

RAYONIER INC  
Form 11-K  
June 29, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, DC 20549**

**FORM 11-K**

(Mark One):

**ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the year ended December 31, 2008

OR

**TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER 1-6780

**RAYONIER INC. FERNANDINA MILL**  
**SAVINGS PLAN FOR HOURLY EMPLOYEES**

**RAYONIER INC.**

**50 North Laura Street**

**Jacksonville, Florida 32202**

**Telephone Number: (904) 357-9100**

**(Principal Executive Office)**

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

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**RAYONIER INC. FERNANDINA MILL  
SAVINGS PLAN FOR HOURLY EMPLOYEES  
PLAN NUMBER 034  
EMPLOYER IDENTIFICATION NUMBER 80-0084456  
AS OF DECEMBER 31, 2008 AND 2007  
AND FOR THE YEAR ENDED DECEMBER 31, 2008**

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

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Participants and the Pension and Savings Plan Committee of the

Rayonier Inc. - Fernandina Mill Savings Plan for Hourly Employees

Jacksonville, Florida

We have audited the accompanying statements of net assets available for benefits of the Rayonier Inc. Fernandina Mill Savings Plan for Hourly Employees (the Plan ) as of December 31, 2008 and 2007, and the related statement of changes in net assets available for benefits for the year ended December 31, 2008. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2008 and 2007, and the changes in net assets available for benefits for the year ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of assets (held at end of year) as of December 31, 2008, is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan s management. Such supplemental schedule has been subjected to the auditing procedures applied in our audits of the financial statements and, in our opinion, is fairly stated, in all material respects, when considered in relation to the basic financial statements taken as a whole.

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

Jacksonville, Florida

June 25, 2009

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**RAYONIER INC. FERNANDINA MILL**  
**SAVINGS PLAN FOR HOURLY EMPLOYEES**  
**STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS**  
**AS OF DECEMBER 31,**

	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>		
Investments, at fair value (See Notes 2, 3 and 4)	\$ 5,763,431	\$ 6,906,049
Receivables:		
Accrued dividends and interest	55	15,667
Participants contributions	33,309	30,098
Employer contributions	4,444	4,366
Total receivables	37,808	50,131
<b>LIABILITY</b>		
Purchased securities payable	27,400	
<b>NET ASSETS AVAILABLE FOR BENEFITS, AT FAIR VALUE</b>	<b>5,773,839</b>	<b>6,956,180</b>
Adjustment from fair value to contract value for fully benefit-responsive investment contracts (See Note 2)	114,177	65,069
<b>NET ASSETS AVAILABLE FOR BENEFITS</b>	<b>\$ 5,888,016</b>	<b>\$ 7,021,249</b>

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

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**RAYONIER INC. FERNANDINA MILL  
SAVINGS PLAN FOR HOURLY EMPLOYEES  
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS  
FOR THE YEAR ENDED DECEMBER 31, 2008**

<b>ADDITIONS TO NET ASSETS:</b>	
Investment income:	
Dividends (See Note 5)	\$ 64,367
Interest	98,926
	163,293
Contributions:	
Employer	165,097
Participants	745,343
	910,440
Total additions	1,073,733
<b>DEDUCTIONS FROM NET ASSETS:</b>	
Distributions to participants	(701,278)
Administrative expenses	(18,508)
Total deductions	(719,786)
Net depreciation in fair value of investments (See Note 4)	(1,487,180)
Net decrease	(1,133,233)
Net assets available for benefits:	
Beginning of year	7,021,249
End of year	\$ 5,888,016

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

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**RAYONIER INC. FERNANDINA MILL  
SAVINGS PLAN FOR HOURLY EMPLOYEES  
NOTES TO FINANCIAL STATEMENTS**

**1. Description of the Plan**

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

*(a) General*

The Plan is a defined contribution plan covering all full-time, hourly-paid, bargaining unit employees of the Fernandina mill of Rayonier Inc. (Sponsor or the Company). Certain part-time employees at the Fernandina mill are also eligible to participate in the Plan. Eligible full-time employees may join the Plan on the first day of the month following 120 days of service. A part-time employee is eligible for participation upon completion of 1,000 hours of service in a consecutive twelve-month period of employment measured from the date on which such employee's service commences. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Massachusetts Mutual Life Insurance Company (MassMutual) serves as the custodian and record keeper of the Plan, and maintains and administers the Plan's investment assets for the benefit of participants. The trust forming part of the Plan (the Trust) maintains the Plan's investment in Rayonier Inc. common stock and is administered by State Street Corporation (State Street). MassMutual was appointed the record keeper for the assets held in the Trust under an agreement between the Company, MassMutual, and State Street.

*(b) Contributions*

Each year, a participant may contribute to the Plan basic contributions from 2 percent to 6 percent of eligible compensation, in 1 percent increments. In addition, a participant may make supplemental contributions of not less than 1 percent and no more than 10 percent of eligible compensation to the Plan. Contributions may be made on a before-tax basis, after-tax basis, or a combination thereof.

Each year, the Company makes a matching contribution equal to 50 percent of the basic contributions contributed by a participant for the month. The Company's total annual matching contribution was limited to \$850 and \$800 per participant for the years ended December 31, 2008 and 2007, respectively. All Company contributions are made to the Rayonier Inc. Common Stock Fund and participants can immediately elect to transfer matching Company contributions and retirement contributions from the Rayonier Inc. Common Stock Fund into any available investment options.

The Company closed enrollment in its pension plans to new employees hired after April 30, 2006. Effective May 1, 2006, employees hired after April 30, 2006 are automatically enrolled in this Plan and receive an enhanced contribution of \$1,250 annually.

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



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**RAYONIER INC. FERNANDINA MILL  
SAVINGS PLAN FOR HOURLY EMPLOYEES  
NOTES TO FINANCIAL STATEMENTS**

The Plan also permits rollover contributions from other qualified plans into the Plan.

*(c) Participant Accounts*

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

*(d) Vesting*

Participants are immediately fully vested in their contributions plus actual earnings thereon at all times. Participants vest in the Company's contributions at a rate of 20 percent per year of service; full vesting occurs after five years of service.

*(e) Forfeitures*

Forfeited non-vested accounts may be used to reduce future employer contributions or to pay for administrative expenses related to the Plan. At December 31, 2008 and 2007, the balance in forfeited, non-vested accounts totaled \$834 and \$1,207, respectively, and remain available in the Fixed Income Fund ( MassMutual GIA ) to reduce future employer contributions. During 2008, forfeitures of \$1,933 were utilized to reduce employer contributions. No administrative expenses were paid with forfeitures and total forfeitures were \$1,445 for the year ended December 31, 2008.

*(f) Investment Options*

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

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

*(g) Payment of Benefits and Withdrawals*

Plan benefits are payable to participants at the time of termination or retirement (including early retirement), in the case of becoming permanently and totally disabled, or to their beneficiaries in the event of death, and are based on the fully vested balance of their accounts. Alternatively, a participant may elect to defer distribution until April 1 of the year following the participant's attainment of age 70-1/2, provided the participant's vested account balance exceeds \$1,000. The participant may elect to receive one lump-sum payment or a series of benefit payments based on annual, semi-annual, quarterly, or monthly installments, generally over a period not to exceed twenty years.

Withdrawals of any amount may be made from the participant's after-tax account balance in excess of a prescribed minimum. Withdrawals from before-tax account



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**SAVINGS PLAN FOR HOURLY EMPLOYEES**  
**NOTES TO FINANCIAL STATEMENTS**

balances are allowable before attaining the age of 59- 1/2 in the case of death, permanent and total disability, or financial hardship. Existence of financial hardship is determined by IRS criteria.

**2. Summary of Significant Accounting Policies**

*(a) Basis of Accounting*

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

As described in Financial Accounting Standards Board Staff Position ( FSP ) AAG INV-1 and the AICPA Statement of Position ( SOP ) 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans* ( the FSP ), fully benefit-responsive investment contracts such as those held by the Fixed Income Fund (MassMutual GIA), are required to be reported at fair value. However, contract value (generally equal to historical cost plus accrued interest) is the relevant measure for fully benefit-responsive investment contracts because it represents the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan. As required by the FSP, all Plan investments are presented at fair value in the statements of net assets available for benefits and an adjustment is made to revalue the fair value of the Fixed Income Fund (MassMutual GIA), to contract value. The statement of changes in net assets available for benefits is prepared on a contract value basis.

*(b) Use of Estimates*

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

*(c) Investment Valuation and Income Recognition*

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

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Average yields	December 31,	
	2008	2007
Based on actual earnings	4.27%	4.19%
Based on interest rate credited to participants	4.27%	4.19%

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

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

(d) Risks and Uncertainties

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

(e) Payment of Benefits

Benefits are recorded when paid.

(f) Operating Expenses

Expenses of maintaining the Plan are paid by the Sponsor.

### 3. Fair Value Measurements

Effective January 1, 2008, the Plan adopted Statement of Financial Accounting Standards Board No. 157, *Fair Value Measurements* ( SFAS 157 ) for all financial assets and liabilities disclosed at fair value in the financial statements on a recurring basis. SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a three-level hierarchy that prioritizes the inputs used to measure fair value as follows:

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

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

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.



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

Description	Level 1	Level 2	Level 3	Total
General Investment Account	\$	\$	\$ 2,603,616	\$ 2,603,616
Pooled Separate Investment Accounts		1,869,752		1,869,752
Rayonier Inc. Common Stock Fund	1,290,063			1,290,063
Total assets at fair value	\$ 1,290,063	\$ 1,869,752	\$ 2,603,616	\$ 5,763,431

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

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

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

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

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

	Level 3 Assets GIA
Balance, beginning of the year	\$ 1,980,367
Interest Income	93,826
Contract to fair value adjustment	(20,883)
Purchases, (issuances), and (settlements)	95,958
Transfers in and/or (out) of Level 3	454,348
Balance, end of year	\$ 2,603,616

**4. Investments**

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

	2008	2007
Fixed Income Fund (MassMutual GIA)	\$ 2,603,616	\$ 1,980,367

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American Century Equity Growth Fund	1,545,370	2,822,942
Rayonier Inc. Common Stock Fund	1,290,063	1,465,666

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

Pooled Separate Investment Accounts	\$ (1,005,923)
Rayonier Common Stock Fund	(481,257)
<b>Total</b>	<b>\$ (1,487,180)</b>

**5. Dividends**

The Plan received regular cash dividends of \$2.00 per share on Rayonier Inc. stock owned, totaling \$64,367 for the year ended December 31, 2008.

**6. Party-in-Interest Transactions**

Transactions with State Street and MassMutual qualify as party-in-interest transactions. Investment management expenses for each of the Plan's MassMutual investment options are applied against each fund's return at the participant level. During 2008, the Plan paid MassMutual \$3,831 for investment management fees related to the MassMutual Select funds. In addition, the Plan Sponsor paid certain plan expenses totaling \$53,602.

Certain Plan investments are in Rayonier Inc. common stock. As Rayonier Inc. is the Sponsor, these transactions also qualify as party-in-interest transactions. At December 31, 2008 and 2007, the Plan held 39,055 and 31,026 shares of Rayonier Inc. common stock, respectively, which represented 0.05 and 0.04 percent, respectively, of the total shares outstanding.

**7. Plan Termination**

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

**8. Tax Status**

The Internal Revenue Service has determined and informed the Plan Administrator by a letter dated September 30, 2004, that the Plan is designed in accordance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the Plan's financial statements. Although the Plan has been amended since receiving the determination letter, the Plan Administrator believes the plan is designed and is currently being operated in compliance with the applicable requirements of the Internal Revenue Code.



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**RAYONIER INC. FERNANDINA MILL**

**SAVINGS PLAN FOR HOURLY EMPLOYEES**

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

**AS OF DECEMBER 31, 2008**

**PLAN NUMBER 034**

**EMPLOYER IDENTIFICATION NUMBER 80-0084456**

	<b>Identity of Issue</b>	<b>Description</b>	<b>Current Value</b>
*	MassMutual GIA Fixed Income	Stable Value	\$ 2,603,616
	American Century Equity Growth	Large Cap Core	1,545,370
*	Rayonier Inc. Common Stock Fund	Company Stock	1,290,063
*	MassMutual Select Strategic Balanced	Asset Allocation	129,963
*	MassMutual Destination Retirement 2020	Asset Allocation	46,305
*	MassMutual Select Indexed Equity	Large Cap Core	45,735
*	MassMutual Select Overseas	International/Global Large Core	44,916
*	MassMutual Select Small Company Value	Small Cap Value	27,061
*	MassMutual Select Small Company Growth	Small Cap Growth	17,791
*	MassMutual Destination Retirement	Asset Allocation	10,364
*	MassMutual Destination Retirement 2030	Asset Allocation	1,297
*	MassMutual Destination Retirement 2040	Asset Allocation	601
*	MassMutual Destination Retirement 2010	Asset Allocation	301
*	MassMutual Holding Account	Holding Account	48
			<b>\$ 5,763,431</b>

\* Denotes Party-in-interest transaction.

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

See report of independent registered public accounting firm.

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Pension and Savings Plan Committee for the Rayonier Inc. Fernandina Mill Savings Plan for Hourly Employees has duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized.

Rayonier Inc. Fernandina Mill Savings Plan for Hourly Employees  
(Name of Plan)

June 29, 2009

/s/ W. EDWIN FRAZIER, III  
W. Edwin Frazier, III  
Plan Administrator