S&P Capital IQ

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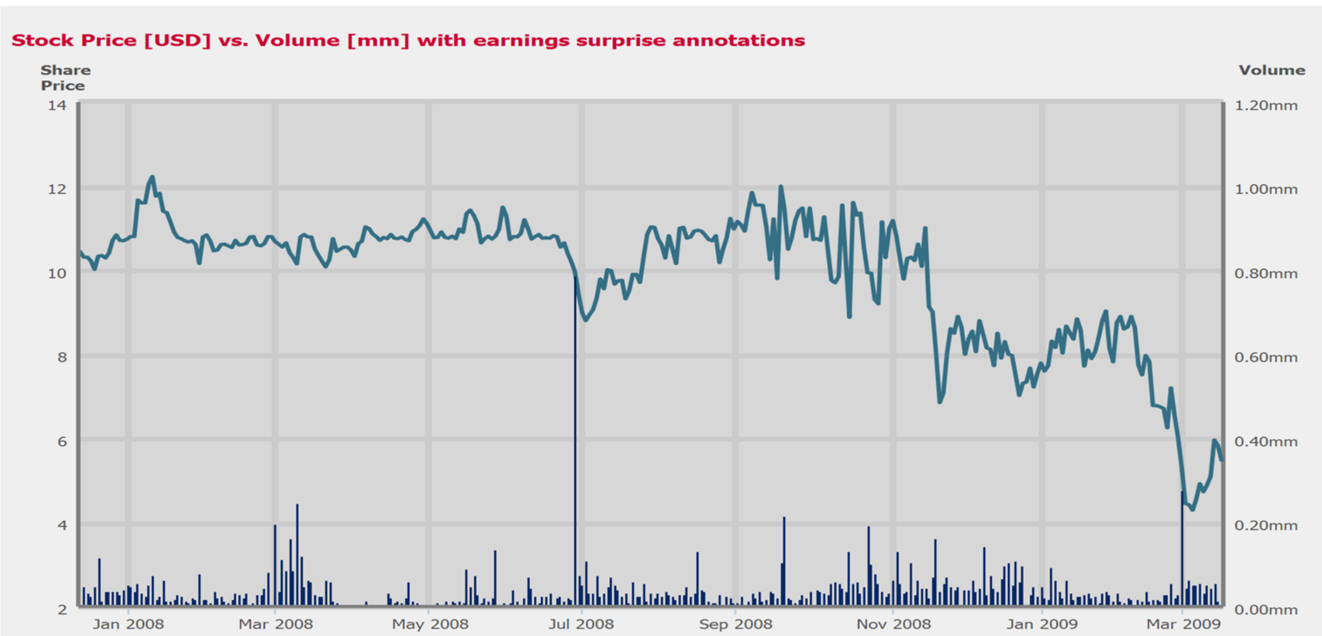

Call Participants

EXECUTIVES

Joseph Calabrese

Salvatore V. Riso
Former Chief Executive Officer and President

Steven M. Sherwyn
Former Chief Financial Officer, Principal Accounting Officer and Treasurer

ANALYSTS

Unknown Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to the Care Investment Trust First Quarter 2011 Results Conference Call. [Operator Instructions] As a reminder today's call is being recorded, May 17, 2011. [Operator Instructions] And at this time, I would now like to turn the call over to Joe Calabrese, Financial Relations Board. Go ahead.

Joseph Calabrese

Thanks, Greg. Good morning, everyone. I'd like to thank everyone for joining us today. Last week, we distributed a press release providing an update on the Care Investment Trust's first quarter results. If you have not received the press release, please visit the Investor Relations section on the company's website at www.carereit.com to obtain a copy.

During today's conference call, management will provide an overview and will then open the call to your questions. Before we begin, please be advised that this call may involve forward-looking statements as discussed on the press release dated May 10, 2011. Risks associated with these statements can be found in the company's latest SEC filings.

Additionally, we wanted to remind participants that information contained in this call is current only as of the date of this call, May 17, 2011, and the company assumes no obligation to update any statements including forward-looking statements made during this call. Listeners to any replay should understand that the passage of time, by itself, will diminish the quality of the statements.

Additionally, 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 a comparable GAAP measures, net income, can be found in the 10-Q filed on March 17, 2011, and on the company's website at www.carereit.com under the Investor Relations tab.

At this point, I'd like to turn the call over to Torey for his opening remarks. Torey, please go ahead.

Salvatore V. Riso
Former Chief Executive Officer and President

Thank you, Joe, and good morning to everyone on the call. I'm Torey Riso, the Chief Executive Officer of Care Investment Trust. I'm joined here in New York by my fellow Executive Committee members, Michael Barnes, our executive Chairman; and Geoffrey Kauffman, our Executive Vice Chairman, as well as Steve Sherwyn, Care's Chief Financial Officer.

We are pleased to have the opportunity to speak with you about the accomplishments that have been achieved in the very short time since the closing of our change of control transaction last year to review with you our financial results for Q1, to describe for you Care's near-term priorities and finally, to answer any questions you may have.

Care has undergone many positive changes over the past 8 months. In August 2010, we closed a transaction that resulted in Tiptree Financial Partners becoming our majority shareholder. As a direct result of that transaction, in November 2010, we terminated the CIT management agreement and transitioned to a new management structure.

During the first quarter of 2011, we resolved 1 of 2 major lawsuits class action relating to Care's IPO in June 2007. And early in the second quarter, we settled the other major lawsuit, this one relating to our Cambridge transaction.

We recently announced the sale of 3 of the 4 properties comprising our FFD investment which generated net proceeds of $6.2 million and provided Care with additional investable capital.

Finally, just last week, our board reinstated a quarterly dividend in the amount of $0.135 per share for Q1. We believe that the market has begun to recognize these positive steps as evidenced by the 54% increase in our stock price since beginning to operate under our new management structure in November 2010. Achieving these milestones is also significant as we believe this will allow Care to focus on and pursue its growth strategies.

Before going further, I'd like to ask Steve Sherwyn, our CFO, to walk you through our first quarter results. Steve?

Steven M. Sherwyn
Former Chief Financial Officer, Principal Accounting Officer and Treasurer

Thank you, Torey. Good morning. The first quarter of 2011 represents our first full quarter operating separate and apart from CIT.

Turning to our operating results. Let's begin with the revenue for the quarter. Other than some timing issues, the revenue portion of our income statement was relatively status quo. Our assets continue to perform as expected. As we will discuss in a few moments, there will be changes in 3 of our revenue components in the second quarter due to the restructuring of our Cambridge investments, the sale of 3 of the 4 SMC properties and the capitalization of the default interest on our remaining mortgage loan. The real change in our operations for the first quarter was seen with regard to our expenses. During the quarter, the company aggressively pursued cost containment and expense efficiencies. Legal fees were reduced from approximately $250,000 to $500,000 per quarter to less than $50,000, due primarily to the elimination of litigation expense. Orders and taxes fees have been reduced significantly. Directors' fees have been cut in half. These are just some examples of the process impact of management's efforts to control expenses.

So what does this mean to our shareholders? When we add back the cost of direct and indirect depreciation on our real estate asset for approximately $3.5 million, we had FFO for the first quarter of approximately $2.3 million and AFFO of approximately $2 million. This equates to $0.23 and $0.20 per share, respectively.

The main difference between FFO and AFFO calculations is the impact of straight-lining of lease revenues. Our positive FFO and AFFO results enabled the company to reinstate its dividend. As previously announced, the dividend for the first quarter is $0.135 per share or approximately 59% of current FFO and approximately 58% of current AFFO. On an annualized basis, the $0.135 dividend represents a yield of 7.7% to our stock price in the close of business on Monday, May 16. Management remains keenly focused on pursuing transactions that will be accretive and will generate cash flow sufficient to maintain and eventually to increase our quarterly dividend.

As previously indicated, cash flow from our existing investments will be slightly lower in the second quarter as a result of the sales of 3 of the 4 SMC properties, approximately halfway through the quarter. And since our remaining mortgage loan is no longer currently paying the default interest, the said amount is being capitalized. We view this reduction in cash flow from our investments as temporary as we expect to redeploy the proceeds we received from the SMC sale. On the expense side, we expect to continue to see the positive benefits of our cost containment efforts.

Turning to our balance sheet. Bickford. The Bickford portfolio consists of 14 properties which continue to perform as expected. There are 2 mortgages on these properties totaling approximately $81 million which comes due in 2015.

SMC portfolio. As previously discussed earlier this month our joint venture partner, Senior Management Concepts, completed the sale of 3 of the 4 SMC properties. Net proceeds to Care were approximately $6.2 million. We continue to maintain our 100% preferred equity and 10% common equity interest in the remaining property. As a result of the sale, cash flow from this investment will decrease from approximately $300,000 per quarter to approximately $80,000 per quarter.

Our remaining mortgage loan. As discussed in our 10-Q, and the maturity date of this loan has been extended until July 2011. The borrower and lending group continue to work diligently toward a longterm solution. Default interest has been deferred, but scheduled interest and principal will continue to be paid in a timely manner. We are comfortable of where we are carrying this loan and anticipating a more permanent resolution later this year.

Cambridge. Our final asset, it's the 9-property Cambridge medical office building portfolio. As stated in both our 10-Q and our earlier files with 8-K, we settled our previous litigation with Cambridge and entered into a restructuring of our investment. Our investment in the Cambridge portfolio went from a fixed ownership percentage of 85% to a targeted dollar amount of $40 million, with a preferred return of 14% and a current pay component of 12%. The impact of this change is not reflected in our first quarter operating results as the agreement was not executed until April, even though some of its economic terms were retroactive for January 1 of this year. We feel that the revised Cambridge structure aligns the interest of Care with Cambridge.

As previously mentioned, the impact of this transaction was not reflected in our first quarter operating results. We are still in the process of determining the accounting stream for this transaction on a going forward basis. Torey?

Salvatore V. Riso
Former Chief Executive Officer and President

Thank you, Steve. As described in the outset of the call, we're happy to say that Care has achieved many of the goals we have originally set out for the first month after closing the change of control transaction and transitioning management.

Care's current near-term priorities are as follows: pursuit of acquisition opportunities to increase shareholder value and our dividend; continue to explore opportunities for raising debt and equity capital; and at the appropriate time, increase our shareholder base and re-list Care on a national exchange. I am very optimistic about Care's prospects and look forward to working with the team to accomplish our near-term goals.
With that, I'll ask the operator to open the lines for questions.

Question and Answer

Operator

[Operator Instructions] And our first question does come from the line of Eric Shawney [ph] with Camebick Partners. [ph]

Unknown Analyst

My first question is in regards to SG&A from Bickford. Do you think that there's some room to take out additional costs or how do you feel about it in its current state?

Steven M. Sherwyn
Former Chief Financial Officer, Principal Accounting Officer and Treasurer

Before I take out additional costs, it's a triple-net lease.

Unknown Analyst

Right, so I'm saying that the SG&A should theoretically be zero. Right now, you're running at about $1 million a quarter, is there any room to get that to zero or are there some additional costs that you guys have been incurring that you think will be sustainable there?

Steven M. Sherwyn
Former Chief Financial Officer, Principal Accounting Officer and Treasurer

Well, there is contractual rent increases in the Bickford portfolio, as well as the deferred rent that accrued over the last 3 years that will become payable starting in July of 2011 for over a 2-year period. So there will be an increase of cash flow from the Bickford, as well as increased income.

Unknown Analyst

Right. I guess I'm talking about the SG&A that you reported in Q1, 1.14. Aside from what should be already included in the management agreement, obviously, could get to zero, right? That's my question.

Steven M. Sherwyn
Former Chief Financial Officer, Principal Accounting Officer and Treasurer

I think there may be a disconnect on tying the SG&A to Bickford. I don't know exactly what, but I think that's where we're kind of promoting.

Unknown Analyst

And may be the better question is out of the SG&A, how much of that comes directly from Bickford?

Steven M. Sherwyn
Former Chief Financial Officer, Principal Accounting Officer and Treasurer

None of the cash. Again, it's a triple-net lease so all those expenses get passed through to the natural web fees.

Unknown Analyst

Okay, right. That's what I thought. So the 1.14, what does that represent as outside of the management contract?

Steven M. Sherwyn
Former Chief Financial Officer, Principal Accounting Officer and Treasurer

Outside the management contract, it represents everything from compensation to the management team to legal, rent, utilities, travel, phone...

Unknown Analyst

So is it's just hodgepodge of those different things, probably sustainable. Okay. And then in terms of the -- you mentioned a couple of times on the call now raising debt and equity capital. What are you guys looking to do? Are there certain types of assets that you're looking at to a certain type of size, range into any acquisition you'd make?

Salvatore V. Riso
Former Chief Executive Officer and President

I think the best way to answer the question is to look at what we have currently which is the medical office, senior housing which should include independent, assisted and memory care, and then skilled nursing which was -- if we don't have any current equity investments from skilled nursing, but we did have in the mortgage book that we had over the past several years, there was skilled nursing facilities in there. So I think, to answer the question directly, what we'll be pursuing is that we are currently looking at opportunities that are in senior housing and skilled nursing. I think medical offices is going to be a bit of a stretch given the fact that there is high competition in that market and low cap rates that leads to high price of ammonium.

Unknown Analyst

Right, and I then guess just from an equity capital standpoint, given where the stock is, you can still argue it's at the very low price, at what level would you look to raise equity capital? Are you leaning towards for it to move on for starter into versus equity or do you have clarity on that?

Salvatore V. Riso
Former Chief Executive Officer and President

Are we leaning toward what?

Unknown Analyst

Are you leaning towards raising debt capital or equity capital? You mentioned the potential for both.

Salvatore V. Riso
Former Chief Executive Officer and President

Yes, I think that's -- to the extent that we -- there is book value that's reported, there is a market price that's out and to the extent there is discrepancy, we'd obviously be looking to preserve shareholder equity or capital value, I should say, more stated in a slightly better way.

Unknown Analyst

As long as this stock is under book value, it's unlikely you'll be raising equity capital?

Salvatore V. Riso
Former Chief Executive Officer and President

Both. To do an equity raise that's going to be dilutive, destructively dilutive, to the current value where that's unlikely to happen. I mean if we will present opportunities that may come up to the board, Executive Committee and to the board, but to the extent that there's debt capital that we can find, that may be one way to do it or there may be other structures that we're looking at right now that would be able to bridge that gap.

Unknown Analyst

Okay, got it. And then one final question. So regarding that SMC stated on the call that it will go from $300,000 a quarter to $80,000 a quarter. How much D&A will be associated with that?

Salvatore V. Riso
Former Chief Executive Officer and President

It's not an investment that has D&A. It's an equity investment.

Unknown Analyst

Right. But if we look through to -- could you disclose what the D&A is associated with that?

Steven M. Sherwyn
Former Chief Financial Officer, Principal Accounting Officer and Treasurer

There is no allocation of the depreciation on the SMC investment because it's treated as a preferred equity investment.

Unknown Analyst

Right, okay. All right. Got it.

Operator

And our next question does come from the line of Jeffrey Demaine [ph] with Welou Capital.[ph]

Unknown Analyst

I just have a quick question, a follow-up on Eric's question about, I guess, the result of the SMC, the sale of the SMC property. If we look at your FFO or AFFO, how can you think about adjusting those numbers for the SMC? Default or are you basically saying there is no adjustment?

Steven M. Sherwyn
Former Chief Financial Officer, Principal Accounting Officer and Treasurer

Well, as I simply indicated in the earlier discussions, the cash flow from the SMC investment for going forward will be reduced from approximately $300,000 a quarter to approximately $80,000 a quarter. For this current quarter, for second quarter of 2011, it will be a little bit less than that because we own the asset through May 6. So we're probably closer to $150,000 to $300,000, that type of rough number, I haven't done the exact calculation. The effort here or the focus here will be to redeploy that approximately $2.2 million in an efficient manner for an accretive investment.

Unknown Analyst

Okay. But there's no real SMC-related adjustments in the FFO or AFFO figure, is that correct then?

Steven M. Sherwyn
Former Chief Financial Officer, Principal Accounting Officer and Treasurer

No. Going forward again, the cash flow from asset will change. From FFO, AFFO, there is no gain or loss pickup on that asset because it was marked in August when we utilized percent accounting based on the upcoming sale.

Unknown Analyst

Okay. The second question is related to the tax characterization of dividends going forward. It seems to me that given that I think the distributions you review from Cambridge are return of capital distribution and potentially don't count for your REIT taxable income. What do expect the characterization of that current dividends being paid to shareholders going forward to be?

Steven M. Sherwyn
Former Chief Financial Officer, Principal Accounting Officer and Treasurer

Historically, you're correct. Historically, the Cambridge distributions have been a return of capital and that's why it's been booked for both GAAP as well tax purposes. Going forward, with the restructuring, we're still evaluating exactly how that's going to impact the tax, taxable nature of our dividends and it's something we share more color on when we do our second quarter call.

Unknown Analyst

Okay. Last, in terms of SMC, I mean what was the reason that the properties were sold in default? I mean, is it seems like SMC wasn't paying, I guess, an interest to you on the equity interest right before you sold it. So was there some distress in SMC that we should be aware?

Salvatore V. Riso
Former Chief Executive Officer and President

No, to the contrary, actually. The SMC, the investment, the sale price for the 3 investment of the 4 was actually very high. And so we recouped our original preferred investment and we've made actually a nice profit on the 10% equity piece that we had with those 3 properties. SMC, yes, you're right that before January, February, March, there was delay in payments of those months of the preferred return. And I think that though you can likely chop that up to be the partner that was nearing the end of the consummation of the sale, chose to not pay those, as you said, line of sight to the confirmation of sales. Right? But all in all, the preferred equity investment came back to us as the additional income profit on the 10% equity piece that we have.

Unknown Analyst

Okay. And related to Bickford. Given that you guys have put high exposure to a single counter party, being Bickford, can you characterize how either Bickford properties are performing or the company as a corporate entity is performing?

Salvatore V. Riso
Former Chief Executive Officer and President

Well, the properties continued to perform as expected as we've said in our prepared remarks. The occupancies are continuing to go up. And overall, across the portfolio, we're satisfied with the performance. And they have over the past months and years taken steps to shore up at the corporate level to shore up balance sheet and the rest of it. So we're feeling comfortable with their investment.

Unknown Analyst

Okay. And I assume going forward, you guys are clear cognizant that if you redeploy capital you probably you would want to continue to invest all of your capital and relationships with Bickford, given the high exposure you guys have for them?

Salvatore V. Riso
Former Chief Executive Officer and President

Yes, that's exactly right. I mean, we're looking to diversify both with owners, operators, managers that we wouldn't focus on any one in particular. We'd also want to diversify in product size and we want to diversify geographically as well. So yes, very much on our radar screen to do that. The problem is when you're small, you make one investment you can tend to -- like the washing machine, kind of get out of alignment but it will be the top of mind for us to try and get back in alignment if that were to happen. And even now, we'll build it out again product, geography and owner operator.

Unknown Analyst

Okay, so this is my last question, I'll get back into queue after this, but related to Cambridge, it seems like your original investment in Cambridge was equity investment. I think you invested $62 million. And as a result of these lost existing results, you converted your interest to a fixed dollar investment of $40 million, and so I'm trying to reconcile, one, which you wouldn't originally invest $62 million versus what your interest is today and correlating that with the fact that you have been receiving distribution along for the last 2 years and how you think about where you sort of ending up on that investment given the change of the economics?

Salvatore V. Riso
Former Chief Executive Officer and President

Yes, we've actually been receiving income for 3 years. The deal closed December 31, 2007, so all of '08, '09 and 2010 we've been receiving income that had been supported by the escrow arrangement. So yes, originally an 85% economic interest and supported by the originally $700,000 operating partnership units that were in escrow and that were chipped away to the extent that were canceled, to the extent that there wasn't sufficient cash flow to reach our minimum return level. On that was as part of the settlement and restructuring that came out of the settlement of the litigation, it's clearly a bit different instrument now or in a different field for the investment. And that is that we have yet agreed on a deemed investment amount and there is the preferred return of 14% with the current pay of 12%. So yes, it just feels slightly different.

Unknown Analyst

Would you consider that an impairment? I mean you've essentially gone from having economics of $62 million to having a preferred return of $40 million. There's no equity upside?

Salvatore V. Riso
Former Chief Executive Officer and President

No, not at all because what it does we see it -- for a number of reasons the realigned interest to try to increase interim cash flow in the properties. Whereas before, we would get 85%, virtually all of the cash flows because what would come in was only from one of the quarters in the 3 years reaching the minimum levels of return. Therefore, we have a manager that was only getting the management fee and now there's a different type of incentive where the manager will get, or the Cambridge entities will get anything above $1.2 million, which is per quarter which is a 12% current pay amount. And then that, in the interim, they have incentive and economic incentive to get the dollar amount up and secondly, overall, those within the -- rolled into a, hopefully, a higher sale price and that they also have an economics to get back. We've also -- we now have, with respect to if there is a sale of Cambridge property, we get the first dollars out. So it's the first $40 million plus the 14% catch up on the IRR. So it's just a different type of an investment that realigns interest and first dollars out coupled with the 3 years of cash flows that we've already received and the change, frankly, the change in the market. Although it's recuperating, there was a significant change from when we bought and over the years the economic troubles that we had in the years, in the past several years. So we think that it was actually -- it was an excellent transaction that accomplished a number of different facts, goals for us.

Unknown Analyst

Okay. And lastly, what are the terms of the call option that Cambridge retains on your fixed dollar investment. There is a cash premium associated with the buyout of your interest, and I'm wondering what that is?

Salvatore V. Riso
Former Chief Executive Officer and President

That's correct. There's a -- effectively, they need to pay out the $40 million plus the 14% preferred to the extent it's unpaid plus the first year of the $2 million call option and it increases up to $8 million over time.

Unknown Analyst

So if they call it this year, it's $2 million and it they call it in 2017 it's $8 million, is that right?

Steven M. Sherwyn
Former Chief Financial Officer, Principal Accounting Officer and Treasurer

I believe that's correct. I don't have those exact numbers in front of me.

Operator

And our next question is a follow-up question from the line of Eric Shawney [ph] from Cambick Partners. [ph]

Unknown Analyst

Just quickly, what's the occupancy across the Bickford properties?

Salvatore V. Riso
Former Chief Executive Officer and President

Yes, it's just shy of 86%.

Operator

[Operator Instructions] And at the time, I'm showing no further questions in the queue. I would like to turn the call back over to management for any closing comments.

Salvatore V. Riso
Former Chief Executive Officer and President

Thank you, Greg. I want to thank all that have joined the call today. I'd also like to mention that we at Care take seriously your concerns, we'd welcome any ideas you have to further enhance the communication and transparency relating to your investments. Thank you once again for your interest that you've shown in Care by joining the call. And we look forward to sharing positive news with you in the future. Thanks again, so long.

Operator
Ladies and gentlemen, this does conclude the conference call for today. If you would like to listen to a replay of this conference, you may do so by dialing (303) 590-3030 or 1(800) 406-7325. You will need to enter the access code of 4441004. Again, we thank you for your participation. You may now disconnect your lines at this time.