RAYONIER INC
Form 11-K
June 29, 2009
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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, 2008

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

RAYONIER INVESTMENT AND SAVINGS PLAN

FOR SALARIED EMPLOYEES

RAYONIER INC.

50 North Laura Street

Jacksonville, Florida 32202

Telephone Number: (904) 357-9100

(Principal Executive Office)

(Name and address of Issuer of the securities held pursuant to the Plan)

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RAYONIER INVESTMENT AND SAVINGS

PLAN FOR SALARIED EMPLOYEES

PLAN NUMBER 100

EMPLOYER IDENTIFICATION NUMBER 13-2607329

AS OF DECEMBER 31, 2008 AND 2007

AND FOR THE YEAR ENDED DECEMBER 31, 2008

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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.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Participants and Pension and Savings Plan Committee of the

Rayonier Investment and Savings Plan for Salaried Employees

Jacksonville, Florida

We have audited the accompanying statements of net assets available for benefits of the Rayonier Investment and Savings Plan for Salaried Employees (the Plan) as of December 31, 2008 and 2007 and the related statement of changes in net assets available for benefits for the year ended December 31, 2008. 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, 2008 and 2007 and the changes in net assets available for benefits for the year ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted 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, 2008 and the schedule of reportable transactions for the year ended December 31, 2008, are presented for the purpose of additional analysis and are not a required part of the basic financial statements, but are 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 schedules are the responsibility of the Plan s management. Such supplemental schedules have been subjected to the auditing procedures applied in our audit of the 2008 financial statements and, in our opinion, are fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

/s/ ENNIS PELLUM & ASSOCIATES, P.A.
Jacksonville, Florida
June 25, 2009

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RAYONIER INVESTMENT AND SAVINGS PLAN FOR SALARIED EMPLOYEES

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

AS OF DECEMBER 31,

	2008	2007
ASSETS		
Investments, at fair value (See Notes 2, 3 and 4)	$ 109,158,338	$ 143,925,077
Receivables:		
Accrued interest and dividends	5,627	690,111
Participants contributions	125,479	140,188
Employer contributions	55,391	249,473
Total receivables	186,497	1,079,772
NET ASSETS AVAILABLE FOR BENEFITS, AT FAIR VALUE	109,344,835	145,004,849
Adjustment from fair value to contract value for fully benefit-responsive investment contracts (See Note 2)	1,278,131	1,090,988
NET ASSETS AVAILABLE FOR BENEFITS	$ 110,622,966	$ 146,095,837

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

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RAYONIER INVESTMENT AND SAVINGS PLAN FOR SALARIED EMPLOYEES

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

FOR THE YEAR ENDED DECEMBER 31, 2008

ADDITIONS TO NET ASSETS:	
Investment income:	
Dividends (See Note 5)	$ 2,730,338
Interest	1,288,753
	4,019,091
Contributions:	
Employer	2,014,881
Participants	4,879,177
	6,894,058
Total additions	10,913,149
DEDUCTIONS FROM NET ASSETS:	
Distributions to participants	(9,620,266)
Administrative expenses	(251,410)
Total deductions	(9,871,676)
Net depreciation in fair value of investments (See Note 4)	(36,514,344)
Net decrease	(35,472,871)
Net assets available for benefits:	
Beginning of year	146,095,837
End of year	$ 110,622,966

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

RAYONIER INVESTMENT AND SAVINGS PLAN FOR SALARIED EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

1. Description of the Plan

The following brief description of the Rayonier Investment and Savings Plan for Salaried 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.

(a) General

The Plan is a defined contribution plan covering all eligible full-time salaried employees of Rayonier Inc. and subsidiaries (the Company or the Sponsor). Full-time employees are eligible to participate in the Plan immediately and are automatically enrolled after completing 45 days of eligible service. Part-time salaried employees who have worked 1,000 hours in a consecutive twelve-month period are also eligible to join the Plan. Employees covered by a collective bargaining agreement, leased employees, and non-resident aliens with no U.S. earned income are excluded by the Plan. 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 State Street Corporation (State Street). MassMutual was appointed the record keeper for the assets held in the Trust under an agreement between the Company, MassMutual, and State Street.

(b) Contributions

Participants may contribute to the Plan from 1 percent to 100 percent of eligible compensation, in 1 percent increments. Contributions may be made on a before-tax basis, after-tax basis, or a combination thereof.

The Company makes a matching contribution of 60 percent of the first 6 percent of each participant s salary contributed to the Plan. Additionally, for participants hired prior to January 1, 2006, the Company may, at its discretion, contribute one-half of 1 percent of each participant s salary to the participant s retirement account (retirement contributions).

The Company closed enrollment in its pension and postretirement medical plans to new salaried employees hired after December 31, 2005. Effective January 1, 2006, new salaried employees are automatically enrolled in this Plan and may, at the Company s discretion, receive an enhanced retirement contribution of 3 percent of their base salary, in addition to the standard matching contribution of 60 percent of the first 6 percent of their salary contributed to the Plan.

Matching Company contributions and retirement contributions are initially invested in the Rayonier Inc. Common Stock Fund. Participants can elect to transfer contributions of Company and retirement contributions into any available investment under the Plan at any time.

Participant pre-tax contributions were limited by the IRS to $15,500 during the years ended December 31, 2008 and 2007. In addition, individuals age 50 or older by the end of the Plan year can make catch-up contributions to the Plan if their contributions would otherwise be limited. These additional pre-tax contributions were limited by the IRS to $5,000 during the years ended December 31, 2008 and 2007.

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RAYONIER INVESTMENT AND SAVINGS PLAN FOR SALARIED EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

(c) Participant Accounts

Each participant s account is credited with their contribution and the related Company contribution. Plan earnings and losses and administrative expenses are allocated to participant accounts based upon account balances.

(d) Vesting

Participants are immediately vested in their contributions as well as retirement contributions plus actual earnings/losses thereon. Vesting in the participant s Company contribution account plus actual earnings/losses thereon is based on years of service. A participant vests 20 percent after each year of service; full vesting occurs after five years of service.

(e) Forfeitures

Forfeited non-vested accounts may be used to reduce future employer contributions or to pay for administrative expenses related to the Plan. At December 31, 2008 and 2007, the balance in forfeited, non-vested accounts totaled $147,729 and $174,099, respectively, and remain available in the Fixed Income Fund (MassMutual GIA) to reduce future employer contributions. During 2008, forfeitures of $77,401 were utilized to reduce employer contributions. No administrative expenses were paid with forfeitures and total forfeitures were $43,743 for the year ended December 31, 2008.

(f) 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 end of year).

Upon enrollment in the Plan, participants may direct their contributions and balance transfers in one percent increments to any of the funds. Effective October 2007, participants are prohibited from transferring into 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.

(g) Participant Loans

Participants may borrow a minimum of $1,000 from their fund 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. In no event may a participant borrow from retirement contributions provided by the Company. Loan terms range from one to five years or up to fifteen years for the purchase of a primary residence. The loans are secured by the balance in the participant s account and bear interest at prime rate plus one percent. The outstanding loans were at fixed interest rates that ranged from 4.25 percent to 10.50 percent at December 31, 2008 and 2007. 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. Participant loans are recorded in the Investments, at fair value line in the Statements of Net Assets Available for Benefits as of December 31, 2008 and 2007.

Loan repayments in 2008 amounted to $671,015, while new loans to participants were $635,736.

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RAYONIER INVESTMENT AND SAVINGS PLAN FOR SALARIED EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

(h) *Payment of Benefits and Withdrawals*

Plan benefits are payable to participants at the time of termination or retirement (including early retirement), in the case of becoming permanently and totally disabled, or to their beneficiaries in the event of death, and are based on the fully vested balance of their accounts. 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. The participant may elect to receive one lump-sum payment or a series of benefit payments based on annual, semi-annual, quarterly, or monthly installments, generally over a period not to exceed twenty years.

Withdrawals of any amount 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 death, permanent and total disability, or financial hardship. Existence of financial hardship is determined by IRS criteria.

2. Summary of Significant Accounting Policies

(a) *Basis of Accounting*

The accompanying financial statements of the Plan are prepared under the accrual method of accounting with the exception of distributions to participants, which are recorded when paid.

As described in Financial Accounting Standards Board Staff Position, FSP AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans* (the FSP), fully benefit-responsive investment contracts such as those held by the MassMutual GIA, are required to be reported at fair value. 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 FSP, 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 Statement of Changes in Net Assets Available for Benefits is prepared on a contract value basis.

(b) *Use of Estimates*

The preparation of the financial statements requires the use of certain estimates in determining the reported amount of assets and liabilities at the date of the financial statements and the reported amount of contributions, earnings, distributions and expenses during the reporting period. Actual results could differ from those estimates.

(c) *Investment Valuation and Income Recognition*

The Plan s investments are stated at fair value. Fair value is the price which would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of the MassMutual GIA is calculated by discounting the related cash flows based on current yields of similar instruments with comparable durations. The guaranteed interest rate is determined every six months thus allowing the Plan Sponsor and participants to make informed decisions regarding current allocations.

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RAYONIER INVESTMENT AND SAVINGS PLAN FOR SALARIED EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

	December 31,	
Average yields	**2008**	**2007**
Based on actual earnings	4.19%	4.14%
Based on interest rate credited to participants	4.19%	4.14%

The guaranteed interest rate was 3.75 percent and 4.25 percent as of December 31, 2008 and 2007, respectively.

Purchases and sales of securities are recorded on a trade-date basis. The cost of securities sold is determined on the average-cost basis. Interest income and dividends are recorded on the accrual basis.

See Note 3 *Fair Value Measurements* below for additional information.

(d) *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.

(e) *Payment of Benefits*

Benefits are recorded when paid.

(f) *Operating Expenses*

Expenses of maintaining the Plan are paid by the Sponsor.

3. Fair Value Measurements

Effective January 1, 2008, the Plan adopted Statement of Financial Accounting Standards Board No. 157, *Fair Value Measurements* (SFAS 157) for all financial assets and liabilities disclosed at fair value in the financial statements on a recurring basis. SFAS 157 defines fair value 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. SFAS 157 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.

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RAYONIER INVESTMENT AND SAVINGS PLAN FOR SALARIED EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

The following table sets forth by level, within the fair value hierarchy, the Plan s assets at fair value, as of December 31, 2008:

Description	Level 1	Level 2	Level 3	Total
General Investment Account	$	$	$ 28,204,546	$ 28,204,546
Pooled Separate Investment Accounts		23,636,944		23,636,944
Mutual Funds	7,361,679			7,361,679
Rayonier Inc. Common Stock Fund	48,613,804			48,613,804
Loan Fund		1,341,365		1,341,365
Total Assets at Fair Value	$ 55,975,483	$ 24,978,309	$ 28,204,546	$ 109,158,338

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2008 and 2007.

General Investment Account fair value measured using liquidation value based on an actuarial formula as defined under the terms of the contract.

Pooled Separate Investment Accounts fair value measured using unit value calculated from the net assets of the underlying pool of securities.

Mutual Funds fair value measured using the unit value calculated from observable net asset values of the underlying investments.

Rayonier Inc. Common Stock Fund fair value measured using the unit value calculated from observable market values of the stock plus short-term investment fund.

Loan Fund stated at the outstanding principal balance plus accrued interest which approximates fair value.

Changes in the fair value of the Plan s Level 3 assets during the year ended December 31, 2008 were as follows:

	Level 3 Assets GIA
Balance, beginning of the year	$ 27,296,608
Interest Income	1,125,882
Contract to fair value adjustment	(139,667)
Purchases, (issuances), and (settlements)	(2,789,948)
Transfers in and/or (out) of Level 3	2,711,671
Balance, end of year	$ 28,204,546

RAYONIER INVESTMENT AND SAVINGS PLAN FOR SALARIED EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

4. Investments

The investments that represented 5 percent or more of the Plan s net assets available for benefits as of December 31, 2008 and 2007 were as follows:

	2008	2007
Rayonier Inc. Common Stock Fund	$ 48,613,804	$ 62,953,111
Fixed Income Fund (MassMutual GIA)	28,204,546	27,296,608
MassMutual Select Indexed Equity Fund	14,854,633	24,835,011

During 2008, the Plan s investments (including gains and losses on investments bought, sold and held during the year) depreciated in value as follows:

Pooled Separate Investment Accounts	$ (14,040,328)
Mutual Funds	(2,249,394)
Rayonier Common Stock Fund	(20,224,622)
Total	$ (36,514,344)

5. Dividends

The Plan received regular cash dividends of $2.00 per share on Rayonier Inc. stock owned, totaling $2,730,338 for the year ended December 31, 2008.

6. Party-in-Interest Transactions

Transactions with State Street and MassMutual qualify as party-in-interest transactions. Investment management expenses for each of the Plan s MassMutual investment options are applied against each fund s return at the participant level. During 2008, the Plan incurred approximately $251,410 in investment management fees related to the MassMutual Select funds. In addition, the Sponsor paid certain plan expenses totaling $28,405.

Certain Plan investments are in Rayonier Inc. common stock. As Rayonier Inc. is the Sponsor, these transactions also qualify as party-in-interest transactions. At December 31, 2008 and 2007, the Plan held 1,456,713 and 1,332,623 shares of Rayonier Inc. common stock, respectively, which represented 1.8 percent and 1.7 percent, respectively, of the total shares outstanding.

7. Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants will become 100 percent vested in their accounts.

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RAYONIER INVESTMENT AND SAVINGS PLAN FOR SALARIED EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

8. Tax Status

The Internal Revenue Service has determined and informed the Plan Administrator by a letter dated July 8, 2004, that the Plan is designed in accordance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the Plan s financial statements. Although the Plan has been amended since receiving the determination letter, the Plan Administrator believes the Plan is designed and is currently being operated in compliance with the applicable requirements of the Internal Revenue Code.

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RAYONIER INVESTMENT AND SAVINGS PLAN FOR SALARIED EMPLOYEES

SCHEDULE H, LINE 4i: SCHEDULE OF ASSETS (HELD AT END OF YEAR)

AS OF DECEMBER 31, 2008

PLAN NUMBER 100

EMPLOYER IDENTIFICATION NUMBER 13-2607329

	Identity of Issue	Description	Current Value
*	Rayonier Inc. Common Stock Fund	Company Stock	$ 48,613,804
*	MassMutual GIA Fixed Income	Stable Value	28,204,546
*	MassMutual Select Indexed Equity	Large Cap Core	14,854,633
*	MassMutual Select Overseas	International/Global Large Core	3,258,931
*	MassMutual Select Small Company Value	Small Cap Value	3,110,285
	Barclay s LifePath 2020	Asset Allocation	2,486,136
	Barclay s LifePath 2010	Asset Allocation	2,270,753
*	MassMutual Select Small Company Growth	Small Cap Growth	1,399,313
	Barclay s LifePath 2030	Asset Allocation	1,053,273
*	Black Rock Total Return Portfolio II	Intermediate Term Bond	1,012,470
	Barclay s LifePath Retirement	Asset Allocation	967,649
	Barclay s LifePath 2040	Asset Allocation	583,868
*	MassMutual Holding Account	Holding Account	1,312
*	Participant loans receivable [1]	Participant Loans	1,341,365
			$ 109,158,338

[1] The loans bear fixed interest rates that range from 4.25 percent to 10.50 percent with maturities through 2023.

* Denotes Party-in-interest transaction.

Note: Investments are participant directed, thus cost information is not required.

See report of independent registered public accounting firm.

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RAYONIER INVESTMENT AND SAVINGS PLAN FOR SALARIED EMPLOYEES

SCHEDULE H, LINE 4j: SCHEDULE OF REPORTABLE TRANSACTIONS

FOR THE YEAR ENDED DECEMBER 31, 2008

PLAN NUMBER 100

EMPLOYER IDENTIFICATION NUMBER 13-2607329

Identity of party involved	Description of asset	Purchase price	Selling price	Lease rental	Expense incurred with transaction	Cost of asset	Current value of asset on transaction date	Net loss
MassMutual	Indexed Equity - SIA-X	$	$ 24,182,010	$	$	$ 24,246,279	$ 24,182,010	$ (64,269)
MassMutual	Indexed Equity - SIA-ZX	24,182,010						

See report of independent registered public accounting firm.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Pension and Saving Plan Committee for the Rayonier Investment and Savings Plan for Salaried Employees have duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized.

	Rayonier Investment and Savings Plan for Salaried Employees (Name of Plan)
June 29, 2009	/s/ W. EDWIN FRAZIER, III W. Edwin Frazier, III Plan Administrator