

INVESTORS REAL ESTATE TRUST
Form 10-Q
December 10, 2007

**UNITED STATES
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 Quarter Ended October 31, 2007

Commission File Number 0-14851

INVESTORS REAL ESTATE TRUST
(Exact name of registrant as specified in its charter)

North Dakota
(State or other jurisdiction of
incorporation or organization)

45-0311232
(I.R.S. Employer Identification No.)

**Post Office Box 1988
12 Main Street South
Minot, ND 58702-1988**
(Address of principal executive offices) (Zip code)
(701) 837-4738

(Registrant's telephone number, including area code)

N/A

(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 the filing requirements for at least 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. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (check one):

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**

Registrant is a North Dakota Real Estate Investment Trust. As of December 5, 2007, it had 56,487,690 common shares of beneficial interest outstanding.

TABLE OF CONTENTS

| | Page |
|--|-------------|
| <u>Part I. Financial Information</u> | |
| <u>Item 1. Financial Statements - Second Quarter - Fiscal 2008:</u> | 3 |
| <u>Condensed Consolidated Balance Sheets (unaudited)</u> <u>October 31, 2007 and April 30, 2007</u> | 3 |
| <u>Condensed Consolidated Statements of Operations (unaudited)</u> <u>For the Three Months and Six Months ended October 31, 2007 and 2006</u> | 4 |
| <u>Condensed Consolidated Statement of Shareholders' Equity (unaudited)</u> <u>For the Six Months ended October 31, 2007</u> | 5 |
| <u>Condensed Consolidated Statements of Cash Flows (unaudited)</u> <u>For the Six Months ended October 31, 2007 and 2006</u> | 6 |
| <u>Notes to Condensed Consolidated Financial Statements (unaudited)</u> | 8 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 15 |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u> | 28 |
| <u>Item 4. Controls and Procedures</u> | 29 |
| <u>Part II. Other Information</u> | |
| <u>Item 1. Legal Proceedings</u> | 30 |
| <u>Item 1A. Risk Factors</u> | 30 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 30 |
| <u>Item 3. Defaults Upon Senior Securities - None</u> | 30 |
| <u>Item 4. Submission of Matters to a Vote of Security Holders</u> | 30 |
| <u>Item 5. Other Information</u> | 31 |
| <u>Item 6. Exhibits</u> | 31 |
| <u>Signatures</u> | 32 |

Table of Contents**PART I****ITEM 1. FINANCIAL STATEMENTS - SECOND QUARTER - FISCAL 2008****INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES**
CONDENSED CONSOLIDATED BALANCE SHEETS *(unaudited)*

| | <i>(in thousands)</i> | |
|--|-----------------------|---------------------|
| | October 31, 2007 | April 30, 2007 |
| ASSETS | | |
| Real estate investments | | |
| Property owned | \$ 1,529,063 | \$ 1,489,287 |
| Less accumulated depreciation | (199,682) | (180,544) |
| | 1,329,381 | 1,308,743 |
| Unimproved land | 14,454 | 7,392 |
| Mortgage loan receivable, net of allowance | 391 | 399 |
| Total real estate investments | 1,344,226 | 1,316,534 |
| Other assets | | |
| Cash and cash equivalents | 89,302 | 44,516 |
| Marketable securities available-for-sale | 2,090 | 2,048 |
| Receivable arising from straight-lining of rents, net of allowance | 13,430 | 12,558 |
| Accounts receivable, net of allowance | 2,279 | 3,171 |
| Real estate deposits | 1,601 | 735 |
| Prepaid and other assets | 1,445 | 568 |
| Intangible assets, net of accumulated amortization | 30,457 | 33,240 |
| Tax, insurance, and other escrow | 6,539 | 7,222 |
| Property and equipment, net | 1,486 | 1,458 |
| Goodwill | 1,397 | 1,397 |
| Deferred charges and leasing costs, net | 12,624 | 11,942 |
| TOTAL ASSETS | \$ 1,506,876 | \$ 1,435,389 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| LIABILITIES | | |
| Accounts payable and accrued expenses | \$ 22,974 | \$ 28,995 |
| Mortgages payable | 967,612 | 951,139 |
| Other | 1,161 | 896 |
| TOTAL LIABILITIES | 991,747 | 981,030 |
| COMMITMENTS AND CONTINGENCIES (NOTE 6) | | |
| MINORITY INTEREST IN PARTNERSHIPS | 12,781 | 12,925 |
| MINORITY INTEREST OF UNITHOLDERS IN OPERATING PARTNERSHIP | 154,274 | 156,465 |
| <i>(20,114,028 units at October 31, 2007 and 19,981,259 units at April 30, 2007)</i> | | |

SHAREHOLDERS' EQUITY

| | | |
|---|--------------|--------------|
| Preferred Shares of Beneficial Interest (<i>Cumulative redeemable preferred shares, no par value, 1,150,000 shares issued and outstanding at October 31, 2007 and April 30, 2007, aggregate liquidation preference of \$28,750,000</i>) | 27,317 | 27,317 |
| Common Shares of Beneficial Interest (<i>Unlimited authorization, no par value, 56,418,765 shares issued and outstanding at October 31, 2007, and 48,570,461 shares issued and outstanding at April 30, 2007</i>) | 429,236 | 354,495 |
| Accumulated distributions in excess of net income | (108,474) | (96,827) |
| Accumulated other comprehensive loss | (5) | (16) |
| Total shareholders' equity | 348,074 | 284,969 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | \$ 1,506,876 | \$ 1,435,389 |

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS *(unaudited)*
for the three months and six months ended October 31, 2007 and 2006

| | Three Months Ended | | Six Months Ended | |
|--|--|---------------|-------------------------|---------------|
| | October 31 | | October 31 | |
| | <i>(in thousands, except per share data)</i> | | | |
| | 2007 | 2006 | 2007 | 2006 |
| REVENUE | | | | |
| Real estate rentals | \$ 44,606 | \$ 40,184 | \$ 88,766 | \$ 76,535 |
| Tenant reimbursement | 9,668 | 8,454 | 19,150 | 16,445 |
| TOTAL REVENUE | 54,274 | 48,638 | 107,916 | 92,980 |
| OPERATING EXPENSE | | | | |
| Interest | 15,687 | 14,975 | 31,129 | 27,906 |
| Depreciation/amortization related to real estate investments | 12,177 | 11,016 | 24,382 | 20,945 |
| Utilities | 4,306 | 3,754 | | |