S&P Capital IQ

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Tiptree Inc. NasdaqCM:TIPT

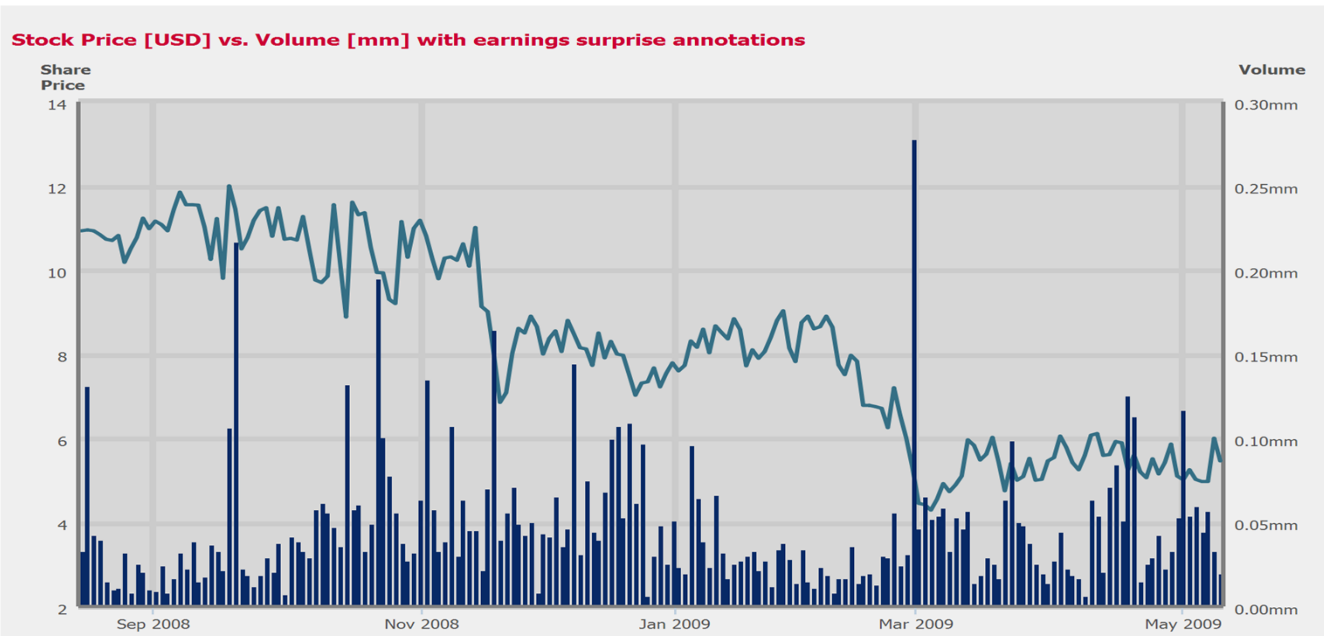
FQ3 2009 Earnings Call Transcripts

Monday, November 09, 2009 1:30 PM GMT

S&P Capital IQ Estimates

	-FY 2009-
	CONSENSUS
Revenue (mm)	15.48

Currency: USD
Consensus as of Jul-13-2009 11:32 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2008	(0.01)	0.00	NM
FQ4 2008	(0.02)	(0.90)	NM
FQ1 2009	(0.12)	0.08	NM

Call Participants

EXECUTIVES

Flint D. Besecker
Former Lead Director

Leslie Loyet
Vice President of Chicago Office

Paul F. Hughes
Former CFO, Principal Accounting Officer, Chief Compliance Officer, Secretary and Treasurer

ANALYSTS

Lee Kruter

Ryan Zacharia
Jacobs Asset Management

Presentation

Operator

Good morning, ladies and gentlemen and thank you for standing by, and welcome to the Care Investment Trust Inc. Third Quarter 2009 Conference Call. [Operator Instructions] I would now like to turn the conference over to Leslie Loyet, Financial Relations Board. Please go ahead.

Leslie Loyet
Vice President of Chicago Office

Thank you. I'd like to thank everyone for joining us today. This morning we sent out a press release outlining results for the third quarter 2009. If anyone has not received the release, please visit Care's website at www.carereit.com to retrieve a copy. Management will provide an overview of the quarter, and then we'll open the call up to your questions.

Before I turn the call over to management, I need to inform you that certain statements made in the press release and on this conference call that are not historical, may be deemed forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. For a discussion of the risks and uncertainties which could cause actual results to differ from those contained in the forward-looking statements, please see the Risk Factors section in the company's Form 10-K for the period ended December 31, 2008, and any subsequently filed Form 10-Q quarterly reports filed with the SEC. All forward-looking statements speak only as of the date on which they are made, and the company undertakes no obligation to update any forward-looking statements to reflect events or circumstances after the date of such events.

Also, during today's conference call, the company may discuss Funds From Operations or FFO or Adjusted Funds From Operations or AFFO, both of which are non-GAAP financial measures as defined by SEC Regulation G. A reconciliation of each non-GAAP financial measure and the comparable GAAP financial measure or net income can be found in the press release issued this morning, November 9, 2009, and on the company's website, again, at carereit.com by selecting the press release regarding the company's third quarter earnings. At this time, I'd now like to introduce Flint Besecker, Chairman of the Board. Please go ahead.

Flint D. Besecker
Former Lead Director

Thank you, Leslie, and good morning. Joining us on the call are several Care officers and CIT employees including Scott Kellman, Torey Riso, Paul Hughes, Chris Corso [ph] and Suman Sarma. On today's call, we will discuss the implications to Care from the CIT bankruptcy, the announcement of our Board nearing the completion of its review of strategic alternatives. And finally, Paul Hughes will discuss the quarterly financial performance and liquidity position of the company.

As many of you know, on November 1, CIT Group Inc. and CIT Group Funding filed for Chapter 11 bankruptcy with their announcement of a pre-packaged bankruptcy filing where large percentage of the bondholders had voted to approve the restructuring plan. The court had set a December 8 hearing date for final approval of the plan. Our manager, CIT Healthcare, was not included in the bankruptcy filing.

A bankruptcy filing of CIT Group was not unexpected. However, more relevant to Care is the ongoing performance of our manager under our management agreement. Because Care is externally managed by CIT Healthcare, our Board routinely monitors the performance and adequacy of the services provided to it by CIT Healthcare.

I'm pleased to report that there has been, and remains to be, a very healthy dialogue between the Board and our manager. Our Board has not observed any noticeable differences in performance or service under the management agreement and will continue to monitor our manager's performance in the future. Next, let's discuss the comments we made in our press release.

First, I'd like to say we appreciate your patience over the course of the last several quarters as our Board has worked diligently to determine a strategic pathway for the company that optimizes value for the shareholders.

I won't comment specifically on what we have or are currently considering, but we did want to inform the market that we have had an ongoing process and it is nearing completion. You may recall in 2008, we classified our entire mortgage portfolio as held for sale and discussed the given current market conditions and inability to leverage to that [ph] product, we would not be in the business of originating new mortgage investments. Our Board's decision during 2009 to pay up our Column Financial warehouse line and to monetize many of our mortgages to build cash on the balance sheet was designed specifically to maximize the strategic flexibility as we worked through our process. We are therefore committed to a timely completion of our strategic alternatives review process. Again, I appreciate your patience and support.

Now I'd like to turn the call over to Care's Chief Financial Officer, Paul Hughes, who will describe the results of the quarter in more detail.

Paul F. Hughes
Former CFO, Principal Accounting Officer, Chief Compliance Officer, Secretary and Treasurer

Thank you, Flint, and good morning, everyone. Care generated approximately $5 million of total revenue during the third quarter, which primarily consisted of rental revenue of $3.2 million and interest income from our mortgage portfolio of $1.8 million. Interest income is down from prior periods due to the sale and prepayment activity of our loan portfolio.

Operating expenses during the quarter were approximately $2.8 million. Marketing, G&A expense comprised $3.1 million, of which $1.2 million was attributable to legal and advisory fees incurred in connection with the ongoing review of the company's strategic direction that Flint was speaking about. In addition, management fee expense totaled $570,000, and depreciation and amortization expense was approximately $840,000. The components of operating expense identified so far aggregate to a total of approximately $4.5 million. This amount was offset by a positive adjustment of $1.7 million to the carrying value on our books or our mortgage investments, which we continue to mark to the lower of cost or market each quarter.

Loss from investments in partially-owned entities was approximately $1.2 million for the third quarter. This included a $1.5 million loss relating to our investment in the Cambridge properties that resulted from non-cash depreciation charge of $2.4 million. This result also included equity income of about $300,000 from Care's investment in the Senior Management Concepts properties. Care also booked a $1.2 million loss on derivative instruments, resulting from a revaluation of our obligation to issue operating partnership units relating to Cambridge. This revaluation was primarily driven by an increase in Care's stock price during the third quarter.

In addition, we realized a gain of approximately $1.2 million related to the sale of mortgage loans during the quarter. Interest expense related to the mortgage debt supporting the Bickford acquisition totaled $1.5 million. Care's effective interest rate for the third quarter was fixed at approximately 6.88% on this debt. But consequently, Care's net loss for the quarter equaled $430,000 or about $0.02 a share, while FFO equaled $2.8 million or $0.14 a share. The difference between these metrics results primarily from the add back of depreciation and amortization to derive the FFO.

Adjusted Funds From Operations or AFFO equaled $1.2 million or $0.06 per share. The AFFO metric reflects additional adjustments to net income, including things such as stock-based comp, the non-cash effects of straight-lining of lease revenue, the unrealized gain or loss resulting from revaluation of the partnership units issued in the Cambridge transactions, gains or losses from sales of mortgage loans, excess cash distributions from the company's equity method investments and the impact of marking our mortgage portfolio to the lower of cost or market. Now, a few comments about our portfolio.

Our portfolio metrics remained consistent with the previous quarters. All payments due for the quarter have been collected. Care has no loans on non-accrual status. Performance of our owned properties continues to demonstrate strength. The occupancy in Cambridge's medical office building continues to track slightly above our underwritten assumptions, and our investments in assisted living continue to perform well, with both our Bickford and Senior Management Concepts portfolios showing steady occupancy.

And with respect to liquidity, Care's liquidity was greatly enhanced by the sale of six or seven mortgage investments totaling $44 million during the quarter. At September 30, 2009, Care held $95 million in cash and cash equivalents. Subsequent to the end of the third quarter, we sold an additional mortgage loan and realized proceeds of $8.5 million, resulting in cash of approximately $104 million at the end of October, and we have also entered into an agreement to sell another loan and expect to receive proceeds in excess of $20 million in the near term. And right now, Care has no debt maturities prior to 2015.
Operator, that pretty much wraps up our prepared remarks this morning. Could you please open the line for questions?

Question and Answer

Operator

[Operator Instructions] And our first question comes from the line of Lee Kruter with Golden Tree Asset Management.

Lee Kruter

I guess, you just mentioned the last $20 million loan, was that a loan that was -- the CIT put expiring on September 30, or was that part of a CIT put, or...

Flint D. Besecker
Former Lead Director

It's to an unrelated third-party.

Lee Kruter

And were there any additional loans made to CIT prior to the quarter-end?

Flint D. Besecker
Former Lead Director

You mean -- I'm not quite sure at what...

Lee Kruter

Yes, because there were some room left on the put, right?

Flint D. Besecker
Former Lead Director

Yes, there was. You'll see in our 10-Q that we did provide notice to CIT with respect to the put of some of the remaining mortgages. But we have to meet certain closing conditions and it's uncertain whether we can meet those closing conditions. Therefore, it's uncertain whether we're going to be able to realize cash from that. But that certainly does not stopping us from seeking monetization strategies from third parties.

Lee Kruter

I'm under the assumption that, that can meet those provisions. What's the size of that book?

Flint D. Besecker
Former Lead Director

I think it's about $35 million. Yes, we have about that now.

Lee Kruter

So I guess between that, if you can give that put on plus the other $20 million, that basically is the remaining piece of the mortgage debt?

Flint D. Besecker
Former Lead Director

I think were down to -- the way you should think about down on the short strokes on the remaining mortgages to the extent that we don't put them to see IT through the completion of meeting those certain closing conditions. We're going look to sell those to unrelated third parties. And one thing I do want to note, the put doesn't afford us any great price opportunity relative to the market because as you may know, the put to CIT gives us the ability to put back at a fair market value. So theoretically, it's what any other third-party would pay us for the value.

Operator

[Operator Instructions] And our next question comes the line of William Mansfield [ph] with Jando Capital [ph].

Analyst

I was hoping if I could get you to elaborate a little bit on the answer to the prior question. My understanding from -- in the third quarter you sold a bunch of loans to an entity called CapitalSource Bank?

Flint D. Besecker
Former Lead Director

Yes.

Analyst

And I guess when you put out the 8-K on that announcement, you talked about -- that you have the ability to sell them an addition loan at par and then you have your option of selling them two-term loans, I think one at $0.88 and one at $0.00837. Did you end up selling those loans to them?

Flint D. Besecker
Former Lead Director

We did not close on those additional sales for a variety of reasons. One, certain closing conditions needed to be met, number one. Number two, there were pricing opportunities, which were more advantageous than the pricing indicated in that agreement with CapitalSource.

Analyst

And so those particular loans weren't sold to them? And it sounds like you're kind of implying you got a better bid from somebody else?

Flint D. Besecker
Former Lead Director

Let me give you an example that Paul Hughes referenced that we have a loan under contract in excess to $20 million that we expect to close shortly. That was a loan that was also potentially going to be sold to CapitalSource. But frankly, we got a better price from someone else.

Analyst

And I was a little confused by the phrase that you used that requirements need certain closing conditions related to sale [ph] if putting $35 million of loans back to CIT? What does that exactly mean and...

Flint D. Besecker
Former Lead Director

There are just a variety of different closing conditions that are standard in any sale of a mortgage loan investment, and there's nothing more to it than what it says.

Analyst

But you kind of implied that you wouldn't be able to meet those closing conditions, is that correct?

Flint D. Besecker
Former Lead Director

I said we may not be able to.

Analyst

So the closing conditions on, say, these loans to selling these last loans CIT on the put are no different than the closing conditions in the loan you sold to CIT announced in September 16?

Flint D. Besecker
Former Lead Director

To CIT or CapSource [CapitalSource]?

Analyst

To CIT, the one that announced in September 16, I think, $17.4 million...

Flint D. Besecker
Former Lead Director

I'm not sure I understand your question, so...

Analyst

What I'm getting at is in the past, you've sold loans to CIT under the operation of the put, I believe.

Flint D. Besecker
Former Lead Director

Yes.

Analyst

And then you're trying to do so again now. Are the closing conditions the same in both of those cases?

Flint D. Besecker
Former Lead Director

Definitely, yes.

Analyst

And so while in the past you have been able to meet the closing conditions required, there's no guarantee that you will meet them in the future?

Flint D. Besecker
Former Lead Director

It sound like you just read the statement from our 10-Q.

Analyst

And then lastly, in terms of -- I don't know what you can say about this, in terms of your strategic review, how does the management with CIT Healthcare play into those strategic review in terms of -- are there termination payments that potentially would be owed to CIT Healthcare?

Flint D. Besecker
Former Lead Director

If Care were to terminate the management agreement, we'd owe approximately $15 million to CIT as a result of that termination.

Analyst

And that would be the worst case, the most expensive outcome, if you will, is that correct?

Flint D. Besecker
Former Lead Director

Yes, I think that's fair. That's the way we look at it.

Operator

[Operator Instructions] And our next question comes from the line of Matthew Greenfield [ph] with Studmore Capital [ph].

Analyst

I apologize if you've answered this in the first part of the call,but what would be the difference in terms of tax impact of the strategic alternatives you're considering of the sales of individual assets versus a merger? And what would the impact on the REIT status be?

Flint D. Besecker
Former Lead Director

I don't think we're prepared to get into the details of that right now, but certainly, the tax impact of any of the strategic alternatives, we're going to be looking at and have looked at. We've taken into account the tax implications to our shareholders. So I think the answer is it's likely different, depending upon what we do. But I think, if I got details about that, I think that would be an area I'm not prepared to discuss right now.

Analyst

I thought that the CIT filing would allow you to terminate the management contract for a cause without paying that $15 million penalty, is that wrong?

Flint D. Besecker
Former Lead Director

It's CIT Healthcare, so our management agreement is with CIT Healthcare, and CIT Healthcare did not file for bankruptcy, just the parent company of CIT essentially filed for bankruptcy. The subs did not get pulled in.

Operator

Our next question comes from the line of Ryan Zechariah with JAM [Jacobs Asset Management] Equity Partners.

Ryan Zacharia
Jacobs Asset Management

Just on this management fee issue, in any or all of the strategic alternatives, is that fee going to be payable or some fee going to be payable? Or is it going to be aggregated or something like that?

Flint D. Besecker
Former Lead Director

I think I'd answer it as follows. Care has a contractual obligation to CIT. The termination fee is part of that contractual obligation. There's an active dialogue around the management agreement, and what's in the best interest of Care shareholders, going forward, related to the strategic alternatives process. So as you can imagine, the outcome of strategic alternatives process is going to have an impact to the structure of the management agreement, going forward.

Operator

Thank you. We have no further audio questions at this time. I'd like to turn the conference back over to Mr. Besecker for any closing statements.

Flint D. Besecker
Former Lead Director

Well, listen, I want to thank all of our investors for the patience, and we look forward to speaking with you soon when we complete our review of the strategic alternatives. So thank you very much.

Operator

And ladies and gentlemen, this does conclude the Care Investment Trust, Inc. Third Quarter 2009 Conference Call. If you would like to listen to a replay of today's conference please dial 1-800-406-7325 or (303)590-3030, with the passcode 418-0309. ACT would like to thank you for your participation and you may now disconnect.