RAYONIER INC
Form 10-Q
August 04, 2017
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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 June 30, 2017
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, 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 x Accelerated filer o
Non-accelerated filer o Smaller reporting company o Emerging growth company o

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. 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 July 28, 2017, there were outstanding 128,900,937 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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
SALES	$194,719	$261,550	$381,232	$396,393
Costs and Expenses				
Cost of sales	143,687	138,194	280,100	246,166
Selling and general expenses	10,246	11,252	19,836	21,031
Other operating income, net (Note 14)	(6,107)	(9,463)	(14,858)	(15,368)
	147,826	139,983	285,078	251,829
OPERATING INCOME	46,893	121,567	96,154	144,564
Interest expense	(8,631)	(7,961)	(17,046)	(15,059)
Interest income and miscellaneous income (expense), net	4	249	522	(1,373)
INCOME BEFORE INCOME TAXES	38,266	113,855	79,630	128,132
Income tax expense	(7,493)	(2,276)	(13,774)	(1,495)
NET INCOME	30,773	111,579	65,856	126,637
Less: Net income attributable to noncontrolling interest	4,612	1,758	5,853	2,344
NET INCOME ATTRIBUTABLE TO RAYONIER INC.	26,161	109,821	60,003	124,293
OTHER COMPREHENSIVE INCOME (LOSS)				
Foreign currency translation adjustment, net of income tax expense of $0, $0, $0 and $0	21,484	13,219	23,916	16,023
Cash flow hedges, net of income tax benefit of $1,180, $631, $1,148 and $1,064	(1,988)	(12,476)	565	(26,250)
Amortization of pension and postretirement plans, net of income tax expense of $0, $0, $0 and $0	116	632	233	1,249
Total other comprehensive income (loss)	19,612	1,375	24,714	(8,978)
COMPREHENSIVE INCOME	50,385	112,954	90,570	117,659
Less: Comprehensive income attributable to noncontrolling interest	9,595	4,410	11,247	8,153
COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.	$40,790	$108,544	$79,323	$109,506
EARNINGS PER COMMON SHARE (Note 10)				
Basic earnings per share attributable to Rayonier Inc.	$0.20	$0.90	$0.48	$1.01
Diluted earnings per share attributable to Rayonier Inc.	$0.20	$0.89	$0.47	$1.01
Dividends declared per share	$0.25	$0.25	$0.50	$0.50

See Notes to Consolidated Financial Statements.

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

	June 30, 2017	December 31, 2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$136,559	$85,909
Accounts receivable, less allowance for doubtful accounts of $38 and $33	30,181	20,664
Insurance settlement receivable (Note 8)	73,000	—
Inventory (Note 15)	26,363	21,379
Prepaid expenses	14,727	11,807
Assets held for sale (Note 17)	—	23,171
Other current assets	4,397	1,874
Total current assets	285,227	164,804
TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION	2,509,485	2,291,015
HIGHER AND BETTER USE TIMBERLANDS AND REAL ESTATE DEVELOPMENT INVESTMENTS (NOTE 5)	74,888	70,374
PROPERTY, PLANT AND EQUIPMENT		
Land	2,279	2,279
Buildings	8,202	7,990
Machinery and equipment	4,674	4,658
Construction in progress	15,897	8,170
Total property, plant and equipment, gross	31,052	23,097
Less — accumulated depreciation	(9,492)	(9,063)
Total property, plant and equipment, net	21,560	14,034
RESTRICTED CASH (Note 16)	11,781	71,708
OTHER ASSETS	49,853	73,825
TOTAL ASSETS	$2,952,794	$2,685,760
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$28,696	$22,337
Insurance settlement payable (Note 8)	73,000	—
Current maturities of long-term debt	31,525	31,676
Accrued taxes	5,374	2,657
Accrued payroll and benefits	5,092	9,277
Accrued interest	5,225	5,340
Other current liabilities	29,716	20,679
Total current liabilities	178,628	91,966
LONG-TERM DEBT, NET OF DEFERRED FINANCING COSTS	1,033,621	1,030,205
PENSION AND OTHER POSTRETIREMENT BENEFITS (Note 13)	31,589	31,856
OTHER NON-CURRENT LIABILITIES	40,846	34,981
COMMITMENTS AND CONTINGENCIES (Notes 6 and 8)		
SHAREHOLDERS' EQUITY		
Common Shares, 480,000,000 shares authorized, 128,897,430 and 122,904,368 shares issued and outstanding	868,355	709,867
Retained earnings	683,190	700,887

Accumulated other comprehensive income	20,175	856
TOTAL RAYONIER INC. SHAREHOLDERS' EQUITY	1,571,720	1,411,610
Noncontrolling interest	96,390	85,142
TOTAL SHAREHOLDERS' EQUITY	1,668,110	1,496,752
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$2,952,794	$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			Accumulated		
	Shares	Amount	Retained Earnings	Other Comprehensive Income/(Loss)	Non-controlling Interest	Shareholders' Equity
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	—	—	60,003	—	5,853	65,856
Dividends ($0.50 per share)	—	—	(63,335)	—	—	(63,335)
Issuance of shares under incentive stock plans	243,360	3,206	—	—	—	3,206
Stock-based compensation	—	2,892	—	—	—	2,892
Repurchase of common shares	(298)	—	—	—	—	—
Amortization of pension and postretirement plan liabilities	—	—	—	233	—	233
Foreign currency translation adjustment	—	—	—	19,201	4,715	23,916
Cash flow hedges	—		—	(115)	680	565
Issuance of shares under equity offering, net of costs	5,750,000	152,390	—	—	—	152,390
Balance, June 30, 2017	128,897,430	$868,355	$683,190	$20,175	$96,390	$1,668,110

See Notes to Consolidated Financial Statements.

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

	Six Months Ended June 30, 2017	2016
OPERATING ACTIVITIES		
Net income	$65,856	$126,637
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, depletion and amortization	67,895	51,707
Non-cash cost of land and improved development	7,359	5,775
Stock-based incentive compensation expense	2,892	2,839
Deferred income taxes	15,214	2,840
Amortization of losses from pension and postretirement plans	233	1,249
Gain on sale of large disposition of timberlands	(28,183)	(101,325)
Other	1,719	(983)
Changes in operating assets and liabilities:		
Receivables	(10,421)	(9,367)
Inventories	(1,772)	(2,132)
Accounts payable	5,141	2,315
Income tax receivable/payable	(126)	441
All other operating activities	2,508	(3,017)
CASH PROVIDED BY OPERATING ACTIVITIES	128,315	76,979
INVESTING ACTIVITIES		
Capital expenditures	(29,840)	(26,180)
Real estate development investments	(5,599)	(3,018)
Purchase of timberlands	(237,235)	(276,614)
Assets purchased in business acquisition	—	(1,113)
Net proceeds from large disposition of timberlands	42,029	126,965
Rayonier office building under construction	(5,573)	(1,155)
Change in restricted cash	59,927	17,985
Other	1,033	(2,066)
CASH USED FOR INVESTING ACTIVITIES	(175,258)	(165,196)
FINANCING ACTIVITIES		
Issuance of debt	63,389	653,775
Repayment of debt	(60,422)	(426,173)
Dividends paid	(62,825)	(61,409)
Proceeds from the issuance of common shares under incentive stock plan	3,206	644
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)
CASH PROVIDED BY FINANCING ACTIVITIES	95,738	165,190
EFFECT OF EXCHANGE RATE CHANGES ON CASH	1,855	904
CASH AND CASH EQUIVALENTS		
Change in cash and cash equivalents	50,650	77,877
Balance, beginning of year	85,909	51,777
Balance, end of period	$136,559	$129,654

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period:		
Interest (a)	$16,546	$16,934
Income taxes	376	337
Non-cash investing activity:		
Capital assets purchased on account	5,284	2,062

(a) Interest paid is presented net of patronage payments received of $3.0 million and $0.4 million for the six months ended June 30, 2017 and June 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. SUMMARY OF SIGNIFCANT ACCOUNTING POLICIES

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”).

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 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 statement of cash flows. The adoption of this standard did not have a material impact on the consolidated financial statements.

New Accounting Standards

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 statement of cash flows. ASU No. 2016-18 is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Rayonier intends to adopt ASU No. 2016-18 in the Company's first quarter 2018 Form 10-Q. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

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 statement 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 is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which 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 retrospectively to all periods presented beginning in the period of adoption. Early adoption is permitted. The Company is currently evaluating the impact of adopting this new guidance on the 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 (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, noncash 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 the adoption of the new revenue recognition guidance will not materially impact operating results, balance sheet, cash flows or financial reporting aside from adding

expanded disclosures.
Subsequent Events
The Company has evaluated events occurring from June 30, 2017 to the date of issuance for potential recognition or disclosure in the consolidated financial statements. No events were identified that warranted recognition or disclosure.

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

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.

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 six months ended June 30, 2017 and 2016:

	Three Months Ended June 30,		Six Months Ended June 30,	
SALES	2017	2016	2017	2016
Southern Timber	$30,778	$29,640	$63,493	$74,380
Pacific Northwest Timber	19,451	16,869	44,243	36,178
New Zealand Timber	77,163	47,748	117,904	83,772
Real Estate (a)	25,620	137,307	79,909	150,670
Trading	41,707	29,986	75,683	51,393
Total	$194,719	$261,550	$381,232	$396,393

(a) The six months ended June 30, 2017 includes $42.0 million from Large Dispositions. The three and six months ended June 30, 2016 includes $129.5 million from Large Dispositions.

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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 June 30,		Six Months Ended June 30,	
OPERATING INCOME (LOSS)	2017	2016	2017	2016
Southern Timber	$9,655	$11,039	$23,594	$26,793
Pacific Northwest Timber	(1,535)	1,034	(2,413)	2,419
New Zealand Timber	26,804	10,028	37,046	14,772
Real Estate (a)	16,133	105,695	45,798	109,920
Trading	1,141	625	2,239	975
Corporate and other	(5,305)	(6,854)	(10,110)	(10,315)
Total Operating Income	46,893	121,567	96,154	144,564
Unallocated interest expense and other	(8,627)	(7,712)	(16,524)	(16,432)
Total Income before Income Taxes	$38,266	$113,855	$79,630	$128,132

(a) The six months ended June 30, 2017 includes $28.2 million from Large Dispositions. The three and six months ended June 30, 2016 includes $101.3 million from Large Dispositions.

	Three Months Ended June 30,		Six Months Ended June 30,	
DEPRECIATION, DEPLETION AND AMORTIZATION	2017	2016	2017	2016
Southern Timber	$11,904	$10,559	$24,356	$27,115
Pacific Northwest Timber	7,075	3,672	17,285	8,311
New Zealand Timber (a)	15,456	6,437	20,863	11,296
Real Estate (b)	2,596	23,525	13,303	26,728
Trading	—	—	—	—
Corporate and other	92	105	192	190
Total	$37,123	$44,298	$75,999	$73,640

(a) The three and six months ended June 30, 2017 includes $8.9 million of timber cost basis expensed in conjunction with a timberland sale.
(b) The six months ended June 30, 2017 includes $8.1 million from Large Dispositions. The three and six months ended June 30, 2016 includes $21.9 million from Large Dispositions.

	Three Months Ended June 30,		Six Months Ended June 30,	
NON-CASH COST OF LAND AND IMPROVED DEVELOPMENT	2017	2016	2017	2016
Southern Timber	—	—	—	—
Pacific Northwest Timber	—	—	—	—
New Zealand Timber	128	—	128	1,824
Real Estate (a)	2,752	3,471	12,974	5,755
Trading	—	—	—	—
Total	$2,880	$3,471	$13,102	$7,579

(a) The six months ended June 30, 2017 includes $5.7 million from Large Dispositions. The three and six months ended June 30, 2016 includes $1.8 million from Large Dispositions.

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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 June 30, 2017:

	June 30, 2017
Term Credit Agreement borrowings due 2024 at a variable interest rate of 2.7% at June 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 2.95% at June 30, 2017 (b)	300,000
Mortgage Notes due 2017 at fixed interest rates of 4.35%	31,525
Revolving Credit Facility borrowings due 2020 at an average variable interest rate of 2.5% at June 30, 2017	50,000
New Zealand JV noncontrolling interest shareholder loan at 0% interest rate	11,899
Total debt	1,068,424
Less: Current maturities of long-term debt	(31,525)
Less: Deferred financing costs	(3,278)
Long-term debt, net of deferred financing costs	$1,033,621

(a) As of June 30, 2017, the periodic interest rate on the term loan facility was LIBOR plus 1.625%. The 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.

(b) As of June 30, 2017, the periodic interest rate on the incremental term loan was LIBOR plus 1.900%. The 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	31,500
2018	—
2019	—
2020	50,000
2021	—
Thereafter	986,899
Total Debt	$1,068,399

2017 Debt Activity

During the six months ended June 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. As of June 30, 2017, the Company had available borrowings of $135.5 million under the Revolving Credit Facility, net of $14.5 million to secure its outstanding letters of credit.

In addition, the New Zealand JV made additional borrowings and repayments of $38.4 million on the working capital facility (the “New Zealand JV Working Capital Facility”). As of June 30, 2017, draws totaling NZ$40.0 million remain available on the working capital facility. The New Zealand JV also paid $7.6 million of its shareholder loan held by the non-controlling interest party during the six months ended June 30, 2017. Changes in exchange rates increased debt on a U.S. dollar basis for its shareholder loan by $0.7 million.

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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 Mortgage Notes, 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 June 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 costs from December 31, 2016 to June 30, 2017 is shown below:

	Higher and Better Use Timberlands and Real Estate Development Investments		
	Land and Timber	Development Investments	Total
Non-current portion at December 31, 2016	$59,956	$10,418	$70,374
Plus: Current portion (a)	5,096	11,963	17,059
Total Balance at December 31, 2016	65,052	22,381	87,433
Non-cash cost of land and improved development	(998)	(177)	(1,175)
Timber depletion from harvesting activities and basis of timber sold in real estate sales	(1,208)	—	(1,208)
Capitalized real estate development investments (b)	—	5,599	5,599
Capital expenditures (silviculture)	141	—	141
Intersegment transfers	4,144	—	4,144
Total Balance at June 30, 2017	67,131	27,803	94,934
Less: Current portion (a)	(5,020)	(15,026)	(20,046)
Non-current portion at June 30, 2017	$62,111	$12,777	$74,888

(a)

The current portion of Higher and Better Use Timberlands and Real Estate Development Investments is recorded in Inventory. See Note 15 — Inventory for additional information.

(b) Capitalized real estate development investments includes $0.2 million of capitalized interest.

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6. 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 June 30, 2017, the future minimum payments under non-cancellable operating leases, timberland leases and other commitments were as follows:

	Operating Leases	Timberland Leases (a)	Commitments (b)	Total
Remaining 2017	$888	$4,357	$4,778	$10,023
2018	1,047	9,350	5,515	15,912
2019	837	8,875	5,515	15,227
2020	660	8,470	5,515	14,645
2021	570	8,529	5,515	14,614
Thereafter (c)	1,208	155,389	16,541	173,138
	$5,210	$194,970	$43,379	$243,559

(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) Commitments include payments expected to be made on derivative financial instruments (foreign exchange contracts and interest rate swaps), construction of the Company’s office building and Wildlight development project.

(c) Includes 20 years of future minimum payments for perpetual Crown Forest Licenses (“CFL”). 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 June 30, 2017, the New Zealand JV has four CFL’s under termination notice that are currently being relinquished as harvest activities are concluding, as well as two fixed term CFL’s expiring in 2062. The annual license fee is determined based on current market rental value, with triennial rent reviews.

7. INCOME TAXES

The operations conducted by the Company’s REIT entities are generally not subject to U.S. federal and state income tax. The New Zealand JV is subject to corporate level tax in New Zealand. Non-REIT qualifying operations are conducted by the Company’s TRS. The primary businesses performed in Rayonier’s TRS include log trading and certain real estate activities, such as the sale and entitlement of development HBU properties. For the three and six months ended June 30, 2017, the Company recorded income tax expense of $7.5 million and $13.8 million, respectively. For the three and six months ended June 30, 2016, the Company recored income tax expense of $2.3 million and $1.5 million, respectively.

Provision for Income Taxes

The Company’s effective tax rate is below the 35.0% U.S. statutory rate due to tax benefits associated with being a REIT. The Company’s annualized effective tax rate (“AETR”) as of June 30, 2017 and June 30, 2016 was 17.3% and 1.1%, respectively. The increase in income tax expense and the corresponding AETR for the three and six months ended June 30, 2017 is principally related to the New Zealand JV.

In accordance with GAAP, the Company recognizes the impact of a tax position if a position is “more-likely-than-not” to prevail. For the three and six months ended June 30, 2017, there were no material changes in uncertain tax positions.

Prepaid Taxes

In the first quarter 2017, the Company early adopted ASU No. 2016-16, Intra-Entity Transfers of Assets Other Than Inventory. ASU No. 2016-16 requires income tax consequences of intra-entity transfers of assets other than inventory be recognized in the period in which they occur. See Note 1 — Basis of Presentation. As a result, a cumulative-effect adjustment to retained earnings was recorded for the long-term prepaid federal income tax of $14.4 million related to recognized built-in gains on 2006, 2008 and 2010 intercompany sales of timberlands between the REIT and the TRS. Taxes for the transactions were paid at the time of sale, but the gain and income tax expense were deferred. See the Consolidated Statement of Shareholders’ Equity for the cumulative-effect adjustment to retained earnings due to the adoption of this standard.

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8. CONTINGENCIES

Following the Company's November 10, 2014 earnings release and filing of the restated interim financial statements for the quarterly periods ended March 31, 2014 and June 30, 2014 (the "November 2014 Announcement"), shareholders of the Company filed five putative class actions against the Company and Paul G. Boynton, Hans E. Vanden Noort, David L. Nunes, and H. Edwin Kiker arising from circumstances described in the November 2014 Announcement, entitled respectively:

- Sating v. Rayonier Inc. et al, Civil Action No. 3:14-cv-01395, filed November 12, 2014 in the United States District Court for the Middle District of Florida;

- Keasler v. Rayonier Inc. et al, Civil Action No. 3:14-cv-01398, filed November 13, 2014 in the United States District Court for the Middle District of Florida;

- Lake Worth Firefighters' Pension Trust Fund v. Rayonier Inc. et al, Civil Action No. 3:14-cv-01403, filed November 13, 2014 in the United States District Court for the Middle District of Florida;

- Christie v. Rayonier Inc. et al, Civil Action No. 3:14-cv-01429, filed November 21, 2014 in the United States District Court for the Middle District of Florida; and

- Brown v. Rayonier Inc. et al, Civil Action No. 1:14-cv-08986, initially filed in the United States District Court for the Southern District of New York and later transferred to the United States District Court for the Middle District of Florida and assigned as Civil Action No. 3:14-cv-01474.

On January 9, 2015, the five securities actions were consolidated into one putative class action entitled In re Rayonier Inc. Securities Litigation, Case No. 3:14-cv-01395-TJC-JBT, in the United States District Court for the Middle District of Florida. The plaintiffs alleged that the defendants made false and/or misleading statements in violation of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. The plaintiffs sought unspecified monetary damages and attorneys' fees and costs. Two shareholders, the Pension Trust Fund for Operating Engineers and the Lake Worth Firefighters' Pension Trust Fund moved for appointment as lead plaintiff on January 12, 2015, which was granted on February 25, 2015. On April 7, 2015, the plaintiffs filed a Consolidated Class Action Complaint (the "Consolidated Complaint"). In the Consolidated Complaint, plaintiffs added allegations as to and added as a defendant N. Lynn Wilson, a former officer of Rayonier. With the filing of the Consolidated Complaint, David L. Nunes and H. Edwin Kiker were dropped from the case as defendants. Defendants timely filed Motions to Dismiss the Consolidated Complaint on May 15, 2015. After oral argument on Defendants' motions on August 25, 2015, the Court dismissed the Consolidated Complaint without prejudice, allowing plaintiffs leave to refile. Plaintiffs filed the Amended Consolidated Class Action Complaint (the "Amended Complaint") on September 25, 2015, which continued to assert claims against the Company, as well as Ms. Wilson and Messrs. Boynton and Vanden Noort. Defendants timely filed Motions to Dismiss the Amended Complaint on October 26, 2015. The court denied those motions on May 20, 2016. On December 31, 2016, the case continued to be in the discovery phase and the Company could not determine whether there was a reasonable likelihood a material loss had been incurred nor could the range of any such loss be estimated. On March 13, 2017, the Company reached an agreement in principle to settle the case and all parties executed a term sheet memorializing such agreement. The parties executed and filed with the Court the Stipulation and Agreement of Settlement on April 12, 2017 (the "Settlement Agreement"), which Settlement Agreement included the material terms contained in the term sheet executed on March 13. Pursuant to the terms of the Settlement Agreement, which is subject to Court approval and requests for exclusion by members of the settlement class, the Company agreed to cause certain of its directors' and officers' liability insurance carriers to fund a settlement payment to the class of $73 million. As of July 14, 2017, the insurance carriers have fully funded the settlement payment by deposits in an escrow account as required by the Settlement Agreement. In connection with the settlement, the Company agreed to reimburse one of its insurance carriers approximately $740,000 for certain disputed pre-litigation expenses, which reimbursement was made in the second quarter of 2017. The amounts agreed to on March 13, 2017, including the realized amount funded by the insurance carriers, were reflected in the Company's Consolidated Financial Statements as of June 30, 2017.

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On November 26, 2014, December 29, 2014, January 26, 2015, February 13, 2015, and May 12, 2015, the Company received separate letters from shareholders requesting that the Company investigate or pursue derivative claims against certain officers and directors related to the November 2014 Announcement. Although these demands do not identify any claims against the Company, the Company has certain obligations to advance expenses and provide indemnification to certain current and former officers and directors of the Company. The Company has also incurred expenses as a result of costs arising from the investigation of the claims alleged in the various demands. At this preliminary stage, the ultimate outcome of these matters cannot be predicted, nor can the range of potential expenses the Company may incur as a result of the obligations identified above be estimated.

The Company has also 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 pending 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.

9. GUARANTEES

The Company provides financial guarantees as required by creditors, insurance programs, and various governmental agencies.

As of June 30, 2017, the following financial guarantees were outstanding:

Financial Commitments	Maximum Potential Payment	Carrying Amount of Associated Liability
Standby letters of credit (a)	$14,540	—
Guarantees (b)	2,254	43
Surety bonds (c)	1,184	—
Total financial commitments	$17,978	$43

(a) Approximately $13.0 million of the standby letters of credit serve as credit support for infrastructure at the Company's Wildlight development project. The remaining letters of credit support various insurance related agreements, primarily workers' compensation. These letters of credit will expire at various dates during 2017 and will be renewed as required.

(b) In conjunction with a timberland sale and note monetization in 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 June 30, 2017, 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 and to provide collateral for the Company's workers' compensation self-insurance program in that state. Rayonier has also obtained performance bonds to secure the development activity at the Company's Wildlight development project. These surety bonds expire at various dates during 2017 and 2018 and are expected to be renewed as required.

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10. EARNINGS PER COMMON SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net Income	$30,773	$111,579	$65,856	$126,637
Less: Net income attributable to noncontrolling interest	4,612	1,758	5,853	2,344
Net income attributable to Rayonier Inc.	$26,161	$109,821	$60,003	$124,293
Shares used for determining basic earnings per common share	128,548,212	122,567,853	126,081,762	122,562,046
Dilutive effect of:				
Stock options	92,513	98,407	99,602	75,967
Performance and restricted shares	447,448	154,654	337,862	94,889
Shares used for determining diluted earnings per common share	129,088,173	122,820,914	126,519,226	122,732,902
Basic earnings per common share attributable to Rayonier Inc.:	$0.20	$0.90	$0.48	$1.01
Diluted earnings per common share attributable to Rayonier Inc.:	$0.20	$0.89	$0.47	$1.01

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Anti-dilutive shares excluded from the computations of diluted earnings per share:				
Stock options, performance and restricted shares	586,017	748,402	589,335	921,928
Total	586,017	748,402	589,335	921,928

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11. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to market risk related to potential fluctuations in foreign currency exchange rates and interest rates. The Company uses derivative financial instruments to mitigate the financial impact of exposure to these risks.

Accounting for derivative financial instruments is governed by ASC 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. Gains and losses on derivatives that are designated and qualify for net investment hedge accounting are recorded as a component of AOCI and will not be reclassified into earnings until the Company’s investment in its New Zealand operations is partially or completely liquidated. The ineffective portion of any hedge, 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 de minimis for all periods presented.

Foreign Currency Exchange and Option Contracts

The functional currency of Rayonier’s wholly owned subsidiary, Rayonier New Zealand Limited, and the New Zealand JV is the New Zealand dollar. The New Zealand JV is exposed to foreign currency risk on export sales and ocean freight payments which are mainly denominated in U.S. dollars. The New Zealand JV typically hedges 35% to 90% of its estimated foreign currency exposure with respect to the following three months forecasted sales and purchases, 25% to 75% of forecasted sales and purchases for the forward three to 12 months and up to 50% of the forward 12 to 18 months. Foreign currency exposure from the New Zealand JV’s trading operations is typically hedged based on the following three months forecasted sales and purchases. As of June 30, 2017, foreign currency exchange contracts and foreign currency option contracts had maturity dates through February 2019 and October 2018, respectively.

Foreign currency exchange and option contracts hedging foreign currency risk on export sales and ocean freight payments qualify for cash flow hedge accounting. 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.

The Company may de-designate these cash flow hedge relationships in advance or at the occurrence of the forecasted transaction. The portion of gains or losses on the derivative instrument previously accumulated in other comprehensive income for de-designated hedges remains in accumulated other comprehensive income until the forecasted transaction affects earnings. Changes in the value of derivative instruments after de-designation are recorded in earnings.

The New Zealand JV is exposed to foreign currency risk when making shareholder loan payments which are denominated in U.S. dollars. The New Zealand JV typically hedges 75% to 100% of its estimated foreign currency exposure with respect to the following three months forecasted distributions, up to 75% of forecasted distributions for the forward three to six months and up to 50% of the forward six to 12 months. For the three and six months ended June 30, 2017, the change in fair value of the foreign exchange forward contracts of $0.5 million and $0.3 million, respectively, was recorded in “Interest income and miscellaneous (income) expense, net” as the contracts did not qualify for hedge accounting treatment. As of June 30, 2017, foreign exchange forward contracts had maturity dates through December 2017.

For additional information on the shareholder loan see Note 4 — Debt.

Interest Rate Swaps

The Company is exposed to cash flow interest rate risk on its variable-rate Term Credit Agreement and Incremental Term Loan Agreement (as discussed below), and uses variable-to-fixed interest rate swaps to hedge this exposure. For these derivative instruments, the Company reports the gains/losses from the fluctuations in the fair market value of the hedges in AOCI and reclassifies them to earnings as interest expense in the same period in which the hedged interest payments affect earnings.

In August 2015, the Company entered into a nine-year interest rate swap agreement for a notional amount of $170 million. This swap agreement fixes the variable portion of the interest rate on the Term Credit Agreement borrowings due 2024 from LIBOR to an average rate of 2.20%. Together with the bank margin of 1.63%, this results in a rate of 3.83% before estimated patronage payments. This derivative instrument has been designated as an interest rate cash flow hedge and qualifies for hedge accounting.

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Also, in August 2015, the Company entered into a nine-year forward interest rate swap agreement with a start date in April 2016 for a notional amount of $180 million. This swap agreement fixes the variable portion of the interest rate on the Term Credit Agreement borrowings due 2024 from LIBOR to an average rate of 2.35%. Together with the bank margin of 1.63%, this results in a rate of 3.97% before estimated patronage payments. This derivative instrument has been designated as an interest rate cash flow hedge and qualifies for hedge accounting.

In April 2016, the Company entered into two 10-year interest rate swap agreements, each for a notional amount of $100 million. These swap agreements fix the variable portion of the interest rate on the Incremental Term Loan borrowings due 2026 to an average rate of 1.60%. Together with the bank margin of 1.90%, this results in a rate of 3.50% before estimated patronage payments. These derivative instruments have been designated as interest rate cash flow hedges and qualify for hedge accounting.

In July 2016, the Company entered into an interest rate swap agreement for a notional amount of $100 million through May 2026. This swap agreement fixes the variable portion of the interest rate on the Incremental Term Loan borrowings due 2026 from LIBOR to an average rate of 1.26%. Together with the bank margin of 1.90%, this results in a rate of 3.16% before estimated patronage payments. This derivative instrument has been designated as an interest rate cash flow hedge and qualifies for hedge accounting.

The following tables demonstrate the impact of the Company’s derivatives on the Consolidated Statements of Income and Comprehensive Income for the three and six months ended June 30, 2017 and 2016.

	Income Statement Location	Three Months Ended June 30, 2017	2016
Derivatives designated as cash flow hedges:			
Foreign currency exchange contracts	Other comprehensive income (loss)	$3,261	$1,116
Foreign currency option contracts	Other comprehensive income (loss)	976	1,096
Interest rate swaps	Other comprehensive income (loss)	(5,022)	(14,102)
Derivatives not designated as hedging instruments:			
	Interest income and miscellaneous income (expense), net	(462)	—

	Income Statement Location	Six Months Ended June 30, 2017	2016
Derivatives designated as cash flow hedges:			
Foreign currency exchange contracts	Other comprehensive income (loss)	$3,189	$1,816
Foreign currency option contracts	Other comprehensive income (loss)	935	1,929
Interest rate swaps	Other comprehensive income (loss)	(2,388)	(28,988)
Derivatives designated as a net investment hedge:			
Foreign currency exchange contract	Other comprehensive income (loss)	—	(4,606)
Derivatives not designated as hedging instruments:			
Foreign currency exchange contracts	Other operating income, net	—	895

	Interest income and miscellaneous income (expense), net	(327)	—
Foreign currency option contracts	Other operating income, net	—	258
Interest rate swaps	Interest income and miscellaneous income (expense), net	—	(1,219)

During the next 12 months, the amount of the June 30, 2017 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 gain of approximately $3.0 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	
	June 30, 2017	December 31, 2016
Derivatives designated as cash flow hedges:		
Foreign currency exchange contracts	$65,250	$44,800
Foreign currency option contracts	68,000	91,000
Interest rate swaps	650,000	650,000
Derivative not designated as a hedging instrument:		
Foreign currency exchange contracts	14,083	—

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)	
		June 30, 2017	December 31, 2016
Derivatives designated as cash flow hedges:			
Foreign currency exchange contracts	Other current assets	$3,188	$692
	Other assets	675	33
	Other current liabilities	—	(261)
Foreign currency option contracts	Other current assets	1,162	1,064
	Other assets	392	327
	Other current liabilities	(132)	(574)
	Other non-current liabilities	(119)	(426)
Interest rate swaps	Other assets	15,265	17,204
	Other non-current liabilities	(6,428)	(5,979)
Derivative not designated as a hedging instrument:			
Foreign currency exchange contracts	Other current liabilities	(350)	—
Total derivative contracts:			
Other current assets		$4,350	$1,756
Other assets		16,332	17,564
Total derivative assets		$20,682	$19,320
Other current liabilities		(482)	(835)
Other non-current liabilities		(6,547)	(6,405)
Total derivative liabilities		($7,029)	($7,240)

(a) See Note 12 — Fair Value Measurements for further information on the fair value of the Company's 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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12. FAIR VALUE MEASUREMENTS

Fair Value of Financial Instruments

A three-level hierarchy that prioritizes the inputs used to measure fair value was established in the Accounting Standards Codification 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. (a)

The following table presents the carrying amount and estimated fair values of financial instruments held by the Company at June 30, 2017 and December 31, 2016, using market information and what the Company believes to be appropriate valuation methodologies under GAAP:

	June 30, 2017			December 31, 2016		
Asset (Liability) (a)	Carrying Amount	Fair Value		Carrying Amount	Fair Value	
		Level 1	Level 2		Level 1	Level 2
Cash and cash equivalents	$136,559	$136,559	—	$85,909	$85,909	—
Restricted cash (b)	11,781	11,781	—	71,708	71,708	—
Current maturities of long-term debt	(31,525)	—	(31,546)	(31,676)	—	(31,984)
Long-term debt (c)	(1,033,621)	—	(1,041,774)	(1,030,205)	—	(1,030,708)
Interest rate swaps (d)	8,837	—	8,837	11,225	—	11,225
Foreign currency exchange contracts (d)	3,513	—	3,513	464	—	464
Foreign currency option contracts (d)	1,303	—	1,303	391	—	391

(a) The Company did not have Level 3 assets or liabilities at June 30, 2017.

(b) Restricted cash represent the proceeds from like-kind exchange sales deposited with a third-party intermediary and cash held in escrow for a real estate sale. See Note 16 — Restricted Cash for additional information.

(c) The carrying amount of long-term debt is presented net of capitalized debt costs on non-revolving debt.

(d) See Note 11 — 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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13. EMPLOYEE BENEFIT PLANS

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. Both plans are closed to new participants. Effective December 31, 2016, the Company froze benefits for all employees participating in the pension plan. In lieu of the pension plan, the Company provides those employees with an enhanced 401(k) plan match. 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 table:

	Pension		Postretirement	
	Three Months Ended June 30,		Three Months Ended June 30,	
	2017	2016	2017	2016
Components of Net Periodic Benefit Cost				
Service cost	—	$327	$13	$2
Interest cost	815	869	2	12
Expected return on plan assets (a)	(945)	(1,008)	—	—
Amortization of losses	116	632	—	—
Net periodic benefit (gain) cost	($14)	$820	$15	$14

	Pension		Postretirement	
	Six Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Components of Net Periodic Benefit Cost				
Service cost	—	$653	$26	$3
Interest cost	1,630	1,737	3	24
Expected return on plan assets (a)	(1,891)	(2,015)	—	—
Amortization of losses (gains)	233	1,261	—	(12)
Net periodic benefit (gain) cost	($28)	$1,636	$29	$15

(a) The weighted-average expected long-term rate of return on plan assets used in computing 2017 net periodic benefit cost for pension benefits is 7.2 percent.

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14. OTHER OPERATING INCOME, NET

Other operating income, net comprised the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Lease and license income, primarily from hunting	$3,978	$5,661	$8,088	$10,221
Other non-timber income	1,426	536	4,173	1,055
Foreign currency loss	(463)	(204)	(150)	(499)
(Loss) gain on sale or disposal of property and equipment	(7)	24	(6)	24
Gain (loss) on foreign currency exchange and option contracts	529	(551)	1,181	(1,072)
Deferred payment related to a prior land sale	—	4,000	—	4,000
Costs related to acquisition	—	(1,215)	—	(1,215)
Gain on foreign currency derivatives (a)	—	—	—	1,153
Log trading agency and marketing fees	658	592	1,126	931
Gain on sale of carbon credits	—	754	—	754
Miscellaneous (expense) income, net	(14)	(134)	446	16
Total	$6,107	$9,463	$14,858	$15,368

(a) The Company used foreign exchange derivatives to mitigate the risk of fluctuations in foreign exchange rates while awaiting the capital contribution to the New Zealand JV.

15. INVENTORY

As of June 30, 2017 and December 31, 2016, Rayonier's inventory was solely comprised of finished goods, as follows:

	June 30, 2017	December 31, 2016
Finished goods inventory		
Real estate inventory (a)	$20,046	$17,059
Log inventory	6,317	4,320
Total inventory	$26,363	$21,379

(a) Represents cost of HBU real estate (including capitalized development investments) expected to be sold within 12 months. See Note 5 — Higher And Better Use Timberlands And Real Estate Development Investments for additional information.

16. RESTRICTED CASH

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 June 30, 2017 and December 31, 2016, the Company had $11.8 million and $71.7 million, respectively, of proceeds from real estate sales classified as restricted cash which were deposited with an LKE intermediary as well as cash held in escrow for a real estate sale.

17. ASSETS HELD FOR SALE

Assets held for sale are composed of properties expected to be sold within the next 12 months and meet the other relevant held-for sale criteria in accordance with ASC 360-10-45-9. As of June 30, 2017, there were no properties identified that met this classification. As of December 31, 2016, the basis in properties meeting this classification was $23.2 million. Since the basis in these properties was less than the fair value, including costs to sell, no impairment was recognized.

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18. ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

The following table summarizes the changes in AOCI by component for the six months ended June 30, 2017 and the year ended December 31, 2016. All amounts are presented net of tax and exclude portions attributable to noncontrolling interest.

	Foreign currency translation gains/ (losses)	Net investment hedges of New Zealand JV	Cash flow hedges		Employee benefit plans		Total
Balance as of December 31, 2015	($2,450)	$6,271	($11,592)		($25,732)		($33,503)
Other comprehensive income/(loss) before reclassifications	7,387	—	22,024		3,020	(b)	32,431
Amounts reclassified from accumulated other comprehensive loss	—	(4,606)	583		2,513	(c)	(1,510)
Net other comprehensive income/(loss)	7,387	(4,606)	22,607		5,533		30,921
Recapitalization of New Zealand JV	3,622	—	(184)		—		3,438
Balance as of December 31, 2016	$8,559	$1,665	$10,831		($20,199)		$856
Other comprehensive income before reclassifications	19,201	—	1,140	(a)	—		20,341
Amounts reclassified from accumulated other comprehensive income	—	—	(1,255)		233	(c)	(1,022)
Net other comprehensive income	19,201	—	(115)		233		19,319
Balance as of June 30, 2017	$27,760	$1,665	$10,716		($19,966)		$20,175

(a) Includes $2.4 million of other comprehensive loss related to interest rate swaps. See Note 11 — Derivative Financial Instruments and Hedging Activities for additional information.

(b) This accumulated other comprehensive income component is comprised of $2.4 million from the annual computation of pension liabilities and a $5.4 million curtailment gain. See Note 15 — Employee Benefit Plans of the 2016 Form 10-K for additional information.

(c) This component of other comprehensive income is included in the computation of net periodic pension cost. See Note 13 — Employee Benefit Plans for additional information.

The following table presents details of the amounts reclassified in their entirety from AOCI to net income for the six months ended June 30, 2017 and June 30, 2016:

Details about accumulated other comprehensive income components	Amount reclassified from accumulated other comprehensive income		Affected line item in the income statement
	June 30, 2017	June 30, 2016	
	($1,730)	$341	Other operating income, net

Realized (gain) loss on foreign currency exchange contracts			
Realized (gain) loss on foreign currency option contracts	(534)	573	Other operating income, net
Noncontrolling interest	521	(320)	Comprehensive income attributable to noncontrolling interest
Income tax (expense) benefit on loss from foreign currency contracts	488	(166)	Income tax expense
Net (gain) loss from accumulated other comprehensive income	($1,255)	$428	

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(Unaudited)
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19. 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 March 2012, Rayonier Inc. issued $325 million of 3.75% Senior Notes due 2022. In connection with these 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.

The subsidiary guarantors, Rayonier Operating Company LLC ("ROC") and Rayonier TRS Holdings Inc., are wholly-owned by the parent company, Rayonier Inc. The notes are fully and unconditionally guaranteed on a joint and several basis by the guarantor subsidiaries.

CONDENSED CONSOLIDATING STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME
For the Three Months Ended June 30, 2017

	Rayonier Inc. (Parent Issuer)	Subsidiary Guarantors	Non-guarantors	Consolidating Adjustments	Total Consolidated
SALES	—	—	$194,719	—	$194,719
Costs and Expenses					
Cost of sales	—	—	143,687	—	143,687
Selling and general expenses	—	4,248	5,998	—	10,246
Other operating expense (income), net	—	20	(6,127)	—	(6,107)
	—	4,268	143,558	—	147,826
OPERATING (LOSS) INCOME	—	(4,268)	51,161	—	46,893
Interest expense	(3,139)	(4,883)	(609)	—	(8,631)
Interest and miscellaneous income (expense), net	2,345	695	(3,036)	—	4
Equity in income from subsidiaries	26,955	35,580	—	(62,535)	—
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	26,161	27,124	47,516	(62,535)	38,266
Income tax expense	—	(169)	(7,324)	—	(7,493)
INCOME FROM CONTINUING OPERATIONS	26,161	26,955	40,192	(62,535)	30,773
DISCONTINUED OPERATIONS, NET					
Income from discontinued operations, net of income taxes	—	—	—	—	—
NET INCOME	26,161	26,955	40,192	(62,535)	30,773
Less: Net income attributable to noncontrolling interest	—	—	4,612	—	4,612
NET INCOME ATTRIBUTABLE TO RAYONIER INC.	26,161	26,955	35,580	(62,535)	26,161
OTHER COMPREHENSIVE INCOME					
Foreign currency translation adjustment, net of income tax	17,199	—	21,484	(17,199)	21,484
Cash flow hedges, net of income tax	(2,686)	(5,021)	3,033	2,686	(1,988)
	116	116	—	(116)	116

Amortization of pension and postretirement plans, net of income tax					
Total other comprehensive income	14,629	(4,905)	24,517	(14,629)	19,612
COMPREHENSIVE INCOME	40,790	22,050	64,709	(77,164)	50,385
Less: Comprehensive income attributable to noncontrolling interest	—	—	9,595	—	9,595
COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.	$40,790	$22,050	$55,114	($77,164)	$40,790

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RAYONIER INC. AND SUBSIDIARIES
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	CONDENSED CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME For the Three Months Ended June 30, 2016				
	Rayonier Inc. (Parent Issuer)	Subsidiary Guarantors	Non-guarantors	Consolidating Adjustments	Total Consolidated
SALES	—	—	$261,550	—	$261,550
Costs and Expenses					
Cost of sales	—	—	138,194	—	138,194
Selling and general expenses	—	2,643	8,609	—	11,252
Other operating income (expense), net	—	1,343	(10,806)	—	(9,463)
	—	3,986	135,997	—	139,983
OPERATING (LOSS) INCOME	—	(3,986)	125,553	—	121,567
Interest expense	(3,139)	(4,384)	(438)	—	(7,961)
Interest and miscellaneous income (expense), net	2,109	685	(2,545)	—	249
Equity in income from subsidiaries	110,851	119,275	—	(230,126)	—
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	109,821	111,590	122,570	(230,126)	113,855
Income tax expense	—	(739)	(1,537)	—	(2,276)
NET INCOME	109,821	110,851	121,033	(230,126)	111,579
Less: Net income attributable to noncontrolling interest	—	—	1,758	—	1,758
NET INCOME ATTRIBUTABLE TO RAYONIER INC.	109,821	110,851	119,275	(230,126)	109,821
OTHER COMPREHENSIVE INCOME					
Foreign currency translation adjustment, net of income tax	10,941	—	13,219	(10,941)	13,219
Cash flow hedges, net of income tax	(12,850)	(14,102)	1,626	12,850	(12,476)
Amortization of pension and postretirement plans, net of income tax	632	632	—	(632)	632
Total other comprehensive (loss) income	(1,277)	(13,470)	14,845	1,277	1,375
COMPREHENSIVE INCOME	108,544	97,381	135,878	(228,849)	112,954
Less: Comprehensive income attributable to noncontrolling interest	—	—	4,410	—	4,410
COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.	$108,544	$97,381	$131,468	($228,849)	$108,544

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CONDENSED CONSOLIDATING STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
For the Six Months Ended June 30, 2017

	Rayonier Inc. (Parent Issuer)	Subsidiary Guarantors	Non-guarantors	Consolidating Adjustments	Total Consolidated
SALES	—	—	$381,232	—	$381,232
Costs and Expenses					
Cost of sales	—	—	280,100	—	280,100
Selling and general expenses	—	7,784	12,052	—	19,836
Other operating expense (income), net	—	131	(14,989)	—	(14,858)
	—	7,915	277,163	—	285,078
OPERATING (LOSS) INCOME	—	(7,915)	104,069	—	96,154
Interest expense	(6,278)	(9,741)	(1,027)	—	(17,046)
Interest and miscellaneous income (expense), net	4,547	1,383	(5,408)	—	522
Equity in income from subsidiaries	61,734	78,323	—	(140,057)	—
INCOME BEFORE INCOME TAXES	60,003	62,050	97,634	(140,057)	79,630
Income tax expense	—	(316)	(13,458)	—	(13,774)
NET INCOME	60,003	61,734	84,176	(140,057)	65,856
Less: Net income attributable to noncontrolling interest	—	—	5,853	—	5,853
NET INCOME ATTRIBUTABLE TO RAYONIER INC.	60,003	61,734	78,323	(140,057)	60,003
OTHER COMPREHENSIVE INCOME					
Foreign currency translation adjustment, net of income tax	19,202	—	23,916	(19,202)	23,916
Cash flow hedges, net of income tax	(115)	(2,389)	2,954	115	565
Amortization of pension and postretirement plans, net of income tax	233	233	—	(233)	233
Total other comprehensive income	19,320	(2,156)	26,870	(19,320)	24,714
COMPREHENSIVE INCOME	79,323	59,578	111,046	(159,377)	90,570
Less: Comprehensive income attributable to noncontrolling interest	—	—	11,247	—	11,247
COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.	$79,323	$59,578	$99,799	($159,377)	$79,323

RAYONIER INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)
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CONDENSED CONSOLIDATING STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME
For the Six Months Ended June 30, 2016

	Rayonier Inc. (Parent Issuer)	Subsidiary Guarantors	Non-guarantors	Consolidating Adjustments	Total Consolidated
SALES	—	—	$396,393	—	$396,393
Costs and Expenses					
Cost of sales	—	—	246,166	—	246,166
Selling and general expenses	—	5,581	15,450	—	21,031
Other operating expense (income), net	—	188	(15,556)	—	(15,368)
	—	5,769	246,060	—	251,829
OPERATING (LOSS) INCOME	—	(5,769)	150,333	—	144,564
Interest expense	(6,278)	(6,528)	(2,253)	—	(15,059)
Interest and miscellaneous income (expense), net	4,147	1,366	(6,886)	—	(1,373)
Equity in income from subsidiaries	126,424	138,272	—	(264,696)	—
INCOME BEFORE INCOME TAXES	124,293	127,341	141,194	(264,696)	128,132
Income tax expense	—	(917)	(578)	—	(1,495)
NET INCOME	124,293	126,424	140,616	(264,696)	126,637
Less: Net income attributable to noncontrolling interest	—	—	2,344	—	2,344
NET INCOME ATTRIBUTABLE TO RAYONIER INC.	124,293	126,424	138,272	(264,696)	124,293
OTHER COMPREHENSIVE INCOME (LOSS)					
Foreign currency translation adjustment, net of income tax	10,737	(4,606)	20,629	(10,737)	16,023
Cash flow hedges, net of income tax	(26,773)	(28,988)	2,738	26,773	(26,250)
Amortization of pension and postretirement plans, net of income tax	1,249	1,249	—	(1,249)	1,249
Total other comprehensive (loss) income	(14,787)	(32,345)	23,367	14,787	(8,978)
COMPREHENSIVE INCOME	109,506	94,079	163,983	(249,909)	117,659
Less: Comprehensive income attributable to noncontrolling interest	—	—	8,153	—	8,153
COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.	$109,506	$94,079	$155,830	($249,909)	$109,506

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CONDENSED CONSOLIDATING BALANCE SHEETS
As of June 30, 2017

	Rayonier Inc. (Parent Issuer)	Subsidiary Guarantors	Non-guarantors	Consolidating Adjustments	Total Consolidated
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$81,157	$12,585	$42,817	—	$136,559
Accounts receivable, less allowance for doubtful accounts	—	1,911	28,270	—	30,181
Insurance settlement receivable	73,000	—	—	—	73,000
Inventory	—	—	26,363	—	26,363
Prepaid expenses	—	1,848	12,879	—	14,727
Other current assets	—	14	4,383	—	4,397
Total current assets	154,157	16,358	114,712	—	285,227
TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION	—	—	2,509,485	—	2,509,485
HIGHER AND BETTER USE TIMBERLANDS AND REAL ESTATE DEVELOPMENT INVESTMENTS	—	—	74,888	—	74,888
NET PROPERTY, PLANT AND EQUIPMENT	—	105	21,455	—	21,560
RESTRICTED CASH	—	—	11,781	—	11,781
INVESTMENT IN SUBSIDIARIES	1,516,570	2,812,673	—	(4,329,243)	—
INTERCOMPANY RECEIVABLE	32,573	(622,196)	589,623	—	—
OTHER ASSETS	2	7,452	42,399	—	49,853
TOTAL ASSETS	$1,703,302	$2,214,392	$3,364,343	($4,329,243)	$2,952,794
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Accounts payable	—	$2,186	$26,510	—	$28,696
Insurance settlement payable	73,000	—	—	—	73,000
Current maturities of long-term debt	31,525	—	—	—	31,525
Accrued taxes	—	(41)	5,415	—	5,374
Accrued payroll and benefits	—	2,460	2,632	—	5,092
Accrued interest	3,047	1,940	238	—	5,225
Other current liabilities	—	647	29,069	—	29,716
Total current liabilities	107,572	7,192	63,864	—	178,628
LONG-TERM DEBT, NET OF DEFERRED FINANCING COSTS	291,725	663,473	78,423	—	1,033,621
PENSION AND OTHER POSTRETIREMENT BENEFITS	—	32,274	(685)	—	31,589
OTHER NON-CURRENT LIABILITIES	—	13,844	27,002	—	40,846
INTERCOMPANY PAYABLE	(267,715)	(18,961)	286,676	—	—
TOTAL RAYONIER INC. SHAREHOLDERS' EQUITY	1,571,720	1,516,570	2,812,673	(4,329,243)	1,571,720

Noncontrolling interest	—	—	96,390	—	96,390
TOTAL SHAREHOLDERS' EQUITY	1,571,720	1,516,570	2,909,063	(4,329,243)	1,668,110
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,703,302	$2,214,392	$3,364,343	($4,329,243)	$2,952,794

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(Unaudited)
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CONDENSED CONSOLIDATING BALANCE SHEETS
As of December 31, 2016

	Rayonier Inc. (Parent Issuer)	Subsidiary Guarantors	Non-guarantors	Consolidating Adjustments	Total Consolidated
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$21,453	$9,461	$54,995	—	$85,909
Accounts receivable, less allowance for doubtful accounts	—	2,991	17,673	—	20,664
Inventory	—	—	21,379	—	21,379
Prepaid expenses	—	427	11,380	—	11,807
Assets held for sale	—	—	23,171	—	23,171
Other current assets	—	236	1,638	—	1,874
Total current assets	21,453	13,115	130,236	—	164,804
TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION	—	—	2,291,015	—	2,291,015
HIGHER AND BETTER USE TIMBERLANDS AND REAL ESTATE DEVELOPMENT INVESTMENTS	—	—	70,374	—	70,374
NET PROPERTY, PLANT AND EQUIPMENT	—	177	13,857	—	14,034
RETRICTED CASH	—	—	71,708	—	71,708
INVESTMENT IN SUBSIDIARIES	1,422,081	2,671,428	—	(4,093,509)	—
INTERCOMPANY RECEIVABLE	26,472	(611,571)	585,099	—	—
OTHER ASSETS	2	46,846	26,977	—	73,825
TOTAL ASSETS	$1,470,008	$2,119,995	$3,189,266	($4,093,509)	$2,685,760
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES					
Accounts payable	—	$1,194	$21,143	—	$22,337
Current maturities of long-term debt	31,676	—	—	—	31,676
Accrued taxes	—	(111)	2,768	—	2,657
Accrued payroll and benefits	—	5,013	4,264	—	9,277
Accrued interest	3,047	2,040	253	—	5,340
Other current liabilities	—	165	20,514	—	20,679
Total current liabilities	34,723	8,301	48,942	—	91,966
LONG-TERM DEBT, NET OF DEFERRED FINANCING COSTS	291,390	663,343	75,472	—	1,030,205
PENSION AND OTHER POSTRETIREMENT BENEFITS	—	32,541	(685)	—	31,856
OTHER NON-CURRENT LIABILITIES	—	12,690	22,291	—	34,981
INTERCOMPANY PAYABLE	(267,715)	(18,961)	286,676	—	—
TOTAL RAYONIER INC. SHAREHOLDERS' EQUITY	1,411,610	1,422,081	2,671,428	(4,093,509)	1,411,610
Noncontrolling interest	—	—	85,142	—	85,142

TOTAL SHAREHOLDERS’ EQUITY	1,411,610	1,422,081	2,756,570	(4,093,509)	1,496,752
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$1,470,008	$2,119,995	$3,189,266	($4,093,509)	$2,685,760

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2017

	Rayonier Inc. (Parent Issuer)	Subsidiary Guarantors	Non-guarantors	Consolidating Adjustments	Total Consolidated
CASH (USED FOR) PROVIDED BY OPERATING ACTIVITIES	($7,648)	$59,557	$76,406	—	$128,315
INVESTING ACTIVITIES					
Capital expenditures	—	—	(29,840)	—	(29,840)
Real estate development investments	—	—	(5,599)	—	(5,599)
Purchase of timberlands	—	—	(237,235)	—	(237,235)
Net proceeds from large disposition	—	—	42,029	—	42,029
Rayonier office building under construction	—	—	(5,573)	—	(5,573)
Change in restricted cash	—	—	59,927	—	59,927
Investment in subsidiaries	—	6,932	—	(6,932)	—
Other	—	—	1,033	—	1,033
CASH (USED FOR) PROVIDED BY INVESTING ACTIVITIES	—	6,932	(175,258)	(6,932)	(175,258)
FINANCING ACTIVITIES					
Issuance of debt	—	25,000	38,389	—	63,389
Repayment of debt	—	(15,000)	(45,422)	—	(60,422)
Dividends paid	(62,825)	—	—	—	(62,825)
Proceeds from the issuance of common shares under incentive stock plan	3,206	—	—	—	3,206
Proceeds from the issuance of common shares under equity offering	152,390	—	—	—	152,390
Repurchase of common shares	—	—	—	—	—
Intercompany distributions	(25,419)	(73,365)	91,852	6,932	—
Other	—	—	—	—	—
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	67,352	(63,365)	84,819	6,932	95,738
EFFECT OF EXCHANGE RATE CHANGES ON CASH	—	—	1,855	—	1,855
CASH AND CASH EQUIVALENTS					
Change in cash and cash equivalents	59,704	3,124	(12,178)	—	50,650
Balance, beginning of year	21,453	9,461	54,995	—	85,909
Balance, end of period	$81,157	$12,585	$42,817	—	$136,559

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

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2016

	Rayonier Inc. (Parent Issuer)	Subsidiary Guarantors	Non-guarantors	Consolidating Adjustments	Total Consolidated
CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES	($4,055)	($7,193)	$88,227	—	$76,979
INVESTING ACTIVITIES					
Capital expenditures	—	—	(26,180)	—	(26,180)
Real estate development investments	—	—	(3,018)	—	(3,018)
Purchase of timberlands	—	—	(276,614)	—	(276,614)
Assets purchased in business acquisition	—	—	(1,113)	—	(1,113)
Net proceeds from large disposition	—	—	126,965	—	126,965
Rayonier office building under construction	—	—	(1,155)	—	(1,155)
Change in restricted cash	—	—	17,985	—	17,985
Investment in subsidiaries	—	262,505	—	(262,505)	—
Other	—	—	(2,066)	—	(2,066)
CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES	—	262,505	(165,196)	(262,505)	(165,196)
FINANCING ACTIVITIES					
Issuance of debt	—	518,000	135,775	—	653,775
Repayment of debt	—	(135,000)	(291,173)	—	(426,173)
Dividends paid	(61,409)	—	—	—	(61,409)
Proceeds from the issuance of common shares	644	—	—	—	644
Repurchase of common shares	—	(690)	—	—	(690)
Debt issuance costs	—	(818)	—	—	(818)
Intercompany distributions	137,844	(638,434)	238,085	262,505	—
Other	(139)	—	—	—	(139)
CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	76,940	(256,942)	82,687	262,505	165,190
EFFECT OF EXCHANGE RATE CHANGES ON CASH	—	—	904	—	904
CASH AND CASH EQUIVALENTS					
Change in cash and cash equivalents	72,885	(1,630)	6,622	—	77,877
Balance, beginning of year	2,472	13,217	36,088	—	51,777
Balance, end of period	$75,357	$11,587	$42,710	—	$129,654

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

When we refer to "we," "us," "our," "the Company," or "Rayonier," we mean Rayonier Inc. and its consolidated subsidiaries. References herein to "Notes to Financial Statements" refer to the Notes to Consolidated Financial Statements of Rayonier Inc. included in Item 1 of this report.

This MD&A is intended to provide a reader of our financial statements with a narrative from the perspective of management on our financial condition, results of operations, liquidity, and certain other factors which may affect future results. Our MD&A should be read in conjunction with our Consolidated Financial Statements included in Item 1 of this report, our Annual Report on Form 10-K for the year ended December 31, 2016 (the "2016 Form 10-K") and information contained in our subsequent reports filed with the Securities and Exchange Commission (the "SEC").

Forward-Looking Statements

Certain statements in this document regarding anticipated financial outcomes, including Rayonier's earnings guidance, if any, business and market conditions, outlook, expected dividend rate, Rayonier's business strategies, including expected harvest schedules, timberland acquisitions, sales of non-strategic timberlands, the anticipated benefits of Rayonier's business strategies, and other similar statements relating to Rayonier's future events, developments, or financial or operational performance or results, are "forward-looking statements" made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and other federal securities laws. These forward-looking statements are identified by the use of words such as "may," "will," "should," "expect," "estimate," "believe," "intend," "project," "anticipate" and other similar language. However, the absence of these or similar words or expressions does not mean that a statement is not forward-looking. While management believes that these forward-looking statements are reasonable when made, forward-looking statements are not guarantees of future performance or events and undue reliance should not be placed on these statements. The risk factors contained in Item 1A — Risk Factors in the 2016 Form 10-K and similar discussions included in other reports that we subsequently file with the SEC, among others, could cause actual results or events to differ materially from the Company's historical experience and those expressed in forward-looking statements made in this document.

Forward-looking statements are only as of the date they are made, and the Company undertakes no duty to update its forward-looking statements except as required by law. You are advised, however, to review any subsequent disclosures the Company makes on related subjects in its subsequent reports filed with the SEC.

Non-GAAP Measures

To supplement Rayonier's financial statements presented in accordance with generally accepted accounting principles in the United States ("GAAP"), Rayonier uses certain non-GAAP measures, including "cash available for distribution," and "Adjusted EBITDA," which are defined and further explained in Performance and Liquidity Indicators below. Reconciliation of such measures to the nearest GAAP measures can also be found in Performance and Liquidity Indicators below. Rayonier's definitions of these non-GAAP measures may differ from similarly titled measures used by others. These non-GAAP measures should be considered supplemental to, and not a substitute for, financial information prepared in accordance with GAAP.

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Our Company

We are a leading timberland real estate investment trust (“REIT”) with assets located in some of the most productive softwood timber growing regions in the United States and New Zealand. Our revenues, operating income and cash flows are primarily derived from the following core business segments: Southern Timber, Pacific Northwest Timber, New Zealand Timber, Real Estate and Trading. As of June 30, 2017, we owned or leased under long-term agreements approximately 2.7 million acres of timberlands located in the U.S. South (1.9 million acres) and U.S. Pacific Northwest (378,000 acres). We also have a 77% ownership interest in Matariki Forestry Group, a joint venture (“New Zealand JV”), that owns or leases approximately 430,000 acres (294,000 net plantable acres) of timberlands in New Zealand.

The Southern Timber, Pacific Northwest Timber and New Zealand Timber segments include all activities related to the harvesting of timber and other non-timber income activities, such as the leasing of properties for hunting, mineral extraction and cell towers. The New Zealand Timber segment also reflects any land or leasehold sales that occur within our New Zealand portfolio.

The Real Estate segment includes all U.S. land sales disaggregated into five sales categories: Improved Development, Unimproved Development, Rural, Non-Strategic / Timberlands and Large Dispositions.

The Trading segment reflects the log trading activities that support our New Zealand operations. The Trading segment complements the New Zealand Timber segment by adding scale and achieving cost savings that directly benefit the New Zealand Timber segment. Trading also generally contributes modestly to earnings without significant investment and provides market intelligence that benefits the timber business.

Industry and Market Conditions

The demand for timber is directly related to the underlying demand for pulp, paper, packaging, lumber and other wood products. The significant majority of timber sold in our Southern Timber segment is consumed domestically. With a higher proportion of pulpwood, our Southern Timber segment relies heavily on downstream markets for pulp and paper, and to a lesser extent wood pellet markets. Our Pacific Northwest segment relies primarily on domestic customers but also exports a significant volume of timber, particularly to China. Both the Southern and Pacific Northwest Timber segments rely on the strength of U.S. lumber markets as well as underlying housing starts. Our New Zealand Timber segment sells timber to domestic New Zealand wood products mills and also exports a significant portion of its volume to markets in China, South Korea and India. In addition to market dynamics in the Pacific Rim, the New Zealand Timber segment is subject to foreign exchange fluctuations, which can impact the operating results of the segment in U.S. dollar terms.

The Company is also subject to the risk of price fluctuations in its major cost components. The primary components of the Company's cost of sales are the cost basis of timber sold (depletion), the cost basis of real estate sold and logging and transportation costs (cut and haul). Depletion includes the amortization of capitalized costs (site preparation, planting and fertilization, real estate taxes, timberland lease payments and certain payroll costs). Other costs include amortization of capitalized costs related to road and bridge construction and software, depreciation of fixed assets and equipment, road maintenance, severance and excise taxes, fire prevention and real estate commissions and closing costs.

For additional information on market conditions impacting our business, see Results of Operations.

Critical Accounting Policies and Use of Estimates

The preparation of financial statements requires us to make estimates, assumptions and judgments that affect our assets, liabilities, revenues and expenses, and disclosure of contingent assets and liabilities. We base these estimates and assumptions on historical data and trends, current fact patterns, expectations and other sources of information we believe are reasonable. Actual results may differ from these estimates. For a full description of our critical accounting policies, see Item 7 — Management’s Discussion and Analysis of Financial Condition and Results of Operations in the 2016 Form 10-K.

Revenue Recognition for Real Estate Sales

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 throughout the year, with adjustments being allocated prospectively to the remaining units available for sale.

Discussion of Timber Inventory and Sustainable Yield

See Item 1 — Business — Discussion of Timber Inventory and Sustainable Yield in the 2016 Form 10-K.

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Our Timberlands

Our timber operations are disaggregated into three geographically distinct segments: Southern Timber, Pacific Northwest Timber and New Zealand Timber. The following table provides a breakdown of our timberland holdings as of June 30, 2017 and December 31, 2016:

(acres in 000s)	As of June 30, 2017			As of December 31, 2016		
	Owned	Leased	Total	Owned	Leased	Total
Southern						
Alabama	254	24	278	284	24	308
Arkansas	—	13	13	—	14	14
Florida	282	102	384	281	92	373
Georgia	617	105	722	554	107	661
Louisiana	145	1	146	145	1	146
Mississippi	67	—	67	67	—	67
Oklahoma	92	—	92	92	—	92
South Carolina	18	—	18	—	—	—
Tennessee	1	—	1	1	—	1
Texas	182	—	182	187	—	187
	1,658	245	1,903	1,611	238	1,849
Pacific Northwest						
Oregon	61	—	61	61	—	61
Washington	316	1	317	316	1	317
	377	1	378	377	1	378
New Zealand (a)	179	251	430	179	254	433
Total	2,214	497	2,711	2,167	493	2,660

(a) Represents legal acres owned and leased by the New Zealand JV, in which Rayonier owns a 77% interest. As of June 30, 2017, legal acres in New Zealand were comprised of 294,000 plantable acres and 136,000 non-productive acres.

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The following tables detail activity for owned and leased acres in our timberland holdings by state from December 31, 2016 to June 30, 2017:

(acres in 000s)	Acres Owned			
	December 31, 2016	Acquisitions	Sales	June 30, 2017
Southern				
Alabama	284	—	(30)	254
Florida	281	5	(4)	282
Georgia	554	63	—	617
Louisiana	145	—	—	145
Mississippi	67	—	—	67
Oklahoma	92	—	—	92
South Carolina	—	18	—	18
Tennessee	1	—	—	1
Texas	187	—	(5)	182
	1,611	86	(39)	1,658
Pacific Northwest				
Oregon	61	—	—	61
Washington	316	—	—	316
	377	—	—	377
New Zealand (a)	179	—	—	179
Total	2,167	86	(39)	2,214

(a) Represents legal acres owned by the New Zealand JV, in which Rayonier has a 77% interest.

(acres in 000s)	Acres Leased			
	December 31, 2016	New Leases	Leases Sold/ Expired (a)	June 30, 2017
Southern				
Alabama	24	—	—	24
Arkansas	14	—	(1)	13
Florida	92	10	—	102
Georgia	107	—	(2)	105
Louisiana	1	—	—	1
	238	10	(3)	245
Pacific Northwest				
Washington	1	—	—	1
New Zealand (b)	254	8	(11)	251
Total	493	18	(14)	497

(a) Includes acres previously under lease that have been harvested or expired.
(b) Represents legal acres leased by the New Zealand JV, in which Rayonier has a 77% interest.

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Results of Operations

Consolidated Results

The following table provides key financial information by segment and on a consolidated basis:

	Three Months Ended June 30,		Six Months Ended June 30,	
Financial Information (in millions)	2017	2016	2017	2016
Sales				
Southern Timber	$30.8	$29.6	$63.5	$74.4
Pacific Northwest Timber	19.4	16.9	44.2	36.2
New Zealand Timber	77.2	47.7	117.9	83.8
Real Estate				
Improved Development	0.1	—	0.1	1.7
Unimproved Development	2.5	—	2.5	0.9
Rural	5.5	7.3	12.2	11.0
Non-Strategic / Timberlands	17.5	0.5	23.1	7.6
Large Dispositions	—	129.5	42.0	129.5
Total Real Estate	25.6	137.3	79.9	150.7
Trading	41.7	30.1	75.7	51.3
Total Sales	$194.7	$261.6	$381.2	$396.4
Operating Income (Loss)				
Southern Timber	$9.7	$11.1	$23.6	$26.8
Pacific Northwest Timber	(1.5)	1.1	(2.4)	2.4
New Zealand Timber	26.8	10.0	37.1	14.8
Real Estate (a)	16.1	105.7	45.8	109.9
Trading	1.1	0.6	2.2	1.0
Corporate and other	(5.3)	(6.9)	(10.1)	(10.3)
Operating Income	46.9	121.6	96.2	144.6
Interest Expense, Interest Income and Other	(8.6)	(7.7)	(16.6)	(16.5)
Income Tax Expense	(7.5)	(2.3)	(13.7)	(1.5)
Net Income	30.8	111.6	65.9	126.6
Less: Net income attributable to noncontrolling interest	4.6	1.8	5.9	2.3
Net Income Attributable to Rayonier Inc.	$26.2	$109.8	$60.0	$124.3
Adjusted EBITDA (b)				
Southern Timber	$21.6	$21.7	$48.0	$53.9
Pacific Northwest Timber	5.5	4.8	14.9	10.7
New Zealand Timber	41.9	16.4	57.7	27.9
Real Estate	21.5	7.7	30.1	17.4
Trading	1.1	0.6	2.2	1.0
Corporate and Other	(5.2)	(6.2)	(9.2)	(10.3)
Total Adjusted EBITDA	$86.4	$45.0	$143.7	$100.6

(a) The six months ended June 30, 2017 included $28.2 million from a Large Disposition. The three and six months ended June 30, 2016 included $101.3 million from a Large Disposition.

(b) Adjusted EBITDA is a non-GAAP measure defined and reconciled in Performance and Liquidity Indicators.

Southern Timber Overview	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Sales Volume (in thousands of tons)				
Pine Pulpwood	764	795	1,587	1,976
Pine Sawtimber	520	334	1,025	862
Total Pine Volume	1,284	1,129	2,612	2,838
Hardwood	73	54	124	104
Total Volume	1,357	1,183	2,736	2,942
Percentage Delivered Sales	20 %	27 %	20 %	25 %
Percentage Stumpage Sales	80 %	73 %	80 %	75 %
Net Stumpage Pricing (dollars per ton)				
Pine Pulpwood	$15.62	$18.31	$16.50	$18.66
Pine Sawtimber	25.66	27.00	26.01	26.95
Weighted Average Pine	$19.68	$20.88	$20.23	$21.18
Hardwood	11.65	10.90	11.36	11.66
Weighted Average Total	$19.25	$20.42	$19.83	$20.83
Summary Financial Data (in millions of dollars)				
Sales	$30.8	$29.6	$63.5	$74.4
Less: Cut and Haul	(4.7)	(5.4)	(9.3)	(13.1)
Net Stumpage Sales	$26.1	$24.2	$54.2	$61.3
Operating Income	$9.7	$11.1	$23.6	$26.8
(+) Depreciation, depletion and amortization	11.9	10.6	24.4	27.1
Adjusted EBITDA (a)	$21.6	$21.7	$48.0	$53.9
Other Data				
Non-Timber Income (in millions of dollars) (b)	$4.4	$5.3	$10.0	$9.5
Period-End Acres (in thousands)	1,903	1,871	1,903	1,871

(a) Adjusted EBITDA is a non-GAAP measure defined and reconciled in Performance and Liquidity Indicators.
(b) Non-Timber Income is presented net of direct charges and excludes allocated overhead.

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Pacific Northwest Timber Overview	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Sales Volume (in thousands of tons)				
Pulpwood	71	77	160	167
Sawtimber	204	190	514	431
Total Volume	275	267	674	598
Sales Volume (converted to MBF)				
Pulpwood	6,745	7,304	15,009	15,904
Sawtimber	26,758	25,552	66,216	55,930
Total Volume	33,503	32,856	81,225	71,834
Percentage Delivered Sales	99 %	94 %	88 %	90 %
Percentage Sawtimber Sales	74 %	71 %	76 %	72 %
Delivered Log Pricing (in dollars per ton)				
Pulpwood	$39.38	$42.97	$39.03	$43.96
Sawtimber	81.93	74.54	78.08	71.00
Weighted Average Log Price	$70.88	$65.27	$68.29	$63.11
Summary Financial Data (in millions of dollars)				
Sales	$19.4	$16.9	$44.2	$36.2
Less: Cut and Haul	(9.9)	(8.1)	(20.2)	(16.8)
Net Stumpage Sales	$9.5	$8.8	$24.0	$19.4
Operating (Loss) Income	($1.5)	$1.1	($2.4)	$2.4
(+) Depreciation, depletion and amortization	7.0	3.7	17.3	8.3
Adjusted EBITDA (a)	$5.5	$4.8	$14.9	$10.7
Other Data				
Non-Timber Income (in millions of dollars) (b)	$0.9	$0.8	$2.0	$1.6
Period-End Acres (in thousands)	378	379	378	379
Sawtimber (in dollars per MBF)	$638	$558	$623	$553
Estimated Percentage of Export Volume	25 %	28 %	25 %	27 %

(a) Adjusted EBITDA is a non-GAAP measure defined and reconciled in Performance and Liquidity Indicators.
(b) Non-Timber Income is presented net of direct charges and excludes allocated overhead.

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New Zealand Timber Overview	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Sales Volume (in thousands of tons)				
Domestic Sawtimber (Delivered)	217	224	413	410
Domestic Pulpwood (Delivered)	104	92	205	186
Export Sawtimber (Delivered)	263	276	443	462
Export Pulpwood (Delivered)	32	20	55	39
Stumpage	—	10	—	10
Total Volume	616	621	1,116	1,106
Delivered Log Pricing (in dollars per ton)				
Domestic Sawtimber	$79.04	$71.37	$78.76	$69.22
Domestic Pulpwood	$33.31	$31.80	$34.00	$30.64
Export Sawtimber	$111.05	$96.11	$110.10	$95.40
Summary Financial Data (in millions of dollars)				
Sales	$52.9	$47.7	$93.6	$82.0
Less: Cut and Haul	(19.5)	(19.2)	(35.5)	(33.8)
Less: Port and Freight Costs	(9.6)	(7.5)	(15.6)	(12.7)
Net Stumpage Sales	$23.8	$21.1	$42.5	$35.4
Land Sales	24.3	—	24.3	1.8
Total Sales	$77.2	$47.7	$117.9	$83.8
Operating Income	$26.8	$10.0	$37.1	$14.8
(-) Non-operating expense	(0.4)	—	(0.3)	—
(+) Depreciation, depletion and amortization (a)	15.5	6.4	20.8	11.3
(+) Non-cash cost of land sold	—	—	0.1	1.8
Adjusted EBITDA (b)	$41.9	$16.4	$57.7	$27.9
Other Data				
Non-timber Income / Carbon credits ($ in MMs)	$0.1	$0.9	$0.2	$1.0
New Zealand Dollar to U.S. Dollar Exchange Rate (c)	0.6985	0.6866	0.7067	0.6756
Net Plantable Period-End Acres (in thousands)	294	299	294	299
Export Sawtimber (in dollars per JAS m^3)	$129.06	$111.71	$127.97	$110.88
Domestic Sawtimber (in $NZD per tonne)	$124.47	$114.34	$122.70	$112.51

(a) The three and six months ended June 30, 2017 includes $8.9 million of DD&A related to timberland sales.
(b) Adjusted EBITDA is a non-GAAP measure defined and reconciled in Performance and Liquidity Indicators.
(c) Represents the average period rate.

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Real Estate Overview	Three Months Ended June 30, 2017	2016	Six Months Ended June 30, 2017	2016
Sales (in millions of dollars)				
Improved Development (a)	$0.1	—	$0.1	$1.7
Unimproved Development	2.5	—	2.5	0.9
Rural	5.5	7.3	12.2	11.0
Non-Strategic / Timberlands	17.5	0.5	23.1	7.6
Large Dispositions (b)	—	129.5	42.0	129.5
Total Sales	$25.6	$137.3	$79.9	$150.7
Acres Sold				
Improved Development (a)	1	—	1	47
Unimproved Development	130	—	130	48
Rural	1,728	2,666	4,012	4,111
Non-Strategic / Timberlands	5,733	252	9,656	6,382
Large Dispositions (b)	—	55,320	24,954	55,320
Total Acres Sold	7,592	58,238	38,753	65,908
Gross Price per Acre (dollars per acre)				
Improved Development (a)	$324,427	—	$324,427	$37,353
Unimproved Development	19,195	—	19,195	18,000
Rural	3,178	2,711	3,049	2,654
Non-Strategic / Timberlands	3,050	2,161	2,390	1,195
Large Dispositions (b)	—	2,342	1,681	2,342
Weighted Average (Total) (c)	$3,411	$2,664	$2,771	$1,996
Weighted Average (Adjusted) (d)	$3,356	$2,664	$2,741	$1,840
Sales (Excluding Large Dispositions)	$25.6	$7.8	$37.9	$21.2
Operating Income	$16.1	$105.7	$45.8	$109.9
(+) Depreciation, depletion and amortization	2.6	1.6	5.2	4.8
(+) Non-cash cost of land and improved development	2.8	1.7	7.3	4.0
(–) Large Dispositions (b)	—	(101.3)	(28.2)	(101.3)
Adjusted EBITDA (e)	$21.5	$7.7	$30.1	$17.4

(a) Reflects land with capital invested in infrastructure improvements. Sales for the three and six months ended June 30, 2017 are presented net of $0.3 million of deferred revenue adjustments due to remaining performance obligations. Price per acre is calculated on gross sales of $0.4 million.

(b) Large Dispositions are defined as transactions involving the sale of timberland that exceed $20 million in size and do not have a demonstrable premium relative to timberland value. In January 2017, the Company completed a disposition of approximately 25,000 acres located in Alabama for a sale price and gain of approximately $42.0 million and $28.2 million, respectively. In April 2016, the Company completed a disposition of approximately 55,000 acres in Washington for a sale price an