RAYONIER INC
Form DEF 14A
March 26, 2003
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of

the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14A-6(E)(2))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to Section 240.14a-11(c) or Section 240.14a-12

RAYONIER, INC.

(Name of Registrant as Specified In Its Certificate)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Notes:

Reg. (S) 240.14a-101.

SEC 1913 (3-99)

Table of Contents

Corporate Headquarters

NOTICE OF ANNUAL MEETING

March 27, 2003

Notice is hereby given that the 2003 Annual Meeting of the Shareholders of Rayonier Inc., a North Carolina corporation, will be held at the Omni Jacksonville Hotel, 245 Water Street, Jacksonville, Florida on Thursday, May 15, 2003 at 4:00 P.M., local time, for the following purposes:

1) to elect three Class III directors to terms expiring in 2006 (Item 1 on the proxy card);

2) to consider and act upon a proposal by the Board of Directors to approve the 2004 Incentive Stock and Management Bonus Plan (Item 2 on the proxy card); and

3) to act upon such other matters as may properly come before the meeting.

All Rayonier shareholders of record at the close of business on March 17, 2003 are entitled to vote at the meeting. This notice and the accompanying Proxy Statement and proxy card are first being mailed to shareholders on or about March 27, 2003.

We urge you to vote your shares over the Internet, by telephone or through the mail at the earliest convenience.

W. EDWIN FRAZIER, III

Corporate Secretary

Rayonier Inc. 50 North Laura Street Jacksonville, FL 32202

Telephone (904) 357-9100 Fax (904) 357-9101

Table of Contents

PROXY STATEMENT

TABLE OF CONTENTS

QUESTIONS AND ANSWERS	i
ITEM 1 ELECTION OF DIRECTORS	1
Information as to Nominees for Election to the Board of Directors	1
Information as to Other Directors	2
Committees of the Board of Directors	3
Corporate Governance	4
Meetings of Non-Employee Directors	4
Share Ownership Guidelines for Directors and Senior Management	5
Directors Compensation	5
Directors Charitable Award Program	5
CHANGE IN INDEPENDENT AUDITORS	6
REPORT OF THE AUDIT COMMITTEE	6
Information Regarding Independent Auditors	7
REPORT OF THE COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE	8
Components of Compensation	8
Base Salary	8
Annual Bonus Incentive	8
Long-Term Incentives	9
Policy with Respect to the $1 Million Deduction Limit	10
EXECUTIVE COMPENSATION	11
Summary Compensation Table	11
Option Grants in Last Fiscal Year	12
Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values	13
Awards of Contingent Performance Shares in Last Fiscal Year	13
Other Executive Compensation	14
SHARE OWNERSHIP	17
Principal Holders of Common Shares	17
Section 16(a) Beneficial Ownership Reporting Compliance	18
Securities Authorized for Issuance Under Equity Compensation Plans	18
SHAREHOLDER PERFORMANCE GRAPH	19

Table of Contents

ITEM 2 PROPOSAL TO APPROVE 2004 INCENTIVE STOCK AND MANAGEMENT BONUS PLAN	19
Administration of the Plan	20
Eligibility	20
Types of Awards that May be Made Under the Plan	20
Shares Covered by the 2004 Plan; Limit on Awards	20
Stock Options and Rights	21
Tax Consequences of Options	21
Performance Shares and Performance Bonus Awards	21
Amendment and Termination of the 2004 Plan	23
Special Rights Provided in the Event of a Change in Control	23
MISCELLANEOUS	25
Costs of Proxy Solicitation	25
Annual Report	25
APPENDIX A	
Charter of the Nominating and Corporate Governance Committee	A-1
APPENDIX B	
Charter of the Audit Committee	B-1
APPENDIX C	
2004 Incentive Stock and Management Bonus Plan	C-1

Table of Contents

PROXY STATEMENT

Annual Meeting of Rayonier Shareholders

Thursday, May 15, 2003

QUESTIONS AND ANSWERS

Q: WHAT AM I VOTING ON?

A: You are being asked by the Company to vote on two matters: (1) the re-election of three directors, Rand V. Araskog, W. Lee Nutter and Ronald Townsend (For more information on each nominee, turn to Information as to Nominees for Election to the Board of Directors beginning on page 1); and (2) approval of the 2004 Incentive Stock and Management Bonus Plan (For more information on this Plan, turn to Proposal to Approve 2004 Incentive Stock and Management Bonus Plan beginning on page 19).

Q: WHO IS ENTITLED TO VOTE?

A: The record holder of each of the 27,801,626 shares of Rayonier common stock (Common Shares) outstanding at the close of business on March 17, 2003 is entitled to one vote for each share owned.

Q: HOW DO I VOTE?

A: You can vote in any one of the following ways:

You can vote on the Internet by following the Vote by Internet instructions on your proxy card. If you vote on the Internet, you do not need to mail in your proxy card.

You can vote by telephone by following the Vote by Telephone instructions on your proxy card. If you vote by telephone, you do not need to mail in your proxy card.

You can vote by mail by signing and dating your proxy card and mailing it in the enclosed prepaid envelope. If you mark your voting instructions on the proxy card, your shares will be voted as you instruct. If you return a signed card but do not provide voting instructions, your shares will be voted in accordance with the recommendations of the Board of Directors (i.e., for the three named nominees for election as directors, and for approval of the 2004 Incentive Stock and Management Bonus Plan).

You can vote in person at the Annual Meeting by delivering your completed proxy card or by completing a ballot available upon request at the meeting. However, if you hold your shares in a bank or brokerage account rather than in your own name, you must obtain a legal proxy from your stockbroker in order to vote at the meeting.

Regardless of how you choose to vote, your vote is important and we encourage you to vote promptly.

Q: IS MY VOTE CONFIDENTIAL?

A: Proxy cards, ballots and reports of voting results that identify individual shareholders are mailed or returned directly to Automatic Data Processing, Inc., our vote tabulator, and handled in a manner that protects your privacy. Your vote will not be disclosed except:

- as needed to permit Automatic Data Processing to tabulate and certify the vote;
- as required by law;

Table of Contents

if we determine in good faith that a genuine dispute exists as to the accuracy or authenticity of a proxy, ballot or vote; or

in the event of a proxy contest where all parties to the contest do not agree to follow our confidentiality policy.

Q: WILL ANY OTHER MATTERS BE VOTED ON?

A: We do not expect any other matters to be considered at the Annual Meeting. However, if a matter not listed on the proxy card is legally and properly brought before the Annual Meeting by a shareholder, the proxies will vote on the matter in accordance with their judgment of what is in the best interest of Rayonier. Under the Company s bylaws, shareholder proposals must have been received by November 28, 2002 to be considered at the Annual Meeting. To date, we have received no shareholder proposals.

Q: HOW MANY VOTES ARE NEEDED TO HOLD THE MEETING?

A: In order to conduct the Annual Meeting, a majority of the Common Shares outstanding as of the close of business on March 17, 2003 must be present, either in person or represented by proxy.

Q: HOW MANY VOTES ARE NEEDED TO ELECT THE NOMINEES FOR DIRECTOR?

A: The three nominees who receive the largest number of votes will be elected. Accordingly, any action other than a vote for a nominee will have the practical effect of a vote against the nominee.

Q: HOW MANY VOTES ARE NEEDED TO APPROVE THE 2004 INCENTIVE STOCK AND MANAGEMENT BONUS PLAN?

A: The 2004 Incentive Stock and Management Bonus Plan will be approved if the number of votes cast in favor of the proposal exceeds the number of votes cast against it.

Q: WHO WILL COUNT THE VOTES?

A: Representatives of Automatic Data Processing, Inc. will count the votes. A Company representative will act as inspector of elections.

Q: HOW ARE VOTES COUNTED?

A: In determining whether we have a quorum, all properly submitted proxies and ballots, including abstentions, broker non-votes and withheld votes, will be counted as present and entitled to vote. However, abstentions and broker non-votes, as well as votes withheld, are not considered votes cast and will not be counted for or against a matter or nominee.

Q: WHAT SHARES ARE COVERED BY MY PROXY CARD?

A: You should have been provided a proxy card for each account in which you own Common Shares either:

directly in your name as the shareholder of record, which includes shares purchased through any of our employee benefit plans; or

indirectly through a broker, bank or other holder of record.

Table of Contents

Q: WHAT DOES IT MEAN IF I RECEIVE MORE THAN ONE PROXY CARD?

A: It means that you have multiple accounts in which you own Common Shares. **Please vote all proxy cards you receive to ensure that all your shares are voted.** However, for your convenience we recommend that you contact your broker, bank or our transfer agent to consolidate as many accounts as possible under a single name and address. Our transfer agent is The Bank of New York. All communications concerning shares you hold in your name, including address changes, name changes, requests to transfer shares and similar issues, can be handled by making a toll-free call to The Bank of New York at 1-800-659-0158.

Q: HOW CAN I CHANGE MY VOTE?

A: You can revoke your proxy and change your vote at any time before the polls close at the Annual Meeting. You can do this by:

- voting by telephone or on the Internet (only your most recent telephone or Internet proxy is counted);
- signing and submitting another proxy with a later date; or
- voting again at the meeting.

Q: WHEN ARE SHAREHOLDER PROPOSALS FOR THE 2004 ANNUAL MEETING OF SHAREHOLDERS DUE?

A: All shareholders who wish to include a proposal in our Proxy Statement for the Annual Meeting in 2004 must provide notice by certified mail return receipt requested to Corporate Secretary, Rayonier, 50 North Laura St., 19th Floor, Jacksonville, Florida 32202 by no later than November 27, 2003. The notice must satisfy the requirements for shareholder proposals under the federal securities laws.

Under our bylaws, this deadline applies to any shareholder proposal sought to be considered at the 2004 Annual Meeting, not just to those sought to be included in the Proxy Statement and form of proxy for the Annual Meeting.

Q: MAY I ACCESS THIS YEAR S ANNUAL REPORT AND PROXY STATEMENT ELECTRONICALLY?

A: Rayonier s 2002 Annual Report and this Proxy Statement may be accessed at the Investor Relations section of the Rayonier website at: www.rayonier.com. **Note that most shareholders can elect to receive future proxy statements, annual reports and proxy cards over the Internet instead of receiving paper copies in the mail. With Internet delivery, you should receive the materials more quickly and also help the Company reduce printing and postage costs. We encourage you to enroll in this delivery option through links provided at the Investor Relations section of our website.**

Table of Contents

ITEM 1 ELECTION OF DIRECTORS

The Board of Directors is responsible for establishing broad corporate policies and for overseeing management and the overall performance of Rayonier. The Board reviews significant developments affecting the Company and acts on matters requiring Board approval. The Board held seven meetings during 2002.

The Board is divided into three classes (I, II and III) serving staggered three-year terms. The terms of the Class III directors, Rand V. Araskog, W. Lee Nutter and Ronald Townsend, will expire at the 2003 Annual Meeting, and each has been nominated for re-election for a term expiring in 2006. The Board has no reason to believe that any nominee will be unable to serve as a director. If, however, a nominee should be unable to serve at the time of the Annual Meeting, Common Shares properly represented by valid proxies will be voted for the election of a substitute nominee recommended by the Board.

A biography of each member of Rayonier s current Board of Directors, including the three nominees for re-election, is set forth below.

The Board unanimously recommends that you vote FOR each of the three nominees for election to the Board of Directors named below.

Information As To Nominees For Election To The Board Of Directors

Class III, Terms Expire in 2003

RAND V. ARASKOG, Age 71 *Elected to Board in 1994*

Mr. Araskog is the retired Chairman and Chief Executive of ITT Corporation (a diversified global corporation engaged in the hospitality and entertainment businesses and the information services businesses). He served as Chairman and Chief Executive of ITT Corporation from 1980 until his retirement in 1998. He is also a director of The Hartford Financial Services Group, Inc., ITT Educational Services, Inc., and ITT Industries, Inc. Mr. Araskog is a graduate of the U.S. Military Academy at West Point and attended the Harvard University Graduate School of Arts and Sciences.

W. LEE NUTTER, Age 59 *Elected to Board in 1996*

Mr. Nutter is Chairman, President and Chief Executive Officer of Rayonier. He joined Rayonier in 1967 in the Northwest Forest Operations and was named Vice President, Timber and Wood in 1984; Vice President, Forest Products in 1985; Senior Vice President, Operations in 1986 and Executive Vice President in 1987. He was elected President and Chief Operating Officer and a director of Rayonier in 1996 and to his current position effective January 1999. Mr. Nutter serves on the Board of Directors and the Executive Committee of the American Forest and Paper Association and on the Board of Directors of the National Council for Air and Stream Improvement. He is also a member of the North Florida

Regional Board of SunTrust Bank. Mr. Nutter holds a B.A. degree in Business Administration from the University of Washington and graduated from the Harvard University Graduate School of Business Administration Advanced Management Program.

RONALD TOWNSEND, Age 61 *Elected to Board in 2001*

Mr. Townsend is a Communications Consultant based in Jacksonville, Florida since 1997. He retired from Gannett Company (a diversified news and information company) in 1996 after serving 22 years in positions of increasing responsibility, most recently as President of Gannett Television Group. Mr. Townsend also serves as a director of ALLTEL Corporation, Bank of America Corporation and Winn-Dixie Stores, Inc. He attended The City University of New York, Bernard Baruch.

Table of Contents

Information As To Other Directors

Class I, Terms Expire in 2004

RONALD M. GROSS, Age 69 *Elected to Board in 1978*

Mr. Gross is Chairman Emeritus, and former Chairman and Chief Executive Officer of Rayonier. He joined Rayonier in 1978 as President and Chief Operating Officer and a director, and was given the additional responsibilities of Chief Executive Officer in 1981 and Chairman in 1984. He served as Chairman and Chief Executive Officer from 1984 until his retirement in 1998, and was named Chairman Emeritus effective January 1999. Mr. Gross also serves as a director of Corn Products International, Inc. and The Pittston Company. He is a graduate of Ohio State University and the Harvard University Graduate School of Business Administration.

KATHERINE D. ORTEGA, Age 68 *Elected to Board in 1994*

Ms. Ortega is a former Treasurer of the United States. She served as the 38th Treasurer of the United States from 1983 to 1989 and as Alternate Representative of the United States to the United Nations General Assembly from 1990 to 1991. Prior to these appointments, she served as a Commissioner on the Copyright Royalty Tribunal, and was a member of the President s Advisory Committee on Small and Minority Business. Ms. Ortega also serves as a director of State Farm Bank, The Kroger Co., Washington Mutual Investors Fund and JPMorgan Value Opportunities Fund; and as a Trustee of The American Funds Tax-Exempt Series I. She is a graduate of Eastern New Mexico University and holds three honorary Doctor of Law Degrees and one honorary Doctor of Social Science Degree.

BURNELL R. ROBERTS, Age 75 *Elected to Board in 1994*

Mr. Roberts is the retired Chairman of the Boards of Sweetheart Holdings, Inc. and Sweetheart Cup Company (producers of plastic and paper disposable food service and food packaging products), having served in such positions from 1993 until 1998. He previously served as Chairman of the Board and Chief Executive Officer of The Mead Corporation (an integrated manufacturer of paper and forest products) until his retirement in 1992. Mr. Roberts also serves as a director of DPL Inc. and p4A.com Ltd.; as a Limited Partner of American Industrial Partners, L.P. and Metapoint Partners, L.P.; and as a trustee of Granum Value Fund. He is a graduate of the University of Wisconsin and the Harvard University Graduate School of Business Administration.

Class II, Terms Expire in 2005

PAUL G. KIRK, JR., Age 65 *Elected to Board in 1994*

Mr. Kirk became a partner in the law firm of Sullivan & Worcester in 1977 and is presently of Counsel to the firm. He served as Chairman of the Democratic National Committee from 1985 to 1989. Mr. Kirk is also Chairman, President and a director of Kirk & Associates, Inc. He is a Trustee of Stonehill College and St. Sebastian s School, and Chairman of the Board of the Directors of the John F. Kennedy Library Foundation. Mr. Kirk serves as Co-Chairman of the Commission on Presidential Debates. He is also a director of The Hartford Financial Services Group, Inc. Mr. Kirk is a graduate of Harvard College and Harvard Law School.

CARL S. SLOANE, Age 66 *Elected to Board in 1997*

Mr. Sloane is Professor Emeritus, Harvard University Graduate School of Business Administration, and Chairman of the Board, Beth Israel Deaconess Medical Center, a Harvard affiliated teaching hospital. He was the Ernest L. Arbuckle Professor of Business Administration from 1991 until his retirement in 2000. Prior to joining the Harvard faculty, he spent 30 years in management consulting, the last 20 with the firm he co-founded, Temple, Barker & Sloane, Inc., and its successor firm, Mercer Management Consulting, where he served as Chairman and Chief Executive. Mr. Sloane is also a director of MedSource Technologies, Inc. and The Pittston Company. He is a graduate of Harvard College and the Harvard University Graduate School of Business Administration.

Table of Contents

GORDON I. ULMER, Age 70 *Elected to Board in 1994*

Mr. Ulmer is the former Chairman and Chief Executive Officer of Connecticut Bank and Trust Company (CBT) and retired President of the Bank of New England Corporation. He joined CBT in 1957 and held numerous positions before being elected Chairman and Chief Executive Officer in 1985. In 1988 he was elected President of the Bank of New England Corporation, the holding company of CBT, holding such position until his retirement in 1990. Mr. Ulmer also serves as a director of The Hartford Financial Services Group, Inc. He is a graduate of Middlebury College, the American Institute of Banking and the Harvard University Graduate School of Business Administration Advanced Management Program, and attended New York University s Graduate School of Engineering.

Committees of the Board of Directors

Our Board of Directors has the following committees:

Name of Committee and Members	Functions of the Committee	Number of Meetings in 2002
AUDIT: Paul G. Kirk, Jr., Chair Katherine D. Ortega Burnell R. Roberts Gordon I. Ulmer	This Committee is comprised entirely of non-employee directors and its responsibilities include: oversight of the Company s accounting and financial reporting policies, processes and systems of internal control; monitoring the independence and performance of the Company s independent auditors with sole responsibility for such auditors selection, evaluation, compensation and discharge; approving, in advance, all of the audit and non-audit services provided to the Company by the independent auditors; and facilitating open communication among the Board, senior management, internal audit and the independent auditors.	10
COMPENSATION AND MANAGEMENT DEVELOPMENT: Rand V. Araskog, Chair Katherine D. Ortega Carl S. Sloane Ronald Townsend	This Committee is comprised entirely of non-employee directors and its responsibilities include: overseeing the compensation and benefits of employees; evaluating management performance; establishing executive compensation; reviewing management succession and development matters; and approving individual compensation actions for the Chairman, President and Chief Executive Officer and all senior executives.	4

Name of Committee and Members	Functions of the Committee	Number of Meetings in 2002
NOMINATING AND CORPORATE GOVERNANCE Ronald Townsend, Chair Paul G. Kirk, Jr. Burnell R. Roberts	This Committee is comprised entirely of non-employee directors and its responsibilities include: establishing criteria for Board nominees and identifying qualified individuals for nomination to become Board members, including considering potential nominees recommended by shareholders; determining the composition of Board committees; developing and monitoring a process to evaluate Board and committee effectiveness; recommending director compensation and benefit programs to the Board; establishing and overseeing a set of Corporate Governance Principles; and overseeing the Company s legal compliance and ethics programs, including the Standard of Ethics and Code of Corporate Conduct.	1
FINANCE: Ronald M. Gross, Chair Rand V. Araskog W. Lee Nutter Carl S. Sloane Gordon I. Ulmer	This Committee is responsible for advising the Board concerning certain issues with respect to the financial structure of the Company, including: financial strategies and tax planning initiatives; capital structure; financings; risk management policies; dividend policies; investment policies; and performance of the pension and savings plans.	3

Our directors attended 100 percent of all meetings of the Board of Directors and Committees on which they served during 2002.

Corporate Governance

In February 2003, the Board of Directors expanded the role of the Nominating and Corporate Governance Committee (formerly the Nominating Committee) to include responsibility for oversight of the Company s corporate governance practices. Specific new responsibilities include:

- regular review of developments relating to corporate governance issues;
- development and maintenance of a formal set of Corporate Governance Principles;
- oversight of annual self-evaluations of the effectiveness of operation of the Board and its committees;
- monitoring the orientation and training needs of the directors; and
- making all determinations as to whether a director is "independent" under applicable regulations and listing standards.

We expect the Nominating and Corporate Governance Committee to hold at least four meetings during 2003. A copy of the Charter of the Nominating and Corporate Governance Committee is attached as Appendix A.

Meetings of Non-Employee Directors

The Board of Directors will meet without the Chairman present in regularly scheduled meetings at least twice annually, and at other Board meetings upon the request of any director. The respective chairs of the Audit

4

Committee, the Compensation and Management Development Committee and the Nominating and Corporate Governance Committee will preside over such meetings of non-employee directors, on a rotating basis.

Share Ownership Guidelines For Directors And Senior Management

The Board of Directors believes that it is important for directors and senior management to acquire a substantial ownership position in the Company to underscore the level of commitment Rayonier s management team has to the future success of the business. Our guidelines strongly encourage Rayonier share ownership by directors at a level equal to three times their annual retainer, and by officers at the level of Vice President or above as follows:

Position/Level	Share Ownership Guidelines as Multiple of Base Salary
Chairman, President and Chief Executive Officer	4X
Executive Vice President	3X
Senior Vice President	2X
Vice President	1X

These ownership levels for directors and officers are to be achieved over a three-year period. While participation in the share ownership program is voluntary, all persons holding a position of Vice President or higher for three or more years have met their target level of ownership.

Directors Compensation

Each non-employee director receives an annual retainer of $25,000 in cash plus an award of 500 Common Shares. They also receive a fee of (i) $1,000 per Board meeting attended; (ii) $1,000 per Committee meeting attended; (iii) an additional $500 per Committee meeting chaired; (iv) $1,000 for each business trip taken to one of the Corporation s facilities for a business purpose other than a Board or Committee meeting; and (v) $1,000 for any other business trip taken at the request of management. Mr. Nutter, as an employee of Rayonier, is not compensated for service on the Board or its Committees.

Mr. Gross has provided consulting services to the Board under a Consulting Agreement since January 1, 1999. Under this Agreement, he is paid an annual retainer of $50,000 for as long as he remains a director. The Agreement provides that the Company will recommend Mr. Gross for nomination for re-election as a director in 2004 and, if elected, that Mr. Gross will serve out the term.

Directors Charitable Award Program

The Company established the Directors Charitable Award Program in 1995 to recognize the interest of Rayonier and its directors in supporting worthy educational institutions and other charitable organizations. Under this Program each director may nominate up to five organizations to share a total contribution of $1 million from The Rayonier Foundation, a tax-exempt charitable foundation funded by the Company. These contributions will be made by the Foundation in 10 annual installments after the death of any director who:

- has completed 60 full months of service as a director;
- dies or becomes disabled while serving as a director; or
- is actively serving as a director at the time of a change in control of the Company.

The cost of this Program is minimal to Rayonier as the Company has acquired joint life insurance contracts on the lives of directors, the proceeds of which will be adequate to fund Rayonier s contributions to the Foundation related to the Program, as well as to fund the premium costs of the contracts. Directors receive no financial benefit from this Program since the charitable deduction and insurance proceeds accrue solely to the Company.

Table of Contents

CHANGE IN INDEPENDENT AUDITORS

On March 15, 2002, the Board of Directors, upon the recommendation of the Audit Committee, rescinded the appointment of Arthur Andersen LLP (Andersen) as the Company s independent auditors for 2002. On May 17, 2002, the Board of Directors, upon the recommendation of the Audit Committee, appointed Deloitte & Touche LLP as the Company s new independent auditors.

Andersen s audit reports on the Company s consolidated financial statements for each of the years ended 2001 and 2000 did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles.

During the years ended December 31, 2001 and 2000 and through May 17, 2002: (1) there were no disagreements with Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreement(s), if not resolved to the satisfaction of Andersen, would have caused them to make reference to the subject matter of the disagreement(s) in connection with their report; and (2) none of the reportable events described under Item 304(a)(1)(v) of Regulation S-K occurred. We provided Andersen with a copy of the above disclosures. A copy of Andersen s letter dated March 20, 2002, stating its agreement with such statements was filed as Exhibit 16 with our 2001 Form 10-K. In addition, a copy of our letter to the Securities and Exchange Commission detailing certain quality assurances that Andersen provided to us in a letter dated March 15, 2002, was filed as Exhibit 99 with our 2001 Form 10-K.

REPORT OF THE AUDIT COMMITTEE

Management has primary responsibility for the Company s financial statements and the reporting process, including the Company s internal control system. The independent auditors are responsible for auditing the Company s financial statements and expressing an opinion as to the conformity of such statements with accounting principles generally accepted in the United States.

The Audit Committee s role is to assist the Board of Directors in oversight of the Company s financial reporting process including annual audits and quarterly reviews of its financial statement filings. The Committee has direct responsibility for the appointment, compensation and oversight of the Company s independent auditors. The Committee is composed of four directors, all of whom have been determined by the Board of Directors to be independent and financially literate as defined under applicable securities laws and rules of the New York Stock Exchange. In addition, the Board of Directors has determined that at least one member of the Committee has financial expertise as required under the Exchange rules. The Committee operates under a written charter adopted by the Board of Directors, a copy of which is attached as Appendix B. The Committee held six regular meetings and four special meetings during 2002.

The Audit Committee has reviewed and discussed the audited financial statements of the Company for the three years ended December 31, 2002 with management and with Deloitte & Touche LLP (Deloitte & Touche), the Company s independent auditors for 2002. In addition, the Committee has held discussions with Deloitte & Touche covering the matters required by Statement of Auditing Standards No. 61 (Communication with Audit Committees), as amended. The Committee asked Deloitte & Touche (and Arthur Andersen LLP for the first quarter of 2002) to present to the Committee any unusual items observed during their quarterly reviews of the Company s interim results. No such items were presented during 2002. The Committee has also received the written disclosures and the letter from Deloitte & Touche required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and has held discussions with Deloitte & Touche regarding their independence.

The Audit Committee discussed with the Company s chief internal audit executive and with Deloitte & Touche representatives the overall scope and plans for their respective audits, and met with each of them to

Table of Contents

discuss the results of their examinations, their evaluations of the adequacy of the Company s internal controls and disclosure controls and procedures, and the overall quality of the Company s financial reporting. Separate private meetings without management present were also held with the Company s chief internal audit executive and with representatives of Deloitte & Touche at five meetings of the Committee in 2002.

In reliance on the Audit Committee s reviews and discussions with management and the independent auditors as discussed above, the Committee recommended that the Board of Directors include the audited financial statements of the Company in the Company s Annual Report on Form 10-K for the year ended December 31, 2002 for filing with the Securities and Exchange Commission.

Information Regarding Independent Auditors

In May 2002, the Board of Directors appointed Deloitte & Touche as independent auditors of the Company for 2002, replacing Arthur Andersen LLP. In March 2003, the Board delegated to the Committee sole authority to select, evaluate, compensate and replace the Company s independent auditors. Accordingly, the Committee, at its discretion, may change the appointment of the independent auditor at any point if it determines that such a change is in the best interest of the Company and its shareholders.

Representatives of Deloitte & Touche will attend the Annual Meeting, will have the opportunity to make a statement if they desire to do so, and will be available to respond to appropriate questions.

The independent auditors (Deloitte & Touche and Arthur Andersen) charged the Company the following fees for services performed in fiscal 2002:

Audit Fees. The aggregate fees billed or to be billed by the independent auditors for the fiscal year 2002 audit, and the review of Forms 10-Q, were $569,538. An additional $450,000 in fees were billed or will be billed for the re-audits of the 2001 and 2000 financial statements resulting from recording the sale of the Company s New Zealand East Coast timber operations as a discontinued operation. Under an interpretation of Statement of Auditing Standards No. 58, the reporting of discontinued operations after the predecessor auditor (Arthur Andersen) has ceased operations, requires the successor auditor (Deloitte & Touche) to reaudit prior years financial statements.

Financial Information Systems Design and Implementation Fees. The independent auditors did not render any services to the Company related to financial information systems design and implementation for the fiscal year ended December 31, 2002.

All Other Fees. Aggregate fees billed or to be billed for all other services rendered by the independent auditors to Rayonier for the fiscal year ended December 31, 2002 were $254,234. The specific services and related fees were as follows:

Audit-related services	$	147,191
Tax Consultation		58,458
Expatriate and Employee Taxes		48,585

Audit-related services included services such as audits of benefit plans, a separate creditor-required audit report for Rayonier Timberlands Operating Company, L.P. and statutory reporting for foreign subsidiaries. Excluded from the services and fees above were $30,377 of internal audit services provided by Deloitte & Touche during 2002 prior to their appointment as independent auditors. After consideration, the Audit Committee has determined that the provision of the above-listed services is not incompatible with maintaining the independent auditors independence for their respective assignments.

The independent auditors are prohibited from providing professional services to Company executives for personal income tax return preparation or for financial or estate tax planning.

This report is furnished by the members of the Audit Committee.

Paul G. Kirk, Jr., *Committee Chairman*	Katherine D. Ortega
Burnell R. Roberts	Gordon I. Ulmer

REPORT OF THE COMPENSATION AND MANAGEMENT DEVELOPMENT COMMITTEE

The Compensation and Management Development Committee (the Committee) oversees the compensation and benefits of Rayonier employees. The Committee must approve individual compensation actions for the Chairman, President and Chief Executive Officer and all senior executives. Specifically, the Committee must approve base salaries, annual bonuses and long-term incentive awards. The Committee uses outside compensation expertise and outside legal counsel.

Components of Compensation

The key elements of the Company s executive compensation program are base salary, annual bonus incentives and long-term compensation. These key elements are addressed separately below. In determining each component of compensation, the Committee also considers all other elements of an executive s total compensation package, including insurance and other benefits.

The Committee believes that the Company s direct competitors for executive talent, especially at senior levels, are to be found not only in the forest products sector but also in broader-based general industry. Therefore, the Committee relates total compensation levels for the Company s senior executives to the median compensation paid to executives of comparative companies within the forest products and general industry sectors.

Base Salary

The Committee has oversight of the general administration of base salaries, salary grades and salary range structure for the Company s 45 executives, and regularly reviews each senior executive s base salary. Base salaries are competitive and are targeted at market levels. The Committee authorizes base salary adjustments in recognition of the executive s level of responsibilities, performance, prior experience, breadth of knowledge, internal equity issues and external pay practices.

While the normal interval between salary reviews for most executives is 12 months, during 2001 salary reviews for all employees were extended to 15 months. This practice continued through 2002. Executive salary actions, comprised of merit pay, equity adjustments and promotional increases for 2002 averaged 4.2 percent on an annualized basis. Mr. Nutter s 2002 base salary was $650,000.

Annual Bonus Incentive

The Rayonier Annual Incentive Bonus Plan (Annual Plan) provides eligible executives and key managers with the opportunity to earn cash bonuses for achieving specific annual Company, business unit and individual performance goals.

In order to develop the amount available for bonus payments (the bonus pool), the Annual Plan formula measures net income, return on total capital (ROTC) and operating funds flow (OFF) against the approved budgeted amounts for the year for each performance measure. Net income, ROTC and OFF performance are weighted 60 percent, 25 percent and 15 percent, respectively. The maximum bonus pool is 150 percent of the aggregate standard bonus pool established under the Annual Plan. Individual bonus amounts within the authorized bonus pool are determined on a discretionary basis, taking into account annual salary and specific personal contributions during the year. Bonuses earned in the calendar year are paid in the first quarter of the subsequent year. Corporate performance for 2002 was at 122 percent of targeted financial goals and the bonus pool was set at that level. All bonuses were paid by February 26, 2003.

Under the Annual Plan, as reflected in the Summary Compensation Table on page 11, Mr. Nutter was paid $750,000 in connection with 2002 Company and individual performance. Mr. Nutter s bonus is competitive with annual incentive compensation paid to other executives at comparable forest products and general industry sector companies.

Table of Contents

Long-Term Incentives

The Rayonier 1994 Incentive Stock Plan (Stock Plan) provides for the award of incentive stock options, non-qualified stock options, stock appreciation rights, restricted stock, performance shares or any combination thereof to executives and key employees as long-term compensation incentives. It is noted that the Stock Plan s ten-year term expires December 31, 2003. A replacement Plan, the 2004 Incentive Stock and Management Bonus Plan, is described elsewhere in this Proxy Statement and will be subject to shareholder approval at the Annual Meeting (see Proposal to Approve 2004 Incentive Stock and Management Bonus Plan on page 19).

In making awards under the Stock Plan, the Committee considers individual performance criteria, levels of responsibility, as well as historical award data and compensation practices at comparable forest products sector and general industry companies.

Long-term incentive grants for 2002 under the Stock Plan are reflective of Rayonier s approach to total compensation, which considers market level pay practices of comparable companies, with a greater emphasis on at-risk rewards that closely align management performance with shareholder value.

Stock Options. Non-qualified stock options to acquire Common Shares are granted at an option price that is not less than the fair market value of a Common Share on the date of grant. The size of the grant is based primarily on competitive practice and is generally targeted to be at the median of option values granted by comparative forest products and general industry sector companies, adjusted based upon individual factors and historical award data. In 2002, non-qualified stock option awards totaling 337,250 shares were granted to 130 executives and key employees.

On January 2, 2002, the Committee awarded Mr. Nutter non-qualified options to acquire 55,000 shares at an exercise price of $49.64, the market price on that day. Mr. Nutter now owns 191,476 Common Shares, as detailed in the table on page 17.

Performance Shares. In addition to traditional non-qualified stock options, the Committee has used the flexibility provided under the Stock Plan to grant long-term incentives in the form of Contingent Performance Shares.

Contingent Performance Shares are granted to senior executives responsible for sustained Total Shareholder Return (TSR) performance, as measured against the average performance of a representative peer group of forest product companies over a designated period. Effective with the 2001 Class of Contingent Performance Share Awards, the Committee adopted a blended Standard & Poors Paper and Forest Products Index as the TSR benchmark for all future peer group performance comparisons under the Contingent Performance Share Program. TSR is calculated by measuring the growth in value of a hypothetical $100 investment in comparative forest products peer group companies over the performance period, assuming all dividends are reinvested quarterly.

Award payment is in the form of Common Shares and may range from zero to a maximum of 150 percent of the target awards based upon TSR performance. The Share Award Valuation Formula provides a 100 percent share award when Rayonier outperforms the comparative peer group companies average by 20 percent. The TSR goals reflect the Company s emphasis on creation of long-term shareholder value.

In determining the size of Contingent Performance Share grants, the Committee considers the contingent value of the award, competitive practices and the level of responsibility of each senior executive.

Contingent Performance Shares granted to seven senior executives on January 1, 1999 (*1999 Class*) measured Rayonier TSR performance against that of 12 forest products peer group companies for the 36-month period from January 1, 1999 through December 31, 2001. Actual TSR performance translated into an award payment in January 2002 of a number of Common Shares equal to 76.3 percent of the Contingent Performance Shares awarded. A total of 26,705 Common Shares were awarded to six senior executives at the 76.3 percent payout level from a reserve of 52,500 available shares, with a balance of 25,795 shares returned to the Plan. Under the 1999 Contingent Performance Share Award Program, Mr. Nutter received 11,445 Common Shares.

Table of Contents

A total of 61,000 Contingent Performance Shares (*2002 Class*) were granted to eight senior executives in 2002. Grants were made for a 36-month performance period commencing January 1, 2002 through December 31, 2004. Mr. Nutter s grant was for 17,000 Contingent Performance Shares.

Restricted Shares. The Plan also provides for the grant by the Committee of Restricted Common Shares.

In recognition of the contributions made by the Company s senior management team in effecting the successful 2000 relocation of the Corporate Headquarters offices to the southeast, and to increase equity ownership among senior management, the Committee on January 2, 2002 awarded 16,500 Restricted Common Shares to three executives, including Mr. Nutter. The Committee awarded 7,500 Restricted Shares to Mr. Nutter. These Restricted Share Awards are subject to a 3-year restriction period through January 2, 2005, after which restrictions will lapse, consistent with Plan provisions.

Policy with Respect to the $1 Million Deduction Limit

The Company is able to take deductions in excess of $1 million for certain performance-based incentives, including incentives awarded pursuant to certain plans approved by the Company s shareholders, paid to the Key Executives identified in Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code). The Code does not permit corporations to take deductions for salary and non-performance based compensation in excess of $1 million. While the Company makes every effort to insure that the compensation it pays is eligible to be deducted in computing taxable income, if compliance with the terms of Section 162(m) conflicts with the Company s compensation philosophy, or with what the Committee believes is in the best interests of the Company and its stockholders, the Committee may conclude that payment of non-deductible compensation is appropriate.

This report is furnished by the members of the Compensation and Management Development Committee.

Rand V. Araskog, *Committee Chairman*	Katherine D. Ortega
Carl S. Sloane	Ronald Townsend

Table of Contents

EXECUTIVE COMPENSATION

Summary Compensation Table

This table discloses compensation received by Rayonier s Chief Executive Officer and the four other most highly paid executive officers in the Company for 2002, 2001 and 2000.

					Long-Term Compensation			
		Annual Compensation			Awards		Payouts	
Name and Principal Position	Year	Salary ($)	Bonus ($)	Other Annual Compensation (1) ($)	Restricted Stock Awards (2) ($)	Securities Underlying Options (#)	LTIP Payouts (3) ($)	All Other Compensation (4) ($)
W. Lee Nutter	2002	630,673	750,000		372,300	55,000	576,599	27,962
Chairman, President and	2001	574,614	375,000	82,558		50,000		153,154
Chief Executive Officer	2000	524,186	525,000	167,051		50,000	691,080	161,977
Gerald J. Pollack	2002	320,846	210,000		248,200	22,000	192,200	15,538
Senior Vice President and	2001	314,884	120,000			20,000		20,740
Chief Financial Officer	2000	299,587	200,000	123,614		25,000	372,120	39,766
John P. O Grady	2002	290,849	170,000		198,560	20,000	192,200	13,436
Senior Vice President,	2001	283,396	101,000			20,000		20,086
Administration								
	2000	269,730	155,000	96,232		25,000	318,960	37,405
Timothy H. Brannon	2002	227,420	200,000	198,741		9,000		8,130
Senior Vice President, Forest	2001	226,300	65,000			8,000		7,981
Resources and Wood Products	2000	217,119	90,000			10,000		15,042
Paul G. Boynton	2002	206,318	150,000			10,000		7,582
Senior Vice President,	2001	172,631	30,000			6,000		6,423
Performance Fibers	2000	162,986	52,160			8,000		5,770

(1)

The amount for 2002 represents payments made to Mr. Brannon to reimburse moving expenses and to cover other expenses associated with his relocation from New Zealand, plus tax gross-up. The amount shown for 2001 includes $75,891 paid to Mr. Nutter to reimburse him for expenses associated with relocation, plus tax gross-up. The amounts for 2000 include amounts paid to reimburse moving expenses and to cover other expenses associated with relocation of Messrs. Nutter, Pollack and O Grady. Such amounts, including tax gross-up, were as follows: Mr. Nutter, $162,386; Mr. Pollack, $108,347; and Mr. O Grady, $90,775.

(2) On January 2, 2002, restricted shares were awarded as follows: Mr. Nutter, 7,500 shares; Mr. Pollack, 5,000 shares; and Mr. O Grady, 4,000 shares. Such shares will vest on January 2, 2005, provided that the subject executive remains continuously in the employ of the Company through the vesting date. All dividends paid on such shares during the period prior to vesting are withheld and accumulated by the Company. Upon vesting, the Company will pay each executive an amount equal to all dividends paid and accumulated with respect to his shares, together with interest thereon at a rate equal to the prime rate as reported in *The Wall Street Journal*, adjusted and compounded annually. The number and value of the aggregate restricted stock holdings of each named executive officer at December 31, 2002 were as follows:

Name	Shares (#)	Value ($)
Mr. Nutter	7,500	339,375
Mr. Pollack	5,000	226,250
Mr. O Grady	4,000	181,000
Mr. Brannon		
Mr. Boynton		

(3) The amounts shown for 2002 represent the value on January 16, 2002 of award payments made on that date pursuant to the vesting of Contingent Performance Shares awarded on January 1, 1999 (see Performance Shares on page 9). The gross number of Common Shares paid were as follows: Mr. Nutter, 11,445 shares; Mr. Pollack, 3,815 shares; and Mr. O Grady, 3,815 shares.

The amounts shown for 2000 represent the value on October 5, 2000 of award payments made on that date pursuant to the vesting of Contingent Performance Shares awarded on January 3, 1997. The gross number of Common Shares paid were as follows: Mr. Nutter, 19,500 shares; Mr. Pollack, 10,500 shares; and Mr. O Grady, 9,000 shares.

(4) These amounts include Company contributions in 2002 to the Rayonier Investment and Savings Plan for Salaried Employees (Savings Plan) and the Rayonier Excess Savings and Deferred Compensation Plan (Excess Plan) and premiums for group life insurance and individual key executive life insurance as follows:

Name	Savings Plan	Excess Plan	Group Life	Key Executive
Mr. Nutter	5,988	16,716	2,930	2,328
Mr. Pollack	6,600	4,950	1,960	2,028
Mr. O Grady	6,294	4,177	1,251	1,414
Mr. Brannon	6,684	1,145	301	
Mr. Boynton	5,660	1,768	154	

Option Grants in Last Fiscal Year

This table provides information on awards of options to purchase Common Shares made to the named Rayonier executives during 2002:

	Individual Grants	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option

Name

	Number of Securities Underlying Options Granted(#)	% of Total Stock Options Granted to Employees in 2002	Exercise Price($/ share)(1)	Expiration Date	Term (2)	
					5%($)	10%($)
W. Lee Nutter	55,000	16.31%	49.64	1/4/2012	1,717,100	4,351,050
Gerald J. Pollack	22,000	6.52%	49.64	1/4/2012	686,840	1,740,420
John P. O Grady	20,000	5.93%	49.64	1/4/2012	624,400	1,582,200
Timothy H. Brannon	9,000	2.67%	49.64	1/4/2012	280,980	711,990
Paul G. Boynton	10,000	2.97%	49.64	1/4/2012	312,200	791,100

Table of Contents

(1) The exercise price per share is equal to the fair market value of a Common Share on the grant date, January 2, 2002. The exercise price may be paid in cash or in Common Shares valued at their fair market value on the date of exercise. Options granted to the named officers become exercisable in one-third increments on the first, second and third anniversary of the date of grant. However, upon the occurrence of a change in control of Rayonier (a) all options will generally become immediately exercisable for a period of 60 days, and (b) options will continue to be exercisable for a period of seven months for an employee terminated other than for cause or who voluntarily leaves the Company because of a good faith belief that they will not be able to discharge their duties.

(2) At the end of the term of these options, the projected price of a Common Share would be $80.86 at an assumed annual appreciation rate of five percent and $128.75 at an assumed annual appreciation rate of ten percent. Gains to all shareholders at those assumed annual appreciation rates would be approximately $865 million and $2.19 billion, respectively, over the term of the options.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

This table shows all stock option exercises in 2002 by the named Rayonier executives and the number and value of such executives unexercised stock options at December 31, 2002.

	Options Exercised During 2002		Number of Securities Underlying Unexercised Options at 12/31/02	Value of Unexercised In-the-Money Options Held at 12/31/02(2)
Name	**Shares Acquired on Exercise (#)**	**Value Realized (1) ($)**	**Exercisable/ Unexercisable(#)**	**Exercisable/ Unexercisable($)**
W. Lee Nutter	-0-	-0-	234,542/105,000	1,795,923/231,331
Gerald J. Pollack	10,672	240,778	61,833/45,666	172,011/92,531
John P. O Grady	5,000	111,965	84,333/41,666	470,514/92,531
Timothy H. Brannon	6,667	31,354	55,189/17,666	527,135/37,011
Paul G. Boynton	4,000	64,180	6,333/16,667	1,500/29,010

(1) Before taxes.

(2) Based on the New York Stock Exchange consolidated trading closing price of a Common Share on December 31, 2002 of $45.25.

Awards Of Contingent Performance Shares In Last Fiscal Year

This table shows awards of Contingent Performance Shares made to the named Rayonier executives during 2002.

			Estimated Future Payouts	
Name	**Number of Shares(1)**	**Performance Period**	**Target Shares (#)(2)**	**Maximum Shares (#)**

W. Lee Nutter	17,000	36 months	17,000	25,500
Gerald J. Pollack	12,000	36 months	12,000	18,000
John P. O Grady	10,000	36 months	10,000	15,000
Timothy H. Brannon	5,000	36 months	5,000	7,500
Paul G. Boynton	5,000	36 months	5,000	7,500

(1) Awards of Common Shares granted under the Stock Plan (see Performance Shares on page 9).

(2) The concept of an award threshold was eliminated in 2001 in favor of direct measurement against peer group performance, subject to the maximum payout limitation shown above.

Table of Contents

Other Executive Compensation

Rayonier Supplemental Senior Executive Severance Pay Plan. The Rayonier Supplemental Senior Executive Severance Pay Plan (the Executive Severance Plan) provides severance benefits for covered executives selected by the Compensation and Management Development Committee based primarily on their position within the Company. Under the Executive Severance Plan, if any covered executive is terminated in a qualifying termination within two years after the occurrence of a Change in Control of the Company (as defined in the Retirement Plan for Salaried Employees), he or she is entitled to receive severance benefits, based on his or her tenure with the Company, equal to up to three times annual base salary, plus an amount calculated to equal the incremental value to the executive of up to an additional 36 months of participation under the Company s retirement plans. Covered executives may elect (prior to a Change in Control) to receive these benefits over time, rather than in a lump-sum, provided the covered executive is available to perform advisory, consultative and similar services during the salary continuation period. Executives electing salary continuation will be eligible to continue to participate in the Company retirement plans and certain welfare benefits of the Company during the continuation period.

The Executive Severance Plan also provides for payment of a lump sum equal to up to three times the executive s target bonus award for the prior year, together with a prorated bonus award in respect of the year of termination. The target bonus award is based on the prior year s bonus plan, assuming a 100 percent performance factor.

The Executive Severance Plan provides for a gross-up for any excise taxes payable with respect to payments under the Plan and income taxes payable on the gross-up payment, reimbursement for outplacement services and the continuation of certain perquisites. As of March 1, 2003, Messrs. Nutter, Pollack, O Grady, Brannon and Boynton were covered by the Plan. However, Mr. Nutter s right to receive severance benefits under the Executive Severance Plan based on a multiple of his base salary and target bonus award is offset by benefits under the Change in Control Agreement discussed below.

Rayonier Key Executive Insurance Program. The Rayonier Key Executive Insurance Program (formerly known as the Rayonier Split-Dollar Life Insurance-Deferred Compensation Retention Benefit Program) is designed to promote retention of eligible senior executives by providing enhanced benefits for a 15-year period from date of retirement. This Program includes an early retirement benefit option available at the later of age 60 or five years following the Program implementation date (January 1, 2000). An executive who voluntarily leaves the Company s employ prior to eligible retirement pursuant to this Program does not receive the enhanced benefits.

The Company has purchased a life insurance policy for each of the four eligible executives to facilitate funding of Program benefits, with premiums paid by the Company to be recaptured upon the executive s death. Prior to February 2003, if death occurred prior to retirement, the portion of the death benefit remaining after refund of premiums to the Company was paid to the executive s estate. With the passage of the Sarbanes-Oxley Act of 2002, all such split-dollar life insurance arrangements came into question as potentially violating the Act s prohibition of company loans to executive officers. Accordingly, in February 2003 Messrs. Nutter, Pollack and O Grady voluntarily signed over the pre-retirement death benefits to the Company. As a result, neither they nor their estates are beneficiaries under the policies, and the split-dollar feature has been removed. In order to address the resulting potential for the Company s tax-free receipt of death benefits in excess of premiums paid upon a covered executive s death prior to retirement, the Compensation and Management Development Committee, at its February 2003 meeting, approved payment of any such excess death benefits to the covered executive s beneficiary or estate.

Change in Control protection is provided for Program benefits both prior to and after retirement by virtue of the individual life insurance policies being held in a trust established by the Company. Under the Trust Agreement, upon a Change in Control, the Company would transfer any amounts due the eligible executives

14

Table of Contents

under the Program to the trust, with subsequent payment to the executive, or his/her beneficiary, made directly by the trust.

The annual benefits under the Key Executive Life Insurance Program for each eligible executive, in the event of early retirement and at age 65 retirement, respectively, are as follows: Mr. Nutter, $60,000 and $70,000; Mr. Pollack, $40,000 and $50,000; and Mr. O Grady, $40,000 and $50,000.

Change in Control Agreement for W. Lee Nutter. The Company entered into a Change in Control Agreement with Mr. Nutter in August 2001. The Agreement provides: (i) if within 60 months following a Change in Control, Mr. Nutter is terminated by the Company for any reason or he terminates for good reason (as defined in the Executive Severance Plan), he will receive a termination payment of $5 million; (ii) should the termination payment be subject to federal excise tax, Mr. Nutter will be entitled to receive an additional payment in an amount such that the net proceeds to Mr. Nutter, after deduction of the excise tax on the termination payment and all applicable taxes on the additional payment, shall be equal to $5 million; (iii) covenants by Mr. Nutter regarding his continued employment in the event of a potential Change in Control; and (iv) a covenant by the Company to deposit funds into the Supplemental Severance Trust (discussed below) in the event of a Change in Control.

Legal Resources and Supplemental Severance Trusts. On December 31, 2001, Rayonier established two Rabbi Trusts, the Legal Resources Trust and the Supplemental Severance Trust, each intended to be grantor trusts under Section 671 of the Internal Revenue Code, to protect deferred benefits earned under programs sponsored by the Company or ITT Industries Inc. (formerly ITT Corporation) historically protected by insurance. Rayonier is, for tax purposes, the beneficiary of each of the Rabbi Trusts. The assets of each of these trusts, as assets of the Company, will be subject to the claims of Rayonier s creditors in the event of bankruptcy or insolvency.

The Company will contribute the sum of $250,000 per participant to the Legal Resources Trust to fund any litigation and similar expenses incurred by a covered executive in efforts to collect any amounts due under their benefit arrangements. Under the terms of the Legal Resources Trust, the Trustee will undertake to pay, to the extent permitted by law, all legal fees and expenses that a covered executive (or his or her beneficiaries) reasonably incurs in pursuing in good faith payment of any amount due to the executive or such beneficiaries under any benefit arrangement, or as a result of any contest by the Company or others of the validity or enforceability of, or liability under, any provision of any benefit arrangement or any guarantee of performance thereof, following a Change in Control.

The Company established the Supplemental Severance Trust to preserve severance benefits provided to eligible executives following a Change in Control. The Trust was initially funded in the amount of $1 million. Upon the occurrence of a Change in Control, the Company is required to fund the Supplemental Severance Trust in an amount that is sufficient to pay the benefits to which participants may become entitled under the Executive Severance Plan and the Change in Control Agreement in the event of a termination of employment.

Retirement Program. The following table illustrates the estimated annual benefits payable from the Rayonier Salaried Employees Retirement Plan, a tax qualified retirement plan (the Retirement Plan), and the Rayonier Excess Benefit Plan, a non-qualified retirement plan (the Excess Plan), at retirement at age 65 based on the assumptions set forth below. Calculation of benefits is uniform for all participants in the Retirement Plan and the Excess Plan, including the named Rayonier executives. The Retirement Plan covers substantially all eligible salaried employees of the Company and the cost of the Retirement Plan and the Excess Plan is borne entirely by the Company.

Table of Contents

Pension Plan Table

Average Final Compensation	Years of Service 20	25	30	35	40
$ 50,000	$ 20,000	$ 25,000	$ 28,750	$ 32,000	$ 36,250
100,000	40,000	50,000	57,500	65,000	72,500
300,000	120,000	150,000	172,500	195,000	217,500
500,000	200,000	250,000	287,500	325,000	362,500
750,000	300,000	375,000	431,250	487,500	543,750
1,000,000	400,000	500,000	575,000	650,000	725,000

The Retirement Plan mirror images retirement benefits provided previously to eligible Rayonier salaried employees and executives under the provisions of the ITT Retirement Plan for Salaried Employees of ITT Industries, Inc. (ITT). Retirement benefits earned under the former ITT plan continue on a dynamic credit basis under arrangements with ITT for eligibility and benefit service prior to March 1, 1994.

The annual pension amounts to two percent of a member s average final compensation for each of the first 25 years of benefit service, plus one and one-half percent of a member s average final compensation for each of the next 15 years of benefit service, reduced by one and one-quarter percent of the member s primary Social Security benefit for each year of benefit services to a maximum of 40 years, provided that no more than one-half of the member s primary Social Security benefit is used for such reduction. A member s average final compensation (including salary plus approved bonus payments) is defined under the Plan as the total of (1) a member s average annual base salary for the five calendar years of the last 120 consecutive calendar months of eligibility service affording the highest such average plus (2) a member s average annual compensation not including base salary for the five calendar years of the member s last 120 consecutive calendar months of eligibility service affording the highest such average. For the named Rayonier executives, final compensation for purposes of pension calculations consists of salary and bonus payments as set forth in the Summary Compensation Table on page 11. The Retirement Plan also provides for undiscounted early retirement pensions for members who retire at or after age 60 following completion of 15 years of eligibility service. A member is vested in benefits accrued under the Retirement Plan upon completion of five years of eligibility service.

Applicable federal legislation limits the amount of benefits that can be paid and the compensation that may be recognized under a tax-qualified retirement plan. In order to provide benefits at retirement that cannot be paid from the qualified Retirement Plan, Rayonier has adopted the Excess Plan to meet the retirement needs of this small segment of its salaried employee population affected by the limiting federal legislation. Where applicable, retirement benefits earned under the former ITT excess plan have been carried forward to Rayonier and have been incorporated in the Excess Plan. The practical effect of the Excess Plan is to continue calculation of benefits after retirement to all employees on a uniform basis.

Credited years of service for the named Rayonier executives as of March 1, 2003 are as follows: Mr. Nutter, 35.7 years; Mr. Pollack, 20.8 years; Mr. O Grady, 27.3 years; Mr. Brannon, 30.6 years; and Mr. Boynton, 3.8 years.

Table of Contents

SHARE OWNERSHIP

Principal Holders Of Common Shares

This table shows, as of December 31, 2002, the holdings of persons known to us to beneficially own more than five percent of the outstanding Common Shares.

Name and Address of Beneficial Owner	Amount and Nature Of Beneficial Ownership	Percent of Class(a)
Southeastern Asset Management, Inc. 6410 Poplar Ave., Suite 900 Memphis, TN 38119	4,268,300(b)	15.4%
Arnhold and S. Bleichroeder Holdings, Inc. Arnhold and S. Bleichroeder Advisers, Inc. 1345 Avenue of Americas New York, NY 10105	2,032,000(c)	7.33%
Perkins, Wolf, McDonnell & Company 310 S. Michigan Ave., Ste. 2600 Chicago, IL 60604	1,732,355(d)	6.3%

(a) Based on 27,719,409 total Common Shares outstanding at December 31, 2002.

(b) Holdings as of December 31, 2002 as reported to the Securities and Exchange Commission (SEC) on Schedule 13G dated February 3, 2003, and on Schedule 13D filed March 4, 2003.

(c) Holdings as of December 31, 2002 as reported to the SEC on Schedule 13G dated February 12, 2003.

(d) Holdings as of December 31, 2002 as reported to the SEC on Schedule 13G filed January 31, 2003.

This table gives information concerning Common Shares beneficially owned as of March 1, 2003 by each of the Company s directors, each of the named Rayonier executives and all directors and executive officers as a group. All Common Shares listed below are owned directly by the individual concerned unless otherwise indicated:

Beneficial Ownership

(1) Name of Beneficial Owner	(2) Common Shares Owned	(3) Column (2) as Percent of Class	(4) Exercisable Stock Options (a)	(5) Sum of Columns (2) and (4) as Percent of Class
Rand V. Araskog	201,851	*	-0-	*
Ronald M. Gross	133,710	*	209,000	1.24%
Paul G. Kirk, Jr.	4,354	*	-0-	*
W. Lee Nutter	191,476(b)(c)	*	286,208	1.74%
Katherine D. Ortega	4,200	*	-0-	*
Burnell R. Roberts	4,500	*	-0-	*
Carl S. Sloane	3,400	*	-0-	*
Ronald Townsend	500	*	-0-	*
Gordon I. Ulmer	5,500	*	-0-	*
Gerald J. Pollack	34,013(b)(c)	*	84,166	*
John P. O Grady	38,278(c)	*	106,000	*
Timothy H. Brannon	14,739(b)(c)	*	64,188	*
Paul G. Boynton	5,349(b)(c)	*	14,333	*
Directors and executive officers as a group (15 persons)	645,360(b)	2.33%	771,896	5.11%

Table of Contents

* Less than 1%.

(a) Pursuant to SEC regulations, shares receivable through exercise of employee stock options exercisable within 60 days after March 1, 2003 are deemed to be beneficially owned as of March 1, 2003.

(b) All Common Shares are owned directly except for the following amounts allocated under the Rayonier Investment and Savings Plan for Salaried Employees to the accounts of: Mr. Nutter, 11,485 shares; Mr. Pollack, 28 shares; Mr. Brannon, 9,739 shares; Mr. Boynton, 1,149 shares; and all directors and executive officers as a group, 23,392 shares.

(c) Includes outstanding restricted stock awards as follows: Mr. Nutter, 13,500 shares; Mr. Pollack, 5,000 shares; Mr. O Grady, 4,000 shares; Mr. Brannon, 5,000 shares; and Mr. Boynton, 3,000 shares.

Section 16(a) Beneficial Ownership Reporting Compliance

The federal securities laws require Rayonier directors and executive officers, and persons who own more than 10 percent of the outstanding Common Shares, to file with the Securities and Exchange Commission (SEC) and the New York Stock Exchange initial reports of ownership and reports of changes in ownership of any equity securities of the Company. To our knowledge, based solely on representations by these individuals that no other reports were required, the required reports have been filed on a timely basis on behalf of all persons subject to these requirements with the exception of reporting of one option exercise and sale by William S. Berry that was inadvertently omitted from his Form 4 filed with the SEC on March 11, 2002. The Form was corrected by amendment as soon as the omission was discovered. Mr. Berry retired from the Company effective March 31, 2002.

Securities Authorized for Issuance Under Equity Compensation Plans

This table provides information as of December 31, 2002 regarding compensation plans under which equity securities of the Company are authorized for issuance.

Equity Compensation Plan Information

Plan category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	2,131,632	$ 40.97	219,207
Equity compensation plans not approved by security holders	0	$ 0.00	0
Total	2,131,632	$ 40.97	219,207

18

Table of Contents

SHAREHOLDER PERFORMANCE GRAPH

This table compares the performance from 1997-2002 of Common Shares (assuming reinvestment of dividends) with a broad-based market index (Standard & Poor s 500) and an industry-specific index (Standard & Poor s 1500 Paper and Forest Products Index).

CUMULATIVE TOTAL RETURN

Based upon an initial investment of $100 on December 31, 1997

with dividends reinvested

	31-Dec-97	31-Dec-98	31-Dec-99	31-Dec-00	31-Dec-01	31-Dec-02
Rayonier Inc.	$ 100	$ 111	$ 120	$ 103	$ 135	$ 124
S&P 500 Index®	$ 100	$ 129	$ 156	$ 141	$ 125	$ 97
S&P 1500 Paper & Forest Products Index	$ 100	$ 101	$ 136	$ 118	$ 122	$ 105

ITEM 2 PROPOSAL TO APPROVE 2004 INCENTIVE STOCK AND MANAGEMENT BONUS PLAN

On February 20, 2003, the Compensation and Management Development Committee (the Committee) adopted the 2004 Rayonier Incentive Stock and Management Bonus Plan (the 2004 Plan or the Plan). The Board of Directors approved the 2004 Plan on February 21, 2003, subject to shareholder approval at the Annual Meeting. If approved by shareholders, the 2004 Plan will become effective on January 1, 2004. The ability to grant new awards under the Company s existing 1994 Incentive Stock Plan (the 1994 Plan) will terminate automatically on December 31, 2003.

From its inception, awards covering 4,492,134 Common Shares (including options that subsequently terminated or lapsed and were regranted under the terms of the plan) have been granted to employees under the 1994 Plan. A total of 2,793,200 shares remain subject to exercise or vesting and 181,347 shares remain available for the grant of options under the 1994 Plan through December 31, 2003.

Table of Contents

The Board believes that the 2004 Plan will enable the Company to motivate and reward superior performance on the part of its employees and thereby attract and retain employees of superior ability. The Board believes that the approval of the Plan is in the best interests of the Company and its shareholders.

The Plan does not permit the repricing of options or the granting of discounted options without shareholder approval. Provisions have been included to meet the requirements for deductibility of executive compensation for the purposes of Section 162(m) of the Internal Revenue Code (Section 162(m)) with respect to options and other awards by qualifying grants and payments under the 2004 Plan as performance-based compensation.

The following is a brief description of the 2004 Plan. The full text of the Plan is attached as Appendix C and the following description is qualified in its entirety by reference to Appendix C.

Administration of the Plan

The selection of key employees who may participate in the Plan, and the terms and conditions of each award, will be determined by the Committee. Each member of the Committee is a non-employee director within the meaning of Rule 16b-3 of the Securities and Exchange Act of 1934 and an outside director within the meaning of Section 162(m). The Committee will have full power, discretion and authority to interpret, construe and administer the Plan, and all decisions, determinations or actions of the Committee pursuant to the Plan will be final and binding on all persons for all purposes. The Committee may delegate its powers as it deems appropriate, but may not delegate responsibility to make awards to executive officers, make awards intended to qualify as performance-based compensation for purposes of Section 162(m) or certify the satisfaction of performance objectives for purposes of Section 162(m). Section 162(m) limits the deductibility to the employer of certain compensation to executive officers unless the compensation is deemed to be performance-based.

Eligibility

Key employees of the Company and its subsidiaries are eligible to receive awards under the Plan. There are approximately 220 persons who would currently be eligible to receive awards under the Plan. Non-employee directors are not eligible to receive awards under the Plan.

Types of Awards that May Be Made Under the Plan

The Plan permits the grant of:

non-qualified and incentive stock options;

- stock appreciation rights granted in tandem with stock options;
- restricted stock;
- performance shares and restricted stock units;
- limited stock appreciation rights; and
- performance bonus awards.

Shares Covered by the 2004 Plan; Limit on Awards

The Plan permits the granting of awards covering 2.5 million Common Shares. As of December 31, 2002, there were 27,719,409 Common Shares outstanding, and the closing price per Common Share on February 28, 2003 was $42.52. The Common Shares may be either authorized but unissued Common Shares or Common Shares purchased on the open market.

Any shares that are reserved for options or performance shares that lapse, expire or are forfeited, and any shares that are exchanged (actually or constructively) by optionees as full or partial payment to the Company for shares acquired on the exercise of an option may be available for subsequent awards to persons other than directors or executive officers of Rayonier.

No more than 650,000 of the total number of shares on a cumulative basis are available for grants of restricted stock or performance shares. In addition, no more than 1,000,000 shares are cumulatively available for awards of incentive stock options. No single employee may receive options, performance shares, restricted stock or stock appreciation rights in any calendar year in excess of four percent (4%) of the total number of shares authorized under the Plan. Performance bonus awards may not permit a participant to earn in any calendar year more than 200 percent of the participant s base salary.

Stock Options and Rights

Options granted under the 2004 Plan may be either non-qualified stock options or incentive stock options qualifying for special tax treatment under Section 422 of the Internal Revenue Code. The exercise price of any stock option may not be less than the fair market value of the Common Shares on the date of grant. The exercise price is payable in cash, Common Shares previously owned by the optionee or a combination of cash and Common Shares previously owned by the optionee. Both non-qualified stock options and incentive stock options will generally expire on the tenth anniversary of the date of grant.

Stock appreciations rights may be granted in tandem with stock options to executive officers and employee directors of Rayonier. The optionee may elect to exercise a stock appreciation right in lieu of an option. The exercise of a right will entitle the holder to receive cash or Common Shares (or a combination of cash and Common Shares) having a value equal to the excess of the fair market value of the Common Shares on the date of exercise over the exercise price of the option.

Tax Consequences of Options

Non-Qualified Stock Options. On the exercise of a non-qualified stock option, the optionee will recognize ordinary income for federal income tax purposes on the amount by which the fair market value of the stock on the date of exercise exceeds the exercise price of the option. The optionee will be taxed on this amount in the year of exercise, and the Company will generally be allowed a deduction in this amount for federal income tax purposes in the same year. When the optionee disposes of shares acquired on the exercise of a non-qualified stock option, any amount received in excess of the fair market value of the shares on the date of exercise will be treated as either a long- or short-term capital gain to the optionee, depending on the holding period for the shares. If the amount received is less than the market value of the shares on the date of exercise, the loss will be treated as either a long- or short-term capital loss, depending on the holding period of the shares.

Incentive Stock Options. On the exercise of an incentive stock option, no ordinary income will be recognized by the optionee. If the optionee holds the shares for over one year after the date of exercise, then on the sale of the shares (i) the excess of the sale proceeds over the aggregate exercise price of the option will be long-term capital gain to the optionee, and (ii) the Company will not be entitled to a tax deduction under such circumstances. Generally if the optionee sells or otherwise disposes of the shares within one year after the date of exercise, the excess of the fair market value of such shares at the time of exercise over the aggregate exercise price (but generally not more than the amount of gain realized on the disposition) will be ordinary income to the optionee at the time of such disposition. This is sometimes referred to as a disqualifying disposition. The Company generally will be entitled to a federal tax deduction equal to the amount of ordinary income recognized by the optionee upon a disqualifying disposition.

Performance Shares and Performance Bonus Awards

Performance shares are rights to receive cash or Common Shares (or a combination of cash and Common Shares), as determined by the Committee, on the achievement of certain performance goals over a specified performance period. Performance bonus awards are rights to receive cash following the completion of a performance period based upon achievement of one or more performance goals during such performance period. In the discretion of the Committee, the bonus award can be paid, in whole or in part, in Common Shares of Rayonier having a value equal to the cash award that would otherwise have been payable.

Table of Contents

The Committee determines the performance objectives of awards of performance shares and performance bonus awards. Performance objectives may vary for key employees and groups of key employees and are based on the performance goals that the Committee deems appropriate. The performance period and goals will be determined by the Committee prior to or reasonably promptly after the commencement of any performance period, but no later than the earlier of (i) ninety days after the commencement of the performance period or (ii) the day prior to the date on which 25 percent of the performance period has elapsed.

Performance goals may be expressed in terms of the following business criteria:

- net income;
- earnings per share;
- operating income;
- operating cash flow;
- earnings before income taxes and depreciation;
- earnings before interest, taxes, depreciation and amortization;
- increases in operating margins;
- reductions in operating expenses;
- earnings on sales growth;
- total stockholder return;
- return on equity;
- return on total capital;
- return on invested capital;

return on assets;

economic value added;

cost reductions and savings;

increase in surplus; and

productivity improvements.

A performance goal may also be based on an executive s attainment of personal objectives with respect to the foregoing criteria or other criteria such as growth and profitability, customer satisfaction, leadership effectiveness, business development, negotiating transactions and sales or developing long-term business goals. Performance goals may be measured on a periodic, annual, cumulative or average basis and may be established on a corporate-wide basis or established with respect to one or more operating units.

Following the completion of each performance period, the Committee will certify in writing as to whether the performance goals and other material terms of the performance award have been achieved or met. Unless the Committee determines otherwise, performance awards will not be settled until the Committee has made this certification.

The Committee may reduce or eliminate performance awards for any employee for any reason. To the extent necessary to preserve the intended economic effects of the Plan, the Committee may also adjust the performance objectives or awards to take into account: (i) a change in corporate capitalization, (ii) a corporate transaction, (iii) a partial or complete liquidation of the Company or a subsidiary or (iv) a change in accounting or other relevant rules or regulations; provided, however, that no such adjustment may be made if it would cause the awards to fail to qualify as performance-based.

Table of Contents

The Committee may structure the performance share awards as restricted stock units or any substantially similar instrument evidencing the right to receive a share of stock, or a cash payment equal to the fair market value of a share of stock, at some future date upon the lapse of the applicable restrictions established by the Committee or upon the satisfaction of any applicable performance goals established by the Committee hereunder.

Amendment and Termination of the 2004 Plan

The Board may, at any time, amend or terminate the 2004 Plan and, specifically, may make such modifications to the 2004 Plan as it deems necessary to avoid the application of Section 162(m) and the Treasury Regulations issued thereunder. No amendment may, without approval of a majority of Rayonier s stockholders:

- alter the group of persons eligible to participate in the 2004 Plan;
- increase the number of Common Shares available for awards (except for adjustments made on a recapitalization, reclassification, split-up or consolidation of the Common Shares or a stock dividend, merger or consolidation of the Company or sale by the Company of all or a portion of its assets); or
- decrease the exercise price of an outstanding option after the date of grant or permit the surrender of any outstanding option as consideration for the grant of a new option with a lower exercise price (except for adjustments made on a recapitalization, reclassification, split-up or consolidation of the Common Shares or a stock dividend, merger or consolidation of the Company or sale by the Company of all or a portion of its assets).

Unless the Board otherwise determines, the Board will submit the provisions of the 2004 Plan dealing with performance shares and performance bonus awards for renewed approval of Rayonier s shareholders in 2008.