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SFI - Q2 2012 iStar Financial Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, good day and welcome to iStar Financial's second quarter 2012 earnings conference call. (Operator Instructions). As a reminder, today's conference is being recorded.

At this time for opening remarks and introductions, I would like to turn the conference over to Jason Fooks, Vice President of Investor Relations and Marketing. Please go ahead, sir.

Jason Fooks - *iStar Financial - IR*

Thank you, John. And good morning, everyone. Thanks for joining us today to review iStar Financial's second quarter 2012 earnings report. With me today are Jay Sugarman, Chairman and Chief Executive Officer; and David DiStaso, our Chief Financial Officer. This morning's call is being webcast on our website at iStar Financial.com in the Investor Relations section. There will be a replay of the call beginning at 12.30 PM Eastern Time today.

To dial in for the replay is 1-800-475-6701 with a confirmation code of 254611. Before I turn the call over to Jay, I would like to remind everyone that statements in this earnings call which are not historical facts will be forward-looking. iStar Financial's actual results may differ materially from these forward-looking statements and the risk factors that could cause these differences are detailed in our SEC report. In addition, as stated more fully in our SEC reports, iStar disclaims any intent or obligation to update these forward-looking statements except that is expressly required by law. Now, I would like to turn the call over to iStar's Chairman and CEO, Jay Sugarman. Jay?

Jay Sugarman - *iStar Financial - Chairman, CEO*

Thanks, Jason. Thank you all for joining us this morning. During the second quarter, we delivered on two of our main objectives; continuing to pay down significant amounts of debt and accessing the unsecured debt market for the new issue while continuing to work on the portfolio. Successful sales in the net lease and residential portfolio were offset by increased provisions in Europe and impairments of vacant office assets that have proven difficult to re-lease to single tenants.

We continue to make slow progress in transitioning non-earning assets into a position where they he could be more productive, but this remains a key challenge as we move forward. Our earnings reflected these trends with a net loss of just under $60 million for the quarter, excluding primarily depreciation and provisions and impairments, adjusted net income for the quarter was closer to break even, coming in at a $2 million loss or a little under $0.02 a share.

Liquidities remain solid with sales, repayments, and our return to the unsecure markets enabling us to end the quarter with over $700 million in cash and in good shape to repay our remaining 2012 debt maturities. Repayments on our two secured facilities have both exceeded projections, and as a result, each of the 2011 and 2012 secured facilities have delevered nicely.

With respect to the asset side of the balance sheet, we continue to evaluate opportunities to deploy capital in the portfolio while simultaneously looking to take advantage of the strong bid for many of our assets when it makes sense. Standing on the availability and cost of our capital, we should be able to ramp up our investment activity once our leverage levels reach our long-term levels. With that quick update, let me turn it over to Dave for more of the details. Dave?

David DiStaso - *iStar Financial - CFO*

Thanks, Jay. Good morning, everyone. I will begin by discussing our financial results for the second quarter 2012 before moving to investment activity and credit quality, and I will end with an update on liquidity. For the quarter, we reported a net loss of $59 million or a loss of $0.70 per diluted common share compared to a net loss of $36 million or $0.38 per diluted common share for the second quarter 2011. The results in the prior year included the benefit of $26 million of interest income associated with the favorable resolution of two NPLs. The year-over-year decrease was also due to lower revenue from a smaller overall asset base and higher provisions for loan losses and impairments.

This was is partially offset by increased gains from discontinued operations and income from sales of residential property as well as a reduction in general administrative costs. Adjusted income for the quarter was approximately break-even with a loss of $1 million compared to a loss of $2 million for the same quarter last year. Adjusted income represents net income calculated in accordance with GAAP prior to the effects of depreciation, loan loss provisions and impairments, stock-based compensation, and gains on early extinguishment of debt, all of which are non-cash items.

Adjusted EBITDA for the second quarter was $107 million compared to $103 million for the same period last year. The year-over-year improvement was due to increased gains from discontinued operations and income from sales of residential property as well as a reduction in general and administrative costs, partially offset by lower revenue from a smaller asset base. As we previously announced, during the quarter we issued $275 million of 9% senior unsecured notes due in 2017. Proceeds from the new issuance will be used to refinance unsecured debt maturing in 2012.

During the second quarter, we retired a total of $640 million of debt. Specifically, we repaid $90 million of our 5.5% senior unsecured notes due June 2012 and repurchased $192 million of our senior convertible notes due October 2012 at a small discount. We also repaid $226 million on the A-1 traunch of our 2011 secured credit facility, bringing the balance to $646 million and repaid $81 million on the A-1 traunch of our 2012 secured credit facility, bringing that balance down to $329 million.

As a result, we have satisfied all minimum amortization requirements on the A-1 traunch of the 2011 facility prior to its maturity and effectively met the minimum cumulative amortization of $82 million required by June 30, 2013 for the A-1 traunch of the 2012 facility. Finally, we repaid a $51 million loan secured by a pool of net lease assets that we sold during the quarter, which I will discuss further shortly. Our leverage decreased to 2.5x from 2.7x at the end of the first quarter and our weighted average effective cost of debt for the quarter was 6.5%.

During the quarter, we also repurchased approximately 800,000 shares of our common stock at an average price of $5.69 per share. At the end of the quarter, we still had remaining authority to repurchase up to $16 million of shares under our share repurchase program. At the end of the quarter, we had $707 million of cash, including cash reserve for repayment of debt. During the second quarter, we generated a total of $555 million of proceeds from our portfolio comprised of $186 million of principle repayments, $117 million from sales of OREO assets, $136 million from sales of net lease assets, $57 million from loan sales, and $59 million from other investments.

In addition, we funded $40 million of investments in capital expenditures during the quarter. Let me now turn to the portfolio and credit quality. At the end of the second quarter our total portfolio had a carrying value of $6.3 billion, gross of general reserves. This was comprised of approximately $2.4 billion of loans and other lending investments, $1.6 billion of net lease assets, $2 billion of owned real estate, and $428 million of other investments. At the end of the quarter, our $1.7 billion of performing loans and other lending investments had a weighted average LTV of 74% and a maturity of approximately three years.

The performing loans consisted of 51% floating rate loans that generated a weighted average effective yield of 6.7% for the quarter and 49% fixed rate loans that generated a weighted average effective yield of 8.6% for the quarter. The weighted average risk rating of our performing loans was 3.16 at the end of the quarter, an improvement from 3.27 at the end of the prior quarter. Included in our performing loans were $75 million of watch list loans, a decrease from $170 million last quarter.

At the end of the second quarter, our non-performing loans, or NPLs, had a carrying value of $639 million, net of $491 million of specific reserves. This was a decrease from $663 million net of $477 million of specific reserves at the end of the prior quarter. Our NPLs consist primarily of 31% land, 21% retail assets, 15% hotel assets, 13% apartment residential, and 12% of entertainment leisure.

Our $1.6 billion of net leased assets, which are recorded net of $342 million of accumulated depreciation, were 91% leased with a weighted average remaining lease term of over 12 years. They had a weighted average risk rating of 2.70 versus 2.63 in the prior quarter. During the quarter, we sold a portfolio of 12 net leased assets for $130 million in net proceeds and recorded a gain of $25 million on the transaction.

Certain of the properties were subject to a $51 million secured term loan that was repaid in full at closing with a portion of the net sales proceeds. For the quarter, our occupied net lease assets generated a weighted average effective yield of 9.3% while our total net lease portfolio generated a weighted average effective yield of 8.4%. During the quarter, we recorded $6 million of impairments within our net lease portfolio.

Let me now turn to our owned real estate portfolio. At the end of the quarter we had $722 million of OREO assets. OREO assets are considered held for sale based on our current intention to market the assets and sell them in the near term. Additionally, $1.3 billion of assets were classified as real estate held for investment based on our current intention and ability to hold them for a longer period of time. During the quarter, we took title to properties with a carrying value of $45 million.

For the quarter, our owned real estate portfolio generated $28 million of combined revenue and gains from condo sales, offset by $22 million of expenses. In addition, we funded $19 million of capital expenditures. Let me move on to reserves. We recorded a $27 million provision for loan losses in the second quarter versus $18 million last quarter. At the end of the quarter, our reserves totaled $564 million, consisting of $507 million of asset-specific reserves and $57 million of general reserves.

Our reserves represent 20% of the total gross carrying value of loans. This compares to loan loss reserves of $567 million or 18% at the end of the prior quarter. Finally, let me conclude with a discussion on our liquidity. As I mentioned before, we ended the quarter with $707 million of cash including cash reserved for debt repayment and have approximately $465 million of remaining convertible notes due in October which fulfills all of our unsecured debt maturities until June 2013. Other expected uses of cash for the remainder of 2012 include approximately $30 million of loan and investment fundings and approximately $90 million of capital expenditures that we expect to invest in our owned real estate portfolio. With that, let me turn it back to Jay. Jay?

Jay Sugarman - *iStar Financial - Chairman, CEO*

Thanks, Dave. Let me just finish by saying as we continue to streamline the portfolio in coming quarters, we are going to need to find ways to optimize each of our business lines and to begin focusing on how to make our cost of funds more competitive. A lot of work has been done but there is a lot more to do. Let's go ahead and open it up for questions. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Our first question will come from the line of Michael Kim with CRT Capital. Please go ahead.

Michael Kim - *CRT Capital Group - Analyst*

Hi, good morning, everyone. A question on the other real estate owned category, residential unit sales were a lot higher than what we were forecasting. Could you describe where the demand is coming from? Are you seeing more demand by investors or retirees or are there certain projects within the portfolio that are having better absorption rates for products that just came online? Is there any comment you can provide there?

Jay Sugarman - *iStar Financial - Chairman, CEO*

Sure, it was a pretty strong quarter for that part of the portfolio. It is a combination of a couple of projects where redesign efforts came to fruition. Where we are actually selling almost a brand new product into the marketplace where obviously there hasn't been much new in a couple of these markets. Good solid strength down in Miami continues. We actually saw very good results in our project in Vegas this quarter.

New York continues to be reasonably strong. Our projects where we were pleasantly surprised by the demand side. It is our view that low interest rates have a very direct correlation on the residential side of the marketplace, and we are starting to see the impact of that, combined with the fact that we did bring a couple of projects back to market with very new and interesting concepts that the market seems to like.

Michael Kim - *CRT Capital Group - Analyst*

And how should we think about the remaining residential unit sales? Is there a number of remaining units or a kind of average sales price that you could provide us or even a sense of the current or the month's supply or the current sales rates?

Jay Sugarman - *iStar Financial - Chairman, CEO*

Again, I always give you the caution that extrapolating from a single set of numbers is tricky, but rough numbers you can think about 1500 units.

Michael Kim - *CRT Capital Group - Analyst*

1500 units.

Jay Sugarman - *iStar Financial - Chairman, CEO*

Yes. The second quarter, we sold probably in the order of 300. But if you are looking for kind of what is the runout here, we think more like eight quarters. So I'd probably caution you from just doing the division and saying; eight quarter run for the remainder of the portfolio will probably take care of the significant majority of everything that is left.

Michael Kim - *CRT Capital Group - Analyst*

Great. That's very helpful. Thank you. And just moving to the realty for investment portfolio and just thinking about the residential land. Is there a dollar amount of land that's kind of fully entitled and doesn't require any more investment?

Jay Sugarman - *iStar Financial - Chairman, CEO*

You know, unfortunately, I think land is always going to require investment. Sometimes it is into infrastructure, sometimes it is into future phases, sometimes it is simply a function of redesigning the entitlements that are already there. The projects are, with just one or two exceptions, fully entitled. The question is, are those the right entitlements for the market we see going forward?

Michael Kim - *CRT Capital Group - Analyst*

Right.

Jay Sugarman - *iStar Financial - Chairman, CEO*

Unfortunately, Michael, you never get to sit back and say okay, I made it across the bridge and now I can rest. Particularly in these multiphase faster playing communities, you are moving from one piece to the next and a lot of the work still lies ahead of us on a number of these projects. So capital will continue to go into them. We will start seeing money come back from more and more of those projects, so the balance will be a little better; but I wouldn't want to tell you there isn't more money going in on any of these because I think in almost every case we are continuing to either refine or reinvest in those projects.

Michael Kim - *CRT Capital Group - Analyst*

Understood. And my last question just on loan repayments through the remainder of the year, do you have visibility on the amount of expected loan repayments to occur by year end, and understanding that you exceeded the near term minimum amortization requirements under the 2011-2012 tranche A-1 bank debt, what portion of anticipated loan repayments for the remainder of this year do you expect will pay down bank debt versus being available for liquidity on hand?

Jay Sugarman - *iStar Financial - Chairman, CEO*

Well, obviously, the loan is inside the 2011 or 2012 facility. All those proceeds will go to pay down the facility further. And since a significant portion of the loan book is in those two facilities, a lot of the loan repayments are going to be amortizing the facilities down. On the other side of the ledger, there are a number of condominium and other types of assets outside of the secured facilities that will generate liquidity as well. So that is where we pick up kind of the excess liquidity but gives us a chance to think about where to deploy, in effect, unrestricted capital.

Michael Kim - *CRT Capital Group - Analyst*

Understood. Okay. Great. Thank you.

Operator

Our next question is from it Josh Barber with Stifel Nicolaus. Please go ahead.

Josh Barber - *Stifel Nicolaus - Analyst*

Thanks, good morning. You mentioned that the loan loss reserve has to do with higher -- with European losses, and I know you mentioned that with your watch list assets uptick last quarter. Can you remind us what your total exposure is there, both gross and net and how that is divided up between junior and senior positions?

Jay Sugarman - *iStar Financial - Chairman, CEO*

Dave, let's get the senior/junior split. Here is the way to think about it. We are under $200 million on a currency adjusted net basis which is how we think about it, Josh. We have a couple positions over there that we feel quite good about, and we have a couple of positions that candidly on the financial metrics, we would feel quite good about, but given what is going on in the refinance and senior bank debt market, I'm not sure whether those markets are even functioning at this point.

So those are the ones we have had to take a closer look at. Those are the ones we are concerned about and that have popped up on the watch list and in our own internal management. We do have probably, from a senior standpoint -- and we're just thinking about Europe at this point, not other international, only a couple positions are going to be senior in the capital stacks, probably 25% of that book. The rest are in some way subordinated whether to a senior loan or to some sort of first lien corporate type debt.

Josh Barber - *Stifel Nicolaus - Analyst*

Okay. When it comes to the second half 2012 resolutions, it looks like the total amount of properties that you took title to in the second quarter started slowing; and I know that can move around from quarter to quarter, but as you are going into the second half of this year what do you think the outlook is for just overall NPL resolutions?

Jay Sugarman - *iStar Financial - Chairman, CEO*

You know, it is difficult. A couple of those are litigation situations where it is truly impossible to predict. They just consistently prove slower than we think they should. We do have a couple of assets that have matured where we know borrowers are unlikely to support the property or make the CapEx requirements we are telling them they need to get an extension out of us. We will be prepared to take those kinds of assets back. So that portfolio continues to wind its way through.

We are making progress and will take back assets that make sense to, but I just hesitate to tell you that we have a good crystal ball on those because we don't. We know in the second half of the year, we have one or two meaningful assets we will take back and beyond that we'll see how you it goes.

Josh Barber - *Stifel Nicolaus - Analyst*

That's helpful. When it comes to your impairments on the CTL portfolio, I know you mentioned it has to do more with the office leasing. Can I assume that is similar to the impairments that you took last quarter on that portfolio; and B, the statistics that you gave on that about the 12 years weighted average leasing and 91% leased, is that including those assets that were sold during the quarter and the ones that have been impaired?

Jay Sugarman - *iStar Financial - Chairman, CEO*

Let's talk about net lease for a second. Obviously, the majority of the book is under long-term leases, single tenant, strong, stable, predictable cash flows. We have had a segment of that market as tenants have rolled out of 10- and 15-, and in some cases, 20-year leases we have got the to go back into that market and make a decision. Are we going to wait for that one new single tenant that the property is the right one for? Typically that requires us to make some meaningful expenditures to reposition it for today's market versus when the lease was signed, 10, 15, 20 years ago.

The second alternative is to break it up into a multi-tenant the building. A third is to just simply sell it and let somebody else deal with it. We've looked at a number of the vacant assets as we came out of the downturn to see whether it was the downturn that was causing the problem or whether they were simply not being competitive for the type of single tenant situations that are in the marketplace. And in those cases where we no longer think we are going to land the big, single tenant who is going to fill the entire building, we are taking a much harder look at the alternatives into deciding where we are going with particularly some of these assets that are not things we think are going to be in the core portfolio long-term and where appropriate --

You know, it's certainly less efficient to run a multi-tenant building, and it's probably even going to be a bigger hit if we have to just turn around and sell without making the CapEx improvements, but that may be the right decision. As we talk about streamlining the portfolio, where do we want management attention spent, where do I want my asset managers focused? Some of the these assets just don't make sense any more. And so they will either be moved into the operating portfolio and be treated like multi-tenant assets or we are going to sell them and move on.

Josh Barber - *Stifel Nicolaus - Analyst*

Okay. And last question; share buy backs. It looks like you guys did about 800,000 during the quarter. What is your outlook, I guess, going into the second half of the year? It looks like liquidity, you know, continues to improve and the share price still has done pretty well this year but still pretty low in absolute terms. How were you thinking about share repurchases at the current levels?

Jay Sugarman - *iStar Financial - Chairman, CEO*

I think the first order of business has been to get our leverage down; but at the same time, we think a number of securities in our capital structure are attractive from the debt to the preferred to the common. We will continue to look at their relative valuation among those components and make good use of any excess liquidity we have. Last quarter, we certainly saw an opportunity in the shares. I would expect us to continue to have some amount of excess liquidity to deploy and common stock buy back is still part of that thinking.

Josh Barber - *Stifel Nicolaus - Analyst*

Thanks very much. Good luck.

Jay Sugarman - *iStar Financial - Chairman, CEO*

Thank you, Josh.

Operator

Next to Amanda Lyman with Goldman Sachs. Please go ahead.

Amanda Lyman - *Goldman Sachs - Analyst*

Thanks for taking the question. I was just hoping you could address your preference for addressing the 2013 unsecured maturities. Would you look to issue a convert or is your preference unsecured or another secured financing? Thank you.

Jay Sugarman - *iStar Financial - Chairman, CEO*

Look, we think it is going to be a combination of cash on hand from the continued streamlining of the portfolio plus access to the capital markets in one way, shape, or form. Certainly, a combination of secured and unsecured is probably the preferred way. We want to continue to make progress back into the unsecured side of the world. But we also need to keep our cost of funds competitive, and the secured side may provide a way to finance a portion of the refinancing. As you know, the first maturity is in June, the second one is in October, and then we have a very small tag piece in December.

We think we have got plenty of runway and time to make use of the capital markets and figure out how much internal capital is appropriate to generate. It will be a combination of all three is my guess. With respect to the capital market piece, I wouldn't expect to be all secured or all unsecured. We will probably use a combination of both. Lastly on converts, we still don't see a good place to take advantage of the markets on the convert side, but if that was to open up to us, we might think about that. Right now, it is not on our radar.

Amanda Lyman - *Goldman Sachs - Analyst*

Great. Thank you.

Operator

(Operator Instructions). Next we will go to Jonathan Feldman with Nomura Securities. Please go ahead.

Jonathan Feldman - *Nomura Securities - Analyst*

Good morning. Just a couple of questions from this end, and I was a little late to the call, so I apologize if you answered them. But in terms of the CTL assets that were sold, did you give any color on what those assets were specifically?

Jay Sugarman - *iStar Financial - Chairman, CEO*

No, but I can tell you they came out of our AutoStar book primarily. They were done in the 8 range on the cap rate basis. We have deemphasized the AutoStar piece of our business as we focus more on our core strategies. They were very good assets, a good fit for the ultimate wear. So it was a trade that we think had positive characteristics for us and for them.

Jonathan Feldman - *Nomura Securities - Analyst*

Got it. And then you guys had also called out the reduction in the watch list assets during the quarter. Any color that you can provide around those situations? Is that year collated -- or do you think longer term credit positive as reflected in that reduction? Just kind of curious what you are seeing with respect to the movement there.

Jay Sugarman - *iStar Financial - Chairman, CEO*

That migration really was around an asset that had a maturity date and a borrower who has consistently supported the asset but it has got some reasonably meaningful CapEx requirements going forward. We weren't sure whether the borrower with would take those on. It doesn't look like they will, and so we will move that to NPL; and ultimately my guess is we will be the owner of the asset. It is a cash flowing asset, but as I said it does need a strong commitment behind it to continue generating decent cap rate to our basis. It looks like we are going to be taking on that responsibility.

Jonathan Feldman - *Nomura Securities - Analyst*

And what is your guy's outlook on a fundamental perspective in terms of longer term monetization of that asset?

Jay Sugarman - *iStar Financial - Chairman, CEO*

Probably too early to tell, Jonathan. We have to get our hands around exactly where we might have difference of opinion versus our borrower and what can be done. You know, we don't own the asset yet so I can't really speak to that.

Jonathan Feldman - *Nomura Securities - Analyst*

It sounds like this is not a surprise in terms of thinking that it was okay and now an expectation that you are going to take ownership of it? Or was it a surprise? I'm just curious.

Jay Sugarman - *iStar Financial - Chairman, CEO*

A little bit of a surprise. I think difference of opinion internally about the borrower's motivations. You know, we've seen strong support in the past and so for whatever reason, I think we have come to the end of the line on that one and rather than continue as a lender, it probably makes more sense now to put ourselves in control.

Jonathan Feldman - *Nomura Securities - Analyst*

Got it. Okay. And then you guys had -- Jay, you had mentioned continuing to look at ways to reduce your costs of capital going forward. Can you at this time amplify your thoughts there in terms of ways that you would look to go about doing that?

Jay Sugarman - *iStar Financial - Chairman, CEO*

I think there is a couple of things. One, as we said, obviously just delevering the portfolio is a big part of that strategy. I think retiring all of the 2013 maturities will have a material impact on how people perceive our maturity profile. I think consistent accelerated amortization in the secured facilities should give people comfort that there is lots of liquidity in those books. So we're hoping a combination of all of those things while we continue to try to transition some of the non-GAAP contributing assets into a more positive position.

If all those things can come together in a marketplace that has the kind of interest rate environment we see today, and a little more stability in the macro economic environment, we would expect the whole complex to trade a little better. But each of those pieces needs to continue to move forward, and we still have quite a bit of work ahead of us before we reach our target leverage levels.

Jonathan Feldman - *Nomura Securities - Analyst*

Got it. And then just lastly, you have talked a little bit about kind of the REHI portfolio and some of the initiatives there. And just wondering if you can kind of provide your most recent thoughts on that portfolio understanding that it is very idiosyncratic product in nature. It looks like you guys had taken title to a project in Virginia, Magnolia Green several years ago. It looks like some of the pace of home construction on that project had picked up recently. So just wondering if there are any -- if you can comment on that. Are there any other success stories in terms of builder interest or otherwise in the REHI portfolio? Thanks.

Jay Sugarman - *iStar Financial - Chairman, CEO*

I mean, in REHI, the land component is a pretty big component, so it's probably worth touching on that. Home builder indices and confidence surveys are all very strong. As I said earlier, there is a direct correlation between low interest rates and housing. And we see that and feel that strongly in certain markets, and where we have gotten our hands on assets and been able to deploy capital wisely, good things have been happening. You mentioned Magnolia Green, top-selling community in the Richmond area, but it is a multiphase project that has thousands of units.

You know, you have got to have a vision that builds from today towards all of the future phasing; how you place that infrastructure, what amenities? It is a big effort. We have got probably a dozen to 18 people now working on our land group, all focused on delivering value. Some places it is happening quicker than others. And as I mentioned earlier in the call, every step seems to require capital.

So it is not something that we don't pay rigorous attention to; but in most cases, we think deploying that capital into that sector is very attractive. We would look to monetize some of those assets. We would look to find ways to supplement the capital resources for that portfolio. But we are going to optimize that business line as best we can and think about all different alternatives for it. So nothing to report at this point, but it is certainly a focus of ours.

Jonathan Feldman - *Nomura Securities - Analyst*

Great. Thank you very much and good luck.

Operator

And Mr. Fooks, we have no further questions.

Jason Fooks - *iStar Financial - IR*

Thanks, John, and thanks everyone for joining us this morning. If you should have any additional questions on today's earnings release, please feel free to contact me directly. John, would you please give the conference call replay instructions once again? Thank you.

Operator

Certainly. Ladies and gentlemen this conference replay starts today at 12.30 PM Eastern Time and will last until August 10 at midnight. You may access the replay at any time by dialing 800-475-6701 and entering the access code 254611. That number again, 800-475-6701 and the code 254611.

That does conclude your conference for today. Thank you for your participation. You may now disconnect.
