

RAYONIER INC  
Form 10-Q  
November 03, 2017  
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2017

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 1-6780

RAYONIER INC.

Incorporated in the State of North Carolina

I.R.S. Employer Identification No. 13-2607329

1 RAYONIER WAY

YULEE, FL 32097

(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  NO

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

YES  NO

As of October 27, 2017, there were outstanding 128,931,674 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,	
	2017	2016	2017	2016
SALES	\$177,946	\$171,421	\$559,178	\$567,814
Costs and Expenses				
Cost of sales	136,583	116,624	416,683	362,790
Selling and general expenses	9,936	10,607	29,771	31,638
Other operating income, net (Note 14)	(7,844 )	(5,499 )	(22,702 )	(20,867 )
OPERATING INCOME	138,675	121,732	423,752	373,561
Interest expense	39,271	49,689	135,426	194,253
Interest income and miscellaneous income (expense), net	(8,553 )	(8,544 )	(25,600 )	(23,603 )
INCOME BEFORE INCOME TAXES	1,128	258	1,650	(1,115 )
Income tax expense (Note 7)	31,846	41,403	111,476	169,535
NET INCOME	(3,043 )	(779 )	(16,817 )	(2,274 )
Less: Net income attributable to noncontrolling interest	28,803	40,624	94,659	167,261
NET INCOME ATTRIBUTABLE TO RAYONIER INC.	4,115	1,269	9,968	3,613
OTHER COMPREHENSIVE (LOSS) INCOME	24,688	39,355	84,691	163,648
Foreign currency translation adjustment, net of income tax expense of \$0, \$0, \$0 and \$0	(7,317 )	12,022	16,599	28,046
Cash flow hedges, net of income tax (expense) benefit of (\$614), \$229, \$534 and \$1,293	(2,162 )	4,195	(1,597 )	(22,055 )
Amortization of pension and postretirement plans, net of income tax expense of \$0, \$0, \$0 and \$0	116	632	349	1,881
Total other comprehensive (loss) income	(9,363 )	16,849	15,351	7,872
COMPREHENSIVE INCOME	19,440	57,473	110,010	175,133
Less: Comprehensive income attributable to noncontrolling interest	2,289	3,649	13,537	11,808
COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.	\$17,151	\$53,824	\$96,473	\$163,325
EARNINGS PER COMMON SHARE (Note 10)				
Basic earnings per share attributable to Rayonier Inc.	\$0.19	\$0.32	\$0.67	\$1.34
Diluted earnings per share attributable to Rayonier Inc.	\$0.19	\$0.32	\$0.67	\$1.33
Dividends declared per share	\$0.25	\$0.25	\$0.75	\$0.75

See Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands)

	September 30, 2017	December 31, 2016
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$104,062	\$85,909
Accounts receivable, less allowance for doubtful accounts of \$23 and \$33	39,408	20,664
Insurance settlement receivable (Note 8)	73,000	—
Inventory (Note 15)	24,497	21,379
Prepaid expenses	16,656	11,807
Assets held for sale (Note 17)	—	23,171
Other current assets	3,322	1,874
Total current assets	260,945	164,804
TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION HIGHER AND BETTER USE TIMBERLANDS AND REAL ESTATE DEVELOPMENT	2,492,049	2,291,015
INVESTMENTS (NOTE 5)	79,223	70,374
<b>PROPERTY, PLANT AND EQUIPMENT</b>		
Land	3,043	2,279
Buildings	24,105	7,990
Machinery and equipment	4,449	4,658
Construction in progress	1,127	8,170
Total property, plant and equipment, gross	32,724	23,097
Less — accumulated depreciation	(9,398)	(9,063)
Total property, plant and equipment, net	23,326	14,034
RESTRICTED CASH (NOTE 16)	10,631	71,708
OTHER ASSETS	45,545	73,825
<b>TOTAL ASSETS</b>	<b>\$2,911,719</b>	<b>\$2,685,760</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$27,692	\$22,337
Insurance settlement payable (Note 8)	73,000	—
Current maturities of long-term debt (Note 4)	—	31,676
Accrued taxes	7,562	2,657
Accrued payroll and benefits	7,331	9,277
Accrued interest	8,032	5,340
Other current liabilities	26,799	20,679
Total current liabilities	150,416	91,966
LONG-TERM DEBT, NET OF DEFERRED FINANCING COSTS (NOTE 4)	1,030,269	1,030,205
PENSION AND OTHER POSTRETIREMENT BENEFITS (NOTE 13)	31,431	31,856
OTHER NON-CURRENT LIABILITIES	42,369	34,981
<b>COMMITMENTS AND CONTINGENCIES (NOTES 6 and 8)</b>		
<b>SHAREHOLDERS' EQUITY</b>		
Common Shares, 480,000,000 shares authorized, 128,916,631 and 122,904,368 shares issued and outstanding	870,006	709,867
Retained earnings	675,911	700,887

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Accumulated other comprehensive income (Note 18)	12,638	856
TOTAL RAYONIER INC. SHAREHOLDERS' EQUITY	1,558,555	1,411,610
Noncontrolling interest	98,679	85,142
TOTAL SHAREHOLDERS' EQUITY	1,657,234	1,496,752
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$2,911,719	\$2,685,760

See Notes to Consolidated Financial Statements.

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RAYONIER INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
(Unaudited)  
(Dollars in thousands, except share data)

	Common Shares		Retained Earnings	Accumulated		Shareholders' Equity
	Shares	Amount		Other Comprehensive Income/(Loss)	Non-controlling Interest	
Balance, December 31, 2015	122,770,217	\$708,827	\$612,760	(\$33,503 )	\$73,656	\$1,361,740
Net income	—	—	211,972	—	5,798	217,770
Dividends (\$1.00 per share)	—	—	(123,155 )	—	—	(123,155 )
Issuance of shares under incentive stock plans	179,743	1,576	—	—	—	1,576
Stock-based compensation	—	5,136	—	—	—	5,136
Repurchase of common shares	(45,592 )	(178 )	(690 )	—	—	(868 )
Actuarial change and amortization of pension and postretirement plan liabilities	—	—	—	5,533	—	5,533
Foreign currency translation adjustment	—	—	—	2,780	3,542	6,322
Cash flow hedges	—	—	—	22,608	214	22,822
Recapitalization of New Zealand Joint Venture	—	(5,398 )	—	3,438	1,960	—
Recapitalization costs	—	(96 )	—	—	(28 )	(124 )
Balance, December 31, 2016	122,904,368	\$709,867	\$700,887	\$856	\$85,142	\$1,496,752
Cumulative-effect adjustment due to adoption of ASU No. 2016-16	—	—	(14,365 )	—	—	(14,365 )
Net income	—	—	84,691	—	9,968	94,659
Dividends (\$0.75 per share)	—	—	(95,302 )	—	—	(95,302 )
Issuance of shares under incentive stock plans	262,561	3,665	—	—	—	3,665
Stock-based compensation	—	4,084	—	—	—	4,084
Repurchase of common shares	(298 )	—	—	—	—	—
Amortization of pension and postretirement plan liabilities	—	—	—	349	—	349
Foreign currency translation adjustment	—	—	—	13,335	3,264	16,599
Cash flow hedges	—	—	—	(1,902 )	305	(1,597 )
Issuance of shares under equity offering, net of costs	5,750,000	152,390	—	—	—	152,390
Balance, September 30, 2017	128,916,631	\$870,006	\$675,911	\$12,638	\$98,679	\$1,657,234

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,	
	2017	2016
<b>OPERATING ACTIVITIES</b>		
Net income	\$94,659	\$167,261
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, depletion and amortization	96,602	83,685
Non-cash cost of land and improved development	8,631	10,111
Stock-based incentive compensation expense	4,084	3,894
Deferred income taxes	16,714	4,472
Amortization of losses from pension and postretirement plans	349	1,881
Gain on sale of large disposition of timberlands	(28,183 )	(101,325 )
Other	29	(251 )
Changes in operating assets and liabilities:		
Receivables	(18,639 )	(3,897 )
Inventories	(617 )	(4,591 )
Accounts payable	5,018	583
Income tax receivable/payable	(126 )	(47 )
All other operating activities	8,352	2,132
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>186,873</b>	<b>163,908</b>
<b>INVESTING ACTIVITIES</b>		
Capital expenditures	(45,731 )	(40,246 )
Real estate development investments	(11,780 )	(4,815 )
Purchase of timberlands	(239,052 )	(353,828 )
Assets purchased in business acquisition	—	(1,113 )
Net proceeds from large disposition of timberlands	42,029	126,965
Rayonier office building under construction	(5,979 )	(3,933 )
Change in restricted cash	61,078	22,430
Other	383	444
<b>CASH USED FOR INVESTING ACTIVITIES</b>	<b>(199,052 )</b>	<b>(254,096 )</b>
<b>FINANCING ACTIVITIES</b>		
Issuance of debt	63,389	694,096
Repayment of debt	(95,216 )	(454,419 )
Dividends paid	(95,008 )	(92,095 )
Proceeds from the issuance of common shares under incentive stock plan	3,665	889
Proceeds from the issuance of common shares from equity offering, net of costs	152,390	—
Repurchase of common shares made under share repurchase program	—	(690 )
Debt issuance costs	—	(818 )
Other	—	(139 )
<b>CASH PROVIDED BY FINANCING ACTIVITIES</b>	<b>29,220</b>	<b>146,824</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH</b>	<b>1,112</b>	<b>1,626</b>
<b>CASH AND CASH EQUIVALENTS</b>		
Change in cash and cash equivalents	18,153	58,262
Balance, beginning of year	85,909	51,777
Balance, end of period	\$104,062	\$110,039

## SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the period:

Interest (a)	\$23,485	\$23,540
Income taxes	513	495
Non-cash investing activity:		
Capital assets purchased on account	4,575	4,376

Interest paid is presented net of patronage payments received of \$3.0 million and \$0.4 million for the nine months (a)ended September 30, 2017 and September 30, 2016, respectively. For additional information on patronage payments, see Note 5 — Debt in the 2016 Form 10-K.

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

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 (“GAAP”) for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”). In the opinion of management, these financial statements and notes reflect all adjustments (all of which are normal recurring adjustments) necessary for a fair presentation of the results of operations, financial position and cash flows for the periods presented. These statements and notes should be read in conjunction with the financial statements and supplementary data included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016, as filed with the SEC (the “2016 Form 10-K”).

Summary of Significant Accounting Policies

Investment in Real Estate

The Company capitalizes costs directly and indirectly associated with development of identified real estate projects. Direct costs include land and common development costs (such as roads, utilities and amenities), and capitalized property taxes. Indirect costs include administration, legal fees, capitalized interest, and project administration to the extent that such costs are related to a specific project. Interest is capitalized based on the amount of underlying expenditures of real estate projects under development.

Revenue Recognition for Real Estate Sales

The Company generally recognizes revenue on sales of real estate using the full accrual method at closing, when cash has been received, title and risk of loss have passed to the buyer and there is no continuing involvement with the property. Revenue is recognized using the percentage-of-completion method on sales of real estate containing future performance obligations. Cost of sales associated with real estate sold includes the cost of the land, the cost of any timber on the property that was conveyed to the buyer, any real estate development costs and any closing costs including sales commissions that may be borne by the Company.

When developed residential or commercial land is sold, the cost of sales includes actual costs incurred and estimates of future development costs benefiting the property sold through completion. When developed land is sold, costs are allocated to each sold unit or lot based upon the relative sales value. For purposes of allocating development costs, estimates of future revenues and development costs are re-evaluated periodically throughout the year, with adjustments being allocated prospectively to the remaining units available for sale.

Recently Adopted Standards

In October 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-16, Intra-Entity Transfers of Assets Other Than Inventory, stating entities should recognize income tax consequences of intra-entity transfers of assets other than inventory in the period in which they occur. As such, the Company is required to apply the changes on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. ASU No. 2016-16 is effective for annual periods beginning after December 15, 2017 with early adoption permitted at the beginning of an annual period for which financial statements have not been issued. Rayonier early adopted ASU No. 2016-16 during the first quarter ended March 31, 2017. See Note 7 — Income Taxes for additional information.

In March 2016, the FASB issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This update simplifies the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU No. 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Rayonier adopted ASU No. 2016-09 during the first quarter ended March 31, 2017. Upon adoption, additional excess tax benefits and tax

deficiencies are recorded to "Income tax expense" in the Consolidated Statements of Income and Comprehensive Income, forfeitures are accounted for when they occur and cash paid by Rayonier when directly withholding shares for tax withholding purposes are classified as a financing activity within the Consolidated Statements of Cash Flows. The adoption of this standard did not have a material impact on the consolidated financial statements.

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

New Accounting Standards

In March 2017, the FASB issued ASU No. 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires that an employer report the service cost component of net periodic benefit cost in the Consolidated Statements of Income in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. Additionally, the other components of net periodic benefit cost (interest cost, expected return on plan assets and amortization of losses or gains) are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. If a separate line item is used to present the other components of net benefit cost, that line item must be appropriately described. If a separate line item is not used, the line item used in the income statement to present the other components of net benefit cost must be disclosed. ASU No. 2017-07 is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. ASU No. 2017-07 is required to be applied retrospectively to all periods presented beginning in the period of adoption. Rayonier intends to adopt ASU No. 2017-07 in the Company's first quarter 2018 Form 10-Q. Interest cost, expected return on plan assets and amortization of losses or gains are currently recorded in "Selling and general expenses" and "Cost of sales" in the Consolidated Statements of Income and "Timber and timberlands, net of depletion and amortization" in the Consolidated Balance Sheets. Upon adoption, these components of net period benefit cost will be recorded in "Interest income and miscellaneous income (expense), net." As the Company froze benefits for all employees participating in the pension plan effective December 31, 2016, the service cost component of net period benefit is no longer recognized by Rayonier. Based on current actuarial estimates and management assumptions, Rayonier anticipates that the adoption of this standard will not have a significant impact on the Company's consolidated financial statements. See Note 13 — Employee Benefit Plans for the components of net periodic benefit cost.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the Consolidated Statements of Cash Flows. ASU No. 2016-18 is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. ASU No. 2016-18 is required to be applied retrospectively to all periods presented beginning in the period of adoption. Rayonier intends to adopt ASU No. 2016-18 in the Company's first quarter 2018 Form 10-Q. The Company currently records changes in restricted cash within the investing section of the Consolidated Statements of Cash Flows. Upon adoption, restricted cash will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the Consolidated Statements of Cash Flows and therefore changes in restricted cash will not be reported as cash flow activities. Rayonier will continue to disclose the nature of restrictions on the Company's cash, cash equivalents, and restricted cash. See Note 16 — Restricted Cash for additional information.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments, which addresses the diversity in practice in how certain cash receipts and cash payments are presented and classified in the Consolidated Statements of Cash Flows under Topic 230, Statement of Cash Flows, and other Topics. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. ASU No. 2016-15 is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. ASU No. 2016-15 is required to be applied retrospectively to all periods presented beginning in the period of adoption. Early adoption is permitted. The Company anticipates the adoption of this standard will not have a significant impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which currently requires lessees to recognize most leases on their balance sheets related to the rights and obligations created by those leases. ASU No. 2016-02 also requires additional qualitative and quantitative disclosures related to the nature, timing and uncertainty of cash flows arising from leases. ASU No. 2016-02 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. ASU No. 2016-02 is required to be applied on a modified retrospective basis beginning at the earliest period presented. Early adoption is permitted. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

In May 2014, the FASB and International Accounting Standards Board (“IASB”) jointly issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), a comprehensive new revenue recognition standard that will supersede current revenue recognition guidance. 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. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers - Deferral of the Effective Date. ASU No. 2015-14 provides a one-year deferral of the effective date of the new standard, with an option for organizations to adopt early based on the original effective date. In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers - Identifying Performance Obligations and Licensing. The update clarifies the guidance for identifying performance obligations. In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. The update clarifies the guidance for assessing collectibility, presenting sales taxes and other similar taxes collected from customers, non-cash consideration, contract modifications at transition, completed contracts at transition and disclosing the accounting change in the period of adoption. In February 2017, the FASB issued ASU No. 2017-05, Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The update clarifies that a financial asset is within the scope of Subtopic 610-20 if it meets the definition of an in substance nonfinancial asset. This standard will be effective for Rayonier beginning January 1, 2018 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. The Company expects to adopt using the cumulative-effect method.

As of September 30, 2017, and subject to the Company’s ongoing evaluation of new transactions and contracts, Rayonier has substantially completed its evaluation of the expected impact of adopting Topic 606 and anticipates that the adoption of this standard will not have a significant impact on the Company’s consolidated financial statements aside from adding expanded disclosures. Rayonier is also currently identifying and implementing appropriate changes to its business processes, systems and controls to support revenue recognition and disclosures under Topic 606. A material change in controls over financial reporting is not anticipated.

**Subsequent Events**

The Company has evaluated events occurring from September 30, 2017 to the date of issuance for potential recognition or disclosure in the consolidated financial statements. No events were identified that warranted recognition. See Note 8 — Contingencies for events that warranted disclosure.

**2. JOINT VENTURE INVESTMENT**

**Matariki Forestry Group**

The Company maintains a controlling financial interest in Matariki Forestry Group (the “New Zealand JV”), a joint venture that owns or leases approximately 0.4 million legal acres of New Zealand timberland. Accordingly, the Company consolidates the New Zealand JV’s balance sheet and results of operations. The portions of the consolidated financial position and results of operations attributable to the New Zealand JV’s 23% noncontrolling interest are shown separately within the Consolidated Statements of Income and Comprehensive Income and Consolidated Statements of Shareholders’ Equity. Rayonier New Zealand Limited (“RNZ”), a wholly-owned subsidiary of Rayonier Inc., serves as the manager of the New Zealand JV.

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

## 3. SEGMENT AND GEOGRAPHICAL INFORMATION

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 segment operating income and Adjusted EBITDA. Asset information is not reported by segment, as the Company does not produce asset information by segment internally.

Operating income as presented in the Consolidated Statements of Income and Comprehensive Income is equal to segment income. 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 and are included under "Corporate and other" or "unallocated interest expense and other."

The following tables summarize the segment information for the three and nine months ended September 30, 2017 and 2016:

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
SALES	2017	2016	2017	2016
Southern Timber	\$31,897	\$27,826	\$95,390	\$102,205
Pacific Northwest Timber	18,644	16,139	62,887	52,316
New Zealand Timber	69,913	42,179	187,817	125,951
Real Estate (a)	17,240	60,626	97,149	211,296
Trading	40,252	24,651	115,935	76,046
Total	\$177,946	\$171,421	\$559,178	\$567,814

(a) The nine months ended September 30, 2017 and September 30, 2016 include Large Dispositions of \$42.0 million and \$129.5 million, respectively.

	Three Months		Nine Months Ended	
	Ended		September 30,	
	September 30,		September 30,	
OPERATING INCOME (LOSS)	2017	2016	2017	2016
Southern Timber	\$11,436	\$8,183	\$35,031	\$34,976
Pacific Northwest Timber	1,134	(3,293 )	(1,278 )	(874 )
New Zealand Timber	19,280	6,613	56,327	21,385
Real Estate (a)	11,437	43,078	57,235	152,997
Trading	1,142	481	3,380	1,456
Corporate and other	(5,158 )	(5,373 )	(15,269 )	(15,687 )
Total Operating Income	39,271	49,689	135,426	194,253
Unallocated interest expense and other	(7,425 )	(8,286 )	(23,950 )	(24,718 )
Total Income before Income Taxes	\$31,846	\$41,403	\$111,476	\$169,535

(a) The nine months ended September 30, 2017 and September 30, 2016 include Large Dispositions of \$28.2 million and \$101.3 million, respectively.





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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
DEPRECIATION, DEPLETION AND AMORTIZATION				
Southern Timber	\$12,736	\$9,988	\$37,092	\$37,102
Pacific Northwest Timber	6,481	6,668	23,766	14,978
New Zealand Timber (a)	8,478	5,956	29,341	17,252
Real Estate (b)	735	9,260	14,038	35,988
Trading	—	—	—	—
Corporate and other	277	106	469	298
Total	\$28,707	\$31,978	\$104,706	\$105,618

(a) The nine months ended September 30, 2017 includes \$8.9 million of timber cost basis expensed in conjunction with a timberland sale.

(b) The nine months ended September 30, 2017 and September 30, 2016 include Large Dispositions of \$8.1 million and \$21.9 million, respectively.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
NON-CASH COST OF LAND AND IMPROVED DEVELOPMENT				
Southern Timber	—	—	—	—
Pacific Northwest Timber	—	—	—	—
New Zealand Timber	—	—	128	1,824
Real Estate (a)	1,272	4,336	14,246	10,092
Trading	—	—	—	—
Total	\$1,272	\$4,336	\$14,374	\$11,916

(a) The nine months ended September 30, 2017 and September 30, 2016 include Large Dispositions of \$5.7 million and \$1.8 million, respectively.

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## RAYONIER INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

## 4. DEBT

Rayonier's debt consisted of the following at September 30, 2017:

	September 30, 2017
Term Credit Agreement borrowings due 2024 at a variable interest rate of 2.9% at September 30, 2017 (a)	\$350,000
Senior Notes due 2022 at a fixed interest rate of 3.75%	325,000
Incremental Term Loan Agreement borrowings due 2026 at a variable interest rate of 3.1% at September 30, 2017 (b)	300,000
Revolving Credit Facility borrowings due 2020 at an average variable interest rate of 2.5% at September 30, 2017	50,000
New Zealand JV noncontrolling interest shareholder loan at 0% interest rate	8,406
Total debt	1,033,406
Less: Deferred financing costs	(3,137 )
Long-term debt, net of deferred financing costs	\$1,030,269

As of September 30, 2017, the periodic interest rate on the term loan facility was LIBOR plus 1.625%. The (a) Company estimates the effective fixed interest rate on the term loan facility to be approximately 3.3% after consideration of interest rate swaps and estimated patronage refunds.

As of September 30, 2017, the periodic interest rate on the incremental term loan was LIBOR plus 1.900%. The (b) Company estimates the effective fixed interest rate on the incremental term loan facility to be approximately 2.8% after consideration of interest rate swaps and estimated patronage refunds.

Principal payments due during the next five years and thereafter are as follows:

2017	—
2018	—
2019	—
2020	50,000
2021	—
Thereafter	983,406
Total Debt	\$1,033,406

## 2017 Debt Activity

During the nine months ended September 30, 2017, the Company made additional borrowings of \$25.0 million on the Revolving Credit Facility. A draw of \$15.0 million during the first quarter was used to repay the \$15.0 million solid waste bonds that were due in 2020 and an additional draw of \$10.0 million made in the second quarter was used to partially fund the acquisition of 91,000 acres in coastal Florida, Georgia and South Carolina. In the third quarter, the Company used available cash to repay \$31.5 million of mortgage notes which were due in August 2017. As of September 30, 2017, the Company had available borrowings of \$139.6 million under the Revolving Credit Facility, net of \$10.4 million to secure its outstanding letters of credit.

In addition, the New Zealand JV made borrowings and repayments of \$38.4 million on its working capital facility. As of September 30, 2017, draws totaling NZ\$40.0 million remain available on the working capital facility. The New Zealand JV also repaid \$10.9 million of its shareholder loan held by the non-controlling interest party during the nine months ended September 30, 2017. Changes in exchange rates increased debt on a U.S. dollar basis for its shareholder loan by \$0.5 million during the nine months ended September 30, 2017.



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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

Debt Covenants

In connection with the Company's \$350 million term credit agreement (the "Term Credit Agreement"), \$300 million incremental term loan agreement (the "Incremental Term Loan Agreement") and \$200 million revolving credit facility (the "Revolving Credit Facility"), customary covenants must be met, the most significant of which include interest coverage and leverage ratios.

In addition to these financial covenants listed above, the Senior Notes, Term Credit Agreement, Incremental Term Loan Agreement and Revolving Credit Facility include customary covenants that limit the incurrence of debt and the disposition of assets, among others. At September 30, 2017, the Company was in compliance with all applicable covenants.

5. HIGHER AND BETTER USE TIMBERLANDS AND REAL ESTATE DEVELOPMENT INVESTMENTS

Rayonier continuously assesses potential alternative uses of its timberlands, as some properties may become more valuable for development, residential, recreation or other purposes. The Company periodically transfers, via a sale or contribution from the real estate investment trust ("REIT") entities to taxable REIT subsidiaries ("TRS"), higher and better use ("HBU") timberlands to enable land-use entitlement, development or marketing activities. The Company also acquires HBU properties in connection with timberland acquisitions. These properties are managed as timberlands until sold or developed. While the majority of HBU sales involve rural and recreational land, the Company also selectively pursues various land-use entitlements on certain properties for residential, commercial and industrial development in order to enhance the long-term value of such properties. For selected development properties, Rayonier also invests in targeted infrastructure improvements, such as roadways and utilities, to accelerate the marketability and improve the value of such properties.

An analysis of higher and better use timberlands and real estate development investments from December 31, 2016 to September 30, 2017 is shown below: