INVESTORS REAL ESTATE TRUST
Form 10-Q
September 09, 2010

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 July 31, 2010

Commission File Number 0-14851

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

North Dakota	45-0311232
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Post Office Box 1988
3015 16th Street SW, Suite 100
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 R No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes £ No £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer £ Accelerated filer R

Non-accelerated filer £ Smaller Reporting Company £

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes £ No R

Registrant is a North Dakota Real Estate Investment Trust. As of September 3, 2010, it had 78,551,939 common shares of beneficial interest outstanding.

TABLE OF CONTENTS

Table of Contents

PART I
ITEM 1. FINANCIAL STATEMENTS - FIRST QUARTER - FISCAL 2011
INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

	(in thousands, except share data)	
	July 31, 2010	April 30, 2010
ASSETS		
Real estate investments		
Property owned	$ 1,813,427	$ 1,800,519
Less accumulated depreciation	(320,994)	(308,626)
	1,492,433	1,491,893
Development in progress	174	2,831
Unimproved land	6,020	6,007
Mortgage loans receivable, net of allowance of $3 and $3, respectively	158	158
Total real estate investments	1,498,785	1,500,889
Other assets		
Cash and cash equivalents	56,077	54,791
Marketable securities – available-for-sale	420	420
Receivable arising from straight-lining of rents, net of allowance of $934 and $912, respectively	17,751	17,320
Accounts receivable, net of allowance of $395 and $257, respectively	5,911	4,916
Real estate deposits	302	516
Prepaid and other assets	3,032	1,189
Intangible assets, net of accumulated amortization of $41,630 and $39,571, respectively	50,050	50,700
Tax, insurance, and other escrow	10,391	9,301
Property and equipment, net of accumulated depreciation of $1,025 and $924, respectively	1,371	1,392
Goodwill	1,388	1,388
Deferred charges and leasing costs, net of accumulated amortization of $13,305 and $13,131, respectively	18,449	18,108
TOTAL ASSETS	$ 1,663,927	$ 1,660,930
LIABILITIES AND EQUITY		
LIABILITIES		
Accounts payable and accrued expenses	$ 33,340	$ 38,514
Revolving lines of credit	6,528	6,550
Mortgages payable	1,063,414	1,057,619
Other	1,272	1,320
TOTAL LIABILITIES	1,104,554	1,104,003
COMMITMENTS AND CONTINGENCIES (NOTE 6)		
REDEEMABLE NONCONTROLLING INTERESTS – CONSOLIDATED REAL ESTATE ENTITIES	1,427	1,812
EQUITY		
Investors Real Estate Trust shareholders' equity		
Preferred Shares of Beneficial Interest (Cumulative redeemable preferred shares, no par value, 1,150,000 shares issued and outstanding at July 31, 2010 and April 30, 2010, aggregate liquidation preference of $28,750,000)	27,317	27,317

Common Shares of Beneficial Interest (Unlimited authorization, no par value, 78,158,032 shares issued and outstanding at July 31, 2010, and 75,805,159 shares issued and outstanding at April 30, 2010)	603,344	583,618
Accumulated distributions in excess of net income	(213,055)	(201,412)
Total Investors Real Estate Trust shareholders' equity	417,606	409,523
Noncontrolling interests – Operating Partnership (20,272,529 units at July 31, 2010 and 20,521,365 units at April 30, 2010)	130,050	134,970
Noncontrolling interests – consolidated real estate entities	10,290	10,622
Total equity	557,946	555,115
TOTAL LIABILITIES AND EQUITY	$ 1,663,927	$ 1,660,930

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 ended July 31, 2010 and 2009

	Three Months Ended July 31 (in thousands, except per share data)	
	2010	2009
REVENUE		
Real estate rentals	$ 50,685	$ 49,030
Tenant reimbursement	11,336	11,791
TOTAL REVENUE	62,021	60,821
EXPENSES		
Depreciation/amortization related to real estate investments	14,482	14,068
Utilities	4,295	4,167
Maintenance	7,195	7,207
Real estate taxes	8,149	7,971
Insurance	505	973
Property management expenses	5,447	4,098
Administrative expenses	1,757	1,356
Advisory and trustee services	212	131
Other expenses	353	434
Amortization related to non-real estate investments	654	575
TOTAL EXPENSES	43,049	40,980
Interest expense	(16,762)	(17,401)
Interest income	58	66
Other income	83	63
Income before income taxes	2,351	2,569
Income tax expense	(19)	0
NET INCOME	2,332	2,569
Net income attributable to noncontrolling interests – Operating Partnership	(370)	(479)
Net loss (income) attributable to noncontrolling interests – consolidated real estate entities	24	(73)
Net income attributable to Investors Real Estate Trust	1,986	2,017
Dividends to preferred shareholders	(593)	(593)
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 1,393	$ 1,424
NET INCOME PER COMMON SHARE – BASIC AND DILUTED	$ .02	$ .02
DIVIDENDS PER COMMON SHARE	$ .1715	$ .1705

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

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (unaudited)
for the three months ended July 31, 2010 and 2009

(in thousands)

	NUMBER OF PREFERRED SHARES	PREFERRED SHARES	NUMBER OF COMMON SHARES	COMMON SHARES	ACCUMULATED DISTRIBUTIONS IN EXCESS OF NET INCOME	NONCONTROLLING INTERESTS	TOTAL EQUITY
Balance April 30, 2009	1,150	$ 27,317	60,304	$461,648	$ (155,956)	$ 160,398	$493,407
Net income attributable to Investors Real Estate Trust and nonredeemable noncontrolling interests					2,017	531	2,548
Distributions – common shares					(10,817)	(3,553)	(14,370)
Distributions – preferred shares					(593)		(593)
Distribution reinvestment plan			313	2,676			2,676
Shares issued			3,170	26,307			26,307
Redemption of units for common shares			1	5		(5)	0
Adjustments to redeemable noncontrolling interests				(194)			(194)
Other				(1)		(3)	(4)
Balance July 31, 2009	1,150	$ 27,317	63,788	$490,441	$ (165,349)	$ 157,368	$509,777
Balance April 30, 2010	1,150	$ 27,317	75,805	$583,618	$ (201,412)	$ 145,592	$555,115
Net income attributable to Investors Real Estate Trust and nonredeemable noncontrolling					1,986	338	2,324

interests							
Distributions – common shares					(13,036)	(3,514)	(16,550)
Distributions – preferred shares					(593)		(593)
Distribution reinvestment plan			330	2,773			2,773
Shares issued			1,774	14,785			14,785
Redemption of units for common shares			249	1,776		(1,776)	0
Adjustments to redeemable noncontrolling interests				393			393
Other				(1)		(300)	(301)
Balance July 31, 2010	1,150	$ 27,317	78,158	$603,344	$ (213,055)	$ 140,340	$557,946

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

Table of Contents
5

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
for the three months ended July 31, 2010 and 2009

	Three Months Ended July 31 (in thousands)	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$2,332	$2,569
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,534	15,000
Bad debt expense	0	277
Changes in other assets and liabilities:		
Increase in receivable arising from straight-lining of rents	(453)	(252)
Increase in accounts receivable	(913)	(507)
Increase in prepaid and other assets	(1,843)	(1,849)
Increase in tax, insurance and other escrow	(1,090)	(723)
Increase in deferred charges and leasing costs	(1,387)	(756)
Decrease in accounts payable, accrued expenses, and other liabilities	(3,570)	(980)
Net cash provided by operating activities	8,610	12,779
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds (payments) from real estate deposits	214	(372)
Proceeds from sale of real estate and other investments	0	25
Insurance proceeds received	3	57
Payments for acquisitions and improvements of real estate investments	(8,887)	(8,667)
Net cash used by investing activities	(8,670)	(8,957)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from mortgages payable	12,975	11,255
Principal payments on mortgages payable	(11,468)	(25,708)
Principal payments on revolving lines of credit and other debt	(22)	(2,000)
Proceeds from revolving lines of credit and other debt	0	9,500
Proceeds from sale of common shares, net of issue costs	14,532	26,157
Repurchase of fractional shares and partnership units	(1)	(1)
Distributions paid to common shareholders, net of reinvestment of $2,589 and $2,471, respectively	(10,447)	(8,346)
Distributions paid to preferred shareholders	(593)	(593)
Distributions paid to noncontrolling interests – Unitholders of the Operating Partnership, net of reinvestment of $184 and $205, respectively	(3,330)	(3,348)
Distributions paid to noncontrolling interests – consolidated real estate entities	(300)	(3)
Distributions paid to redeemable noncontrolling interests – consolidated real estate entities	0	(44)
Net cash provided by financing activities	1,346	6,869
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,286	10,691
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	54,791	33,244
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$56,077	$43,935

(continued)

Table of Contents

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited, continued)
for the three months ended July 31, 2010 and 2009

	Three Months Ended July 31 (in thousands)	
	2010	2009
SUPPLEMENTARY SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES FOR THE PERIOD		
Distribution reinvestment plan	$2,589	$2,471
Operating partnership distribution reinvestment plan	184	205
Operating partnership units converted to shares	1,776	5
Real estate investment acquired through assumption of indebtedness and accrued costs	4,288	0
Adjustments to accounts payable included within real estate investments	(1,352)	864
Adjustments to redeemable noncontrolling interests	(393)	194
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest on mortgages	16,365	16,909
Interest other	79	167
	$16,444	$17,076

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

INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
for the three months ended July 31, 2010 and 2009

NOTE 1 • ORGANIZATION

Investors Real Estate Trust ("IRET" or the "Company") is a self-advised real estate investment trust engaged in acquiring, owning and leasing multi-family and commercial real estate. IRET has elected to be taxed as a Real Estate Investment Trust ("REIT") under Sections 856-860 of the Internal Revenue Code of 1986, as amended. REITs are subject to a number of organizational and operational requirements, including a requirement to distribute 90% of ordinary taxable income to shareholders, and, generally, are not subject to federal income tax on net income. IRET's multi-family residential properties and commercial properties are located mainly in the states of North Dakota and Minnesota, but also in the states of Colorado, Idaho, Iowa, Kansas, Montana, Missouri, Nebraska, South Dakota, Texas, Michigan, Wisconsin and Wyoming. As of July 31, 2010, IRET owned 78 multi-family residential properties with 9,691 apartment units and 176 commercial properties, consisting of office, medical, industrial and retail properties, totaling 12.1 million net rentable square feet. IRET conducts a majority of its business activities through its consolidated operating partnership, IRET Properties, a North Dakota Limited Partnership (the "Operating Partnership"), as well as through a number of other consolidated subsidiary entities.

All references to IRET or the Company refer to Investors Real Estate Trust and its consolidated subsidiaries.

NOTE 2 • BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements include the accounts of IRET and all subsidiaries in which it maintains a controlling interest. All intercompany balances and transactions are eliminated in consolidation. The Company's fiscal year ends April 30th.

The accompanying condensed consolidated financial statements include the accounts of IRET and its interest in the Operating Partnership. The Company's interest in the Operating Partnership was 79.4% and 78.7%, respectively, as of July 31, 2010 and April 30, 2010. The limited partners in the Operating Partnership have a redemption option that they may exercise. Upon exercise of the redemption option by the limited partners, IRET has the choice of redeeming the limited partners' interests ("Units") for IRET common shares of beneficial interest, on a one-for-one basis, or making a cash payment to the unitholder. The redemption generally may be exercised by the limited partners at any time after the first anniversary of the date of the acquisition of the Units (provided, however, that in general not more than two redemptions by a limited partner may occur during each calendar year, and each limited partner may not exercise the redemption for less than 1,000 Units, or, if such limited partner holds less than 1,000 Units, for all of the Units held by such limited partner). The Operating Partnership and some limited partners have contractually agreed to a holding period of greater than one year and/or a greater number of redemptions during a calendar year.

The condensed consolidated financial statements also reflect the ownership by the Operating Partnership of certain joint venture entities in which the Operating Partnership has a general partner or controlling interest. These entities are consolidated into IRET's other operations, with noncontrolling interests reflecting the noncontrolling partners' share of ownership and income and expenses.

UNAUDITED INTERIM FINANCIAL STATEMENTS

The interim condensed consolidated financial statements of IRET have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and the applicable rules and regulations of the Securities and Exchange Commission ("SEC"). Accordingly, certain disclosures accompanying annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America are omitted. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments, consisting solely of normal recurring adjustments, necessary for the fair presentation of the Company's financial position, results of operations and cash flows for the interim periods have been included.

The current period's results of operations are not necessarily indicative of results which ultimately may be achieved for the year. The interim condensed consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended April 30, 2010, filed with the SEC on July 14, 2010.

RECENT ACCOUNTING PRONOUNCEMENTS

Effective July 1, 2009, the Financial Accounting Standards Board ("FASB") established the Accounting Standards Codification ("ASC") as the primary source of authoritative generally accepted accounting principles ("GAAP") recognized by the FASB to be applied to nongovernmental entities. Although the establishment of the ASC did not change current GAAP, it did change the way we refer to GAAP throughout this document to reflect the updated referencing convention; we have omitted all references to the prior detailed numerical referencing system previously used by the FASB to identify FASB statements, staff positions, abstracts and accounting statements of position, and instead use the new ASC numbering convention, as applicable.

In January 2010, the FASB issued an update to ASC 820, Fair Value Measurements and Disclosures, adding new requirements for disclosures about transfers into and out of Levels 1 and 2 fair value measurements and additional disclosures about activity within Level 3 fair value measurements. To date, we have not had any transfers in and out of Level 1 and Level 2 fair value measurements, nor do we have any Level 3 fair value measurements. Therefore, the application of this update did not have any impact on the fair value disclosures included in our consolidated financial statements.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company periodically evaluates its long-lived assets, including its investments in real estate, for impairment indicators. The judgments regarding the existence of impairment indicators are based on factors such as operational performance, market conditions, expected holding period of each asset and legal and environmental concerns. If indicators exist, the Company compares the expected future undiscounted cash flows for the long-lived asset against the carrying amount of that asset. If the sum of the estimated undiscounted cash flows is less than the carrying amount of the asset, an impairment loss is recorded for the difference between the estimated fair value and the carrying amount of the asset. If our anticipated holding period for properties, the estimated fair value of properties or other factors change based on market conditions or otherwise, our evaluation of impairment charges may be different and such differences could be material to our consolidated financial statements. The evaluation of anticipated cash flows is subjective and is based, in part, on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results. Plans to hold properties over longer periods decrease the likelihood of recording impairment losses. During the three months ended July 31, 2010 and 2009, the Company incurred no losses due to impairment.

COMPENSATING BALANCES

The Company maintains compensating balances, not restricted as to withdrawal, with several financial institutions in connection with financing received from those institutions and/or to ensure future credit availability, as follows: Dacotah Bank, Minot, North Dakota, a deposit of $100,000; United Community Bank, Minot, North Dakota, deposit of $370,000; Commerce Bank, A Minnesota Banking Corporation, deposit of $250,000; First International Bank, Watford City, North Dakota, deposit of $3.2 million, and Peoples State Bank of Velva, North Dakota, deposit of $150,000.

IDENTIFIED INTANGIBLE ASSETS AND INTANGIBLE LIABILITIES AND GOODWILL

Upon acquisition of real estate, the Company records the intangible assets and liabilities acquired (for example, if the leases in place for the real estate property acquired carry rents above the market rent, the difference is classified as an intangible asset) at their estimated fair value separate and apart from goodwill. The Company amortizes identified intangible assets and liabilities that are determined to have finite lives based on the period over which the assets and liabilities are expected to affect, directly or indirectly, the future cash flows of the real estate property acquired (generally the life of the lease). In the three months ended July 31, 2010, the Company added approximately $1.4 million of new intangible assets and no new intangible liabilities. The weighted average life of the intangible assets acquired in the three months ended July 31, 2010 is 6.5 years. No new intangible assets or intangible liabilities were added in the three months ended July 31, 2009. Amortization of intangibles related to above or below-market leases is recorded in real estate rentals in the consolidated statements of operations. Amortization of other intangibles is recorded in depreciation/amortization related to real estate investments in the consolidated statements of operations. Intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its estimated fair value.

Table of Contents

The Company's identified intangible assets and intangible liabilities at July 31, 2010 and April 30, 2010 were as follows:

	(in thousands)	
	July 31, 2010	April 30, 2010
Identified intangible assets (included in intangible assets):		
Gross carrying amount	$91,680	$ 90,271
Accumulated amortization	(41,630)	(39,571)
Net carrying amount	$50,050	$ 50,700
Indentified intangible liabilities (included in other liabilities):		
Gross carrying amount	$1,260	$ 1,260
Accumulated amortization	(988)	(940)
Net carrying amount	$272	$ 320

The effect of amortization of acquired below-market leases and acquired above-market leases on rental income was approximately $(7,000) and $(12,000) for the three months ended July 31, 2010 and 2009, respectively. The estimated annual amortization of acquired below-market leases, net of acquired above-market leases for each of the five succeeding fiscal years is as follows:

Year Ended April 30,	(in thousands)
2012	$ 53
2013	36
2014	37
2015	20
2016	16

Amortization of all other identified intangible assets (a component of depreciation and amortization expense) was $2.0 million and $2.3 million for the three months ended July 31, 2010 and 2009, respectively. The estimated annual amortization of all other identified intangible assets for each of the five succeeding fiscal years is as follows:

Year Ended April 30,	(in thousands)
2012	$ 4,941
2013	3,967
2014	3,561
2015	3,204
2016	3,015

The excess of the cost of an acquired business over the net of the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed is recorded as goodwill. The Company's goodwill has an indeterminate life and is not amortized, but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill book values as of July 31, 2010 and April 30, 2010 were $1.4 million. The annual review at April 30, 2010 indicated no impairment and there was no indication of impairment at July 31, 2010.

MARKETABLE SECURITIES

IRET's investments in marketable securities are classified as "available-for-sale." The securities classified as "available-for-sale" represent investments in debt securities which the Company intends to hold for an indefinite period of time. These securities are valued at current fair value with the resulting unrealized gains and losses excluded from earnings and reported as a separate component of equity until realized. GAAP establishes a valuation hierarchy for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based upon our own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level of input that is significant to the fair value measurement. At July 31, 2010, our marketable securities are carried at fair value measured on a recurring basis. Fair values are determined through the use of unadjusted quoted prices in active markets, which are inputs that are classified as Level 1 in the valuation hierarchy. Gains or losses on these securities are computed based on the amortized cost of the specific securities when sold.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 • EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. The Company has no outstanding options, warrants, convertible stock or other contractual obligations requiring issuance of additional common shares that would result in a dilution of earnings. While Units can be exchanged for common shares on a one-for-one basis after a minimum holding period of one year, the exchange of Units for common shares has no effect on net income per share, as Unitholders and common shareholders effectively share equally in the net income of the Operating Partnership. The following table presents a reconciliation of the numerator and denominator used to calculate basic and diluted earnings per share reported in the condensed consolidated financial statements for the three months ended July 31, 2010 and 2009:

	Three Months Ended July 31 (in thousands, except per share data)	
	2010	2009
NUMERATOR		
Net income attributable to Investors Real Estate Trust	$ 1,986	$ 2,017
Dividends to preferred shareholders	(593)	(593)
Numerator for basic earnings per share – net income available to common shareholders	1,393	1,424
Noncontrolling interests – Operating Partnership	370	479
Numerator for diluted earnings per share	$ 1,763	$ 1,903
DENOMINATOR		
Denominator for basic earnings per share - weighted average shares	76,384	62,386
Effect of convertible operating partnership units	20,393	20,837
Denominator for diluted earnings per share	96,777	83,223
NET INCOME PER COMMON SHARE – BASIC AND DILUTED	$ .02	$ .02

NOTE 4 • EQUITY

During the first quarter of fiscal year 2011, the Company sold 1.8 million common shares under its continuous offering program with Robert W. Baird & Co., Incorporated ("Baird") as sales agent, for net proceeds of approximately $15.0 million, before offering expenses but after underwriting discounts. As of July 31, 2010, the Company had available securities in the aggregate amount of approximately $18.2 million reserved for issuance under its continuous offering program with Baird.

As of July 31, 2010, approximately 249,000 Units have been converted to common shares during fiscal year 2011, with a total value of approximately $1.8 million included in equity. Approximately 375,000 additional common shares have been issued under the Company's Distribution Reinvestment and Share Purchase Plan during the three months ended July 31, 2010 with a total value of $3.1 million included in equity.

NOTE 5 • SEGMENT REPORTING

IRET reports its results in five reportable segments: multi-family residential properties, commercial office, commercial medical (including senior housing), commercial industrial and commercial retail properties. The Company's reportable segments are aggregations of similar properties. The accounting policies of each of these segments are the same as those described in Note 2, which presents the measure(s) used by the chief operating decision maker for purposes of assessing segment performance.

Table of Contents

IRET measures the performance of its segments based on net operating income ("NOI"), which the Company defines as total real estate revenues less real estate expenses and real estate taxes (excluding depreciation and amortization related to real estate investments and impairment of real estate investments.) IRET believes that NOI is an important supplemental measure of operating performance for a REIT's operating real estate because it provides a measure of core operations that is unaffected by depreciation, amortization, financing and general and administrative expense. NOI does not represent cash generated by operating activities in accordance with GAAP and should not be considered an alternative to net income, net income available for common shareholders or cash flow from operating activities as a measure of financial performance.

The revenues and net operating income for these reportable segments are summarized as follows for the three month period ended July 31, 2010 and 2009, along with reconciliations to the condensed consolidated financial statements. Segment assets are also reconciled to Total Assets as reported in the condensed consolidated financial statements.

	(in thousands)					
Three Months Ended July 31, 2010	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
Real estate revenue	$18,953	$ 19,893	$ 16,315	$ 3,443	$ 3,417	$62,021
Real estate expenses	9,304	8,943	5,308	983	1,053	25,591
Net operating income	$9,649	$ 10,950	$ 11,007	$ 2,460	$ 2,364	36,430
Depreciation/amortization						(15,136)
Administrative, advisory and trustee fees						(1,969)
Other expenses						(353)
Interest						(16,762)
Other income						141
Income tax expense						(19)
Net income						$2,332

	(in thousands)					
Three Months Ended July 31, 2009	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
Real estate revenue	$19,083	$ 21,166	$ 13,718	$ 3,395	$ 3,459	$60,821
Real estate expenses	9,234	9,447	3,693	951	1,091	24,416
Net operating income	$9,849	$ 11,719	$ 10,025	$ 2,444	$ 2,368	36,405
Depreciation/amortization						(14,643)
Administrative, advisory and trustee fees						