

ROWAN COMPANIES INC  
Form 10-Q  
November 09, 2007

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

**FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_

61-5491

Commission File  
Number

**ROWAN COMPANIES, INC.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

75-0759420

(I.R.S. Employer  
Identification No.)

2800 Post Oak Boulevard, Suite 5450 Houston, Texas

(Address of principal executive offices)

77056-6189

(Zip Code)

(713) 621-7800

Registrant's telephone number, including area code

Inapplicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes  No

The number of shares of common stock, \$.125 par value, outstanding at October 31, 2007 was 111,285,309.

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****ROWAN COMPANIES, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)**

ASSETS	September 30, 2007	December 31, 2006 (Unaudited)
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 341,274	\$ 258,041
Receivables - trade and other	414,069	418,985
Inventories - at cost:		
Raw materials and supplies	338,610	260,319
Work-in-progress	142,708	84,466
Finished goods	404	310
Prepaid expenses	75,902	62,307
Deferred tax assets - net	15,065	18,421
Total current assets	1,328,032	1,102,849
<b>RESTRICTED CASH</b>	<b>50,000</b>	<b>156,077</b>
<b>PROPERTY, PLANT AND EQUIPMENT - at cost:</b>		
Drilling equipment	2,752,190	2,639,036
Manufacturing plant and equipment	256,169	210,448
Construction in progress	273,723	137,265
Other property and equipment	121,744	106,642
Total	3,403,826	3,093,391
Less accumulated depreciation and amortization	1,028,510	960,165
Property, plant and equipment - net	2,375,316	2,133,226
<b>GOODWILL AND OTHER ASSETS</b>	<b>41,635</b>	<b>43,246</b>
<b>TOTAL</b>	<b>\$ 3,794,983</b>	<b>\$ 3,435,398</b>

See Notes to Unaudited Consolidated Financial Statements.

**ROWAN COMPANIES, INC. AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)**

	September 30, 2007	December 31, 2006
LIABILITIES AND STOCKHOLDERS' EQUITY		
(Unaudited)		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt	\$ 64,922	\$ 64,922
Accounts payable - trade	119,899	141,206
Deferred revenues	154,017	146,230
Billings in excess of uncompleted contract costs and estimated profit	72,776	71,151
Other current liabilities	122,333	93,197
Total current liabilities	533,947	516,706
LONG-TERM DEBT - less current maturities	434,236	485,404
OTHER LIABILITIES	246,548	212,177
DEFERRED INCOME TAXES - net	376,251	347,065
<b>STOCKHOLDERS' EQUITY:</b>		
Preferred stock, \$1.00 par value:		
Authorized 5,000,000 shares issuable in series:		
Series A Preferred Stock, authorized 4,800 shares, none outstanding		
Series B Preferred Stock, authorized 4,800 shares, none outstanding		
Series C Preferred Stock, authorized 9,606 shares, none outstanding		
Series D Preferred Stock, authorized 9,600 shares, none outstanding		
Series E Preferred Stock, authorized 1,194 shares, none outstanding		
Series A Junior Preferred Stock, authorized 1,500,000 shares, none issued		
Common stock, \$.125 par value:		
Authorized 150,000,000 shares; issued 111,270,974 shares at September 30, 2007		
and 110,461,531 shares at December 31, 2006	13,909	13,808
Additional paid-in capital	1,009,329	988,998
Retained earnings	1,292,110	981,610
Cost of 25,065 treasury shares at September 30, 2007	(977)	-
Accumulated other comprehensive loss	(110,370)	(110,370)

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Total stockholders' equity	2,204,001	1,874,046
<b>TOTAL</b>	<b>\$ 3,794,983</b>	<b>\$ 3,435,398</b>

See Notes to Unaudited Consolidated Financial Statements.

**ROWAN  
COMPANIES,  
INC. AND  
SUBSIDIARIES**

**CONSOLIDATED  
STATEMENTS OF  
OPERATIONS  
(IN THOUSANDS,  
EXCEPT PER  
SHARE AMOUNTS)**

	For The Three Months Ended September 30,		For The Nine Months Ended September 30,	
	2007	2006	2007	2006
	(Unaudited)		(Unaudited)	
<b>REVENUES:</b>				
Drilling services	\$ 368,821	\$ 289,577	\$ 1,010,178	\$ 786,789
Manufacturing sales and services	133,380	127,537	461,281	312,998
<b>Total</b>	<b>502,201</b>	<b>417,114</b>	<b>1,471,459</b>	<b>1,099,787</b>
<b>COSTS AND EXPENSES:</b>				
Drilling services	145,403	131,317	436,827	357,943
Manufacturing sales and services	107,471	114,391	395,386	260,903
Depreciation and amortization	29,812	23,310	86,270	65,372
Selling, general and administrative	22,510	18,995	67,798	57,957
Gain on disposals of property and equipment	(1,088)	(2,301)	(39,810)	(29,277)
<b>Total</b>	<b>304,108</b>	<b>285,712</b>	<b>946,471</b>	<b>712,898</b>
<b>INCOME FROM OPERATIONS</b>	<b>198,093</b>	<b>131,402</b>	<b>524,988</b>	<b>386,889</b>
<b>OTHER INCOME (EXPENSE):</b>				
Interest expense	(6,447)	(7,198)	(19,662)	(21,323)
Less interest capitalized	2,855	2,971	6,332	6,591
Interest income	5,613	6,490	16,543	21,767
Other - net	(305)	(237)	254	(166)
Other income - net	1,716	2,026	3,467	6,869
	<b>199,809</b>	<b>133,428</b>	<b>528,455</b>	<b>393,758</b>

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INCOME BEFORE				
INCOME TAXES				
Provision for income taxes	68,960	47,657	183,129	139,191
INCOME FROM CONTINUING OPERATIONS				
	130,849	85,771	345,326	254,567
Income from discontinued operations, net of tax	-	1,269	-	1,269
NET INCOME	\$ 130,849	\$ 87,040	\$ 345,326	\$ 255,836

PER SHARE AMOUNTS:

Income from continuing operations - basic	\$ 1.18	\$ .78	\$ 3.12	\$ 2.31
Income from continuing operations - diluted	\$ 1.16	\$ .77	\$ 3.08	\$ 2.28
Income from discontinued operations - basic	\$ -	\$ .01	\$ -	\$ .01
Income from discontinued operations - diluted	\$ -	\$ .01	\$ -	\$ .01
Net income - basic	\$ 1.18	\$ .79	\$ 3.12	\$ 2.32
Net income - diluted	\$ 1.16	\$ .78	\$ 3.08	\$ 2.29

See Notes to Unaudited Consolidated Financial Statements.



**ROWAN  
COMPANIES,  
INC. AND  
SUBSIDIARIES**

**CONSOLIDATED  
STATEMENTS OF  
CASH FLOWS  
(IN THOUSANDS)**

For The Nine Months  
Ended September 30,  
2007      2006  
(Unaudited)

CASH PROVIDED BY (USED IN):		
Operations:		
Net income	\$ 345,326	\$ 255,836
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	86,270	65,372
Deferred income taxes	30,071	68,671
Provision for pension and postretirement benefits	23,413	23,238
Compensation expense	6,746	11,809
Contributions to pension plans	(10,633)	(6,074)
Postretirement benefit claims paid	(1,946)	(2,582)
Gain on disposals of property, plant and equipment	(39,810)	(29,277)
Gain on disposal of aviation operations	-	(1,269)
Changes in current assets and liabilities:		
Receivables- trade and other	4,916	(122,966)
Inventories	(136,627)	(87,040)
Other current assets	(13,595)	(48,367)
Accounts payable	(36,647)	13,569
Income taxes payable	24,302	2,793
Deferred revenues	7,787	8,490
Billings in excess of uncompleted contract costs and estimated profit	1,625	19,722
Other current liabilities	14,642	7,530
Net changes in other noncurrent assets and liabilities	15,947	9,864
Net cash provided by operations	321,787	189,319
Investing activities:		
Capital expenditures	(318,702)	(372,732)
Proceeds from disposals of property, plant and equipment	44,941	36,747
Change in restricted cash balance	106,077	(156,077)
Proceeds from sale of aviation operations	-	1,953

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Net cash used in investing activities	(167,684)	(490,109)
Financing activities:		
Repayments of borrowings	(51,168)	(51,168)
Payment of cash dividends	(33,201)	(49,475)
Proceeds from stock option and convertible debenture plans and other	13,499	8,404
Net cash used in financing activities	(70,870)	(92,239)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
	83,233	(393,029)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	258,041	675,903
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 341,274	\$ 282,874

See Notes to Unaudited Consolidated Financial Statements.

**ROWAN COMPANIES, INC. AND SUBSIDIARIES****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

1. The consolidated financial statements of Rowan included in this Form 10-Q have been prepared without audit in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the Securities and Exchange Commission. Certain information and notes have been condensed or omitted as permitted by those rules and regulations. The Company believes that the disclosures included herein are adequate, but suggests that you read these consolidated financial statements in conjunction with the consolidated financial statements and related notes included in its Annual Report on Form 10-K for the year ended December 31, 2006.

Rowan believes the accompanying unaudited consolidated financial statements contain all adjustments, which are of a normal recurring nature, necessary to present fairly its financial position as of September 30, 2007 and the results of its operations for the three and nine months ended September 30, 2007 and 2006 and cash flows for nine months ended September 30, 2007 and 2006. Rowan's results of operations and cash flows for the nine months ended September 30, 2007 are not necessarily indicative of results to be expected for the full year.

2. Rowan has three principal operating segments: the contract drilling of oil and gas wells, both onshore and offshore ("Drilling"), and two manufacturing segments. The Drilling Products and Systems segment provides equipment, parts and services for the drilling industry through two business groups: Offshore Products features jack-up rigs, rig kits and related components and parts; Drilling and Power Systems includes mud pumps, drawworks, top drives, rotary tables, other rig equipment, variable-speed motors, drives and other electrical components featuring AC, DC and Switch Reluctance technologies. The Mining, Forestry and Steel Products segment includes large-wheeled mining and timber equipment and related parts and carbon and alloy steel and steel plate.

Pursuant to Statement of Financial Accounting Standards No. 131, Rowan's reportable segments reflect an aggregation of separately managed, strategic business units for which financial information is separately prepared and monitored based upon qualitative and quantitative factors. The Company evaluates segment performance based upon income from operations. In the prior year, the Company reported one manufacturing segment and that information has been adjusted to conform to the current year presentation.

Rowan's drilling operations are conducted in domestic and foreign areas. The Company's Manufacturing operations are primarily conducted in Longview and Houston, Texas and Vicksburg, Mississippi, though products are shipped throughout the United States and to many foreign locations.

The following table presents certain financial information of Rowan by operating segment as of September 30, 2007 and 2006 (in millions).

	Total Assets		Goodwill	
	2007	2006	2007	2006
Drilling	\$ 3,066.8	\$ 2,803.5	\$ 1.5	\$ 1.5
Manufacturing:				
Drilling Products and Systems	508.2	310.7	10.9	10.9
	220.0	171.6	-	-

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Mining, Forestry and Steel

Products

Total	\$ 3,795.0	\$ 3,285.8	\$ 12.4	\$ 12.4
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The following table presents certain financial information of Rowan by operating segment for the three and nine month periods ended September 30, 2007 and 2006 (in millions).

	Three Months Ended September 30, 2007		Nine Months Ended September 30, 2006	
Revenues:				
Drilling	\$ 368.8	\$ 289.6	\$ 1,010.2	\$ 786.8
Manufacturing:				
Drilling Products and Systems	83.7	69.7	316.4	160.9
Mining, Forestry and Steel Products	49.7	57.8	144.9	152.1
Total	\$ 502.2	\$ 417.1	\$ 1,471.5	\$ 1,099.8
Operating Income:				
Drilling	\$ 183.5	\$ 127.0	\$ 491.2	\$ 358.2
Manufacturing:				
Drilling Products and Systems	10.6	1.1	18.5	16.3
Mining, Forestry and Steel Products	4.0	3.3	15.3	12.4
Total	\$ 198.1	\$ 131.4	\$ 525.0	\$ 386.9

Excluded from the immediately preceding table are the effects of transactions between segments. During the three month periods ended September 30, 2007 and 2006, Rowan's Drilling Products and Systems segment provided approximately \$60 million and \$70 million, respectively, of products and services to its Drilling segment. During the nine month periods ended September 30, 2007 and 2006, Rowan's Drilling Products and Systems segment provided approximately \$186 million and \$173 million, respectively, of products and services to its Drilling segment.

Assets are ascribed to a segment based upon their direct use. Rowan classifies its drilling rigs as domestic or foreign based upon the rig's operating location. Accordingly, drilling rigs operating in or offshore the United States are considered domestic assets, and rigs operating in other areas are deemed foreign assets. At September 30, 2007, the Company had nine offshore rigs and 28 land rigs located in domestic areas and 12 offshore rigs located in foreign areas.

Foreign source revenues for the three and nine months ended September 30, 2007 and 2006 were as follows (in millions):

	Three Months Ended September 30, 2007		Nine Months Ended September 30, 2006	
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Drilling:

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Middle East	\$ 111.8	\$ 39.7	\$ 288.6	\$ 72.8
Europe	65.7	29.5	180.7	87.2
Trinidad	20.3	3.3	55.0	3.3
Canada	-	18.6	(1.2)	49.4
Mining, Forestry & Steel Products - Australia	11.9	7.5	22.7	19.4
Total	\$ 209.7	\$ 98.6	\$ 545.8	\$ 232.1

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3. Rowan's computations of basic and diluted income per share for the three and nine months ended September 30, 2007 and 2006 are as follows (in thousands except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Average common shares outstanding	111,177	110,405	110,824	110,226
Dilutive securities:				
Stock options	1,020	857	997	1,179
Convertible debentures	377	254	324	382
Average shares for diluted calculations	112,574	111,516	112,145	111,787
Income from continuing operations	\$ 130,849	\$ 85,771	\$ 345,326	\$ 254,567
Income from continuing operations per share:				
Basic	\$ 1.18	\$ .78	\$ 3.12	\$ 2.31
Diluted	\$ 1.16	\$ .77	\$ 3.08	\$ 2.28
Income (loss) from discontinued operations	\$ -	\$ 1,269	\$ -	\$ 1,269
Income (loss) from discontinued operations per share:				
Basic	\$ -	\$ .01	\$ -	\$ .01
Diluted	\$ -	\$ .01	\$ -	\$ .01
Net income	\$ 130,849	\$ 87,040	\$ 345,326	\$ 255,836
Net income per share:				
Basic	\$ 1.18	\$ .79	\$ 3.12	\$ 2.32
Diluted	\$ 1.16	\$ .78	\$ 3.08	\$ 2.29

Rowan had 2,517,732 and 3,068,330 stock options outstanding at September 30, 2007 and 2006, respectively, and another 1,027,011 and 1,105,718 shares, respectively, were issuable at those dates through the conversion of debentures.

4. Rowan had no items of other comprehensive income during the three or nine months ended September 30, 2007 and 2006. Interest payments (net of amounts capitalized) were \$5.0 million and \$5.6 million for the three months ended September 30, 2007 and 2006, respectively, and \$15.3 million and \$15.8 million for the nine months ended September 30, 2007 and 2006, respectively. Tax payments (net of refunds) were \$46.8 million and \$42.0 million for the three months ended September 30, 2007 and 2006, respectively, and \$104.9 million and \$67.3 million for

the nine months ended September 30, 2007 and 2006, respectively.



5. During the second quarter of 2007, Rowan issued 229,438 shares of restricted stock to 76 key employees, with an average fair value of \$37.93 per share. Also during May 2007, Rowan issued 27,000 restricted stock units to its nonemployee directors, with an average fair value of \$38.31 per unit. Additionally, during May 2007, the Company awarded 91,068 performance shares to 6 key employees, under which as many as 182,136 (and as few as zero) shares of Rowan common stock will be issued in May 2010 based upon an equal weighting of the Company's total stockholder return (TSR) ranking versus a selected industry peer group over the three-year period then ended and return on capital employed (ROCE). With respect to the TSR metric, the Company estimated a fair value of \$36.88 per share, which is being recognized as compensation expense over the three-year performance period. With respect to the ROCE metric, the Company estimated compensation expense using the \$38.70 per share market value of the common stock on the date of the award and the target number of shares to be issued. Compensation expense will be re-measured annually using the expected number of shares to be issued based upon Rowan's relative ROCE performance.

Stock-based compensation expense was \$2.5 million and \$2.7 million for the three months ended September 30, 2007 and 2006, respectively, and \$6.7 million and \$8.6 million for the nine months ended September 30, 2007 and 2006, respectively. At September 30, 2007, Rowan had approximately \$16 million of unrecognized future stock-based compensation expense.

6. Rowan generally recognizes manufacturing sales and related costs when title passes as products are shipped. Revenues from longer-term manufacturing projects such as rigs and rig kits are recognized on the percentage-of-completion basis using costs incurred relative to total estimated costs. The Company does not recognize any estimated profit until such projects are at least 10% complete, though a full provision is made immediately for any anticipated losses.

The following table summarizes the status of Rowan's long-term construction projects at September 30, 2007 and December 31, 2006 (in millions):

	September 30, 2007	December 31, 2006
Total contract value of long-term projects (1)	\$ 222.2	\$ 344.4
Payments received	144.0	179.8
Revenues recognized	71.2	114.0
Costs recognized	47.1	106.7
Payments received in excess of revenues recognized	72.8	65.8
Billings in excess of uncompleted contract costs and estimated profit	\$ 72.8	\$ 71.1
Uncompleted contract costs and estimated profit in excess of billings (included in other current assets)	\$ -	\$ 5.3

(1) Includes projects in progress and those not yet begun for which Rowan has received advanced payments.

During the three months ended September 30, 2007, Rowan recognized approximately \$34.9 million of manufacturing revenues and \$22.8 million of costs related to long-term construction projects on the percentage-of-completion basis. During the nine months ended September 30, 2007, Rowan recognized approximately \$115.3 million of manufacturing revenues and \$106.0 million of costs related to long-term construction projects on the percentage-of-completion basis.

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Rowan recognized an additional \$15.8 million loss during the nine months ended September 30, 2007 on the Company's external rig construction project which was completed in June 2007, resulting in a total loss on the project of approximately \$17.9 million.

7. Since 1952, Rowan has sponsored defined benefit pension plans covering substantially all of its employees. In addition, Rowan provides certain health care and life insurance benefits (Other benefits) for retired drilling and aviation employees.

Net periodic pension cost for the three and nine months ended September 30, 2007 and 2006 included the following components (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Service cost	\$ 3,241	\$ 3,036	\$ 9,619	\$ 9,009
Interest cost	6,829	6,181	20,266	18,342
Expected return on plan assets	(6,695)	(6,212)	(19,867)	(18,434)
Recognized actuarial loss	2,687	3,055	7,995	9,089
Amortization of prior service cost	(54)	43	(159)	127
Total	\$ 6,008	\$ 6,103	\$ 17,854	\$ 18,133

Other benefits cost for the three and nine months ended September 30, 2007 and 2006 included the following components (in thousands):

	Three Months Ended September 30,		Six Months Ended September 30,	
	2007	2006	2007	2006
Service cost	\$ 526	\$ 497	\$ 1,562	\$ 1,475
Interest cost	1,064	953	3,157	2,829
Recognized actuarial loss	168	154	498	458
Amortization of transition obligation	167	167	495	495
Amortization of prior service cost	(52)	(51)	(153)	(152)
Total	\$ 1,873	\$ 1,720	\$ 5,559	\$ 5,105

During the first nine months of 2007, Rowan contributed \$12.6 million toward its pension and other benefit plans. Rowan currently expects to make additional payments totaling approximately \$1 million during the remainder of 2007 for pension plan contributions and other benefit claims.

8.

During June 2007, Rowan recognized a \$14.2 million gain in connection with the sale of its Alaska based drilling camps. In October 2005, Rowan sold its only semi-submersible rig for approximately \$60 million in cash. Payment for the rig occurred over a 15-month period ending in January 2007, at which point the title to the rig was transferred to the buyer. Rowan retained ownership of much of the drilling equipment on the rig, which was sold in 2006, and continued to provide (through February 2007) a number of operating personnel under a separate services agreement. The transaction was accounted for as a sales-type lease with the expected gain on the sale and imputed interest income of approximately \$46 million deferred until the net book value of the rig had been recovered. During the first quarter of 2007, we received all remaining payments totaling \$24.0 million and recognized a \$23.4 million gain on the sale.