,908)	(10,587)
	117,750	139,292	372,079	364,140
Equity in income of New Zealand joint venture	—	—	—	562
OPERATING INCOME BEFORE GAIN ON CONSOLIDATION OF NEW ZEALAND JOINT VENTURE	32,079	19,969	84,082	57,625
Gain related to consolidation of New Zealand joint venture (Note 7)	—	—	—	16,098
OPERATING INCOME	32,079	19,969	84,082	73,723
Interest expense	(9,566)	(10,823)	(35,852)	(30,626)
Interest and miscellaneous (expense) income, net	(1,734)	(914)	(7,131)	1,852
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	20,779	8,232	41,099	44,949
Income tax benefit	11,280	6,808	5,319	28,750
INCOME FROM CONTINUING OPERATIONS	32,059	15,040	46,418	73,699
DISCONTINUED OPERATIONS, NET (Note 2)				
Income from discontinued operations, net of income tax expense of $0, $18,313, $21,231 and $82,223	—	43,327	43,092	220,294
NET INCOME	32,059	58,367	89,510	293,993
Less: Net (loss) income attributable to noncontrolling interest	(642)	1,022	(970)	1,749
NET INCOME ATTRIBUTABLE TO RAYONIER INC.	32,701	57,345	90,480	292,244
OTHER COMPREHENSIVE INCOME				
Foreign currency translation adjustment	(37,877)	24,259	(16,426)	(2,967)
New Zealand joint venture cash flow hedges, net of income tax benefit of $1,170, $0, $1,270 and $0	(3,494)	3,433	(2,703)	4,209
Net gain from pension and postretirement plans, net of income tax expense of $150, $1,579, $37,025 and $5,403	2,265	3,639	63,235	12,326
Total other comprehensive (loss) income	(39,106)	31,331	44,106	13,568
COMPREHENSIVE (LOSS) INCOME	(7,047)	89,698	133,616	307,561
Less: Comprehensive (loss) income attributable to noncontrolling interest	(12,426)	8,594	(6,573)	(909)
COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.	$5,379	$81,104	$140,189	$308,470
EARNINGS PER COMMON SHARE (Note 4)				

BASIC EARNINGS PER SHARE ATTRIBUTABLE TO RAYONIER INC.				
Continuing Operations	$0.26	$0.11	$0.38	$0.57
Discontinued Operations	—	0.34	0.34	1.76
Net Income	$0.26	$0.45	$0.72	$2.33
DILUTED EARNINGS PER SHARE ATTRIBUTABLE TO RAYONIER INC.				
Continuing Operations	$0.25	$0.11	$0.36	$0.55
Discontinued Operations	—	0.33	0.33	1.68
Net Income	$0.25	$0.44	$0.69	$2.23
Dividends per share	$0.80	$0.49	$1.78	$1.37

See Notes to Consolidated Financial Statements.

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RAYONIER INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Dollars in thousands)

	September 30, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$182,831	$199,644
Accounts receivable, less allowance for doubtful accounts of $217 and $673	28,237	94,956
Inventory		
Finished goods	11,132	115,270
Work in progress	—	3,555
Raw materials	1,307	17,661
Manufacturing and maintenance supplies	—	2,332
Total inventory	12,439	138,818
Deferred tax assets	4,211	39,100
Prepaid and other current assets	23,821	46,576
Total current assets	251,539	519,094
TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION	2,058,381	2,049,378
PROPERTY, PLANT AND EQUIPMENT		
Land	1,833	20,138
Buildings	8,885	180,573
Machinery and equipment	3,326	1,760,641
Construction in progress	393	19,795
Total property, plant and equipment, gross	14,437	1,981,147
Less — accumulated depreciation	(7,906)	(1,120,326)
Total property, plant and equipment, net	6,531	860,821
OTHER ASSETS	161,108	256,208
TOTAL ASSETS	$2,477,559	$3,685,501
LIABILITIES AND SHAREHOLDERS’ EQUITY		
CURRENT LIABILITIES		
Accounts payable	$23,126	$69,293
Current maturities of long-term debt	130,486	112,500
Accrued taxes	14,954	8,551
Uncertain tax positions	—	10,547
Accrued payroll and benefits	6,338	24,948
Accrued interest	10,136	9,531
Accrued customer incentives	—	9,580
Other current liabilities	26,596	24,327
Current liabilities for dispositions and discontinued operations (Note 14)	—	6,835
Total current liabilities	211,636	276,112
LONG-TERM DEBT	605,162	1,461,724
NON-CURRENT LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS (Note 14)	—	69,543
PENSION AND OTHER POSTRETIREMENT BENEFITS (Note 17)	22,393	95,654
OTHER NON-CURRENT LIABILITIES	27,466	27,225
COMMITMENTS AND CONTINGENCIES (Notes 13 and 15)		

SHAREHOLDERS’ EQUITY		
Common Shares, 480,000,000 shares authorized, 126,724,444 and 126,257,870 shares issued and outstanding	700,581	692,100
Retained earnings	820,181	1,015,209
Accumulated other comprehensive income (loss)	3,569	(46,139)
TOTAL RAYONIER INC. SHAREHOLDERS’ EQUITY	1,524,331	1,661,170
Noncontrolling interest	86,571	94,073
TOTAL SHAREHOLDERS’ EQUITY	1,610,902	1,755,243
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$2,477,559	$3,685,501

See Notes to Consolidated Financial Statements.

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RAYONIER INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

	Nine Months Ended September 30,	
	2014	2013
OPERATING ACTIVITIES		
Net income	$89,510	$293,993
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, depletion and amortization	92,454	81,668
Non-cash cost of real estate sold	6,507	4,349
Stock-based incentive compensation expense	6,780	8,993
Deferred income taxes	4,435	42,832
Tax benefit of AFMC for CBPC exchange	—	(18,761)
Non-cash adjustments to unrecognized tax benefit liability	(10,547)	3,966
Depreciation and amortization from discontinued operations	37,985	51,696
Amortization of losses from pension and postretirement plans	6,503	16,835
Gain on sale of discontinued operations, net	—	(42,670)
Gain related to consolidation of New Zealand joint venture	—	(16,098)
Loss on early redemption of exchangeable notes	—	3,017
Other	2,946	(8,205)
Changes in operating assets and liabilities:		
Receivables	263	(18,710)
Inventories	2,607	(9,040)
Accounts payable	33,305	13,712
Income tax receivable/payable	756	(2,482)
All other operating activities	12,321	5,863
Payment to exchange AFMC for CBPC	—	(70,311)
Expenditures for dispositions and discontinued operations	(5,096)	(6,411)
CASH PROVIDED BY OPERATING ACTIVITIES	280,729	334,236
INVESTING ACTIVITIES		
Capital expenditures	(105,658)	(122,099)
Purchase of additional interest in New Zealand joint venture	—	(139,879)
Purchase of timberlands	(93,189)	(11,650)
Jesup mill cellulose specialties expansion (gross purchases of $0 and $140,820, net of purchases on account of $0 and $3,428)	—	(137,392)
Proceeds from disposition of Wood Products business	—	68,063
Change in restricted cash	47,318	3,989
Other	(478)	(224)
CASH USED FOR INVESTING ACTIVITIES	(152,007)	(339,192)
FINANCING ACTIVITIES		
Issuance of debt	1,295,163	607,885
Repayment of debt	(1,173,049)	(453,463)
Dividends paid	(225,877)	(175,079)
Proceeds from the issuance of common shares	4,645	9,205
Excess tax benefits on stock-based compensation	—	8,189
Repurchase of common shares	(1,834)	(11,303)
Debt issuance costs	(12,380)	—

Purchase of timberland deeds for Rayonier Advanced Materials	(12,677)	—
Debt issuance funds distributed to Rayonier Advanced Materials	(924,943)	—
Proceeds from spin-off of Rayonier Advanced Materials	906,200	—
Other	(680)	—
CASH USED FOR FINANCING ACTIVITIES	(145,432)	(14,566)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(103)	(336)
CASH AND CASH EQUIVALENTS		
Change in cash and cash equivalents	(16,813)	(19,858)
Balance, beginning of year	199,644	280,596
Balance, end of period	$182,831	$260,738
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period:		
Interest	$38,248	$26,930
Income taxes	10,453	88,024
Non-cash investing activity:		
Capital assets purchased on account	2,310	29,738
Non-cash financing activity:		
Shareholder debt assumed in acquisition of New Zealand joint venture	—	125,532
Conversion of shareholder debt to equity noncontrolling interest	—	(95,961)
Partial conversion of Senior Exchangeable Notes to equity	—	1,497

See Notes to Consolidated Financial Statements.

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RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(Dollar amounts in thousands unless otherwise stated)

1. BASIS OF PRESENTATION

Basis of Presentation

The unaudited consolidated financial statements and notes thereto of Rayonier Inc. and its subsidiaries ("Rayonier" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC"). In the opinion of management, these financial statements and notes reflect all adjustments (all of which are normal recurring adjustments, except for a cumulative out-of-period adjustment for depletion expense - See Note 3 — Restatement of Previously Issued Consolidated Financial Statements) necessary for a fair presentation of the results of operations, financial position and cash flows for the periods presented. These statements and notes should be read in conjunction with the financial statements and supplementary data included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2013, as amended by Amendment No. 1 to the Form 10-K on Form 10-K/A (the "Amended Form 10-K"), as filed with the SEC.

Reclassifications

Certain 2013 amounts and amounts previously reported in 2014 have been reclassified to agree with the current presentation, including reclassifications for discontinued operations. Rayonier completed the spin-off of its Performance Fibers business on June 27, 2014 and completed the sale of its Wood Products business on March 1, 2013. Accordingly, the operating results of these business segments are reported as discontinued operations in the Company's Consolidated Statements of Income and Comprehensive Income for all periods presented. Certain administrative and general costs historically allocated to the businesses that remained with Rayonier are reported in continuing operations.

The December 31, 2013 Consolidated Balance Sheet reports historical information and includes balances for all businesses as reported in the prior year. The September 30, 2014 Consolidated Balance Sheet reports only continuing operations and reflects the contribution of approximately $1.2 billion of assets, net, and corresponding liabilities and equity to Rayonier Advanced Materials Inc. ("Rayonier Advanced Materials") in connection with the spin-off of the Performance Fibers business.

The Consolidated Statements of Cash Flows for both 2014 and 2013 have not been restated to exclude Performance Fibers or Wood Products cash flows. Cash flows for the nine months ended September 30, 2014 also reflect transactions related to the Performance Fibers spin-off, including borrowings to arrange the capital structure prior to the separation, proceeds received upon the spin-off and the use of proceeds to pay down debt and pay a special dividend.

See Note 2 — Discontinued Operations for additional information regarding the spin-off of the Performance Fibers business and sale of the Wood Products business.

New Accounting Standards

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, to provide guidance on management's responsibility in evaluating whether there is a substantial doubt about a company's ability to continue as a going concern. If conditions or events raise substantial doubts about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued, related footnote disclosures are required. This standard will be effective for Rayonier's 2016 Form 10-K filing. It is not expected that the standard will have any impact on the Company's consolidated financial statements.

In May 2014, the FASB and International Accounting Standards Board ("IASB") jointly issued ASU No. 2014-09, Revenue from Contracts with Customers, a comprehensive new revenue recognition standard which will supersede current revenue recognition guidance. The core principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to receive in exchange for those goods or services. The guidance provides a unified model to determine when and how revenue is recognized and will require enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. This standard will be effective for Rayonier beginning January 1, 2017 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

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In April 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The standard requires a disposal of a component of an entity to be reported in discontinued operations if it represents a strategic shift with a major effect on an entity's operations and financial results. It also removes requirements related to the evaluation of the component's effect on ongoing operations and the entity's continuing involvement with the component. Additional disclosures about discontinued operations are also required under this standard. ASU No. 2014-08 is required to be applied prospectively for all disposals (or classifications as held for sale) of components of an entity that occur within annual periods beginning December 15, 2014. As the Company has not elected early adoption, this standard will be effective for Rayonier's first quarter 2015 Form 10-Q filing. It is not expected that the standard will have any impact on the Company's consolidated financial statements.

Subsequent Events

The Company evaluated events and transactions that occurred after the balance sheet date but before financial statements were issued, and one subsequent event was identified that warranted disclosure. On November 7, 2014, the Board of Directors approved a fourth quarter cash dividend of 25 cents per common share. The dividend is payable on December 31, 2014 to shareholders of record on December 17, 2014.

2. DISCONTINUED OPERATIONS

Spin-Off of the Performance Fibers Business

On June 27, 2014, Rayonier completed the tax-free spin-off of its Performance Fibers business from its Forest Resources and Real Estate segments. The spin-off resulted in two independent, publicly-traded companies, with the Performance Fibers business being spun-off to Rayonier shareholders as a newly formed public company named Rayonier Advanced Materials. On June 27, 2014, the shareholders of record received one share of Rayonier Advanced Materials common stock for every three common shares of Rayonier held as of the close of business on the record date of June 18, 2014.

In connection with the spin-off, Rayonier Advanced Materials distributed $906.2 million in cash to Rayonier from $550 million in Senior Notes issued by Rayonier A.M. Products (a wholly-owned subsidiary of Rayonier Advanced Materials), $325 million in term loans, and $75 million from a revolving credit facility Rayonier Advanced Materials entered into prior to the spin-off. Pursuant to the terms of the Internal Revenue Service spin-off ruling, $75 million of this cash was paid to Rayonier's shareholders as dividends in the third quarter. Of this $75 million, $63.2 million was paid to shareholders as a special dividend.

In order to effect the spin-off and govern our relationship with Rayonier Advanced Materials after the spin-off, Rayonier and Rayonier Advanced Materials entered into a Separation and Distribution Agreement, an Intellectual Property Agreement, a Tax Sharing Agreement, an Employee Matters Agreement and a Transition Services Agreement.

The Separation and Distribution Agreement governs the spin-off of the Performance Fibers business and the transfer of assets and other matters related to our relationship with Rayonier Advanced Materials. The Separation and Distribution Agreement provides for cross-indemnities between Rayonier and Rayonier Advanced Materials and established procedures for handling claims subject to indemnification and related matters.

The Intellectual Property Agreement governs the allocation of intellectual property rights and assets between Rayonier and Rayonier Advanced Materials.

The Tax Sharing Agreement governs the respective rights, responsibilities and obligations of Rayonier and Rayonier Advanced Materials with respect to taxes, tax attributes, tax returns, tax proceedings and certain other tax matters including assistance and cooperation on tax matters.

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(Dollar amounts in thousands unless otherwise stated)

The Employee Matters Agreement governs the compensation and employee benefit obligations with respect to the current and former employees and non-employee directors of Rayonier and Rayonier Advanced Materials, and generally allocates liabilities and responsibilities relating to employee compensation, benefit plans and programs. The Employee Matters Agreement provides that employees of Rayonier Advanced Materials will no longer participate in benefit plans sponsored or maintained by Rayonier. In addition, the Employee Matters Agreement provides that each of the parties will be responsible for their respective current employees and compensation plans for such current employees. The Employee Matters Agreement further provides that Rayonier Advanced Materials will be responsible for liabilities associated with former employees whose last employment was with the businesses that are to be operated by Rayonier Advanced Materials after the spin-off, including the Performance Fibers business, as well as certain specified former corporate employees, and Rayonier will remain responsible for former employees whose last employment was with the businesses retained by Rayonier following the spin-off and certain specified corporate employees.

The Transition Services Agreement sets forth the terms on which Rayonier will provide to Rayonier Advanced Materials, and Rayonier Advanced Materials will provide to Rayonier, certain services or functions that were shared prior to the spin-off. Transition services include administrative, payroll, human resources, data processing, environmental health and safety, financial audit support, financial transaction support, and other support services, information technology systems and various other corporate services. The agreement provides for the provision of specified transition services, generally for a period of up to 18 months, on a cost basis.

Rayonier will not have significant continuing involvement in the operations of the Performance Fibers business going forward. Accordingly, the operating results of the Performance Fibers business, formerly reported as a separate operating segment, are classified as discontinued operations in the Company's Consolidated Statements of Income and Comprehensive Income for all periods presented. Certain administrative and general costs historically allocated to the Performance Fibers segment are reported in continuing operations.

The following table summarizes the operating results of the Company's discontinued operations related to the Performance Fibers spin-off for the three and nine months ended September 30, 2014 and 2013, as presented in "Income from discontinued operations, net" in the Consolidated Statements of Income and Comprehensive Income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Sales	$—	$225,523	$456,180	$766,377
Cost of sales and other	—	(162,515)	(368,868)	(529,098)
Transaction expenses	—	(1,368)	(22,989)	(1,512)
Income from discontinued operations before income taxes	—	61,640	64,323	235,767
Income tax expense	—	(18,313)	(21,231)	(59,950)
Income from discontinued operations, net	$—	$43,327	$43,092	$175,817

In accordance with ASC 205-20-S99-3, Allocation of Interest to Discontinued Operations, the Company elected to allocate interest expense to discontinued operations where the debt is not directly attributed to the Performance Fibers business. Interest expense has been allocated based on a ratio of net assets to be discontinued to the sum of consolidated net assets plus consolidated debt (other than debt directly attributable to the Forest Resources and Real Estate operations). The following table summarizes the interest expense allocated to discontinued operations for the three and nine months ended September 30, 2014 and 2013:

	Three Months Ended September 30,	Nine Months Ended September 30,

	2014	2013	2014	2013
Interest expense allocated to the Performance Fibers business	$—	$(2,489)	$(4,205)	$(6,286)

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RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(Dollar amounts in thousands unless otherwise stated)

The following table summarizes the depreciation, amortization and capital expenditures of the Company's discontinued operations related to the Performance Fibers business:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Depreciation and amortization	$—	$22,340	$37,985	$51,142
Capital expenditures	—	11,357	46,336	81,540
Jesup mill cellulose specialties expansion	—	37,207	—	137,392

The major classes of Performance Fibers assets and liabilities included in the spin-off are as follows:

	June 27, 2014
Accounts receivable, net	$66,050
Inventory	121,705
Prepaid and other current assets	70,092
Property, plant and equipment, net	862,487
Other assets	103,400
Total assets	1,223,734
Accounts payable	65,522
Other current liabilities	51,006
Long-Term debt	950,000
Non-current environmental liabilities	66,434
Pension and other postretirement benefits	102,633
Other non-current liabilities	7,269
Deficit	(19,130)
Total liabilities and equity	$1,223,734

In the third quarter of 2014, the Company made immaterial adjustments to the valuation of certain classes of Performance Fibers assets and liabilities included in the spin-off as the pension and postretirement plans segregation was finalized and tax obligations were updated based upon filing of the 2013 tax returns and allocated based on the Terms of the Tax Sharing Agreement. The effect of these adjustments has been reflected in equity for the period ended September 30, 2014.

Pursuant to a Memorandum of Understanding agreement, Rayonier may provide Rayonier Advanced Materials with up to 120,000 tons of hardwood annually through July 30, 2017. Prior to the spin-off, hardwood purchases were intercompany transactions eliminated in consolidation as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Hardwood purchases	$—	$108	$3,935	$458

(Dollar amounts in thousands unless otherwise stated)

Sale of Wood Products Business

On March 1, 2013, Rayonier completed the sale of its Wood Products business (consisting of three lumber mills in Baxley, Swainsboro and Eatonton, Georgia) to International Forest Products Limited ("Interfor") for $80 million plus a working capital adjustment. Accordingly, the operating results of the Wood Products business, formerly reported as a separate operating segment, are classified as discontinued operations in the Company's Consolidated Statements of Income and Comprehensive Income for the nine months ended September 30, 2013.

Rayonier recognized an after-tax gain of $42.7 million on the sale. The gain is included in "Income from discontinued operations, net" on the Consolidated Statements of Income and Comprehensive Income for the nine months ended September 30, 2013.

The following table summarizes the operating results of the Company's Wood Products discontinued operations and the related gain for the nine months ended September 30, 2013, as presented in "Income from discontinued operations, net" on the Consolidated Statements of Income and Comprehensive Income:

	Nine Months Ended September 30, 2013
Sales	$16,968
Cost of sales and other	(14,258)
Gain on sale of discontinued operations	64,040
Income from discontinued operations before income taxes	66,750
Income tax expense	(22,273)
Income from discontinued operations, net	$44,477

Cash flows from the Wood Products business are immaterial in the aggregate. As such, they are included with cash flows from continuing operations in the Consolidated Statements of Cash Flows.

The following table reconciles the operating results of both the Performance Fibers and Wood Products discontinued operations, as presented in "Income from discontinued operations, net" on the Consolidated Statements of Income and Comprehensive Income:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Performance Fibers income from discontinued operations, net	$—	$43,327	$43,092	$175,817
Wood Products income from discontinued operations, net	—	—	—	44,477
Income from discontinued operations, net	$—	$43,327	$43,092	$220,294

RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(Dollar amounts in thousands unless otherwise stated)

3. RESTATEMENT OF PREVIOUSLY ISSUED CONSOLIDATED FINANCIAL STATEMENTS

Subsequent to the filing of its second quarter 2014 Form 10-Q, the Company identified issues related to its historical timber harvest levels, its estimate of merchantable timber inventory and the effect of such estimate on its calculation of depletion expense in each of the quarterly periods ended March 31, 2014 and June 30, 2014. The Company concluded that it had understated its depletion expense in cost of goods sold (referred to as “Cost of sales” in the Company’s consolidated statements of income and comprehensive income) by approximately $2.0 million for each period. As a result, the financial amounts noted below have been restated from amounts previously reported.

The following tables summarize the effect of these restatements for the periods ended June 30, 2014 and March 31, 2014:

	Consolidated Statements of Income and Comprehensive Income for the Three Months Ended June 30, 2014		
	As Previously Reported	Restatement	As Restated
Operating Income	$39,568	$(1,991)	$37,577
Income Tax Expense	(13,515)	(42)	(13,557)
Income from Continuing Operations	6,056	(2,032)	4,024
Income from Discontinued Operations, net	12,084	—	12,084
Net Income	18,140	(2,032)	16,108
Net Income Attributable to Rayonier Inc.	18,385	(2,032)	16,353
Basic Earnings Per Share Attributable to Rayonier Inc.			
Continuing Operations	$0.05	$(0.02)	$0.03
Discontinued Operations	0.10	—	0.10
Net Income	$0.15	$(0.02)	$0.13
Diluted Earnings Per Share Attributable to Rayonier Inc.			
Continuing Operations	$0.05	$(0.02)	$0.03
Discontinued Operations	0.09	—	0.09
Net Income	$0.14	$(0.02)	$0.12

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RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(Dollar amounts in thousands unless otherwise stated)

	Consolidated Statements of Income and Comprehensive Income for the Six Months Ended June 30, 2014		
	As Previously Reported	Restatement	As Restated
Operating Income	$55,962	$(3,959)	$52,003
Income Tax Expense	(5,939)	(22)	(5,961)
Income from Continuing Operations	18,340	(3,981)	14,359
Income from Discontinued Operations, net	43,092	—	43,092
Net Income	61,432	(3,981)	57,451
Net Income Attributable to Rayonier Inc.	61,760	(3,981)	57,779
Basic Earnings Per Share Attributable to Rayonier Inc.			
Continuing Operations	$0.15	$(0.03)	$0.12
Discontinued Operations	0.34	—	0.34
Net Income	$0.49	$(0.03)	$0.46
Diluted Earnings Per Share Attributable to Rayonier Inc.			
Continuing Operations	$0.14	$(0.03)	$0.11
Discontinued Operations	0.33	—	0.33
Net Income	$0.47	$(0.03)	$0.44

	Consolidated Balance Sheet as of June 30, 2014		
	As Previously Reported	Restatement	As Restated
Prepaid and Other Current Assets	$21,565	$(22)	$21,543
Timber and Timberlands, Net of Depletion and Amortization	2,121,614	(3,959)	2,117,655
Retained earnings	891,629	(3,981)	887,648

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	Consolidated Statements of Income and Comprehensive Income for the Three Months Ended March 31, 2014		
	As Previously Reported (a)	Restatement	As Restated (a)
Operating Income	$65,008	$(1,969)	$63,039
Income Tax Expense	(7,732)	20	(7,712)
Income from Continuing Operations	43,292	(1,949)	41,343
Net Income	43,292	(1,949)	41,343
Net Income Attributable to Rayonier Inc.	43,375	(1,949)	41,426
Basic Earnings Per Share Attributable to Rayonier Inc.			
Continuing Operations	$0.34	$(0.01)	$0.33
Discontinued Operations	—	—	—
Net Income	$0.34	$(0.01)	$0.33
Diluted Earnings Per Share Attributable to Rayonier Inc.			
Continuing Operations	$0.34	$(0.02)	$0.32
Discontinued Operations	—	—	—
Net Income	$0.34	$(0.02)	$0.32

(a) Includes the Performance Fibers business that was spun-off on June 27, 2014.

	Consolidated Balance Sheet as of March 31, 2014		
	As Previously Reported	Restatement	As Restated
Prepaid and Other Current Assets	$54,557	$20	$54,577
Timber and Timberlands, Net of Depletion and Amortization	2,069,518	(1,969)	2,067,549
Retained earnings	996,573	(1,949)	994,624

In addition, in reviewing its depletion expense calculations, the Company determined that prior years included immaterial understatements of depletion expense as a result of including, in merchantable timber inventory, certain volumes that should have been excluded. The estimated cumulative effect of these prior year immaterial errors totaled $2.6 million and was recorded as additional depletion expense in the third quarter of 2014.

(Dollar amounts in thousands unless otherwise stated)

4. EARNINGS PER COMMON SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Income from continuing operations	$32,059	$15,040	$46,418	$73,699
Less: Net (loss) income from continuing operations attributable to noncontrolling interest	(642)	1,022	(970)	1,749
Income from continuing operations attributable to Rayonier Inc.	$32,701	$14,018	$47,388	$71,950
Income from discontinued operations, net, attributable to Rayonier Inc.	$—	$43,327	$43,092	$220,294
Net income attributable to Rayonier Inc.	$32,701	$57,345	$90,480	$292,244
Shares used for determining basic earnings per common share	126,501,837	126,122,151	126,428,279	125,549,133
Dilutive effect of:				
Stock options	320,839	468,286	347,721	501,324
Performance and restricted shares	37,682	546,247	165,627	518,138
Assumed conversion of Senior Exchangeable Notes (a)	1,692,343	2,168,254	2,395,698	2,176,414
Assumed conversion of warrants (a)	1,237,812	1,608,466	2,344,335	2,043,965
Shares used for determining diluted earnings per common share	129,790,513	130,913,404	131,681,660	130,788,974
Basic earnings per common share attributable to Rayonier Inc.:				
Continuing operations	$0.26	$0.11	$0.38	$0.57
Discontinued operations	—	0.34	0.34	1.76
Net income	$0.26	$0.45	$0.72	$2.33
Diluted earnings per common share attributable to Rayonier Inc.:				
Continuing operations	$0.25	$0.11	$0.36	$0.55
Discontinued operations	—	0.33	0.33	1.68
Net income	$0.25	$0.44	$0.69	$2.23

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Anti-dilutive shares excluded from the computations of diluted earnings per share:				
Stock options, performance and restricted shares	374,562	101,884	485,850	167,487
Assumed conversion of exchangeable note hedges (a)	1,692,343	2,168,254	2,395,698	2,176,414
Total	2,066,905	2,270,138	2,881,548	2,343,901

(a) Rayonier will not issue additional shares upon future exchange or maturity of the Senior Exchangeable Notes due 2015 (the “2015 Notes”) due to offsetting hedges. Accounting Standards Codification 260, Earnings Per Share requires the assumed conversion of the 2015 Notes to be included in dilutive shares if the average stock price for the period exceeds the strike price, while the assumed conversion of the hedges is excluded since they are anti-dilutive. As such, the full dilutive effect of the 2015 Notes was included for all periods presented.

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The Senior Exchangeable Notes due 2012 (the "2012 Notes") matured in October 2012; however, no additional shares were issued due to offsetting exchangeable note hedges. The warrants sold in conjunction with the 2012 Notes began maturing on January 15, 2013 and matured ratably through March 27, 2013. As a result, 2,037,303 shares were issued through the end of the first quarter of 2013 and 97,918 shares were issued in the first week of April 2013. The dilutive impact of these warrants was calculated based on the length of time they were outstanding before settlement. Rayonier will distribute additional shares upon maturity of the warrants associated with the 2015 Notes if the stock price exceeds $28.13 per share. The exchange price on the warrants is lower than periods prior to second quarter 2014 as it has been adjusted to reflect the spin-off of the Performance Fibers business. For further information, see Note 13 — Debt in the Amended Form 10-K and Note 18 — Debt of this Form 10-Q.

5. INCOME TAXES

Rayonier is a real estate investment trust ("REIT"). In general, only its taxable REIT subsidiaries, whose businesses include the Company's non-REIT qualifying activities, and foreign operations, are subject to corporate income taxes. Accordingly, the provision for corporate income taxes relates principally to current and deferred taxes on taxable REIT subsidiaries' income and foreign operations.

Alternative Fuel Mixture Credit ("AFMC") and Cellulosic Biofuel Producer Credit ("CBPC")

The U.S. Internal Revenue Code allowed two credits for taxpayers that produced and used an alternative fuel in the operation of their business through December 31, 2009. The AFMC is a $.50 per gallon refundable tax credit (which is not taxable), while the CBPC is a $1.01 per gallon credit that is nonrefundable, taxable and has limitations based on an entity's tax liability. Prior to the spin-off (See Note 2 — Discontinued Operations for additional information), Rayonier produced and used an alternative fuel ("black liquor") at its Performance Fibers mills, which qualified for both credits. The Company claimed the AFMC on its original 2009 tax return. In the first quarter of 2013, management approved a $70 million tax payment to exchange approximately 120 million gallons of black liquor previously claimed for the AFMC for the CBPC, resulting in an expected net $19 million tax benefit, which was recorded in discontinued operations. As a result of the spin-off of the Performance Fibers business in second quarter 2014, the Company recorded a $16 million valuation allowance in continuing operations as the credits remain with Rayonier after the spin-off, related to its limited potential use of the CBPC prior to its expiration on December 31, 2016. During the third quarter of 2014, the Company reversed $1 million of the valuation allowance due to an estimated increase in its ability to use the CBPC.

Provision for Income Taxes from Continuing Operations

The Company's effective tax rate is below the 35 percent U.S. statutory rate due to tax benefits associated with being a REIT and tax benefits from losses at Rayonier's taxable operations from interest and general administrative expenses not allowed to be allocated to the discontinued operations of the Performance Fibers business.

The tables below reconcile the U.S. statutory rate to the Company's effective tax rate for each period presented:

	Three Months Ended September 30,							
	2014				2013			
Income tax expense at federal statutory rate	$7,273		35.0	%	$2,881		35.0	%
REIT income, taxable losses and other	(16,673	)	(80.2	)	(10,094	)	(122.6	)
Foreign operations	(44	)	(0.2	)	1,295		15.8	
Loss on early redemption of Senior Exchangeable Notes	—		—		288		3.5	
Other	99		0.4		(33	)	(0.5	)
Income tax benefit before discrete items	(9,345	)	(45.0	)%	(5,663	)	(68.8	)%
Uncertain tax positions	(1,830	)	(8.8	)	(800	)	(9.7	)
CBPC valuation allowance	(990	)	(4.8	)	—		—	

Return to accrual adjustments	885	4.3	—	—
Other	—	—	(345)	(4.2)
Income tax benefit as reported for continuing operations	$(11,280)	(54.3)%	$(6,808)	(82.7)%

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	Nine Months Ended September 30,			
	2014		2013	
Income tax expense at federal statutory rate	$14,385	35.0 %	$15,732	35.0 %
REIT income and taxable losses	(30,572)	(74.4)	(41,417)	(92.1)
Foreign operations	(88)	(0.2)	2,812	6.3
Loss on early redemption of Senior Exchangeable Notes	—	—	1,572	3.5
Other	196	0.5	(185)	(0.4)
Income tax benefit before discrete items	(16,079)	(39.1)%	(21,486)	(47.7)%
CBPC valuation allowance	14,584	35.5	—	—
Deferred tax inventory valuations	(3,293)	(8.0)	—	—
Uncertain tax positions	(1,830)	(4.5)	—	—
Spin-off related costs	797	1.9	—	—
Return to accrual adjustments	885	2.2	—	—
Gain related to consolidation of New Zealand joint venture	—	—	(5,634)	(12.5)
Reversal of REIT BIG tax payable	—	—	(485)	(1.1)
Other	(383)	(0.9)	(1,145)	(2.6)
Income tax benefit as reported for continuing operations	$(5,319)	(12.9)%	$(28,750)	(63.9)%

Provision for Income Taxes from Discontinued Operations
On June 27, 2014, Rayonier completed the spin-off of its Performance Fibers business. For the three and nine months ended September 30, 2014, income tax expense related to Performance Fibers discontinued operations was $0 and $21.2 million, respectively. For the three and nine months ended September 30, 2013, income tax expense related to Performance Fibers discontinued operations was $18.3 million and $59.9 million, respectively.
On March 1, 2013, Rayonier completed the sale of its Wood Products business for $80 million plus a working capital adjustment. For the nine months ended September 30, 2013, income tax expense related to Wood Products discontinued operations was $22.3 million ($21.4 million from the gain on sale).
See Note 2 — Discontinued Operations for additional information on the spin-off of the Performance Fibers business and sale of the Wood Products business.
Unrecognized Tax Benefits
During the third quarter of 2014, the Company removed a $5.8 million unrecognized tax benefit liability due to the expiration of the statute of limitations on examination of its 2010 tax return. This resulted in a $1.8 million income tax benefit and a $4.0 million reduction of a non-current tax asset. There are no unrecognized tax benefit liabilities remaining as of September 30, 2014.
During second quarter 2014, the Company received a refund from the IRS related to its amended 2009 TRS tax return. As a result, Rayonier reversed the $4.8 million reserve related to the increased domestic production deduction due to the inclusion of CBPC income. The reserve included a $0.9 million unrecognized tax benefit, which was recorded in discontinued operations.
Deferred Taxes
The spin-off of the Performance Fibers business resulted in the contribution of deferred tax assets and deferred tax liabilities to Rayonier Advanced Materials and impacted the Company’s expected future use of remaining deferred tax assets. The Company’s current portion of deferred tax assets decreased from $39.1 million at December 31, 2013 to $4.2 million as of September 30, 2014. The remaining balance reflects the $14.6 million valuation allowance related

to Rayonier’s limited potential use of the CBPC credit.

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6. RESTRICTED DEPOSITS

In order to qualify for like-kind exchange ("LKE") treatment, the proceeds from real estate sales must be deposited with a third-party intermediary. These proceeds are accounted for as restricted cash until a suitable replacement property is acquired. In the event LKE purchases are not completed, the proceeds are returned to the Company after 180 days and reclassified as available cash. As of September 30, 2014 and December 31, 2013, the Company had $21.6 million and $68.9 million, respectively, of proceeds from real estate sales classified as restricted cash within Other Assets, which were deposited with an LKE intermediary.

7. JOINT VENTURE INVESTMENT

On April 4, 2013 (the "acquisition date"), the Company acquired an additional 39 percent ownership interest in Matariki Forestry Group, a joint venture ("New Zealand JV") that owns or leases approximately 0.3 million acres of New Zealand timberlands. As a result of the acquisition, Rayonier is a 65 percent owner of the New Zealand JV and 100 percent of the results of its operations subsequent to April 4, 2013 have been included in the Company's consolidated financial statements, along with 100 percent of the JV's assets and liabilities at September 30, 2014 and December 31, 2013. The portions of the consolidated financial position and results of operations attributable to the New Zealand JV's 35 percent noncontrolling interest are also shown separately. Rayonier New Zealand Limited ("RNZ"), a wholly-owned subsidiary of Rayonier Inc., continues to serve as the manager of the New Zealand JV forests.

Prior to the acquisition date, the Company accounted for its 26 percent interest in the New Zealand JV as an equity method investment. The additional 39 percent interest was acquired for $139.9 million and resulted in the Company obtaining a controlling financial interest in the New Zealand JV and accordingly, the purchase was accounted for as a step-acquisition. Upon consolidation, the Company recognized a $10.1 million deferred gain, which resulted from the original sale of its New Zealand operations to the joint venture in 2005 and a $6 million benefit due to the required fair market value remeasurement of the Company's equity interest in the New Zealand JV held before the purchase of the additional interest. The acquisition-date fair value of the previous equity interest was $93.3 million.

The Company's operating results for the nine months ended September 30, 2013 reflect 26 percent of the New Zealand JV's income prior to the acquisition date, as reported in "Equity in income of New Zealand joint venture" in the Consolidated Statements of Income and Comprehensive Income. The following represents the pro forma Rayonier consolidated sales and net income for the three and nine months ended September 30, 2013 as if the additional interest in the New Zealand JV had been acquired on January 1, 2013.

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Sales (a)	$159,261	$455,729
Net Income	$58,367	$292,234

(a) Excludes results from discontinued operations. For additional information, see Note 2 — Discontinued Operations.

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8. SHAREHOLDERS' EQUITY

An analysis of shareholders' equity for the nine months ended September 30, 2014 and the year ended December 31, 2013 is shown below (share amounts not in thousands):

	Rayonier Inc. Shareholders Equity					
	Common Shares					
	Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Non-controlling Interest	Total Shareholders' Equity
Balance, December 31, 2012	123,332,444	$670,749	$876,634	$(109,379)	$ —	$1,438,004
Net income	—	—	371,896	—	1,902	373,798
Dividends ($1.86 per share)	—	—	(233,321)	—	—	(233,321)
Issuance of shares under incentive stock plans	1,001,426	10,101	—	—	—	10,101
Stock-based compensation	—	11,710	—	—	—	11,710
Excess tax benefit on stock-based compensation	—	8,413	—	—	—	8,413
Repurchase of common shares	(211,221)	(11,326)	—	—	—	(11,326)
Equity portion of convertible debt upon redemption	—	2,453	—	—	—	2,453
Settlement of warrants	2,135,221	—	—	—	—	—
Net gain from pension and postretirement plans	—	—	—	61,869	—	61,869
Acquisition of noncontrolling interest	—	—	—	—	96,336	96,336
Noncontrolling interest redemption of shares	—	—	—	—	(713)	(713)
Foreign currency translation adjustment	—	—	—	(1,915)	(3,795)	(5,710)
Joint venture cash flow hedges	—	—	—	3,286	343	3,629
Balance, December 31, 2013	126,257,870	$692,100	$1,015,209	$(46,139)	$ 94,073	$1,755,243
Net income (loss)	—	—	90,480	—	(970)	89,510
Dividends ($1.78 per share)	—	—	(225,175)	—	—	(225,175)
Contribution to Rayonier Advanced Materials	—	(301)	(61,318)	80,749	—	19,130
Adjustments to Rayonier Advanced Materials	—	—	985	(2,556)	—	(1,571)
Issuance of shares under incentive stock plans	512,364	4,645	—	—	—	4,645
Stock-based compensation	—	6,780	—	—	—	6,780
Tax deficiency on stock-based compensation	—	(809)	—	—	—	(809)
Repurchase of common shares	(45,790)	(1,834)	—	—	—	(1,834)
Net losses from pension and postretirement plans	—	—	—	(14,958)	—	(14,958)
	—	—	—	—	(930)	(930)

Noncontrolling interest redemption of shares						
Foreign currency translation adjustment	—	—	—	(11,770)	(4,656)	(16,426)
Joint venture cash flow hedges	—	—	—	(1,757)	(946)	(2,703)
Balance, September 30, 2014	126,724,444	$700,581	$820,181	$3,569	$ 86,571	$1,610,902

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9. SEGMENT AND GEOGRAPHICAL INFORMATION

Rayonier operates in two reportable business segments: Forest Resources and Real Estate. Prior to the second quarter of 2014, the Company operated in three reportable business segments, which included Performance Fibers. On June 27, 2014, the Company spun-off its Performance Fibers business and its operations are shown as discontinued operations for all periods presented. See Note 2 — Discontinued Operations for additional information.

Forest Resources sales include all activities related to the harvesting of timber and other value-added activities such as the leasing of properties for hunting, mineral extraction and cell towers. Real Estate sales include all property sales, including those designated as higher and better use ("HBU") and those designated as the sale of non-strategic timberlands. The assets of the Real Estate segment include HBU property held by the Company's real estate subsidiary, TerraPointe LLC. The Company's remaining operations, reported as "Other Operations," include harvesting and selling timber acquired from third parties (log trading). Sales between operating segments are made based on estimated fair market value, and intercompany sales, purchases and profits (losses) are eliminated in consolidation. The Company evaluates financial performance based on the operating income of the segments.

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

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

ASSETS	September 30, 2014	December 31, 2013
Forest Resources	$2,160,615	$2,162,913
Real Estate	110,825	149,001
Other Operations	24,107	37,334
Corporate and other	182,012	257,608
Performance Fibers	—	1,078,645
Total	$2,477,559	$3,685,501

	Three Months Ended September 30,		Nine Months Ended September 30,	
SALES	2014	2013	2014	2013
Forest Resources	$108,024	$111,260	$313,822	$277,422
Real Estate	26,689	14,088	66,236	51,761
Other Operations	15,116	34,015	80,027	92,472
Intersegment Eliminations	—	(102)	(3,924)	(452)
Total	$149,829	$159,261	$456,161	$421,203

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	Three Months Ended September 30,		Nine Months Ended September 30,	
OPERATING INCOME	2014	2013	2014	2013
Forest Resources	$19,191	$23,172	$64,657	$57,317
Real Estate	16,399	7,521	44,888	30,468
Other Operations	2,499	(363)	1,955	1,356
Corporate and other (a)	(6,010)	(10,361)	(27,418)	(15,418)
Total	$32,079	$19,969	$84,082	$73,723

(a) The nine months ended September 30, 2013 included a $16.1 million gain related to the consolidation of the New Zealand JV.

	Three Months Ended September 30,		Nine Months Ended September 30,	
DEPRECIATION, DEPLETION AND AMORTIZATION	2014	2013	2014	2013
Forest Resources	$30,112	$28,475	$80,567	$72,210
Real Estate	3,807	2,074	11,140	8,720
Corporate	123	262	747	738
Total	$34,042	$30,811	$92,454	$81,668

10. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to market risk related to potential fluctuations in foreign currency exchange rates, interest rates and fuel prices. The Company's New Zealand JV uses derivative financial instruments to mitigate the financial impact of exposure to these risks.

Accounting for derivative financial instruments is governed by Accounting Standards Codification Topic 815, Derivatives and Hedging, ("ASC 815"). In accordance with ASC 815, the Company records its derivative instruments at fair value as either assets or liabilities in the Consolidated Balance Sheets. Changes in the instruments' fair value are accounted for based on their intended use. Gains and losses on derivatives that are designated and qualify for cash flow hedge accounting are recorded as a component of accumulated other comprehensive income ("AOCI") and reclassified into earnings when the hedged transaction materializes. The ineffective portion of any hedge as well as changes in the fair value of derivatives not designated as hedging instruments and those which are no longer effective as hedging instruments, are recognized immediately in earnings. The Company's hedge ineffectiveness was immaterial for all periods presented.

Foreign Currency Exchange and Option Contracts

The functional currency of the New Zealand JV is the New Zealand dollar. These operations are exposed to foreign currency risk on export sales and ocean freight payments which are predominately denominated in U.S. dollars. The New Zealand JV typically hedges 50 percent to 90 percent of its estimated foreign currency exposure with respect to the following three months forecasted sales and purchases, 50 percent to 75 percent of forecasted sales and purchases for the forward three to 12 months and up to 50 percent of the forward 12 to 18 months.

The fair value of foreign currency exchange contracts is determined by a mark-to-market valuation which estimates fair value by discounting the difference between the contracted forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate. The fair value of foreign currency option contracts is based on a mark-to-market calculation using the Black Scholes option pricing model.

Interest Rate Swaps

The Company uses interest rate swaps to manage the New Zealand JV's exposure to interest rate movements on its variable rate debt attributable to changes in the New Zealand Bank bill rate. By converting a portion of these borrowings from floating rates to fixed rates the Company has reduced the impact of interest rate changes on its expected future cash outflows. As of September 30, 2014, the Company’s long-term interest rate contracts hedged 81 percent of the New Zealand JV’s variable rate debt and had maturity dates through January 2020.

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Fuel Hedge Contracts
The Company uses fuel swap contracts to manage its New Zealand JV's exposure to changes in New Zealand's domestic diesel prices. The fuel swaps are quoted by domestic banks in New Zealand dollar price terms. As of September 30, 2014 all of the contracts had maturities of less than one year. The fair value of the fuel swap contracts is determined by a mark-to-market valuation which estimates fair value by discounting the difference between the contracted forward price and the current forward price for the residual maturity of the contract. Due to the low volume of diesel fuel purchases made by the New Zealand JV, the Company decided to no longer hedge its diesel fuel purchases effective November 2013.
The following tables demonstrate the impact of the Company's derivatives on the Consolidated Statements of Income and Comprehensive Income for the three and nine months ended September 30, 2014 and 2013.

	Income Statement Location	Three Months Ended September 30, 2014	2013
Derivatives designated as cash flow hedges:			
Foreign currency exchange contracts	Other comprehensive income (loss)	$(2,537)	$2,602
	Other operating (income) expense	—	619
Foreign currency option contracts	Other comprehensive income (loss)	(2,227)	832
Derivatives not designated as hedging instruments:			
Foreign currency exchange contracts	Other operating (income) expense	$—	$(360)
Foreign currency option contracts	Other operating (income) expense	—	(480)
Interest rate swaps	Interest and miscellaneous (expense) income, net	(1,765)	2,079
Fuel hedge contracts	Cost of sales (benefit)	(62)	162

	Income Statement Location	Nine Months Ended September 30, 2014	2013
Derivatives designated as cash flow hedges:			
Foreign currency exchange contracts	Other comprehensive income (loss)	$(1,868)	$1,093
	Other operating (income) expense	—	619
Foreign currency option contracts	Other comprehensive income (loss)	(2,006)	468
Derivatives not designated as hedging instruments:			
Foreign currency exchange contracts	Other operating (income) expense	$25	$(1,786)
Foreign currency option contracts	Other operating (income) expense	7	1,011
Interest rate swaps	Interest and miscellaneous (expense) income, net	(3,628)	4,729
Fuel hedge contracts	Cost of sales (benefit)	163	14

During the next 12 months, the amount of the September 30, 2014 AOCI balance, net of tax, expected to be reclassified into earnings as a result of the maturation of the Company's derivative instruments is a loss of approximately $1.5 million.

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The following table contains the notional amounts of the derivative financial instruments recorded in the Consolidated Balance Sheets:

	Notional Amount	
	September 30, 2014	December 31, 2013
Derivatives designated as cash flow hedges:		
Foreign currency exchange contracts	$24,810	$32,300
Foreign currency option contracts	70,500	38,000
Derivatives not designated as hedging instruments:		
Foreign currency exchange contracts	$—	$1,950
Foreign currency option contracts	—	4,000
Interest rate swaps	180,858	183,851
Fuel hedge contracts (in thousands of barrels)	1	38

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The following table contains the fair values of the derivative financial instruments recorded in the Consolidated Balance Sheets:

	Location on Balance Sheet	Fair Value Assets (Liabilities) (a)	
		September 30, 2014	December 31, 2013
Derivatives designated as cash flow hedges:			
Foreign currency exchange contracts	Prepaid and other current assets	$—	$915
	Other current liabilities	(696)	—
	Other non-current liabilities	(181)	—
Foreign currency option contracts	Prepaid and other current assets	134	673
	Other assets	89	—
	Other current liabilities	(1,555)	(214)
	Other non-current liabilities	(164)	—
Derivatives not designated as hedging instruments:			
Foreign currency exchange contracts	Prepaid and other current assets	$—	$25
Foreign currency option contracts	Prepaid and other current assets	—	8
Interest rate swaps	Other non-current liabilities	(5,519)	(4,659)
Fuel hedge contracts	Prepaid and other current assets	—	160
	Other current liabilities	(3)	—
Total derivative contracts:			
Prepaid and other current assets		$134	$1,781
Other assets		89	—
Total derivative assets		223	1,781
Other current liabilities		(2,254)	(214)
Other non-current liabilities		(5,864)	(4,659)
Total derivative liabilities		$(8,118)	$(4,873)

(a) See Note 11 — Fair Value Measurements for further information on the fair value of our derivatives including their classification within the fair value hierarchy.

Offsetting Derivatives

Derivative financial instruments are presented at their gross fair values in the Consolidated Balance Sheets. The Company’s derivative financial instruments are not subject to master netting arrangements which would allow the right of offset.

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11. FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments

The Accounting Standards Codification established a three-level hierarchy that prioritizes the inputs used to measure fair value as follows:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs other than quoted prices included in Level 1.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table presents the carrying amount, estimated fair values and categorization under the fair value hierarchy of financial instruments held by the Company at September 30, 2014 and December 31, 2013, using market information and what management believes to be appropriate valuation methodologies under generally accepted accounting principles:

	September 30, 2014			December 31, 2013		
Asset (liability)	Carrying Amount	Fair Value		Carrying Amount	Fair Value	
		Level 1	Level 2		Level 1	Level 2
Cash and cash equivalents	$182,831	$182,831	$—	$199,644	$199,644	$—
Restricted cash (a)	21,626	21,626	—	68,944	68,944	—
Current maturities of long-term debt	(130,486)	—	(173,531)	(112,500)	—	(119,614)
Long-term debt	(605,162)	—	(607,139)	(1,461,724)	—	(1,489,810)
Interest rate swaps (b)	(5,519)	—	(5,519)	(4,659)	—	(4,659)
Foreign currency exchange contracts (b)	(877)	—	(877)	940	—	940
Foreign currency option contracts (b)	(1,496)	—	(1,496)	467	—	467
Fuel contracts (b)	(3)	—	(3)	160	—	160

(a) Restricted cash of $22 million and $69 million, as of September 30, 2014 and December 31, 2013, respectively, is recorded in "Other Assets" and represents the proceeds from LKE sales deposited with a third-party intermediary.

(b) See Note 10 — Derivative Financial Instruments and Hedging Activities for information regarding the Balance Sheet classification of the Company's derivative financial instruments.

Rayonier uses the following methods and assumptions in estimating the fair value of its financial instruments:

Cash and cash equivalents and restricted cash — The carrying amount is equal to fair market value.

Debt — The fair value of fixed rate debt is based upon quoted market prices for debt with similar terms and maturities. The variable rate debt adjusts with changes in the market rate, therefore the carrying value approximates fair value.

Interest rate swap agreements — The fair value of interest rate contracts is determined by discounting the expected future cash flows, for each instrument, at prevailing interest rates.

Foreign currency exchange contracts — The fair value of foreign currency exchange contracts is determined by a mark-to-market valuation which estimates fair value by discounting the difference between the contracted forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate.

Foreign currency option contracts — The fair value of foreign currency option contracts is based on a mark-to-market calculation using the Black-Scholes option pricing model.

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12. GUARANTEES

The Company provides financial guarantees as required by creditors, insurance programs, and various governmental agencies. As of September 30, 2014, the following financial guarantees were outstanding:

Financial Commitments	Maximum Potential Payment	Carrying Amount of Associated Liability
Standby letters of credit (a)	$17,355	$15,000
Guarantees (b)	2,254	43
Surety bonds (c)	782	—
Total financial commitments	$20,391	$15,043

(a) Approximately $15 million of the standby letters of credit serve as credit support for industrial revenue bonds. The remaining letters of credit support various insurance related agreements, primarily workers' compensation, auto liability, and general liability policy requirements. These letters of credit will expire at various dates during 2014 and 2015 and will be renewed as required.

(b) In conjunction with a timberland sale and note monetization in the first quarter of 2004, the Company issued a make-whole agreement pursuant to which it guaranteed $2.3 million of obligations of a special-purpose entity that was established to complete the monetization. At September 30, 2014, the Company has a de minimis liability to reflect the fair market value of its obligation to perform under the make-whole agreement.

(c) Rayonier issues surety bonds primarily to secure timber harvesting obligations in the State of Washington. These surety bonds expire at various dates during 2015 and are expected to be renewed as required.

13. COMMITMENTS

The Company leases certain buildings, machinery, and equipment under various operating leases. The Company also has long-term lease agreements on certain timberlands in the Southern U.S. and New Zealand. U.S. leases typically have initial terms of approximately 30 to 65 years, with renewal provisions in some cases. New Zealand timberland lease terms range between 30 and 99 years. Such leases are generally non-cancellable and require minimum annual rental payments.

At September 30, 2014, the future minimum payments under non-cancellable operating and timberland leases were as follows:

	Operating Leases	Timberland Leases (a)	Purchase Obligations (b)	Total
Remaining 2014	$620	$3,003	$489	$4,112
2015	1,941	9,798	592	12,331
2016	1,464	9,443	204	11,111
2017	884	9,255	170	10,309
2018	575	7,644	1,950	10,169
Thereafter	1,689	133,626	4,063	139,378
	$7,173	$172,769	$7,468	$187,410

(a) The majority of timberland leases are subject to increases or decreases based on either the Consumer Price Index, Producer Price Index or market rates.

(b) Purchase obligations include payments expected to be made on derivative financial instruments held in New Zealand.

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The New Zealand JV has a number of Crown Forest Licenses ("CFL") with the New Zealand government, which are excluded from the table above. A CFL consists of a license to use public or government owned land to operate a commercial forest. The CFL's extend indefinitely and may only be terminated upon a 35 year termination notice from the government. If no termination notice is given, the CFLs renew automatically each year for a one year term. As of September 30, 2014, the New Zealand JV has three CFL's under termination notice, terminating in 2034, 2046 and 2049 and two fixed term CFL's expiring in 2062. The annual license fee is determined based on current market value, with triennial rent reviews. The total annual license fee on the CFL's is $1.9 million per year with CFL's terminating or expiring of $0.2 million.
The following table details the Company's acres under lease as of September 30, 2014 by type of lease and lease expiration:
(acres in 000s)

Location	Type of Lease	Total	2014 - 2024	2025 - 2034	2035 - 2044	Thereafter
Southern U.S.	Fixed Term	260	176	44	40	—
	Fixed Term with Renewal Option	18	18	—	—	—
New Zealand (a)	CFL - Perpetual	60	37	—	—	23
	CFL - Fixed Term	2	—	—	—	2
	CFL - Terminating	21	—	3	—	18
	Forestry Right	60	17	4	24	15
	Lease	32	23	—	—	9
Total Acres under Long-term Leases		453	271	51	64	67

(a) Represents acres leased by the New Zealand JV, in which Rayonier has a 65 percent interest.

14. LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS

An analysis of the liabilities for dispositions and discontinued operations follows:

	September 30, 2014	December 31, 2013
Balance, beginning of period	$76,378	$81,695
Expenditures charged to liabilities	(5,096)	(8,570)
Increase to liabilities	2,558	3,253
Contribution to Rayonier Advanced Materials	(73,840)	—
Balance, end of period	—	76,378
Less: Current portion	—	(6,835)
Non-current portion	$—	$69,543

In connection with the spin-off of the Performance Fibers business, all prior dispositions and discontinued operations were contributed to Rayonier Advanced Materials. As part of the separation agreement, Rayonier has been indemnified, released and discharged from any liability related to these sites. For additional information on the Performance Fibers spin-off, see Note 2 — Discontinued Operations.

15. CONTINGENCIES

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

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16. INCENTIVE STOCK PLANS

As a result of the spin-off and pursuant to the Employee Matters Agreement, the Company made certain adjustments to the exercise price and number of Rayonier stock-based compensation awards. The adjusted awards are generally subject to the same vesting conditions and other terms that applied to the original Rayonier award immediately before the spin-off, except as otherwise described below.

Stock Option Awards

Each Rayonier stock option was converted into an adjusted Rayonier stock option and a Rayonier Advanced Material stock option. The exercise price and number of shares subject to each stock option were adjusted in order to preserve the aggregate value of the original Rayonier stock option as measured immediately before and immediately after the spin-off, subject to rounding.

Restricted Stock Awards

Holders of Rayonier restricted stock, including Rayonier non-employee directors, retained those awards and also received restricted stock of Rayonier Advanced Materials, in an amount that reflects the distribution to Rayonier stockholders, by applying the distribution ratio (one share of Rayonier Advanced Materials for every three shares of Rayonier stock held) to Rayonier restricted stock awards as though they were unrestricted Rayonier common shares.

Performance Share Awards

Performance share awards outstanding as of the spin-off were treated as follows:

- Performance share awards granted in 2012 (with a 2012-2014 performance period) continue to be subject to the same performance criteria as applied immediately prior to the spin-off, except that total shareholder return at the end of the performance period will be based on the combined stock prices of Rayonier and Rayonier Advanced Materials and any payment earned will be made in shares of Rayonier common stock and shares of Rayonier Advanced Materials common stock.
- Performance share awards granted in 2013 (with a 2013-2015 performance period) were cancelled as of the distribution date and were replaced with time-vested restricted stock of the post-separation employer of each holder (Rayonier or Rayonier Advanced Materials, as the case may be) that will vest 24 months after the distribution date, generally subject to the holder's continued employment. The number of shares of time-vested restricted stock granted were determined in a manner intended to preserve the original value of the performance share award, subject to rounding.
- Performance share awards granted in 2014 (with a 2014-2016 performance period) were cancelled and replaced with performance share awards of the post-separation employer of each holder (Rayonier or Rayonier Advanced Materials, as the case may be), and are subject to the achievement of performance criteria that relate to the post-separation business of the applicable employer during a performance period ending December 31, 2016. The number of shares underlying each such performance share award were determined in a manner intended to preserve the original value of the award, subject to rounding.

The replacement of the 2013 performance share awards with time-vested restricted stock resulted in a $0.7 million increase in intrinsic value to Rayonier holders. This amount will be expensed over the 2-year vesting period ending in the second quarter of 2016. Overall, the spin-off resulted in lower stock-based compensation expense, which was $0.8 million for the third quarter of 2014 compared to $2.9 million in the second quarter of 2014.

(Dollar amounts in thousands unless otherwise stated)

17. EMPLOYEE BENEFIT PLANS

In connection with the spin-off of the Performance Fibers business, Rayonier entered into an Employee Matters Agreement with Rayonier Advanced Materials, see Note 2 — Discontinued Operations, which provides that employees of Rayonier Advanced Materials will no longer participate in benefit plans sponsored or maintained by Rayonier. Upon separation, the Rayonier Pension Plans transferred assets and obligations to the Rayonier Advanced Materials Pension Plans resulting in a net decrease in sponsored pension plan obligations of $99 million after a revaluation of plan obligations using a 4.0 percent discount rate versus 4.6 percent at December 31, 2013. In addition, $78 million of other comprehensive losses were transferred to Rayonier Advanced Materials Pension Plans after revaluation, net of taxes of $45 million. In the third quarter of 2014, the Company made adjustments to the assets and obligations transferred to the Rayonier Advanced Materials Pension Plans as the pension and postretirement plans segregation was finalized. The effect of these period adjustments has been reflected in equity for the period ended September 30, 2014.

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

The net pension and postretirement benefit costs that have been recorded are shown in the following tables:

	Pension		Postretirement	
	Three Months Ended September 30,		Three Months Ended September 30,	
	2014	2013	2014	2013
Components of Net Periodic Benefit Cost				
Service cost	$378	$2,011	$3	$330
Interest cost	786	3,953	18	231
Expected return on plan assets	(1,135)	(5,966)	—	—
Amortization of prior service cost	3	322	—	6
Amortization of losses	601	4,792	3	98
Net periodic benefit cost (a)	$633	$5,112	$24	$665

	Pension		Postretirement	
	Nine Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Components of Net Periodic Benefit Cost				
Service cost	$3,545	$6,441	$328	$828
Interest cost	9,921	12,740	423	711
Expected return on plan assets	(14,123)	(19,356)	—	—
Amortization of prior service cost	572	1,032	8	19
Amortization of losses	5,942	15,308	248	533
Amortization of negative plan amendment	—	—	(267)	—
Net periodic benefit cost (b)	$5,857	$16,165	$740	$2,091

(a) Net periodic benefit cost for the three months ended September 30, 2013 includes $3.7 million recorded in “Income from discontinued operations, net” on the Consolidated Statements of Income and Comprehensive Income.

(b) Net periodic benefit cost for the nine months ended September 30, 2014 and September 30, 2013 includes $4.0 million and $11.2 million, respectively, recorded in “Income from discontinued operations, net” on the Consolidated Statements of Income and Comprehensive Income.

In 2014, the Company has no mandatory pension contribution requirement.

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18. DEBT

As of June 30, 2014, the 2015 Notes were exchangeable at the option of the holders for the calendar quarter ended September 30, 2014. According to the indenture, in order for the notes to become exchangeable, the Company's stock price must exceed 130 percent of the exchange price for 20 trading days during a period of 30 consecutive trading days as of the last day of the quarter. During the nine months ended September 30, 2014, the note holders did not elect to exercise the exchange option. Based upon the average stock price for the 30 trading days ended September 30, 2014, these notes again became exchangeable at the option of the holder for the calendar quarter ending December 31, 2014. The notes mature in September of 2015 and are classified as current maturities of long-term debt as of September 30, 2014.

As part of the spin-off of the Performance Fibers business, Rayonier Advanced Materials, while a subsidiary of Rayonier, incurred $950 million of new debt. Rayonier Advanced Materials distributed $906 million from the proceeds of this new debt to the Company prior to the spin-off, including $75 million restricted to shareholder dividend payments which were made during third quarter 2014. Rayonier used the remainder of the distribution, as well as available cash, to make repayments of $280 million on its unsecured revolving credit facility, $500 million on its term credit agreement and $112.5 million on its installment note due 2014. Additionally, during the third quarter of 2014 the Company prepaid $10.5 million of principal on the mortgage notes due 2017, the maximum amount allowable without penalty.

Net repayments of $80 million were made in the first quarter of 2014 on the revolving credit facility. In connection with the spin-off, the revolving credit facility and term credit agreement were amended to reduce the Company's borrowing capacity and related commitment fees effective July 7, 2014. The revolving credit facility capacity was reduced from $450 million to $200 million and the term credit agreement was reduced from $640 million of available capacity to $100 million. The capacity reductions also resulted in the write-off of $1.7 million of capitalized debt costs. At September 30, 2014, the Company had available borrowings of $198 million under the revolving credit facility and additional draws available of $100 million under the term credit agreement.

Through the nine months ended September 30, 2014, the New Zealand JV paid $1.2 million on its shareholder loan held with the non-controlling interest party and made net draws on its working capital facility of $1.3 million. Favorable exchange rates resulted in a $11.4 million decrease to the New Zealand JV's debt on a U.S. dollar basis.

There were no other significant changes to the Company's outstanding debt as reported in Note 13 — Debt in the Company's Amended Form 10-K.

Rayonier's debt consisted of the following at September 30, 2014:

	September 30, 2014
Senior Notes due 2022 at a fixed interest rate of 3.75%	$325,000
Senior Exchangeable Notes due 2015 at a fixed interest rate of 4.50% (a)	129,199
Mortgage notes due 2017 at fixed interest rates of 4.35% (b)	53,926
Solid waste bond due 2020 at a variable interest rate of 1.3% at September 30, 2014	15,000
New Zealand JV Revolving Credit Facility due 2016 at a variable interest rate of 4.53% at September 30, 2014	183,394
New Zealand JV Working Capital Facility due 2014 at a variable interest rate of 4.69% at September 30, 2014	1,287
New Zealand JV noncontrolling interest shareholder loan at 0% interest rate	27,842
Total debt	735,648
Less: Current maturities of long-term debt	(130,486)
Long-term debt	$605,162

(a) The Senior Exchangeable Notes maturing in 2015 were discounted by $1.8 million as of September 30, 2014. Upon maturity the liability will be $131 million.

(b) The mortgage notes due in 2017 were recorded at a premium of $1.4 million as of September 30, 2014. Upon maturity, the liability will be $52.5 million.

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19. ACCUMULATED OTHER COMPREHENSIVE INCOME

The following table summarizes the changes in AOCI by component for the nine months ended September 30, 2014. All amounts are presented net of tax and exclude portions attributable to noncontrolling interest.

	Foreign currency translation gains	New Zealand joint venture cash flow hedges	Unrecognized components of employee benefit plans		Total
Balance as of December 31, 2013	$36,914	$(342)	$(82,711)		$(46,139)
Other comprehensive income before reclassifications	(11,770)	172	57,770	(a)	46,172
Amounts reclassified from accumulated other comprehensive income	—	(1,929)	5,465	(b)	3,536
Net other comprehensive income	(11,770)	(1,757)	63,235		49,708
Balance as of September 30, 2014	$25,144	$(2,099)	$(19,476)		$3,569

(a) Reflects $78 million, net of taxes, of additional losses transferred to Rayonier Advanced Materials Pension Plans offset by $20 million, net of taxes, of additional losses as a result of the revaluation required due to the spin-off. See Note 17 — Employee Benefit Plans for additional information.

(b) This accumulated other comprehensive income component is comprised of $4 million in the computation of net periodic pension cost and $1 million of deferred tax asset related to the revaluation and transfer of liabilities as a result of the spin-off.

The following table presents details of the amounts reclassified in their entirety from AOCI for the nine months ended September 30, 2014:

Details about accumulated other comprehensive income components	Amount reclassified from accumulated other comprehensive income	Affected line item in the income statement
Realized gain on foreign currency exchange contracts	$(3,194)	Other operating income, net
Realized gain on foreign currency option contracts	(1,058)	Other operating income, net
Noncontrolling interest	1,488	Comprehensive loss (income) attributable to noncontrolling interest
Income tax expense on gain from foreign currency contracts	835	Income tax benefit
Net gain on cash flow hedges reclassified from accumulated other comprehensive income	(1,929)	
Income tax expense on pension plan contributed to Rayonier Advanced Materials	843	Income tax benefit
Net gain reclassified from accumulated other comprehensive income	$(1,086)	

(Dollar amounts in thousands unless otherwise stated)

20. OTHER OPERATING INCOME, NET

Other operating income, net was comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Lease income, primarily from hunting leases	$5,013	$4,367	$12,015	$9,141
Other non-timber income	817	573	1,503	1,651
Foreign currency income (loss)	4,304	(2,050)	4,292	511
Gain on sale or disposal of property, plant & equipment	66	2	46	287
Gain (loss) on foreign currency exchange contracts	—	221	(32)	156
Bankruptcy claim settlement	—	—	5,779	—
Miscellaneous expense, net	(1,056)	(299)	(2,695)	(1,159)
Total	$9,144	$2,814	$20,908	$10,587

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21. CONSOLIDATING FINANCIAL STATEMENTS

The condensed consolidating financial information below follows the same accounting policies as described in the consolidated financial statements, except for the use of the equity method of accounting to reflect ownership interests in wholly-owned subsidiaries, which are eliminated upon consolidation, and the allocation of certain expenses of Rayonier Inc. incurred for the benefit of its subsidiaries.

In August 2009, Rayonier TRS Holdings Inc. issued $172.5 million of 4.50% Senior Exchangeable Notes due 2015. The notes are guaranteed by Rayonier Inc. as the Parent Guarantor and Rayonier Operating Company LLC ("ROC") as the Subsidiary Guarantor. In connection with these exchangeable notes, the Company provides the following condensed consolidating financial information in accordance with SEC Regulation S-X Rule 3-10, Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered.

CONDENSED CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
For the Three Months Ended September 30, 2014

	Rayonier Inc. (Parent Guarantor)	ROC (Subsidiary Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Non-guarantors	Consolidating Adjustments	Total Consolidated
SALES	$—	$ —	$ —	$ 149,829	$ —	$ 149,829
Costs and Expenses						
Cost of sales	—	—	—	118,088	—	118,088
Selling and general expenses	—	3,488	—	5,318	—	8,806
Other operating expense (income), net	—	(854)	—	(8,290)	—	(9,144)
	—	2,634	—	115,116	—	117,750
OPERATING (LOSS) INCOME	—	(2,634)	—	34,713	—	32,079
Interest expense	(3,685)	141	(3,122)	(2,900)	—	(9,566)
Interest and miscellaneous income (expense), net	1,799	814	(260)	(4,087)	—	(1,734)
Equity in income from subsidiaries	34,587	36,266	6,259	—	(77,112)	—
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	32,701	34,587	2,877	27,726	(77,112)	20,779
Income tax benefit	—	—	1,234	10,046	—	11,280
INCOME (LOSS) FROM CONTINUING OPERATIONS	32,701	34,587	4,111	37,772	(77,112)	32,059
DISCONTINUED OPERATIONS, NET						
Income from discontinued operations, net of income taxes	—	—	—	—	—	—
NET INCOME (LOSS)	32,701	34,587	4,111	37,772	(77,112)	32,059
Less: Net loss attributable to noncontrolling interest	—	—	—	(642)	—	(642)
NET INCOME (LOSS) ATTRIBUTABLE TO RAYONIER INC.	32,701	34,587	4,111	38,414	(77,112)	32,701

OTHER COMPREHENSIVE INCOME (LOSS)						
Foreign currency translation adjustment	(27,317)	(27,318)	(1,441)	(37,738)	55,937	(37,877)
New Zealand joint venture cash flow hedges	(2,270)	(2,271)	(2,272)	(3,494)	6,813	(3,494)
Amortization of pension and postretirement plans, net of income tax	2,265	2,265	(4,120)	(4,120)	5,975	2,265
Total other comprehensive loss	(27,322)	(27,324)	(7,833)	(45,352)	68,725	(39,106)
COMPREHENSIVE INCOME (LOSS)	5,379	7,263	(3,722)	(7,580)	(8,387)	(7,047)
Less: Comprehensive loss attributable to noncontrolling interest	—	—	—	(12,295)	(131)	(12,426)
COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO RAYONIER INC.	$5,379	$ 7,263	$ (3,722)	$4,715	$ (8,256)	$ 5,379

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CONDENSED CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
For the Three Months Ended September 30, 2013

	Rayonier Inc. (Parent Guarantor)	ROC (Subsidiary Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Non-guarantors	Consolidating Adjustments	Total Consolidated
SALES	$—	$ —	$ —	$ 159,261	$ —	$ 159,261
Costs and Expenses						
Cost of sales	—	—	—	129,002	—	129,002
Selling and general expenses	—	2,276	—	10,828	—	13,104
Other operating expense (income), net	—	738	—	(4,213)	661	(2,814)
	—	3,014	—	135,617	661	139,292
Equity in income of New Zealand joint venture	—	—	—	—	—	—
OPERATING (LOSS) INCOME BEFORE GAIN ON CONSOLIDATION OF NEW ZEALAND JOINT VENTURE	—	(3,014)	—	23,644	(661)	19,969
Gain related to consolidation of New Zealand joint venture	—	—	—	—	—	—
OPERATING (LOSS) INCOME	—	(3,014)	—	23,644	(661)	19,969
Interest expense	(3,190)	(162)	(7,115)	(356)	—	(10,823)
Interest and miscellaneous income (expense), net	2,538	770	(4,325)	103	—	(914)
Equity in income from subsidiaries	57,932	58,802	39,544	—	(156,278)	—
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	57,280	56,396	28,104	23,391	(156,939)	8,232
Income tax benefit	65	1,536	3,627	1,642	(62)	6,808
INCOME FROM CONTINUING OPERATIONS	57,345	57,932	31,731	25,033	(157,001)	15,040
DISCONTINUED OPERATIONS, NET						
Income from discontinued operations, net of income taxes	—	—	—	43,327	—	43,327
NET INCOME	57,345	57,932	31,731	68,360	(157,001)	58,367
Less: Net income attributable to noncontrolling interest	—	—	—	1,022	—	1,022
NET INCOME ATTRIBUTABLE TO RAYONIER INC.	57,345	57,932	31,731	67,338	(157,001)	57,345
OTHER COMPREHENSIVE INCOME						
	17,887	17,887	2,084	24,259	(37,858)	24,259

Foreign currency translation adjustment						
New Zealand joint venture cash flow hedges	2,233	2,231	2,231	3,434	(6,696)	3,433
Amortization of pension and postretirement plans, net of income tax	3,639	3,639	2,747	2,747	(9,133)	3,639
Total other comprehensive income	23,759	23,757	7,062	30,440	(53,687)	31,331
COMPREHENSIVE INCOME	81,104	81,689	38,793	98,800	(210,688)	89,698
Less: Comprehensive income attributable to noncontrolling interest	—	—	—	8,594	—	8,594
COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.	$81,104	$ 81,689	$ 38,793	$90,206	$ (210,688)	$ 81,104

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RAYONIER INC. AND SUBSIDIARIES
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(Unaudited)
(Dollar amounts in thousands unless otherwise stated)

CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
For the Nine Months Ended September 30, 2014

	Rayonier Inc (Parent Guarantor)	ROC (Subsidiary Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Non-guarantors	Consolidating Adjustments	Total Consolidated
SALES	$—	$ —	$ —	$456,161	$ —	$ 456,161
Costs and Expenses						
Cost of sales	—	—	—	357,083	—	357,083
Selling and general expenses	—	8,032	—	27,872	—	35,904
Other operating expense (income), net	—	3,094	—	(24,002)	—	(20,908)
	—	11,126	—	360,953	—	372,079
OPERATING INCOME (LOSS)	—	(11,126)	—	95,208	—	84,082
Interest expense	(10,074)	(327)	(20,794)	(4,657)	—	(35,852)
Interest and miscellaneous income (expense), net	7,230	(1,375)	(2,405)	(10,581)	—	(7,131)
Equity in income (loss) from subsidiaries	93,324	106,315	(16,692)	—	(182,947)	—
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	90,480	93,487	(39,891)	79,970	(182,947)	41,099
Income tax benefit (expense)	—	(163)	8,467	(2,985)	—	5,319
INCOME (LOSS) FROM CONTINUING OPERATIONS	90,480	93,324	(31,424)	76,985	(182,947)	46,418
DISCONTINUED OPERATIONS, NET						
Income from discontinued operations, net of income tax	—	—	—	43,092	—	43,092
NET INCOME (LOSS)	90,480	93,324	(31,424)	120,077	(182,947)	89,510
Less: Net loss attributable to noncontrolling interest	—	—	—	(970)	—	(970)
NET INCOME (LOSS) ATTRIBUTABLE TO RAYONIER INC.	90,480	93,324	(31,424)	121,047	(182,947)	90,480
OTHER COMPREHENSIVE INCOME (LOSS)						
Foreign currency translation adjustment	(11,770)	(11,770)	(162)	(16,426)	23,702	(16,426)
New Zealand joint venture cash flow hedges	(1,756)	(1,757)	(1,758)	(2,703)	5,271	(2,703)
Amortization of pension and postretirement plans, net of income tax	63,235	63,235	90,214	90,214	(243,663)	63,235

Total other comprehensive income	49,709	49,708	88,294	71,085	(214,690)	44,106
COMPREHENSIVE INCOME	140,189	143,032	56,870	191,163	(397,638)	133,616
Less: Comprehensive loss attributable to noncontrolling interest	—	—	—	(6,573)	—	(6,573)
COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.	$140,189	$ 143,032	$ 56,870	$197,736	$ (397,638)	$ 140,189

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RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(Dollar amounts in thousands unless otherwise stated)

CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
For the Nine Months Ended September 30, 2013

	Rayonier Inc (Parent Guarantor)	ROC (Subsidiary Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Non-guarantors	Consolidating Adjustments	Total Consolidated
SALES	$—	$ —	$ —	$ 421,203	$ —	$ 421,203
Costs and Expenses						
Cost of sales	—	—	—	333,523	—	333,523
Selling and general expenses	—	7,357	—	33,847	—	41,204
Other operating (income) expense, net	(1,701)	1,187	—	(10,073)	—	(10,587)
	(1,701)	8,544	—	357,297	—	364,140
Equity in income of New Zealand joint venture	—	—	—	562	—	562
OPERATING INCOME (LOSS) BEFORE GAIN ON CONSOLIDATION OF NEW ZEALAND JOINT VENTURE	1,701	(8,544)	—	64,468	—	57,625
Gain related to consolidation of New Zealand joint venture	—	—	—	16,098	—	16,098
OPERATING INCOME (LOSS)	1,701	(8,544)	—	80,566	—	73,723
Interest (expense) income	(9,879)	(680)	(20,730)	663	—	(30,626)
Interest and miscellaneous income (expense), net	6,716	2,403	(5,873)	(1,394)	—	1,852
Equity in income from subsidiaries	293,706	298,802	198,981	—	(791,489)	—
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	292,244	291,981	172,378	79,835	(791,489)	44,949
Income tax benefit	—	1,725	9,164	17,861	—	28,750
INCOME FROM CONTINUING OPERATIONS	292,244	293,706	181,542	97,696	(791,489)	73,699
DISCONTINUED OPERATIONS, NET						
Income from discontinued operations, net of income taxes	—	—	—	220,294	—	220,294
NET INCOME	292,244	293,706	181,542	317,990	(791,489)	293,993
Less: Net income attributable to noncontrolling interest	—	—	—	1,749	—	1,749
NET INCOME ATTRIBUTABLE TO RAYONIER INC.	292,244	293,706	181,542	316,241	(791,489)	292,244
OTHER COMPREHENSIVE INCOME (LOSS)						
	237	237	629	(2,967)	(1,103)	(2,967)

Foreign currency translation adjustment						
New Zealand joint venture cash flow hedges	3,663	3,663	1,014	4,209	(8,340)	4,209
Amortization of pension and postretirement plans, net of income tax	12,326	12,326	9,578	9,578	(31,482)	12,326
Total other comprehensive income	16,226	16,226	11,221	10,820	(40,925)	13,568
COMPREHENSIVE INCOME	308,470	309,932	192,763	328,810	(832,414)	307,561
Less: Comprehensive loss attributable to noncontrolling interest	—	—	—	(909)	—	(909)
COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.	$ 308,470	$ 309,932	$ 192,763	$ 329,719	$ (832,414)	$ 308,470

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RAYONIER INC. AND SUBSIDIARIES
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(Unaudited)
(Dollar amounts in thousands unless otherwise stated)

CONDENSED CONSOLIDATING BALANCE SHEETS
As of September 30, 2014

	Rayonier Inc. (Parent Guarantor)	ROC (Subsidiary Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Non-guarantors	Consolidating Adjustments	Total Consolidated
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	$84,283	$3,255	$ 48,233	$47,060	$—	$182,831
Restricted cash	—	—	—	—	—	—
Accounts receivable, less allowance for doubtful accounts	—	—	1,359	26,878	—	28,237
Inventory	—	—	—	12,439	—	12,439
Deferred tax assets	—	—	—	4,211	—	4,211
Prepaid and other current assets	—	1,511	14	22,296	—	23,821
Total current assets	84,283	4,766	49,606	112,884	—	251,539
TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION	—	—	—	2,058,381	—	2,058,381
NET PROPERTY, PLANT AND EQUIPMENT	—	483	—	6,048	—	6,531
INVESTMENT IN SUBSIDIARIES	1,522,406	1,907,075	499,062	—	(3,928,543)	—
INTERCOMPANY NOTES RECEIVABLE	245,898	—	21,279	—	(267,177)	—
OTHER ASSETS	2,860	17,315	1,962	138,971	—	161,108
TOTAL ASSETS	$1,855,447	$1,929,639	$ 571,909	$2,316,284	$(4,195,720)	$2,477,559
LIABILITIES AND SHAREHOLDERS' EQUITY						
CURRENT LIABILITIES						
Accounts payable	$—	$1,595	$ 2,052	$19,479	$—	$23,126
Current maturities of long-term debt	—	—	129,199	1,287	—	130,486
Accrued taxes	—	41	—	14,913	—	14,954
Uncertain tax positions	—	—	—	—	—	—
Accrued payroll and benefits	—	3,892	—	2,446	—	6,338
Accrued interest	6,116	(3)	1,004	29,098	(26,079)	10,136
Other current liabilities	—	1,113	—	25,483	—	26,596
Total current liabilities	6,116	6,638	132,255	92,706	(26,079)	211,636
LONG-TERM DEBT	325,000	—	14,999	265,163	—	605,162
PENSION AND OTHER POSTRETIREMENT BENEFITS	—	23,078	—	(685)	—	22,393
OTHER NON-CURRENT LIABILITIES	—	6,876	—	20,590	—	27,466
INTERCOMPANY PAYABLE	—	370,641	—	(100,759)	(269,882)	—

TOTAL RAYONIER INC. SHAREHOLDERS' EQUITY	1,524,331	1,522,406	424,655	1,952,698	(3,899,759)	1,524,331
Noncontrolling interest	—	—	—	86,571	—	86,571
TOTAL SHAREHOLDERS' EQUITY	1,524,331	1,522,406	424,655	2,039,269	(3,899,759)	1,610,902
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,855,447	$1,929,639	$ 571,909	$2,316,284	$(4,195,720)	$2,477,559

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RAYONIER INC. AND SUBSIDIARIES
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(Unaudited)
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CONDENSED CONSOLIDATING BALANCE SHEETS
As of December 31, 2013

	Rayonier Inc. (Parent Guarantor)	ROC (Subsidiary Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Non-guarantors	Consolidating Adjustments	Total Consolidated
ASSETS						
CURRENT ASSETS						
Cash and cash equivalents	$130,181	$304	$ 10,719	$58,440	$—	$199,644
Accounts receivable, less allowance for doubtful accounts	—	10	2,300	92,646	—	94,956
Inventory	—	—	—	138,818	—	138,818
Deferred tax assets	—	—	681	38,419	—	39,100
Prepaid and other current assets	—	2,363	6	44,207	—	46,576
Total current assets	130,181	2,677	13,706	372,530	—	519,094
TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION	—	—	—	2,049,378	—	2,049,378
NET PROPERTY, PLANT AND EQUIPMENT	—	2,612	—	858,209	—	860,821
INVESTMENT IN SUBSIDIARIES	1,627,315	1,837,760	1,148,221	—	(4,613,296)	—
INTERCOMPANY NOTES RECEIVABLE	228,032	—	20,659	—	(248,691)	—
OTHER ASSETS	3,689	32,519	3,739	216,261	—	256,208
TOTAL ASSETS	$1,989,217	$1,875,568	$ 1,186,325	$3,496,378	$(4,861,987)	$3,685,501
LIABILITIES AND SHAREHOLDERS’ EQUITY						
CURRENT LIABILITIES						
Accounts payable	$—	$1,522	$ 1,564	$66,207	$—	$69,293
Current maturities of long-term debt	—	—	112,500	—	—	112,500
Accrued taxes	—	4,855	—	3,696	—	8,551
Uncertain tax positions	—	5,780	—	4,767	—	10,547
Accrued payroll and benefits	—	11,382	—	13,566	—	24,948
Accrued interest	3,047	538	2,742	22,816	(19,612)	9,531
Accrued customer incentives	—	—	—	9,580	—	9,580
Other current liabilities	—	2,985	—	21,342	—	24,327
Current liabilities for dispositions and discontinued operations	—	—	—	6,835	—	6,835
Total current liabilities	3,047	27,062	116,806	148,809	(19,612)	276,112
LONG-TERM DEBT	325,000	—	847,749	288,975	—	1,461,724
NON-CURRENT LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS	—	—	—	69,543	—	69,543
	—	91,471	—	4,183	—	95,654

PENSION AND OTHER POSTRETIREMENT BENEFITS						
OTHER NON-CURRENT LIABILITIES	—	11,493	—	15,732	—	27,225
INTERCOMPANY PAYABLE	—	118,227	—	125,921	(244,148)	—
TOTAL RAYONIER INC. SHAREHOLDERS' EQUITY	1,661,170	1,627,315	221,770	2,749,142	(4,598,227)	1,661,170
Noncontrolling interest	—	—	—	94,073	—	94,073
TOTAL SHAREHOLDERS' EQUITY	1,661,170	1,627,315	221,770	2,843,215	(4,598,227)	1,755,243
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,989,217	$1,875,568	$ 1,186,325	$3,496,378	$(4,861,987)	$3,685,501

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RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2014

	Rayonier Inc (Parent Guarantor)	ROC (Subsidiary Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Non-guarantors	Consolidating Adjustments	Total Consolidated
CASH PROVIDED BY OPERATING ACTIVITIES	$219,988	$238,010	$ —	$54,461	$ (231,730)	$ 280,729
INVESTING ACTIVITIES						
Capital expenditures	—	(400)	—	(105,258)	—	(105,658)
Purchase of timberlands	—	—	—	(93,189)	—	(93,189)
Change in restricted cash	—	—	—	47,318	—	47,318
Investment in Subsidiaries	—	—	855,014	—	(855,014)	—
Other	—	—	—	(478)	—	(478)
CASH (USED FOR) PROVIDED BY INVESTING ACTIVITIES	—	(400)	855,014	(151,607)	(855,014)	(152,007)
FINANCING ACTIVITIES						
Issuance of debt	—	—	185,000	1,110,163	—	1,295,163
Repayment of debt	—	—	(1,002,500)	(170,549)	—	(1,173,049)
Dividends paid	(225,877)	—	—	—	—	(225,877)
Proceeds from the issuance of common shares	4,645	—	—	—	—	4,645
Debt issuance costs	—	—	—	(12,380)	—	(12,380)
Repurchase of common shares	(1,834)	—	—	—	—	(1,834)
Purchase of timberland deeds for Rayonier Advanced Materials	(12,677)	—	—	—	—	(12,677)
Debt issuance funds distributed to Rayonier Advanced Materials	(924,943)	—	—	—	—	(924,943)
Proceeds from spin-off of Rayonier Advanced Materials	906,200	—	—	—	—	906,200
Change in restricted cash reserved for dividends	—	—	—	—	—	—
Issuance of intercompany notes	(11,400)	—	—	11,400	—	—
Intercompany distributions	—	(234,659)	—	(852,085)	1,086,744	—
Other	—	—	—	(680)	—	(680)
CASH (USED FOR) PROVIDED BY FINANCING ACTIVITIES	(265,886)	(234,659)	(817,500)	85,869	1,086,744	(145,432)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	—	—	—	(103)	—	(103)
CASH AND CASH EQUIVALENTS						
Change in cash and cash equivalents	(45,898)	2,951	37,514	(11,380)	—	(16,813)
Balance, beginning of year	130,181	304	10,719	58,440	—	199,644
Balance, end of period	$84,283	$3,255	$ 48,233	$47,060	$ —	$ 182,831

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RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
For the Nine Months Ended September 30, 2013

	Rayonier Inc (Parent Guarantor)	ROC (Subsidiary Guarantor)	Rayonier TRS Holdings Inc. (Issuer)	Non-guarantors	Consolidating Adjustments	Total Consolidated
CASH PROVIDED BY OPERATING ACTIVITIES	$389,405	$394,700	$ 84,000	$291,478	$ (825,347)	$ 334,236
INVESTING ACTIVITIES						
Capital expenditures	—	(335)	—	(121,764)	—	(122,099)
Purchase of additional interest in New Zealand joint venture	—	—	—	(139,879)	—	(139,879)
Purchase of timberlands	—	—	—	(11,650)	—	(11,650)
Intercompany purchase of real estate	—	—	—	—	—	—
Jesup mill cellulose specialties expansion	—	—	—	(137,392)	—	(137,392)
Proceeds from disposition of Wood Products business	—	—	—	68,063	—	68,063
Change in restricted cash	—	—	—	3,989	—	3,989
Investment in Subsidiaries	(138,178)	(138,178)	(316,836)	—	593,192	—
Other	—	1,701	—	(1,925)	—	(224)
CASH USED FOR INVESTING ACTIVITIES	(138,178)	(136,812)	(316,836)	(340,558)	593,192	(339,192)
FINANCING ACTIVITIES						
Issuance of debt	175,000	—	375,000	57,885	—	607,885
Repayment of debt	(325,000)	—	(56,527)	(71,936)	—	(453,463)
Dividends paid	(175,079)	—	—	—	—	(175,079)
Proceeds from the issuance of common shares	9,205	—	—	—	—	9,205
Excess tax benefits on stock-based compensation	—	—	—	8,189	—	8,189
Repurchase of common shares	(11,303)	—	—	—	—	(11,303)
Issuance of intercompany notes	(4,000)		—	4,000	—	—
Intercompany distributions	—	(256,921)	(84,000)	108,766	232,155	—
CASH (USED FOR) PROVIDED BY FINANCING ACTIVITIES	(331,177)	(256,921)	234,473	106,904	232,155	(14,566)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	—	—	—	(336)	—	(336)
CASH AND CASH EQUIVALENTS						
Change in cash and cash equivalents	(79,950)	967	1,637	57,488	—	(19,858)
Balance, beginning of year	252,888	3,966	19,358	4,384	—	280,596
Balance, end of period	$172,938	$4,933	$ 20,995	$61,872	$ —	$ 260,738

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RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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In March 2012, Rayonier Inc. issued $325 million of 3.75% Senior Notes due 2022. The notes are fully and unconditionally guaranteed by ROC and Rayonier TRS Holdings Inc. In connection with these notes, the Company provides the following consolidating financial information in accordance with SEC Regulation S-X Rule 3-10, Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered.

CONDENSED CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
For the Three Months Ended September 30, 2014

	Rayonier Inc. (Parent Issuer)	Subsidiary Guarantors	Non-guarantors	Consolidating Adjustments	Total Consolidated
SALES	$—	$—	$149,829	$—	$149,829
Costs and Expenses					
Cost of sales	—	—	118,088	—	118,088
Selling and general expenses	—	3,488	5,318	—	8,806
Other operating income, net	—	(854)	(8,290)	—	(9,144)
	—	2,634	115,116	—	117,750
OPERATING (LOSS) INCOME	—	(2,634)	34,713	—	32,079
Interest expense	(3,685)	(2,981)	(2,900)	—	(9,566)
Interest and miscellaneous income (expense), net	1,799	554	(4,087)	—	(1,734)
Equity in income from subsidiaries	34,587	38,414	—	(73,001)	—
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	32,701	33,353	27,726	(73,001)	20,779
Income tax benefit	—	1,234	10,046	—	11,280
INCOME FROM CONTINUING OPERATIONS	32,701	34,587	37,772	(73,001)	32,059
DISCONTINUED OPERATIONS, NET					
Income from discontinued operations, net of income taxes	—	—	—	—	—
NET INCOME	32,701	34,587	37,772	(73,001)	32,059
Less: Net loss attributable to noncontrolling interest	—	—	(642)	—	(642)
NET INCOME ATTRIBUTABLE TO RAYONIER INC.	32,701	34,587	38,414	(73,001)	32,701
OTHER COMPREHENSIVE INCOME (LOSS)					
Foreign currency translation adjustment	(27,317)	(27,317)	(37,738)	54,495	(37,877)
New Zealand joint venture cash flow hedges	(2,270)	(2,272)	(3,494)	4,542	(3,494)
Amortization of pension and postretirement plans, net of income tax	2,265	2,265	(4,120)	1,855	2,265
Total other comprehensive loss	(27,322)	(27,324)	(45,352)	60,892	(39,106)
COMPREHENSIVE INCOME (LOSS)	5,379	7,263	(7,580)	(12,109)	(7,047)
Less: Comprehensive loss attributable to noncontrolling interest	—	—	(12,295)	(131)	(12,426)
	$5,379	$7,263	$4,715	$(11,978)	$5,379

COMPREHENSIVE INCOME
ATTRIBUTABLE TO RAYONIER INC.

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RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(Dollar amounts in thousands unless otherwise stated)

CONDENSED CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
For the Three Months Ended September 30, 2013

	Rayonier Inc. (Parent Issuer)	Subsidiary Guarantors	Non-guarantors	Consolidating Adjustments	Total Consolidated
SALES	$—	$—	$159,261	$—	$159,261
Costs and Expenses					
Cost of sales	—	—	129,002	—	129,002
Selling and general expenses	—	2,276	10,828	—	13,104
Other operating expense (income), net	—	738	(4,213)	661	(2,814)
	—	3,014	135,617	661	139,292
OPERATING (LOSS) INCOME	—	(3,014)	23,644	(661)	19,969
Interest expense	(3,190)	(7,277)	(356)	—	(10,823)
Interest and miscellaneous income (expense), net	2,538	(3,555)	103	—	(914)
Equity in income from subsidiaries	57,932	66,610	—	(124,542)	—
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	57,280	52,764	23,391	(125,203)	8,232
Income tax benefit	65	5,168	1,642	(67)	6,808
INCOME FROM CONTINUING OPERATIONS	57,345	57,932	25,033	(125,270)	15,040
DISCONTINUED OPERATIONS, NET					
Income from discontinued operations, net of income taxes	—	—	43,327	—	43,327
NET INCOME	57,345	57,932	68,360	(125,270)	58,367
Less: Net income attributable to noncontrolling interest	—	—	1,022	—	1,022
NET INCOME ATTRIBUTABLE TO RAYONIER INC.	57,345	57,932	67,338	(125,270)	57,345
OTHER COMPREHENSIVE INCOME					
Foreign currency translation adjustment	17,887	17,887	24,259	(35,774)	24,259
New Zealand joint venture cash flow hedges	2,233	2,231	3,434	(4,465)	3,433
Amortization of pension and postretirement plans, net of income tax	3,639	3,639	2,747	(6,386)	3,639
Total other comprehensive income	23,759	23,757	30,440	(46,625)	31,331
COMPREHENSIVE INCOME	$81,104	$81,689	$98,800	$(171,895)	$89,698
Less: Comprehensive income attributable to noncontrolling interest	$—	$—	$8,594	$—	$8,594
COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.	$81,104	$81,689	$90,206	$(171,895)	$81,104

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RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(Dollar amounts in thousands unless otherwise stated)

CONSOLIDATING STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME
For the Nine Months Ended September 30, 2014

	Rayonier Inc. (Parent Issuer)	Subsidiary Guarantors	Non-guarantors	Consolidating Adjustments	Total Consolidated
SALES	$—	$—	$456,161	$ —	$456,161
Costs and Expenses					
Cost of sales	—	—	357,083	—	357,083
Selling and general expenses	—	8,032	27,872	—	35,904
Other operating expense (income), net	—	3,094	(24,002)	—	(20,908)
	—	11,126	360,953	—	372,079
OPERATING (LOSS) INCOME	—	(11,126)	95,208	—	84,082
Interest expense	(10,074)	(21,121)	(4,657)	—	(35,852)
Interest and miscellaneous income (expense), net	7,230	(3,780)	(10,581)	—	(7,131)
Equity in income from subsidiaries	93,324	121,047	—	(214,371)	—
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	90,480	85,020	79,970	(214,371)	41,099
Income tax benefit (expense)	—	8,304	(2,985)	—	5,319
INCOME FROM CONTINUING OPERATIONS	90,480	93,324	76,985	(214,371)	46,418
DISCONTINUED OPERATIONS, NET					
Income from discontinued operations, net of income taxes	—	—	43,092	—	43,092
NET INCOME	90,480	93,324	120,077	(214,371)	89,510
Less: Net loss attributable to noncontrolling interest	—	—	(970)	—	(970)
NET INCOME ATTRIBUTABLE TO RAYONIER INC.	90,480	93,324	121,047	(214,371)	90,480
OTHER COMPREHENSIVE INCOME (LOSS)					
Foreign currency translation adjustment	(11,770)	(11,770)	(16,426)	23,540	(16,426)
New Zealand joint venture cash flow hedges	(1,756)	(1,758)	(2,703)	3,514	(2,703)
Amortization of pension and postretirement plans, net of income tax	63,235	63,235	90,214	(153,449)	63,235
Total other comprehensive income	49,709	49,707	71,085	(126,395)	44,106
COMPREHENSIVE INCOME	140,189	143,031	191,163	(340,767)	133,616
Less: Comprehensive loss attributable to noncontrolling interest	—	—	(6,573)	—	(6,573)
COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.	$140,189	$143,031	$197,736	$ (340,767)	$140,189

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RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
(Dollar amounts in thousands unless otherwise stated)

	CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME For the Nine Months Ended September 30, 2013				
	Rayonier Inc. (Parent Issuer)	Subsidiary Guarantors	Non-guarantors	Consolidating Adjustments	Total Consolidated
SALES	$—	$—	$421,203	$—	$421,203
Costs and Expenses					
Cost of sales	—	—	333,523	—	333,523
Selling and general expenses	—	7,357	33,847	—	41,204
Other operating (income) expense, net	(1,701)	1,187	(10,073)	—	(10,587)
	(1,701)	8,544	357,297	—	364,140
Equity in income of New Zealand joint venture	—	—	562	—	562
OPERATING INCOME (LOSS) BEFORE GAIN ON CONSOLIDATION OF NEW ZEALAND JOINT VENTURE	1,701	(8,544)	64,468	—	57,625
Gain related to consolidation of New Zealand joint venture	—	—	16,098	—	16,098
OPERATING INCOME (LOSS)	1,701	(8,544)	80,566	—	73,723
Interest (expense) income	(9,879)	(21,410)	663	—	(30,626)
Interest and miscellaneous income (expense), net	6,716	(3,470)			