RAYONIER INC
Form 10-Q
November 02, 2018
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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 September 30, 2018
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
Incorporated in the State of North Carolina
I.R.S. Employer Identification No. 13-2607329
1 RAYONIER WAY
WILDLIGHT, FL 32097
(Principal Executive Office)
Telephone Number: (904) 357-9100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
YES 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 October 26, 2018, there were outstanding 129,467,663 Common Shares of the registrant.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
SALES (NOTE 2)	$200,890	$184,419	$649,991	$579,874
Costs and Expenses				
Cost of sales	(143,261)	(136,983)	(466,167)	(418,421)
Selling and general expenses	(10,800)	(9,936)	(31,304)	(29,771)
Other operating (loss) income, net (Note 15)	(451)	1,771	2,577	3,744
	(154,512)	(145,148)	(494,894)	(444,448)
OPERATING INCOME	46,378	39,271	155,097	135,426
Interest expense	(7,838)	(8,553)	(23,992)	(25,600)
Interest and other miscellaneous income, net	495	1,128	4,020	1,650
INCOME BEFORE INCOME TAXES	39,035	31,846	135,125	111,476
Income tax expense (Note 8)	(8,396)	(3,043)	(22,443)	(16,817)
NET INCOME	30,639	28,803	112,682	94,659
Less: Net income attributable to noncontrolling interest	(7,207)	(4,115)	(12,453)	(9,968)
NET INCOME ATTRIBUTABLE TO RAYONIER INC.	23,432	24,688	100,229	84,691
OTHER COMPREHENSIVE (LOSS) INCOME				
Foreign currency translation adjustment, net of income tax expense of $0, $0, $0 and $0	(10,527)	(7,317)	(30,599)	16,599
Cash flow hedges, net of income tax benefit (expense) of $401, ($614), $2,012 and $534	4,142	(2,162)	21,285	(1,597)
Amortization of pension and postretirement plans, net of income tax expense of $711, $0, $711 and $0	(542)	116	(204)	349
Total other comprehensive (loss) income	(6,927)	(9,363)	(9,518)	15,351
COMPREHENSIVE INCOME	23,712	19,440	103,164	110,010
Less: Comprehensive income attributable to noncontrolling interest	(4,533)	(2,289)	(4,004)	(13,537)
COMPREHENSIVE INCOME ATTRIBUTABLE TO RAYONIER INC.	$19,179	$17,151	$99,160	$96,473
EARNINGS PER COMMON SHARE (Note 11)				
Basic earnings per share attributable to Rayonier Inc.	$0.18	$0.19	$0.78	$0.67
Diluted earnings per share attributable to Rayonier Inc.	$0.18	$0.19	$0.77	$0.67
Dividends declared per share	$0.27	$0.25	$0.79	$0.75

See Notes to Consolidated Financial Statements.

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

	September 30, 2018	December 31, 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$146,259	$112,653
Accounts receivable, less allowance for doubtful accounts of $8 and $23	43,089	27,693
Inventory (Note 16)	26,950	24,141
Prepaid expenses	15,849	15,993
Other current assets	2,443	3,047
Total current assets	234,590	183,527
TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION	2,386,949	2,462,066
HIGHER AND BETTER USE TIMBERLANDS AND REAL ESTATE DEVELOPMENT	79,747	80,797
INVESTMENTS (NOTE 6)		
PROPERTY, PLANT AND EQUIPMENT		
Land	4,131	3,962
Buildings	23,149	23,618
Machinery and equipment	4,427	4,440
Construction in progress	635	627
Total property, plant and equipment, gross	32,342	32,647
Less — accumulated depreciation	(9,540)	(9,269)
Total property, plant and equipment, net	22,802	23,378
RESTRICTED CASH (NOTE 17)	45,418	59,703
OTHER ASSETS	72,709	49,010
TOTAL ASSETS	$2,842,215	$2,858,481
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$22,406	$25,148
Current maturities of long-term debt (Note 5)	—	3,375
Accrued taxes	7,818	3,781
Accrued payroll and benefits	8,320	9,662
Accrued interest	7,963	5,054
Deferred revenue	13,867	9,721
Other current liabilities	21,249	11,807
Total current liabilities	81,623	68,548
LONG-TERM DEBT, NET OF DEFERRED FINANCING COSTS (NOTE 5)	972,426	1,022,004
PENSION AND OTHER POSTRETIREMENT BENEFITS (NOTE 14)	28,925	31,905
OTHER NON-CURRENT LIABILITIES	58,142	43,084
COMMITMENTS AND CONTINGENCIES (NOTES 7 and 9)		
SHAREHOLDERS' EQUITY		
Common Shares, 480,000,000 shares authorized,129,467,237 and 128,970,776 shares issued and outstanding	882,421	872,228
Retained earnings	705,531	707,378
Accumulated other comprehensive income (Note 18)	12,348	13,417
TOTAL RAYONIER INC. SHAREHOLDERS' EQUITY	1,600,300	1,593,023

Noncontrolling interest	100,799	99,917
TOTAL SHAREHOLDERS' EQUITY	1,701,099	1,692,940
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$2,842,215	$2,858,481

See Notes to Consolidated Financial Statements.

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

	Common Shares					
	Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income	Non-controlling Interest	Shareholders' Equity
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	—	—	148,842	—	12,737	161,579
Dividends ($1.00 per share)	—	—	(127,986)	—	—	(127,986)
Issuance of shares under incentive stock plans	322,314	4,751	—	—	—	4,751
Stock-based compensation	—	5,396	—	—	—	5,396
Repurchase of common shares	(5,906)	(176)	—	—	—	(176)
Actuarial change and amortization of pension and postretirement plan liabilities	—	—	—	(208)	—	(208)
Foreign currency translation adjustment	—	—	—	7,416	1,698	9,114
Cash flow hedges	—	—	—	5,353	340	5,693
Issuance of shares under equity offering, net of costs	5,750,000	152,390	—	—	—	152,390
Balance, December 31, 2017	128,970,776	$872,228	$707,378	$13,417	$99,917	$1,692,940
Cumulative-effect adjustment due to adoption of ASU No. 2018-02	—	—	711	(711)	—	—
Net income	—	—	100,229	—	12,453	112,682
Dividends ($0.79 per share)	—	—	(102,787)	—	—	(102,787)
Issuance of shares under incentive stock plans	577,857	8,216	—	—	—	8,216
Stock-based compensation	—	4,957	—	—	—	4,957
Repurchase of common shares	(81,396)	(2,980)	—	—	—	(2,980)
Amortization of pension and postretirement plan liabilities	—	—	—	507	—	507
Foreign currency translation adjustment	—	—	—	(23,341)	(7,258)	(30,599)
Cash flow hedges	—	—	—	22,476	(1,191)	21,285
Dividend to New Zealand minority shareholder	—	—	—	—	(3,122)	(3,122)
Balance, September 30, 2018	129,467,237	$882,421	$705,531	$12,348	$100,799	$1,701,099

See Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2018	2017
OPERATING ACTIVITIES		
Net income	$112,682	$94,659
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation, depletion and amortization	115,726	96,602
Non-cash cost of land and improved development	17,051	8,631
Stock-based incentive compensation expense	4,957	4,084
Deferred income taxes	21,019	16,714
Amortization of losses from pension and postretirement plans	507	349
Gain on sale of large disposition of timberlands	—	(28,183)
Other	3,470	29
Changes in operating assets and liabilities:		
Receivables	(15,261)	(18,639)
Inventories	1,085	(617)
Accounts payable	(825)	5,018
Income tax receivable/payable	—	(126)
All other operating activities	640	8,352
CASH PROVIDED BY OPERATING ACTIVITIES	261,051	186,873
INVESTING ACTIVITIES		
Capital expenditures	(44,137)	(45,731)
Real estate development investments	(6,889)	(11,780)
Purchase of timberlands	(38,978)	(239,052)
Net proceeds from large disposition of timberlands	—	42,029
Rayonier office building under construction	—	(5,979)
Other	2,132	383
CASH (USED FOR) INVESTING ACTIVITIES	(87,872)	(260,130)
FINANCING ACTIVITIES		
Issuance of debt	1,014	63,389
Repayment of debt	(54,416)	(95,216)
Dividends paid	(101,839)	(95,008)
Proceeds from the issuance of common shares under incentive stock plan	8,216	3,665
Proceeds from the issuance of common shares from equity offering, net of costs	—	152,390
Repurchase of common shares	(2,980)	—
Proceeds from shareholder distribution hedge	610	—
Distribution to minority shareholder	(3,122)	—
CASH (USED FOR) PROVIDED BY FINANCING ACTIVITIES	(152,517)	29,220
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(1,341)	1,113
CASH, CASH EQUIVALENTS AND RESTRICTED CASH (a)		
Change in cash, cash equivalents and restricted cash	19,321	(42,924)
Balance, beginning of year	172,356	157,617
Balance, end of period	$191,677	$114,693
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the period:		

Interest (b)	$20,910	$23,540
Income taxes	824	495
Non-cash investing activity:		
Capital assets purchased on account	2,848	4,376

(a) Due to the adoption of ASU No. 2016-18, restricted cash is now included with cash and cash equivalents when reconciling the beginning-of-year and end-of-period total amounts shown and therefore changes in restricted cash are no longer reported as investing activities. Prior period amounts have been restated to conform to current period presentation. For additional information and a reconciliation of cash, see Note 17 — Restricted Cash.

(b) Interest paid is presented net of patronage payments received of $4.1 million and $3.0 million for the nine months ended September 30, 2018 and September 30, 2017, respectively. For additional information on patronage payments, see Note 5 — Debt in the 2017 Form 10-K.

See Notes to Consolidated Financial Statements.

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

1. BASIS OF PRESENTATION

The unaudited consolidated financial statements and notes thereto of Rayonier Inc. and its subsidiaries ("Rayonier" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC"). The year-end balance sheet information was derived from audited financial statements not included herein. In the opinion of management, these financial statements and notes reflect any 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, 2017, as filed with the SEC (the "2017 Form 10-K").

SUMMARY OF UPDATES TO SIGNIFICANT ACCOUNTING POLICIES

REVENUE

See Note 2 — Revenue for significant accounting policies related to revenue that were revised upon adoption of Accounting Standards Codification ("ASC") 606.

COST OF SALES

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. As allowed under GAAP, the Company expenses closing costs, including sales commissions, when incurred for all real estate sales with future performance obligations expected to be satisfied within one year. 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. Costs are allocated to each sold unit or lot based upon the relative sales value. For purposes of allocating development costs, estimates of future revenues and development costs are re-evaluated periodically throughout the year, with adjustments being allocated prospectively to the remaining units available for sale.
For a full description of our significant accounting policies, see Note 2 — Summary of Significant Accounting Policies in the 2017 Form 10-K.

RECLASSIFICATIONS

Management has changed how it internally evaluates the business performance of its New Zealand Timber segment. In order to align segment reporting, the Company has reclassified New Zealand timberland sales from the New Zealand Timber segment to the Real Estate segment. All prior period amounts previously reported have been reclassified to reflect the realigned segments. See Note 4 — Segment and Geographic Information.

RECENTLY ADOPTED STANDARDS

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2018-02, Income Statement — Reporting Comprehensive Income (Topic 220) Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income . This standard allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. Consequently, the amendments eliminate the stranded tax effects resulting from the Tax Cuts and Jobs Act. ASU No. 2018-02 is effective for the Company's reporting period beginning on January 1, 2019; early adoption is permitted. The Company elected to adopt ASU No. 2018-02 during the third quarter of 2018, and elected to reclassify the income tax effects of the Tax Cuts and Jobs Act from AOCI to retained earnings. The reclassification decreased AOCI and increased retained earnings by $0.7 million, with zero net effect on total shareholders' equity. See Note 8 — Income Taxes for additional information.

The Company adopted ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), on January 1, 2018. The Company elected to apply the modified retrospective method to contracts that were not completed at the date of adoption. The Company also elected not to retrospectively restate contracts modified prior to January 1, 2018.

A cumulative effect of adoption adjustment to the opening balance of retained earnings was not recorded as there was no accounting impact to any contracts with customers not completed at the date of adoption. See Note 2 — Revenue for additional information.

In March 2017, the FASB issued ASU No. 2017-07, Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires that an employer report the service cost component of net periodic benefit cost in the Consolidated Statements of Income in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. Additionally, the other components of net periodic benefit cost (interest cost, expected return on plan assets and amortization of losses or gains) are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. ASU No. 2017-07 is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods, and is required to be applied retrospectively to all periods presented beginning in the period of adoption. Rayonier adopted ASU No. 2017-07 during the first quarter ended March 31, 2018 and applied the update retrospectively to all periods presented. See Note 14 — Employee Benefit Plans for the components of net periodic benefit cost and the location of these items in the Consolidated Statements of Income and Comprehensive Income.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the Consolidated Statements of Cash Flows. ASU No. 2016-18 is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. ASU No. 2016-18 is required to be applied retrospectively to all periods presented beginning in the period of adoption. Rayonier adopted ASU No. 2016-18 in the first quarter ended March 31, 2018 and applied the update retrospectively to all periods presented. Restricted cash is now included with cash and cash equivalents when reconciling the beginning-of-year and end-of-period total amounts shown on the Consolidated Statements of Cash Flows, and therefore changes in restricted cash are no longer reported as cash flow activities. See Note 17 — Restricted Cash for additional information, including the nature of restrictions on the Company's cash, cash equivalents, and restricted cash.

The Company adopted ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Receipts and Cash Payments in the first quarter ended March 31, 2018 with no material impact on the consolidated financial statements.

The Company adopted ASU No. 2018-03, Technical Corrections and Improvements to Financial Instruments —Overall (Subtopic 825-10) in the third quarter ended September 30, 2018 with no material impact on the consolidated financial statements.

NEW ACCOUNTING STANDARDS

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which currently requires lessees to recognize most leases on their balance sheets related to the rights and obligations created by those leases. ASU No. 2016-02 also requires additional qualitative and quantitative disclosures related to the nature, timing and uncertainty of cash flows arising from leases. In January 2018, the FASB issued ASU No. 2018-01, Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842. This update provides an optional transition practical expedient to not evaluate existing or expired land easements that were not previously accounted for as leases under the current leases guidance. An entity that elects this practical expedient should evaluate new or modified land easements under ASU No. 2016-02, once adopted. An entity that does not elect this practical expedient should evaluate all existing or expired land easements in connection with the adoption of ASU No. 2016-02 to assess whether they meet the definition of a lease. This standard is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period, and is required to be applied on a modified retrospective basis beginning at the earliest period presented. Early adoption is permitted. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which will make more financial and non-financial hedging strategies eligible for hedge accounting. It also amends the presentation and disclosure requirements and changes how companies assess effectiveness. It is intended to more closely align hedge accounting with companies' risk management strategies, simplify the application of hedge accounting, and increase transparency as to the scope and results of hedging programs. ASU No. 2017-12 is effective for annual periods beginning after December 15, 2018, and interim periods within those annual periods. Early adoption is permitted and the amended presentation and disclosure guidance is required to be applied on a prospective basis. The Company is currently evaluating the impact of adopting this new guidance on the consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement. This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU No. 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted. Entities are also allowed to elect early adoption of the eliminated or modified disclosure requirements and delay adoption of the new disclosure requirements until their effective date. As ASU No. 2018-13 only revises disclosure requirements, it will not have a material impact on the Company's Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-14, Disclosure Framework — Changes to the Disclosure Requirements for Defined Benefit Plans. This ASU makes minor changes to the disclosure requirements for employers that sponsor defined benefit pension and/or other postretirement benefit plans. ASU 2018-14 is effective for fiscal years ending after December 15, 2020; early adoption is permitted. As ASU 2018-14 only revises disclosure requirements, it will not have a material impact on the Company's Consolidated Financial Statements.

SUBSEQUENT EVENTS

The Company has evaluated events occurring from September 30, 2018 to the date of issuance of these Consolidated Financial Statements for potential recognition or disclosure in the consolidated financial statements. No events were identified that warranted recognition. See Note 9 — Contingencies for events that warranted disclosure.

2. REVENUE

ADOPTION OF ASC 606

For information on the adoption of ASC 606, including changes to significant accounting policies and required transition disclosures, see Note 1 — Basis of Presentation.

REVENUE RECOGNITION

The Company recognizes revenues when control of promised goods or services ("performance obligations") is transferred to customers, in an amount that reflects the consideration expected in exchange for those goods or services ("transaction price"). The Company generally satisfies performance obligations within a year of entering into a contract and therefore has applied the disclosure exemption found under ASC 606-10-50-14. Unsatisfied performance obligations as of September 30, 2018 are primarily due to advances on stumpage contracts and unearned license revenue. These performance obligations are expected to be satisfied within the next twelve months. The Company generally collects payment within a year of satisfying performance obligations and therefore has elected not to adjust revenues for a financing component.

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

The following tables present our revenue from contracts with customers disaggregated by product type for the three and nine months ended September 30, 2018 and 2017:

Three Months Ended	Southern Timber	Pacific Northwest Timber	New Zealand Timber	Real Estate	Trading	Elim.	Total
September 30, 2018							
Pulpwood	$19,998	$3,560	$7,278	—	$2,487	—	$33,323
Sawtimber	13,734	23,495	56,663	—	28,321	—	122,213
Hardwood	1,071	—	—	—	—	—	1,071
Total Timber Sales	34,803	27,055	63,941	—	30,808	—	156,607
License Revenue, Primarily From Hunting	4,016	224	98	—	—	—	4,338
Other Non-Timber/Carbon Revenue	637	468	2,226	—	—	—	3,331
Agency Fee Income	—	—	—	—	172	—	172
Total Non-Timber Sales	4,653	692	2,324	—	172	—	7,841
Improved Development	—	—	—	1,352	—	—	1,352
Unimproved Development	—	—	—	1,175	—	—	1,175
Rural	—	—	—	4,489	—	—	4,489
Non-strategic / Timberlands	—	—	—	29,152	—	—	29,152
Large Dispositions	—	—	—	—	—	—	—
Total Real Estate Sales	—	—	—	36,168	—	—	36,168
Revenue from Contracts with Customers	39,456	27,747	66,265	36,168	30,980	—	200,616
Other Non-Timber Sales, Primarily Lease	206	68	—	—	—	—	274
Intersegment	—	—	—	—	30	(30)	—
Total Revenue	$39,662	$27,815	$66,265	$36,168	$31,010	($30)	$200,890
September 30, 2017							
Pulpwood	$18,260	$2,515	$7,344	—	$3,425	—	$31,544
Sawtimber	12,485	16,131	62,569	—	36,828	—	128,013
Hardwood	1,152	—	—	—	—	—	1,152
Total Timber Sales	31,897	18,646	69,913	—	40,253	—	160,709
License Revenue, Primarily from Hunting	4,171	161	36	—	—	—	4,368
Other Non-Timber Revenue	1,042	233	146	—	—	—	1,421
Agency Fee Income	—	—	—	—	433	—	433
Total Non-Timber Sales	5,213	394	182	—	433	—	6,222
Improved Development	—	—	—	46	—	—	46
Unimproved Development	—	—	—	13,905	—	—	13,905
Rural	—	—	—	3,125	—	—	3,125
Non-strategic / Timberlands	—	—	—	164	—	—	164
Large Dispositions	—	—	—	—	—	—	—
Total Real Estate Sales	—	—	—	17,240	—	—	17,240
Revenue from Contracts with Customers	37,110	19,040	70,095	17,240	40,686	—	184,171
Other Non-Timber Sales, Primarily Lease	191	57	—	—	—	—	248
Total Revenue	$37,301	$19,097	$70,095	$17,240	$40,686	—	$184,419

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

Nine Months Ended	Southern Timber	Pacific Northwest Timber	New Zealand Timber	Real Estate	Trading	Elim.	Total
September 30, 2018							
Pulpwood	$61,898	$11,648	$20,910	—	$10,548	—	$105,004
Sawtimber	45,452	77,172	162,627	—	105,309	—	390,560
Hardwood	2,882	—	—	—	—	—	2,882
Total Timber Sales	110,232	88,820	183,537	—	115,857	—	498,446
License Revenue, Primarily From Hunting	12,137	450	292	—	—	—	12,879
Other Non-Timber/Carbon Revenue	8,320	1,923	5,053	—	—	—	15,296
Agency Fee Income	—	—	—	—	460	—	460
Total Non-Timber Sales	20,457	2,373	5,345	—	460	—	28,635
Improved Development	—	—	—	3,817	—	—	3,817
Unimproved Development	—	—	—	8,621	—	—	8,621
Rural	—	—	—	10,969	—	—	10,969
Non-strategic / Timberlands	—	—	—	98,685	—	—	98,685
Large Dispositions	—	—	—	—	—	—	—
Total Real Estate Sales	—	—	—	122,092	—	—	122,092
Revenue from Contracts with Customers	130,689	91,193	188,882	122,092	116,317	—	649,173
Other Non-Timber Sales, Primarily Lease	609	209	—	—	—	—	818
Intersegment	—	—	—	—	66	(66)	—
Total Revenue	$131,298	$91,402	$188,882	$122,092	$116,383	($66)	$649,991
September 30, 2017							
Pulpwood	$52,407	$8,683	$18,956	—	$9,972	—	$90,018
Sawtimber	40,088	54,203	144,550	—	105,964	—	344,805
Hardwood	2,895	—	—	—	—	—	2,895
Total Timber Sales	95,390	62,886	163,506	—	115,936	—	437,718
License Revenue, Primarily from Hunting	11,809	354	154	—	—	—	12,317
Other Non-Timber Revenue	4,184	2,037	320	—	—	—	6,541
Agency Fee Income	—	—	—	—	1,051	—	1,051
Total Non-Timber Sales	15,993	2,391	474	—	1,051	—	19,909
Improved Development	—	—	—	189	—	—	189
Unimproved Development	—	—	—	16,405	—	—	16,405
Rural	—	—	—	15,357	—	—	15,357
Non-strategic / Timberlands	—	—	—	47,558	—	—	47,558
Large Dispositions	—	—	—	41,951	—	—	41,951
Total Real Estate Sales	—	—	—	121,460	—	—	121,460
Revenue from Contracts with Customers	111,383	65,277	163,980	121,460	116,987	—	579,087
Other Non-Timber Sales, Primarily Lease	584	203	—	—	—	—	787
Total Revenue	$111,967	$65,480	$163,980	$121,460	$116,987	—	$579,874

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REVENUE RECOGNITION FOR TIMBER SALES AND NON-TIMBER INCOME

Revenue from the sale of timber is recognized when control passes to the buyer. The Company utilizes two primary methods or sales channels for the sale of timber – a stumpage/standing timber model and a delivered log model. The sales method the Company employs depends upon local market conditions and which method management believes will provide the best overall margins.

Under the stumpage model, standing timber is sold primarily under pay-as-cut contracts, with specified duration (typically one year or less) and fixed prices, whereby revenue is recognized as timber is severed and the sales volume is determined. The Company also sells stumpage under lump-sum contracts for specified parcels where the Company receives cash for the full agreed value of the timber prior to harvest and control passes to the buyer upon signing the contract. The Company retains interest in the land, slash products, and the use of the land for recreational and other purposes. Any uncut timber remaining at the end of the contract period reverts to the Company. Revenue is recognized for lump-sum timber sales when payment is received, the contract is signed and control passes to the buyer. A third type of stumpage sale the Company utilizes is an agreed-volume sale, whereby revenue is recognized using the output method, as periodic physical observations are made of the percentage of acreage harvested.

Under the delivered log model, the Company hires third-party loggers and haulers to harvest timber and deliver it to a buyer. Sales of domestic logs generally do not require an initial payment and are made to third-party customers on open credit terms. Sales of export logs generally require a letter of credit from an approved bank. Revenue is recognized when the logs are delivered and control has passed to the buyer. For domestic log sales, control is considered passed to the buyer as the logs are delivered to the customer's facility. For export log sales (primarily in New Zealand), control is considered passed to the buyer upon delivery onto the export vessel.

Non-timber income is primarily comprised of hunting and recreational licenses. Such income and any related cost are recognized ratably over the term of the agreement and included in "Sales" and "Cost of sales", respectively. Payment is generally due upon contract execution.

The following table summarizes revenue recognition and general payment terms for timber sales:

Contract Type	Performance Obligation	Timing of Revenue Recognition	General Payment Terms
Stumpage Pay-as-Cut	Right to harvest a unit (i.e. ton, MBF, JAS m3) of standing timber	As timber is severed (point-in-time)	Initial payment between 5% and 20% of estimated contract value; collection generally within 10 days of severance
Stumpage Lump Sum	Right to harvest an agreed upon acreage of standing timber	Contract execution (point-in-time)	Full payment due upon contract execution
Stumpage Agreed Volume	Right to harvest an agreed upon volume of standing timber	As timber is severed (over-time)	Payments made throughout contract term at the earlier of a specified harvest percentage or time elapsed
Delivered Wood (Domestic)	Delivery of a unit (i.e. ton, MBF, JAS m3) of timber to customer's facility	Upon delivery to customer's facility (point-in-time)	No initial payment and on open credit terms; collection generally within 30 days of invoice
Delivered Wood (Export)	Delivery of a unit (i.e. ton, MBF, JAS m3) onto export vessel	Upon delivery onto export vessel (point-in-time)	Letter of credit from an approved bank; collection generally within 30 days of delivery

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The following tables present our timber sales disaggregated by contract type for the three and nine months ended September 30, 2018 and 2017:

Three Months Ended	Southern Timber	Pacific Northwest Timber	New Zealand Timber	Trading	Total
September 30, 2018					
Stumpage Pay-as-Cut	$16,984	—	—	—	$16,984
Stumpage Lump Sum	284	2,143	—	—	2,427
Stumpage Agreed Volume	—	—	—	—	—
Total Stumpage	17,268	2,143	—	—	19,411
Delivered Wood (Domestic)	15,856	24,912	24,771	1,813	67,352
Delivered Wood (Export)	1,679	—	39,170	28,995	69,844
Total Delivered	17,535	24,912	63,941	30,808	137,196
Total Timber Sales	$34,803	$27,055	$63,941	$30,808	$156,607
September 30, 2017					
Stumpage Pay-as-Cut	$18,607	—	—	—	$18,607
Stumpage Lump Sum	1,954	3,987	—	—	5,941
Stumpage Agreed Volume	—	—	—	—	—
Total Stumpage	20,561	3,987	—	—	24,548
Delivered Wood (Domestic)	11,336	14,659	24,440	1,808	52,243
Delivered Wood (Export)	—	—	45,473	38,445	83,918
Total Delivered	11,336	14,659	69,913	40,253	136,161
Total Timber Sales	$31,897	$18,646	$69,913	$40,253	$160,709

Nine Months Ended	Southern Timber	Pacific Northwest Timber	New Zealand Timber	Trading	Total
September 30, 2018					
Stumpage Pay-as-Cut	$59,348	—	—	—	$59,348
Stumpage Lump Sum	2,358	11,854	—	—	14,212
Stumpage Agreed Volume	—	—	—	—	—
Total Stumpage	61,706	11,854	—	—	73,560
Delivered Wood (Domestic)	44,399	76,966	70,521	4,317	196,203
Delivered Wood (Export)	4,127	—	113,016	111,540	228,683
Total Delivered	48,526	76,966	183,537	115,857	424,886
Total Timber Sales	$110,232	$88,820	$183,537	$115,857	$498,446
September 30, 2017					
Stumpage Pay-as-Cut	$56,956	—	—	—	$56,956

Stumpage Lump Sum	6,997	6,574	—	—	13,571
Stumpage Agreed Volume	—	1,234	—	—	1,234
Total Stumpage	63,953	7,808	—	—	71,761
Delivered Wood (Domestic)	31,437	55,078	63,883	4,132	154,530
Delivered Wood (Export)	—	—	99,623	111,804	211,427
Total Delivered	31,437	55,078	163,506	115,936	365,957
Total Timber Sales	$95,390	$62,886	$163,506	$115,936	$437,718

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REVENUE RECOGNITION FOR REAL ESTATE SALES
The Company recognizes revenue on sales of real estate generally at the point in time when cash has been received, the sale has closed, and control has passed to the buyer. A deposit of 5% is generally required at the time a purchase and sale agreement is executed, with the balance due at closing. On sales of real estate containing future performance obligations, revenue is recognized using the input method based on costs incurred to date relative to the total costs expected to fulfill the performance obligations in the contract with the customer.
REVENUE RECOGNITION FOR LOG TRADING
Log trading revenue is generally recognized when procured logs are delivered to the buyer and control has passed. For domestic log trading, control is considered passed to the buyer as the logs are delivered to the customer's facility. For export log trading, control is considered passed to the buyer upon delivery onto the export vessel. The Trading segment also includes sales from log agency contracts, whereby the Company acts as an agent managing export services on behalf of third parties. Revenue for log agency fees are recognized net of related costs.
Contract Balances
The timing of revenue recognition, invoicing and cash collections results in accounts receivable and deferred revenue (contract liabilities) on the Consolidated Balance Sheets. Accounts receivable are recorded when the Company has an unconditional right to consideration for completed performance under the contract. Contract liabilities relate to payments received in advance of performance under the contract. Contract liabilities are recognized as revenue as (or when) the Company performs under the contract.
The following table summarizes revenue recognized during the three and nine months ended September 30, 2018 and 2017 that was included in the contract liability balance at the beginning of each year:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenue recognized from contract liability balance at the beginning of the year (a)	$355	$459	$8,685	$8,369

(a) Revenue recognized was primarily from hunting licenses and the use of advances on pay-as-cut timber sales.
3. 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 407,000 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 Changes in Shareholders' Equity. Rayonier New Zealand Limited ("RNZ"), a wholly-owned subsidiary of Rayonier Inc., serves as the manager of the New Zealand JV.

4. SEGMENT AND GEOGRAPHICAL INFORMATION
Management has changed how it internally evaluates the business performance of its New Zealand Timber segment. In order to align segment reporting, the Company has reclassified New Zealand timberland sales from the New Zealand Timber segment to the Real Estate segment. All prior period amounts previously reported have been reclassified to reflect the realigned segments.

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.

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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 interest expense, interest and other miscellaneous income and income tax expense, are not considered by management to be part of segment operations and are included under "Corporate and other" or "unallocated interest expense and other."
The following tables summarize the segment information for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,		Nine Months Ended September 30,	
SALES	2018	2017	2018	2017
Southern Timber	$39,662	$37,301	$131,298	$111,967
Pacific Northwest Timber	27,815	19,097	91,402	65,480
New Zealand Timber	66,265	70,095	188,882	163,980
Real Estate (a)	36,168	17,240	122,092	121,460
Trading	31,010	40,686	116,383	116,987
Intersegment Eliminations	(30)	—	(66)	—
Total	$200,890	$184,419	$649,991	$579,874

(a) The nine months ended September 30, 2017 includes $42.0 million of Large Dispositions.

	Three Months Ended September 30,		Nine Months Ended September 30,	
OPERATING INCOME (LOSS)	2018	2017	2018	2017
Southern Timber	$9,183	$11,436	$37,061	$35,031
Pacific Northwest Timber	1,911	1,134	12,209	(1,278)
New Zealand Timber	16,416	19,280	50,141	41,510
Real Estate (a)	24,726	11,437	71,645	72,052
Trading	304	1,142	680	3,380
Corporate and other	(6,162)	(5,158)	(16,639)	(15,269)
Total Operating Income	46,378	39,271	155,097	135,426
Unallocated interest expense and other	(7,343)	(7,425)	(19,972)	(23,950)
Total Income before Income Taxes	$39,035	$31,846	$135,125	$111,476

(a) The nine months ended September 30, 2017 includes $28.2 million of Large Dispositions.

	Three Months Ended September 30,		Nine Months Ended September 30,	
DEPRECIATION, DEPLETION AND AMORTIZATION	2018	2017	2018	2017
Southern Timber	$13,672	$12,736	$44,591	$37,092
Pacific Northwest Timber	7,802	6,481	26,687	23,766
New Zealand Timber	7,544	8,478	21,287	20,477
Real Estate (a)	5,491	735	22,296	22,902
Trading	—	—	—	—
Corporate and other	297	277	865	469
Total	$34,806	$28,707	$115,726	$104,706

(a) The nine months ended September 30, 2017 includes $8.1 million from Large Dispositions.

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NON-CASH COST OF LAND AND IMPROVED DEVELOPMENT	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Southern Timber	—	—	—	—
Pacific Northwest Timber	—	—	—	—
New Zealand Timber	—	—	—	—
Real Estate (a)	2,115	1,272	17,051	14,374
Trading	—	—	—	—
Total	$2,115	$1,272	$17,051	$14,374

(a) The nine months ended September 30, 2017 includes $5.7 million from Large Dispositions.

5. DEBT

Rayonier’s debt consisted of the following at September 30, 2018:

	September 30, 2018
Term Credit Agreement borrowings due 2024 at a variable interest rate of 3.7% at September 30, 2018 (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 4.0% at September 30, 2018 (b)	300,000
Total debt	975,000
Less: Deferred financing costs	(2,574)
Long-term debt, net of deferred financing costs	$972,426

(a) As of September 30, 2018, 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 September 30, 2018, 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:

2018	—
2019	—
2020	—
2021	—
2022	325,000
Thereafter	650,000
Total Debt	$975,000

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2018 DEBT ACTIVITY

During the nine months ended September 30, 2018, the Company made a repayment of $50.0 million on the Revolving Credit Facility. As of September 30, 2018, the Company had available borrowings of $189.8 million under the Revolving Credit Facility, net of $10.2 million to secure its outstanding letters of credit.

In addition, the New Zealand JV made borrowings and repayments of $1.0 million on its working capital facility. As of September 30, 2018, draws totaling NZ$40.0 million remain available on the working capital facility. The New Zealand JV also fully repaid its shareholder loan held by the noncontrolling interest party during the nine months ended September 30, 2018.

DEBT COVENANTS

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

In addition to these financial covenants listed above, the Senior Notes, Term Credit Agreement, Incremental Term Loan Agreement and Revolving Credit Facility include customary covenants that limit the incurrence of debt and the disposition of assets, among others. At September 30, 2018, the Company was in compliance with all applicable covenants.

6. 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 enhance the value of such properties.

An analysis of higher and better use timberlands and real estate development investments from December 31, 2017 to September 30, 2018 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, 2017	$59,653	$21,144	$80,797
Plus: Current portion (a)	6,702	11,648	18,350
Total Balance at December 31, 2017	66,355	32,792	99,147
Non-cash cost of land and improved development	(1,179)	(2,961)	(4,140)
Timber depletion from harvesting activities and basis of timber sold in real estate sales	(1,335)	—	(1,335)
Capitalized real estate development investments (b)	—	6,889	6,889
Capital expenditures (silviculture)	161	—	161
Intersegment transfers	1,399	—	1,399

Total Balance at September 30, 2018	65,401	36,720	102,121
Less: Current portion (a)	(5,858)	(16,516)	(22,374)
Non-current portion at September 30, 2018	$59,543	$20,204	$79,747

(a) The current portion of Higher and Better Use Timberlands and Real Estate Development Investments is recorded in Inventory. See Note 16 — Inventory for additional information.

(b) Capitalized real estate development investments include $0.5 million of capitalized interest.

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7. COMMITMENTS

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

At September 30, 2018, 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 2018	$331	$3,888	$5,480	$9,699
2019	1,173	8,677	3,239	13,089
2020	1,017	8,300	787	10,104
2021	849	8,301	612	9,762
2022	701	8,063	587	9,351
Thereafter (c)	717	142,876	929	144,522
	$4,788	$180,105	$11,634	$196,527

(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 $0.5 million of pension contribution requirements remaining in 2018 based on actuarially determined estimates and IRS minimum funding requirements, payments expected to be made on derivative financial instruments (foreign exchange contracts and interest rate swaps), construction of the Company's Wildlight development project and other purchase obligations.

(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 September 30, 2018, the New Zealand JV has two 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.

8. 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, entitlement and development of HBU properties. For the three and nine months ended September 30, 2018, the Company recorded income tax expense of $8.4 million and $22.4 million, respectively. For the three and nine months ended September 30, 2017, the Company recorded income tax expense of $3.0 million and $16.8 million, respectively.

PROVISION FOR INCOME TAXES

The Company's effective tax rate is below the 21.0% U.S. statutory rate due to tax benefits associated with being a REIT. The Company's annualized effective tax rate ("AETR") as of September 30, 2018 and September 30, 2017 was 16.5% and 15.1%, respectively. The company's tax expense is principally related to New Zealand corporate level tax on the New Zealand JV income.

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 nine months ended September 30, 2018, there were no material changes in uncertain tax positions.

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U.S. TAX REFORM

The Tax Cuts and Jobs Act (the "Act") was signed into law on December 22, 2017 making significant changes to the Internal Revenue Code. Changes include a permanent reduction in the U.S. statutory corporate income tax rate from 35% to 21% effective January 1, 2018 and a one-time transition tax on the deemed repatriation of deferred foreign earnings in 2017.

The Company has completed its assessment of the accounting implications of the Act. The remeasurement of U.S. deferred tax assets and liabilities resulting from the permanent reduction in the U.S. statutory corporate tax rate resulted in no P&L impact as the Company has a full valuation allowance against U.S. deferred tax assets (net of liabilities). Further, mandatory deemed repatriation had no material impact as the income inclusion was offset by net operating losses (NOL).

The Act subjects a U.S. shareholder to current tax on global intangible low-taxed income (GILTI) earned by certain foreign subsidiaries effective January 1, 2018. For current year, the Company's REIT entity has a GILTI income inclusion of $1.4 million. The FASB Staff Q&A, Topic 740 No. 5, Accounting for Global Intangible Low-Taxed Income, states that an entity can make an accounting policy election to either recognize deferred taxes for temporary differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred. Due to the Company's REIT status and the corresponding distribution requirement, the Company has neither a deferred tax related to GILTI nor any current tax expense.

ADOPTION OF ASU 2018-02

The Company evaluates releasing income tax effects from accumulated other comprehensive income each quarter as part of its analysis of AOCI. The Company elected to adopt ASU No. 2018-02 during the third quarter of 2018 and reclassified the resulting income tax effects from AOCI to retained earnings. The reclassification decreased AOCI and increased retained earnings by $0.7 million, with zero net effect on total shareholders' equity.

9. 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 and June 30, 2014, (the "November 2014 Announcement"), 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 (the "Derivative Claims"). 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.

Following the Company's receipt of the Derivative Claims, it entered into a series of tolling agreements with the shareholders from whom it received demands (the "Demand Shareholders"). The last of these tolling agreements ended in March of 2017. On October 13, 2017, one of the Demand Shareholders filed an action in the United States District Court for the Middle District of Florida, currently styled Molloy v. Boynton, et al., Civil Action No. 3:17-cv-01157-TJC-MCR (the "Derivative Lawsuit"). The complaint alleges breaches of fiduciary duties and unjust enrichment and names as defendants former officers, Paul G. Boynton, Hans E. Vanden Noort and N. Lynn Wilson, and former directors, C. David Brown, II, Mark E. Gaumond, James H. Miller, Thomas I. Morgan and Ronald Townsend (the former officers and directors named as defendants are collectively the "Individual Defendants").
In November 2017, the parties reached an agreement to resolve all claims brought in the Derivative Lawsuit and agreed to negotiate in good faith regarding the amount of attorneys' fees and expenses to be paid to the Demand Shareholders' counsel, subject to court approval. The parties executed a term sheet on November 27, 2017, and agreed to schedule a mediation regarding the amount of attorneys' fees and expenses. On November 30, 2017, Rayonier and certain of the Individual Defendants who had been served with the complaint filed an unopposed Motion to Stay or, in the Alternative, to Extend Time to Respond to the Complaint in order to allow the parties time to attempt to resolve the Derivative Lawsuit without further litigation. On December 6, 2017, the Court entered an order staying the case, directing that the case be administratively closed, and ordering the parties to file a joint status report with the Court not later than March 15, 2018. At December 31, 2017, the case was stayed, some of the Individual Defendants had not yet been served, none of the defendants had filed any responsive pleading or dispositive motion, and the Company could not determine whether there was a likelihood a material loss had been incurred nor could the range of any such loss be estimated.
On March 13, 2018, the Demand Shareholders, Rayonier, certain of Rayonier's directors' and officers' insurance carriers, and certain of the Individual Defendants participated in a mediation, at the conclusion of which the parties reached an agreement in principle to settle the case and amended the term sheet to memorialize such agreement. On April 17, 2018, Plaintiff filed with the Court Plaintiff's Unopposed Motion for Preliminary Approval of Derivative Settlement and Memorandum of Legal Authority in Support ("Motion for Preliminary Approval"). The terms of the proposed settlement (the "Settlement") are contained in the Stipulation and Agreement of Settlement (the "Stipulation"), which was attached to the Motion for Preliminary Approval and filed with the Court. The Stipulation, executed by all parties, included the material terms of the term sheet. Pursuant to the terms of the Settlement, which is subject to Court approval and objections by shareholders, the Company agreed to certain governance reforms and to cause certain of its directors' and officers' liability insurance carriers to fund a settlement payment for the Demand Shareholders' attorneys' fees and expenses as well as incentive awards to the Demand Shareholders in the aggregate amount of $1.995 million. On August 17, 2018, the Court granted the Motion for Preliminary Approval, established notice requirements and scheduled the final hearing as to approval of the Settlement for October 16, 2018. On September 11, 2018, Plaintiff filed with the Court Plaintiff's Unopposed Motion for Final Approval of Derivative

Settlement and Approval of the Agreed-Upon Attorneys' Fees and Expenses ("Motion for Final Approval"). On October 9, 2018, the Court issued an order rescheduling the hearing on the Motion for Final Approval to October 30, 2018 and the hearing went forward on that date. On November 2, 2018, the Court issued an order granting the Motion for Final Approval and dismissed the case with prejudice. The payments agreed to on March 13, 2018, including the realized amount to be funded by the insurance carriers, were reflected in the Company's Consolidated Financial Statements as of September 30, 2018.

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

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occurring in connection with its businesses, it has in certain cases retained some risk through the operation of large deductible insurance plans, primarily in the areas of executive risk, property, automobile 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.

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10. GUARANTEES

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

As of September 30, 2018, the following financial guarantees were outstanding:

Financial Commitments	Maximum Potential Payment	Carrying Amount of Associated Liability
Standby letters of credit (a)	$10,176	—
Guarantees (b)	2,254	43
Surety bonds (c)	1,284	—
Total financial commitments	$13,714	$43

(a) Approximately $9.2 million of the irrevocable 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 2018 and 2019 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 September 30, 2018, 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 outstanding claims under the Company's previous workers' compensation self-insurance programs in Washington and Florida. 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 2018 and 2019 and are expected to be renewed as required.

11. EARNINGS PER COMMON SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net Income	$30,639	$28,803	$112,682	$94,659
Less: Net income attributable to noncontrolling interest	(7,207)	(4,115)	(12,453)	(9,968)
Net income attributable to Rayonier Inc.	$23,432	$24,688	$100,229	$84,691
Shares used for determining basic earnings per common share	129,142,931	128,610,696	129,005,074	126,934,003
Dilutive effect of:				
Stock options	73,372	84,380	85,000	94,528
Performance and restricted shares	539,571	270,704	584,364	315,476
Shares used for determining diluted earnings per common share	129,755,874	128,965,780	129,674,438	127,344,007
Basic earnings per common share attributable to Rayonier Inc.:	$0.18	$0.19	$0.78	$0.67

Diluted earnings per common share attributable to Rayonier Inc.:	$0.18	$0.19	$0.77	$0.67

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Anti-dilutive shares excluded from the computations of diluted earnings per share:				
Stock options and performance shares	150,313	621,447	192,265	600,039

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12. 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 September 30, 2018, foreign currency exchange contracts and foreign currency option contracts had maturity dates through December 2019 and February 2020, 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.

Through our ownership in the New Zealand JV, the Company is exposed to foreign currency risk on shareholder distribution payments which are denominated in N.Z. dollars. On behalf of the Company, the New Zealand JV typically hedges 60% to 100% of its estimated foreign currency exposure with respect to the following three months anticipated distributions, up to 75% of anticipated distributions for the forward three to six months and up to 50% of the forward six to 12 months. For the three and nine months ended September 30, 2018, the change in fair value of the foreign exchange forward contracts of ($0.2) million and $2.4 million, respectively, was recorded as a (loss)/gain in “Interest and other miscellaneous income, net” as the contracts did not qualify for hedge accounting treatment. As of September 30, 2018, foreign exchange forward contracts had maturity dates through December 2018.

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In March 2018, the Company entered into a foreign currency exchange contract (notional amount of NZ$37 million) to mitigate the risk of fluctuations in foreign currency exchange rates when translating the New Zealand JV's balance sheet to U.S. dollars. This contract hedged the cash portion of the Company's net investment in New Zealand and qualified as a net investment hedge. The fair value of this contract was 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. This hedge qualified for hedge accounting whereby fluctuations in fair market value during the life of the hedge are recorded in AOCI and remain there permanently unless a partial or full liquidation of the investment is made. At each reporting period, the Company reviewed the hedge for ineffectiveness. In April 2018, the foreign currency exchange contract matured and the Company repatriated the cash. The Company did not have any ineffectiveness during the life of the hedge.

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.

The following table contains information on the outstanding interest rate swaps as of September 30, 2018:

Outstanding Interest Rate Swaps (a)

Date Entered Into	Term	Notional Amount	Related Debt Facility	Fixed Rate of Swap	Bank Margin on Debt	Total Effective Interest Rate (b)
August 2015	9 years	$170,000	Term Credit Agreement	2.20%	1.63 %	3.83 %
August 2015	9 years	180,000	Term Credit Agreement	2.35%	1.63 %	3.98 %
April 2016	10 years	100,000	Incremental Term Loan	1.60%	1.90 %	3.50 %
April 2016	10 years	100,000	Incremental Term Loan	1.60%	1.90 %	3.50 %
July 2016	10 years	100,000	Incremental Term Loan	1.26%	1.90 %	3.16 %

(a) All interest rate swaps have been designated as interest rate cash flow hedges and qualify for hedge accounting.
(b) Rate is before estimated patronage payments.

CARBON OPTIONS

The New Zealand JV enters into carbon options from time to time to sell carbon assets at certain prices. The fair value of carbon options is determined by a mark-to-market valuation using the Black-Scholes option pricing model, 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. For the three and nine months ended September 30, 2018, the change in fair value of the carbon option contracts of ($0.6) million and ($0.6) million, respectively, was recorded as a loss in "Interest and other miscellaneous income, net" as the contracts did not qualify for hedge accounting treatment. As of September 30, 2018, carbon option contracts had maturity dates through March 2019.

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The following tables demonstrate the impact of the Company's derivatives on the Consolidated Statements of Income and Comprehensive Income for the three and nine months ended September 30, 2018 and 2017.

	Income Statement Location	Three Months Ended September 30, 2018	2017
Derivatives designated as cash flow hedges:			
Foreign currency exchange contracts	Other comprehensive (loss) income	($1,402)	($1,579)
Foreign currency option contracts	Other comprehensive (loss) income	(29)	(716)
Interest rate swaps	Other comprehensive (loss) income	5,173	(533)
Derivatives not designated as hedging instruments:			
Foreign currency exchange contracts	Interest and other miscellaneous income, net	(189)	609
Carbon option contracts	Interest and other miscellaneous income, net	(577)	—

	Income Statement Location	Nine Months Ended September 30, 2018	2017
Derivatives designated as cash flow hedges:			
Foreign currency exchange contracts	Other comprehensive (loss) income	($6,800)	$1,611
Foreign currency option contracts	Other comprehensive (loss) income	(388)	219
Interest rate swaps	Other comprehensive (loss) income	26,461	(2,921)
Derivatives designated as a net investment hedge:			
Foreign currency exchange contract	Other comprehensive (loss) income	(344)	—
Derivatives not designated as hedging instruments:			
Foreign currency exchange contracts	Interest and other miscellaneous income, net	2,419	283
Carbon option contracts	Interest and other miscellaneous income, net	(577)	—

During the next 12 months, the amount of the September 30, 2018 AOCI balance, net of tax, expected to be reclassified into earnings as a result of the maturation of the Company's derivative instruments is a loss of approximately $2.6 million.

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

	Notional Amount	
	September 30, 2018	December 31, 2017
Derivatives designated as cash flow hedges:		
Foreign currency exchange contracts	$103,000	$107,400
Foreign currency option contracts	20,000	48,000
Interest rate swaps	650,000	650,000
Derivative not designated as a hedging instrument:		
Foreign currency exchange contracts	21,019	18,439
Carbon options (a)	7,500	—

(a) Notional amount for carbon options is calculated as the number of units outstanding multiplied by the spot price as of September 30, 2018.

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

	Location on Balance Sheet	Fair Value Assets / (Liabilities) (a)	
		September 30, 2018	December 31, 2017
Derivatives designated as cash flow hedges:			
Foreign currency exchange contracts	Other current assets	$9	$2,286
	Other assets	—	538
	Other current liabilities	(3,528)	(37)
	Other non-current liabilities	(494)	—
Foreign currency option contracts	Other current assets	40	389
	Other assets	79	137
	Other current liabilities	(104)	(119)
	Other non-current liabilities	(79)	(55)
Interest rate swaps	Other assets	41,900	17,473
	Other non-current liabilities	—	(2,033)
Derivative not designated as a hedging instrument:			
Foreign currency exchange contracts	Other current assets	2,206	209
	Other current liabilities	(1)	(189)
Carbon options	Other current liabilities	(664)	—
Total derivative contracts:			
Other current assets		$2,255	$2,884
Other assets		41,979	18,148
Total derivative assets		$44,234	$21,032

Other current liabilities	(4,297)	(345)
Other non-current liabilities	(573)	(2,088)
Total derivative liabilities	($4,870)	($2,433)

(a) See Note 13 — Fair Value Measurements for further information on the fair value of the Company's derivatives including their classification within the fair value hierarchy.

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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.

13. 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 September 30, 2018 and December 31, 2017, using market information and what the Company believes to be appropriate valuation methodologies under GAAP:

Asset (Liability) (a)	September 30, 2018 Carrying Amount	Fair Value Level 1	Level 2	December 31, 2017 Carrying Amount	Fair Value Level 1	Level 2
Cash and cash equivalents	$146,259	$146,259	—	$112,653	$112,653	—
Restricted cash (b)	45,418	45,418	—	59,703	59,703	—
Current maturities of long-term debt	—	—	—	(3,375)	—	(3,375)
Long-term debt (c)	(972,426)	—	(970,970)	(1,022,004)	—	(1,030,135)
Interest rate swaps (d)	41,900	—	41,900	15,440	—	15,440
Foreign currency exchange contracts (d)	(1,808)	—	(1,808)	2,807	—	2,807
Foreign currency option contracts (d)	(64)	—	(64)	352	—	352
Carbon option contracts	(664)	—	(664)	—	—	—

(a) The Company did not have Level 3 assets or liabilities at September 30, 2018 and December 31, 2017.
(b) Restricted cash represents 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 17 — 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 12 — Derivative Financial Instruments and Hedging Activities for information regarding the Consolidated Balance Sheets 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.

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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.
Carbon option contracts — The fair value of carbon option contracts is determined by a mark-to-market valuation using the Black-Scholes option pricing model, 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.

14. 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.
As of September 30, 2018, the Company has paid $2.3 million of the approximately $2.7 million in current year mandatory pension contribution requirements (based on actuarially determined estimates and IRS minimum funding requirements).
The net pension and postretirement benefit (credit) costs that have been recorded are shown in the following table:

Components of Net Periodic Benefit (Credit) Cost	Income Statement Location (a)	Pension Three Months Ended September 30,		Postretirement Three Months Ended September 30,	
		2018	2017	2018	2017
Components of Net Periodic Benefit (Credit) Cost					
Service cost	Selling and general expenses	—	—	$2	$2
Interest cost	Interest and other miscellaneous income, net	755	815	13	13
Expected return on plan assets (b)	Interest and other miscellaneous income, net	(983)	(945)	—	—
Amortization of losses	Interest and other miscellaneous income, net	168	116	—	—
Net periodic benefit (credit) cost		($60)	($14)	$15	$15

Components of Net Periodic Benefit (Credit) Cost	Income Statement Location (a)	Pension Nine Months Ended September 30,		Postretirement Nine Months Ended September 30,	
		2018	2017	2018	2017

Components of Net Periodic Benefit (Credit) Cost					
Service cost	Selling and general expenses	—	—	$5	$5
Interest cost	Interest and other miscellaneous income, net	2,266	2,444	38	39
Expected return on plan assets (b)	Interest and other miscellaneous income, net	(2,950)	(2,836)	—	—
Amortization of losses	Interest and other miscellaneous income, net	505	349	2	—
Net periodic benefit (credit) cost		($179)	($43)	$45	$44

(a) Due to the adoption of ASU No. 2017-07, the service cost component of net periodic benefit (credit) cost is now recorded to "Selling and general expenses" in the Consolidated Statements of Income and Comprehensive Income with other compensation costs arising from services rendered by employees during the period. The other components of net periodic benefit (credit) cost (interest cost, expected return on plan assets and amortization of losses) are now recorded to "Interest and other miscellaneous income, net" in the Consolidated Statements of Income. Prior period amounts have been reclassified to conform to current period presentation. See Note 1 — Basis of Presentation for additional information.

(b) The weighted-average expected long-term rate of return on plan assets used in computing 2018 net periodic benefit cost for pension benefits is 7.2%.

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15. OTHER OPERATING (LOSS) INCOME, NET

Other operating income, net comprised the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Foreign currency income (expense)	$242	$165	$264	$15
Loss on sale or disposal of property and equipment	(30)	(63)	(3)	(69)
(Loss) gain on foreign currency exchange and option contracts	(712)	1,295	1,599	2,476
Log trading marketing fees	66	389	197	896
Income from the sale of unused Internet Protocol addresses	—	—	646	—
Income from New Zealand Timber settlement	—	—	—	420
Miscellaneous (expense) income, net	(17)	(15)	(126)	6
Total	($451)	$1,771	$2,577	$3,744

16. INVENTORY

As of September 30, 2018 and December 31, 2017, Rayonier’s inventory was solely comprised of finished goods, as follows:

	September 30, 2018	December 31, 2017
Finished goods inventory		
Real estate inventory (a)	$22,374	$18,350
Log inventory	4,576	5,791
Total inventory	$26,950	$24,141

(a) Represents cost of HBU real estate (including capitalized development investments) expected to be sold within 12 months. See Note 6 — Higher And Better Use Timberlands and Real Estate Development Investments for additional information.

17. 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 September 30, 2018 and