

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

(x) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1996

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM ..... TO .....

COMMISSION FILE NUMBER 1-6780

RAYONIER INC.

Incorporated in the State of North Carolina  
I.R.S. Employer Identification Number 13-2607329

1177 Summer Street, Stamford, Connecticut 06905-5529  
(Principal Executive Office)

Telephone Number: (203) 348-7000

Indicate by check mark whether the registrant (1) has filed all  
reports required to be filed by Section 13 or 15(d) of the Securities  
Exchange Act of 1934 during the preceding 12 months and (2) has been  
subject to such filing requirements for the past 90 days.

YES (X) NO ( )

As of November 7, 1996, there were 29,366,755 Common Shares of the  
Registrant outstanding.

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## RAYONIER INC.

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## PART I. FINANCIAL INFORMATION

## ITEM L. FINANCIAL STATEMENTS

The following unaudited financial statements reflect, in the opinion of Rayonier Inc. (Rayonier or the Company), all adjustments (which include only normal recurring adjustments) necessary for a fair presentation of the results of operations, the financial position and the cash flows for the periods presented. Certain reclassifications have been made to the prior year's financial statements to conform to current year presentation. For a full description of accounting policies, please refer to Notes to Consolidated Financial Statements in the 1995 Annual Report on Form 10-K.

RAYONIER INC. AND SUBSIDIARIES  
STATEMENTS OF CONSOLIDATED INCOME  
(UNAUDITED)  
(THOUSANDS OF DOLLARS, EXCEPT PER SHARE DATA)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996	1995	1996	1995
SALES	\$ 285,104	\$ 333,913	\$ 875,751	\$ 933,309
Costs and expenses				
Cost of sales	245,659	264,558	726,120	740,815
Selling and general expenses	9,672	9,124	27,913	26,937
Other operating income, net	(1,276)	(1,126)	(2,172)	(4,335)
	254,055	272,556	751,861	763,417
OPERATING INCOME	31,049	61,357	123,890	169,892
Interest expense	(6,434)	(8,746)	(20,677)	(26,054)
Non-recurring gain (See Item 2 - Other Items)	-	34,763	-	34,763
Interest and miscellaneous income, net	2,490	654	5,451	2,321
Minority interest	(4,778)	(4,467)	(21,315)	(21,039)
Income before income taxes	22,327	83,561	87,349	159,883
Provision for income taxes	(6,759)	(26,523)	(24,900)	(51,358)
NET INCOME	\$ 15,568	\$ 57,038	\$ 62,449	\$ 108,525
NET INCOME PER COMMON SHARE	\$ .52	\$ 1.90	\$ 2.08	\$ 3.62
Weighted average Common Shares outstanding	29,979,270	30,071,300	30,031,852	29,963,590

RAYONIER INC. AND SUBSIDIARIES  
 CONSOLIDATED BALANCE SHEETS  
 (UNAUDITED)  
 (THOUSANDS OF DOLLARS)

	ASSETS	September 30, 1996	December 31, 1995
		-----	-----
<b>CURRENT ASSETS</b>			
Cash and short-term investments	\$	6,784	\$ 10,932
Accounts receivable, less allowance for doubtful accounts of \$4,482 and \$4,420		124,737	128,478
Inventories			
Finished goods		63,808	71,307
Work in process		19,368	25,681
Raw materials		39,595	44,350
Manufacturing and maintenance supplies		30,377	28,740
		-----	-----
Total inventories		153,148	170,078
Timber stumpage		34,596	49,464
Other current assets		26,607	15,412
Deferred income taxes		12,260	15,208
		-----	-----
Total current assets		358,132	389,572
<b>OTHER ASSETS</b>			
		45,668	47,239
<b>TIMBER STUMPAGE</b>			
		19,994	29,396
<b>TIMBER, TIMBERLANDS AND LOGGING ROADS, NET OF DEPLETION AND AMORTIZATION</b>			
		486,254	476,463
<b>PROPERTY, PLANT AND EQUIPMENT</b>			
Land, buildings, machinery and equipment		1,344,134	1,292,059
Less - accumulated depreciation		603,716	586,796
		-----	-----
		740,418	705,263
		-----	-----
	\$	1,650,466	\$ 1,647,933
		=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$	84,386	\$ 102,938
Bank loans and current maturities		3,216	3,040
Accrued taxes		24,039	9,941
Accrued payroll and benefits		19,678	26,554
Accrued interest		8,179	5,268
Other current liabilities		37,242	39,943
Current reserves for dispositions		15,534	16,047
		-----	-----
Total current liabilities		192,274	203,731
<b>DEFERRED INCOME TAXES</b>			
		166,020	160,574
<b>LONG-TERM DEBT</b>			
		433,417	446,696
<b>NON-CURRENT RESERVES FOR DISPOSITIONS</b>			
		17,981	23,542
<b>OTHER NON-CURRENT LIABILITIES</b>			
		25,055	25,204
<b>MINORITY INTEREST</b>			
		19,434	18,815
<b>SHAREHOLDERS' EQUITY</b>			
Common Shares, 60,000,000 shares authorized, 29,416,455 and 29,653,278 shares issued and outstanding		149,193	159,032
Retained earnings		647,092	610,339
		-----	-----
		796,285	769,371
		-----	-----
	\$	1,650,466	\$ 1,647,933
		=====	=====

RAYONIER INC. AND SUBSIDIARIES  
 STATEMENTS OF CONSOLIDATED CASH FLOWS  
 (UNAUDITED)  
 (THOUSANDS OF DOLLARS)

	Nine Months Ended September 30,	
	1996	1995
	-----	-----
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 62,449	\$ 108,525
Non-cash items included in income		
Depreciation, depletion and amortization	71,608	72,186
Deferred income taxes	7,544	13,859
Disposition of New Zealand timber assets	-	9,440
Write-off of property, plant and equipment	7,060	-
(Decrease) increase in other non-current liabilities	(149)	624
Change in accounts receivable, inventories and accounts payable	2,119	(81,851)
Decrease (increase) in current timber stumpage	14,868	(1,722)
Increase in other current assets	(11,195)	(4,197)
Increase in accrued liabilities	7,432	17,672
Change in reserves for dispositions	(3,750)	(3,733)
	-----	-----
Cash from operating activities	157,986	130,803
	-----	-----
<b>INVESTING ACTIVITIES</b>		
Capital expenditures, net of sales and retirements of \$11,488 and \$1,760	(123,614)	(93,830)
Expenditures for dispositions, net of tax benefits of \$850 and \$4,205	(1,474)	(7,095)
Change in timber stumpage and other assets	10,973	(3,115)
	-----	-----
Cash used for investing activities	(114,115)	(104,040)
	-----	-----
<b>FINANCING ACTIVITIES</b>		
Issuance of debt	17,472	50,587
Repayments of debt	(30,575)	(50,201)
Dividends	(25,696)	(22,218)
(Repurchase) issuance of Common Shares	(9,839)	1,237
Increase (decrease) in minority interest	619	(4,565)
	-----	-----
Cash used for financing activities	(48,019)	(25,160)
	-----	-----
<b>CASH AND SHORT-TERM INVESTMENTS</b>		
(Decrease) increase during the period	(4,148)	1,603
Balance, beginning of period	10,932	9,178
	-----	-----
Balance, end of period	\$ 6,784	\$ 10,781
	=====	=====
<b>Supplemental disclosures of cash flow information</b>		
Cash paid during the period for:		
Interest	\$ 19,760	\$ 22,468
	=====	=====
Income taxes, net of refunds	\$ 7,865	\$ 26,894
	=====	=====

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The sales and operating income of Rayonier's business segments for the three and nine months ended September 30, 1996 and 1995 were as follows (thousands of dollars):

	Three Months Ended September 30, -----		Nine Months Ended September 30, -----	
	1996	1995	1996	1995
	-----	-----	-----	-----
SALES -----				
TIMBER AND WOOD PRODUCTS				
Log trading and merchandising	\$ 84,747	\$ 108,025	\$ 245,504	\$ 309,327
Timberlands management and stumpage	28,608	29,130	119,549	116,791
Wood products	27,769	22,548	75,536	57,080
Intrasegment eliminations	(2,779)	(5,562)	(11,066)	(15,310)
	-----	-----	-----	-----
Total Timber and Wood Products	138,345	154,141	429,523	467,888
	-----	-----	-----	-----
SPECIALTY PULP PRODUCTS				
Chemical cellulose	103,195	103,471	303,338	269,500
Fluff and specialty paper pulps	45,246	82,024	146,984	214,117
	-----	-----	-----	-----
Total Specialty Pulp Products	148,441	185,495	450,322	483,617
	-----	-----	-----	-----
Intersegment eliminations	(1,682)	(5,723)	(4,094)	(18,196)
	-----	-----	-----	-----
Total sales	\$ 285,104	\$ 333,913	\$ 875,751	\$ 933,309
	=====	=====	=====	=====
OPERATING INCOME -----				
Timber and Wood Products	\$ 26,354	\$ 25,514	\$ 96,003	\$ 104,015
Specialty Pulp Products	8,736	38,737	37,911	74,384
Corporate and other	(3,947)	(2,916)	(10,136)	(8,417)
Intersegment eliminations	(94)	22	112	(90)
	-----	-----	-----	-----
Total operating income	\$ 31,049	\$ 61,357	\$ 123,890	\$ 169,892
	=====	=====	=====	=====

RESULTS OF OPERATIONS

SALES AND OPERATING INCOME

Sales of \$285 million for the third quarter of 1996 were \$49 million or 15 percent lower than the third quarter of 1995 primarily due to lower fluff pulp pricing and lower log trading and merchandising sales to the Pacific Rim. Operating income of \$31 million was \$30 million or 49 percent lower than last year's third quarter as a result of the lower fluff pulp pricing. Sales for the nine months ended September 30, 1996 of \$876 million were \$58 million or 6 percent lower than the prior year, and operating income of \$124 million decreased \$46 million or 27 percent from the prior year.

## Timber and Wood Products

Timber and Wood Products' sales in the third quarter were \$138 million, down \$16 million from the 1995 third quarter. Operating income for the quarter of \$26 million was slightly above the prior year, reflecting stronger lumber prices and volumes and increases in timber harvesting, partially offset by lower U.S. stumpage pricing and weak log export markets. Sales for the nine month period were \$430 million, down \$38 million from the same period of 1995, with operating income of \$96 million down \$8 million from the prior year. The declines were due to lower log volumes and margins compared to 1995.

Log trading and merchandising sales and operating income, which include the Company's New Zealand log sales, declined from the 1995 third quarter due to continued weakness in Asian wood markets. In particular, New Zealand volume and pricing were adversely affected by soft Korean export markets.

Timberlands management and stumpage sales and operating income were even with the third quarter of 1995. Stumpage volume increases in both the Northwest and Southeast regions were offset by lower prices, reflective of weak markets at the time the contracts were initiated. Wood products results improved significantly from a year ago due to improved lumber prices and lower log costs.

## Specialty Pulp Products

Sales of Specialty Pulp Products were \$148 million, down \$37 million from last year's third quarter, and operating income declined \$30 million as a result of significantly lower fluff pulp pricing.

Specialty Pulp Products' sales for the first nine months of 1996 were \$450 million, down \$33 million from the prior period reflecting lower overall pulp prices and volumes. Operating income declined \$36 million to \$38 million in 1996 reflecting lower fluff pulp prices offset somewhat by higher chemical cellulose prices that were realized mostly during the first half of the year, as well as by lower costs. The improvement in fluff pulp prices in the third quarter followed a sharp inventory correction that began in late 1995 but abated, somewhat, by mid-year 1996. The fluff pulp price increase in the third quarter was offset by slightly lower prices for chemical cellulose pulps, which tend to lag commodity paper pulp grades in the cycle.

The Company announced on October 21 that it intends to close its Port Angeles, WA pulp mill by mid-1997. The Company has been studying the long-term strategies to enhance the profitability and reduce the cyclicity of its specialty pulp business. The initial results of its ongoing strategic study of its pulp business confirmed that the mill is not competitive in world markets because of high wood costs due to federal environmental restrictions on Northwest timber harvests, viscose pulp capacity additions in lower cost regions of the world, and anticipated capital expenditures for new environmental regulations. The Company will take a fourth quarter charge of \$79 million after-tax, or \$2.63 per share, related to the disposition. The liquidation of working capital and tax benefits associated with the closure are expected to offset the cash closure costs.

## Intersegment

Nine month intersegment sales of \$4 million in 1996 were less than the comparable 1995 amount due to lower stumpage sales from the Timber and Wood Products segment to the Specialty Pulp Products segment.

## OTHER INCOME / EXPENSE

Interest expense was \$21 million for the first nine months of 1996, \$5 million favorable to 1995, reflecting a lower average debt level, lower interest rates and higher capitalized interest expense.

The prior year non-recurring gain relates to the sale of a 75 percent interest in a portion of the Company's New Zealand timber holdings to a timber investment fund. The transaction resulted in a non-recurring pretax gain of \$35 million, \$24 million after-tax, or \$0.80 per common share.

Rayonier enters into forward exchange contracts to mitigate the impact of New Zealand/U.S. dollar exchange fluctuations. The net gain on these contracts, which is included in Interest and Miscellaneous Income, was \$4 million and \$1 million for the nine months ended September 30, 1996 and 1995, respectively.

Minority interest in the earnings of Rayonier's subsidiary, Rayonier Timberlands, L.P. (RTLP) was relatively flat compared to 1995, reflecting higher stumpage volume offset by lower prices in both the Northwest and Southeast regions. The minority participation in the earnings of RTLP will change from approximately 24 percent to approximately 1 percent effective January 1, 2001.

The effective tax rate for the first nine months of 1996 was 28.5 percent compared to 32.1 percent for the comparable period in 1995. The change reflects 1996 recognition of a tax asset related to a prior year transaction following resolution of various uncertainties related to its realization.

#### NET INCOME

Net income for the third quarter was \$16 million or \$0.52 per Common Share, down \$18 million or \$0.58 per Common Share from the 1995 third quarter excluding the non-recurring gain on the New Zealand timber sale. Net income for the nine months ended September 30, 1996 was \$62 million or \$2.08 per Common Share, down \$22 million or \$0.74 per Common Share, excluding the non-recurring gain.

#### OTHER ITEMS

The Company announced on October 9 that it would take an after-tax charge to discontinued operations of \$80 to \$100 million, or \$2.67 to \$3.33 per share, in the fourth quarter to comply with the American Institute of Certified Public Accountants' Statement of Position 96-1, "Environmental Remediation Liabilities." Rayonier will accrue the cost of future monitoring and administration costs expected to be incurred over the next 25 to 30 years at its Southern Wood Piedmont wood treating operations (discontinued in 1986). The annual monitoring costs were being expensed. Over the last three years those costs were approximately \$4 million pretax or 8 cents per share annually.

Total non-recurring charges in the fourth quarter for the accounting change, mill closure (see the Specialty Pulp Products discussion) and approximately \$5 million after-tax for write-downs of other non-strategic assets, will be between \$159 and \$179 million after-tax, or \$5.30 to \$5.96 per share. The book charges will increase the Company's debt-to-capital ratio by about 6 percentage points.

The Company's Form 10-K for 1995 referred to Federal environmental regulations governing air and water discharges that were proposed in 1993. In July 1996, the U.S. Environmental Protection Agency announced that it anticipates that technologies other than those which formed the basis of the proposed water regulations will be used to establish the final regulations for dissolving pulp mills. The agency said that it would await the results of studies being undertaken by the Company and other manufacturers of chemical cellulose pulps before proposing final regulations. The Company now expects that its costs to comply with these regulations will probably be less than previously estimated with implementation required at later dates than originally projected.

#### LIQUIDITY AND CAPITAL RESOURCES

Cash flow from operating activities of \$158 million for the first nine months of 1996 increased from \$131 million in 1995 as a result of reduced working capital partially offset by lower net income. EBITDA (defined as earnings from continuing operations before non-recurring items, interest expense, income taxes and depreciation, depletion and amortization) for the first nine months of 1996 of \$180 million decreased \$44 million from the comparable period of 1995. Cash from operations helped to finance capital expenditures of \$135 million, dividends of \$26 million and the repurchase of Common Shares of \$11 million. Third quarter ending debt of \$437 million was \$13 million less than prior year-end debt. The Company's debt-to-total-capital-ratio at September 30, 1996 was 35 percent, down 2 percentage points from December 31, 1995.

During the first quarter of 1996, the Company began a common share repurchase program to minimize the dilutive effect on earnings per share of its employee incentive stock plans. The number of shares that may be repurchased each year is limited to the greater of 1.5 percent of the Company's outstanding shares or the number of incentive stock shares issued to employees during the year. The Company expects to repurchase approximately 450,000 shares in 1996. In the first nine months, 303,000 shares were repurchased at an average cost of \$37.04 per share with a total cost of approximately \$11 million.

The Company has unsecured credit facilities totaling \$300 million, which are used for direct borrowings and as support for \$93 million of outstanding commercial paper. As of September 30, 1996, the Company had \$207 million of available borrowings under its revolving credit facilities. In addition, through currently effective shelf registration statements filed with the Securities and Exchange Commission, the Company may offer up to \$141 million of new public debt securities. The Company believes that internally generated funds combined with available external financing will enable Rayonier to fund capital expenditures, share repurchases, working capital and other liquidity needs for the foreseeable future.



## ITEM 3. SELECTED OPERATING DATA

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1996 ----	1995 ----	1996 ----	1995 ----
TIMBER AND WOOD PRODUCTS				
Log sales				
North America - millions of board feet	72	107	206	273
New Zealand - thousands of cubic meters	370	403	1,226	1,255
Other - millions of board feet	4	6	13	15
Timber harvest				
Northwest U.S. - millions of board feet	34	27	148	115
Southeast U.S. - thousands of short green tons	532	449	1,639	1,597
New Zealand - thousands of cubic meters	277	312	825	916
Lumber sold - millions of board feet	71	63	205	157
Intercompany sales				
Logs - millions of board feet	2	10	6	21
Northwest U.S. timber stumpage - millions of board feet	6	10	19	26
Southeast U.S. timber stumpage - thousands of short green tons	40	34	116	236
SPECIALTY PULP PRODUCTS				
Pulp sales				
Chemical cellulose sales - thousands of metric tons	114	115	325	323
Fluff and specialty paper pulp sales - thousands of metric tons	85	93	258	267
Production as a percent of capacity	100.5%	102.7%	93.2%	97.7%
SELECTED SUPPLEMENTAL INFORMATION (thousands of dollars)				
New Zealand - Sales	\$ 21,466 =====	\$ 26,261 =====	\$72,471 =====	\$79,337 =====
New Zealand - Operating Income	\$ 1,521 =====	\$ 3,901 =====	\$ 4,925 =====	\$11,308 =====

## PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

Rayonier's Form 10-K for 1995 reported four pending civil cases in which Rayonier and its wholly-owned subsidiary, Southern Wood Piedmont Company ("SWP"), were named as defendants, including an action in the U.S. District Court for the Southern District of Georgia seeking damages in the amount of \$700 million. The plaintiffs in that particular action have since amended their complaint to eliminate any reference to specific monetary damages. Another of these actions, which was pending in the U.S. District Court for the Middle District of Georgia and related to SWP's plant in Macon, Georgia, has since been dismissed. Counsel for Rayonier and SWP continue to believe that there are meritorious defenses in all of the remaining cases and that the ultimate disposition of these cases will not be material to the Company.

Reference is made to the Rayonier Inc. Form 10-Q Quarterly Report for the quarter ended March 31, 1996 for a description of matters reported during that period.

## ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) See Exhibit Index.

(b) Rayonier Inc. filed a Current Report on Form 8-K on October 9, 1996, announcing that it will adopt the American Institute of Certified Public Accountants Statement of Position (SOP) on accounting for environmental remediation and monitoring liabilities.

Rayonier Inc. filed a Current Report on Form 8-K on October 21, 1996, announcing its intention to close its Port Angeles, WA, pulp mill by mid-1997.

## SIGNATURE

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RAYONIER INC. (Registrant)  
-----

BY KENNETH P. JANETTE  
-----  
Kenneth P. Janette  
Vice President and Corporate Controller  
(Chief Accounting Officer)

November 13, 1996

## EXHIBIT INDEX

EXHIBIT NO. -----	DESCRIPTION -----	LOCATION -----
2	Plan of acquisition, reorganization, arrangement, liquidation or succession	None
3.1	Amended and restated articles of incorporation	No amendments
3.2	By-laws	No amendments
4	Instruments defining the rights of security holders, including indentures	Not required to be filed. The Registrant hereby agrees to file with the Commission a copy of any instrument defining the rights of holders of the Registrant's long-term debt upon request of the Commission.
10	Material contracts	None
11	Statement re computation of per share earnings	Not required to be filed
12	Statement re computation of ratios	Filed herewith
15	Letter re unaudited interim financial information	None
18	Letter re change in accounting principles	None
19	Report furnished to security holders	None
22	Published report regarding matters submitted to vote of security holders	None
23	Consents of experts and counsel	None
24	Power of attorney	None
27	Financial data schedule	Filed herewith
99	Additional exhibits	None

RAYONIER INC. AND SUBSIDIARIES  
RATIO OF EARNINGS TO FIXED CHARGES  
(UNAUDITED)  
(THOUSANDS OF DOLLARS)

	Nine Months Ended September 30,	
	1996	1995
	-----	-----
Earnings:		
Net Income	\$ 62,449	\$ 108,525
Add:		
Income Taxes	24,900	51,358
Minority Interest	21,315	21,039
Amortization of Capitalized Interest	1,473	1,233
	-----	-----
	110,137	182,155
Adjustments to Earnings for Fixed Charges:		
Interest and Other Financial Charges	20,677	26,054
Interest Factor Attributable to Rentals	1,083	1,107
	-----	-----
	21,760	27,161
	-----	-----
EARNINGS AS ADJUSTED	\$ 131,897	\$ 209,316
	=====	=====
Fixed Charges:		
Fixed Charges above	\$ 21,760	\$ 27,161
Capitalized Interest	1,994	857
	-----	-----
TOTAL FIXED CHARGES	\$ 23,754	\$ 28,018
	=====	=====
RATIO OF EARNINGS AS ADJUSTED TO		
TOTAL FIXED CHARGES	5.55	7.47
	=====	=====

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	JAN-01-1996	
	SEP-30-1996	6,784
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149,194		0
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	647,091	
1,650,466		875,751
	875,751	
		726,120
	726,120	
	41,605	
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	20,677	
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	24,900	
62,449		
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	62,449	
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	2.08	