RAYONIER INC
Form 11-K
June 26, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 11-K
(Mark One):
[X] ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the year ended December 31, 2012
OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________

COMMISSION FILE NUMBER 1-6780

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

RAYONIER - JESUP MILL
SAVINGS PLAN FOR HOURLY EMPLOYEES

B. Name of the issuer of the securities held pursuant to the plan and the address of its principal executive office:

RAYONIER INC.
1301 Riverplace Boulevard
Jacksonville, Florida 32207
Telephone Number: (904) 357-9100

RAYONIER - JESUP MILL
SAVINGS PLAN FOR HOURLY EMPLOYEES
AS OF DECEMBER 31, 2012 AND 2011
AND FOR THE YEAR ENDED DECEMBER 31, 2012
TABLE OF CONTENTS

Note: Other schedules required by Section 2520.103 - 10 of the Department of Labor’s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted because they are not applicable.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Participants and the Pension and Savings Plan Committee of the
Rayonier - Jesup Mill Savings Plan for Hourly Employees
Jacksonville, Florida

We have audited the accompanying statements of net assets available for benefits of the Rayonier - Jesup Mill Savings Plan for Hourly Employees (the “Plan”) as of December 31, 2012 and 2011, and the related statement of changes in net assets available for benefits for the year ended December 31, 2012. These financial statements are the responsibility of the Plan’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2012 and 2011, and the changes in net assets available for benefits for the year ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) as of December 31, 2012, is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor’s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan’s management. The supplemental schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

/s/ ENNIS, PELLUM & ASSOCIATES, P.A.

Ennis, Pellum & Associates, P.A.
Certified Public Accountants
Jacksonville, Florida
June 26, 2013

RAYONIER - JESUP MILL SAVINGS PLAN FOR HOURLY EMPLOYEES
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
AS OF DECEMBER 31,

	2012	2011
ASSETS		
Investments, at fair value (Notes 2, 3 and 4)	$38,046,666	$34,258,398
Receivables:		
Notes receivable from participants	1,125,435	1,002,187
Participant contributions	68,330	49,121
Employer contributions	8,061	8,910
Accrued interest and dividends	3,297	2,716
Total receivables	1,205,123	1,062,934
NET ASSETS REFLECTING INVESTMENTS AT FAIR VALUE	39,251,789	35,321,332
Adjustment from fair value to contract value for fully benefit-responsive investment contracts (Note 2)	(2,451,044)	(2,112,024)
NET ASSETS AVAILABLE FOR BENEFITS	$36,800,745	$33,209,308

The accompanying notes are an integral part of these financial statements.

RAYONIER - JESUP MILL SAVINGS PLAN FOR HOURLY EMPLOYEES
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED DECEMBER 31,

ADDITIONS TO NET ASSETS:	2012	
Participant contributions	$2,789,581	
Net appreciation in fair value of investments (Note 4)	2,503,585	
Interest and dividends (Note 5)	723,920	
Employer contributions	567,389	
Rollover contributions	155,520	
Interest on notes receivable from participants	44,414	
	6,784,409	
DEDUCTIONS FROM NET ASSETS:		
Distributions to participants	(3,195,986	)
Net increase before net transfers of assets to this plan	3,588,423	
Net transfers of assets to this plan (Note 1)	3,014	
Net increase	3,591,437	
Net assets available for benefits:		
Beginning of year	33,209,308	
End of year	$36,800,745	

The accompanying notes are an integral part of these financial statements.

RAYONIER - JESUP MILL SAVINGS PLAN FOR HOURLY EMPLOYEES
NOTES TO FINANCIAL STATEMENTS

1. Description of the Plan

The following brief description of the Rayonier - Jesup Mill Savings Plan for Hourly Employees (the “Plan”) is provided for general information purposes only. Participants should refer to the Plan document for a more complete description of the Plan’s provisions.

General

The Plan is a defined contribution plan covering eligible, hourly-paid, bargaining unit employees of the Jesup mill of Rayonier Inc. (“Sponsor” or the “Company”). Eligible employees may join the Plan on the first day of the month following 90 days of service without interruption or the date on which one year of eligibility service is completed, whichever is earlier. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (“ERISA”).

Massachusetts Mutual Life Insurance Company (“MassMutual”) serves as the custodian and record keeper of the Plan, and maintains and administers the Plan’s investment assets for the benefit of participants. The trust forming part of the Plan (the “Trust”) maintains the Plan’s investment in Rayonier Inc. common stock and is administered by Reliance Trust Company.

Contributions

Participants may contribute two percent to 16 percent of eligible compensation. Contributions may be made on a before-tax basis, after-tax basis or a combination thereof.

The Company makes a matching contribution equal to 35 percent of the first six percent of each participant’s eligible compensation contributed to the Plan. As employees hired or rehired on or after March 5, 2009 are not eligible for the Company’s defined benefit pension plans, these employees receive an enhanced retirement contribution in addition to the standard matching contribution in accordance with the collective bargaining agreement. For the year ended December 31, 2012, the enhanced retirement contribution was $1,250 annually for each eligible employee.

Matching Company contributions are initially invested in the Rayonier Inc. Common Stock Fund. Participants can elect to transfer all or part of their total account balance into any available investment under the Plan at any time, but may be subject to trading restrictions.

Each year participants may contribute up to the maximum allowed by the Internal Revenue Code (“IRC”). In addition, the Plan allows for “catch-up” contributions by participants age 50 years and older as of the end of the Plan year. The Plan permits rollovers from other qualified plans into the Plan.

Subsequent Event

On June 30, 2012, collective bargaining agreements covering approximately 700 hourly employees at the Jesup mill expired. Negotiations were successfully concluded on March 28, 2013, and the unions ratified a new agreement on April 12, 2013 that will expire on June 30, 2017. As a result of those negotiations, the Company’s match will increase for future plan years. Eligible employees will also receive an additional annual contribution.

Participant Accounts

Each participant’s account is credited with the participant’s contributions and the related Company contributions. Plan earnings and losses are allocated to participant accounts based upon account balances.

Vesting

Participants are immediately fully vested in their contributions plus actual earnings/losses thereon. Participants vest in the Company contributions and enhanced retirement contributions at a rate of 20 percent per year of service. Full vesting occurs after five years of service.

Forfeitures

Forfeited non-vested accounts may be used to reduce future employer contributions or to pay for administrative expenses related to the Plan. Total forfeitures were $8,044 for the year ended December 31, 2012. During 2012,

forfeitures of $7,360 were utilized to reduce employer contributions. An insignificant amount of interest income is earned on the funds held in this account. At December 31, 2012 and 2011, the balance in forfeited, non-vested accounts totaled $3,179 and $2,372, respectively, and remains available in the Fixed Income Fund (“MassMutual GIA”).

Transfers

The Company maintains several defined contribution plans for its employees depending upon their employment status. If a participant changes employment status and is eligible to transfer into a different plan during the year, the participant can elect to transfer his account balance into the corresponding plan. The transfer would be included in the “Net transfers of assets to this plan” line on the Statement of Changes in Net Assets Available for Benefits.

Investment Options

Participants direct the investment of their contributions into various investment options offered by the Plan, as listed in the accompanying schedule of assets held at the end of the year.

Participants are prohibited from transferring into Rayonier Inc. Common Stock Fund, most mutual funds and similar investment options if they have transferred into and out of the same option within the previous 60 days. The MassMutual GIA is not subject to this rule nor does this rule prohibit participants from transferring out of any option at any time.

Notes Receivable from Participants

Participants may borrow a minimum of $1,000 from their individual accounts. Loan amounts may not exceed the lesser of (a) 50 percent of the participant’s vested balance or (b) $50,000 reduced by the participant’s highest outstanding loan balance, if any, during the prior one-year period. Participants may not have more than one loan outstanding at a time. Loan terms range from one to five years or up to thirty years for the purchase of a primary residence. The loans are secured by the balance in the participant’s account and bear interest at the prime rate plus one percent. Principal and interest are paid ratably through bi-weekly payroll deductions. Loan transactions are treated as transfers between the investment funds and the loan fund.

Payment of Benefits and Withdrawals

Plan benefits are payable to participants either at the time of termination or retirement, in the case of becoming disabled, or to their beneficiaries in the event of death, and are based on the fully vested balance of their account. Alternatively, a participant may elect to defer distribution until April 1 of the year following the participant’s attainment of age 70-1/2, provided the participant’s vested account balance exceeds $1,000. In the event of termination of employment before retirement, a participant’s account balance will be distributed in either a lump sum, over future periods or deferred.

Withdrawals may be made from the participant’s after-tax account balance in excess of a prescribed minimum. Withdrawals from before-tax account balances are allowable before attaining the age of 59-1/2 in the case of financial hardship. Existence of financial hardship is determined by Internal Revenue Service (“IRS”) criteria.

2. Summary of Significant Accounting Policies

Basis of Accounting

The accompanying financial statements of the Plan are prepared under the accrual method of accounting.

New or Recently Adopted Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (“ASU 2011-04”). This guidance changes certain fair value measurement principles, enhances the disclosure requirements for level 3 fair value measurements and requires the classification of all assets and liabilities measured at fair value in the fair value hierarchy, including those assets and liabilities which are not recorded at fair value but for which fair value is disclosed. The

standard was effective for the Plan's year ended December 31, 2012 and was applied prospectively. See Note 3 - Fair Value Measurements for disclosures required under this guidance.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make certain estimates and assumptions that affect the reported amounts of net assets available for benefits and changes therein. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

The Plan’s investments are stated at fair value. See Note 3 - Fair Value Measurements for additional information. Fully benefit-responsive investment contracts such as those held by the MassMutual GIA, are required to be reported at fair value pursuant to generally accepted accounting principles. However, contract value (generally equal to historical cost plus accrued interest) is the relevant measure for fully benefit-responsive investment contracts because it represents the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. As required by the accounting standards, all Plan investments are presented at fair value in the Statements of Net Assets Available for Benefits and an adjustment is made to revalue the fair value of the MassMutual GIA to contract value. The guaranteed interest rate was 3.00 percent and 3.25 percent as of December 31, 2012 and 2011, respectively. The guaranteed interest rate is determined every six months.

The following table represents the annual interest credited to the account as a percentage of the average annual fair value of the MassMutual GIA:

	December 31,			
Average yields	2012		2011	
Based on actual earnings	2.56	%	2.84	%
Based on interest rate credited to participants	2.56	%	2.84	%

Certain events limit the ability of the Plan to transact at contract value with the issuer. Such events include the following: (i) amendments to the plan documents (including complete or partial plan termination); (ii) breach of contract; or (iii) the failure of the trust to qualify for exemption from federal income taxes or any required prohibited transaction exemption under ERISA. The Plan Administrator does not believe the occurrence of any such event is probable.

Purchases and sales of securities are recorded on a trade-date basis. Interest income and dividends are recorded on an accrual basis. See Note 3 - Fair Value Measurements for additional information.

Notes Receivable from Participants

Participant loans are recorded as “Notes receivable from participants” and measured at their unpaid principal balance plus any accrued but unpaid interest in the Statements of Net Assets Available for Benefits as of December 31, 2012 and 2011. Delinquent participant loans are reclassified as distributions based upon the terms of the Plan document.

Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants’ account balances and the amounts reported in the Statements of Net Assets Available for Benefits.

Payment of Benefits

Benefits are recorded when paid.

RAYONIER - JESUP MILL SAVINGS PLAN FOR HOURLY EMPLOYEES
NOTES TO FINANCIAL STATEMENTS

Operating Expenses
Certain expenses of maintaining the Plan are paid by the Sponsor. Fees charged by the individual funds and participant specific expenses are deducted from the participant's balance and reflected as a component of the net appreciation in fair value of investments.

3. Fair Value Measurements
Financial assets and liabilities disclosed in the financial statements on a recurring basis are recorded at fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The guidance establishes a three-level hierarchy that prioritizes the inputs used to measure fair value as follows:

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

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

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. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The following table sets forth by level, within the fair value hierarchy, the Plan's investments at fair value, as of December 31, 2012:

Asset Category	Level 1	Level 2	Level 3	Total
MassMutual GIA	$—	$—	$18,344,211	$18,344,211
Rayonier Inc. Common Stock Fund	8,054,888	—	—	8,054,888
Pooled Separate Investment Accounts:				
Large Cap Equity	—	7,273,570	—	7,273,570
Asset Allocation/Retirement	—	2,107,472	—	2,107,472
Intermediate Term Bond	—	1,091,614	—	1,091,614
International Equity	—	591,282	—	591,282
Small Cap Equity	—	357,513	—	357,513
Mid Cap Equity	—	226,116	—	226,116
Investments at Fair Value	$			