

BRT REALTY TRUST
Form 10-Q
August 07, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2009

OR

Transition Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Commission File Number 001-07172

BRT REALTY TRUST
(Exact name of Registrant as specified in its charter)

Massachusetts
(State or other jurisdiction of
incorporation or organization)

13-2755856
(I.R.S. Employer
Identification No.)

60 Cutter Mill Road, Great Neck, NY
(Address of principal executive offices)

11021
(Zip Code)

516-466-3100
(Registrant's telephone number, including area code)

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 such filing requirements for the past 90 days.

Yes 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 Regulations 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 reports).

Yes No

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

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Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) 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

Indicate the number of shares outstanding of each of the issuer's classes of stock, as of the latest practicable date.

11,578,029 Shares of Beneficial Interest,
\$3 par value, outstanding on August 5, 2009

Part 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

BRT REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands except per share amounts)

	June 30, 2009 (Unaudited)	September 30, 2008 (Audited)
ASSETS		
Real estate loans		
Earning interest	\$ 60,229	\$ 118,028
Non-earning interest	30,423	18,407
	90,652	136,435
Deferred fee income	(478)	(882)
Allowance for possible loan losses	(8,592)	(6,710)
	81,582	128,843
Real estate properties net of accumulated depreciation of \$1,519 and \$985	59,844	32,917
Investment in unconsolidated ventures at equity	6,936	9,669
Cash and cash equivalents	22,461	35,765
Available-for-sale securities at market	8,774	10,482
Real estate properties held for sale	8,123	44,094
Other assets including \$192 and \$37 relating to real estate properties held for sale	9,521	8,250
Total assets	\$ 197,241	\$ 270,020
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Borrowed funds	\$ -	\$ 3,000
Junior subordinated notes	55,133	56,702
Mortgages payable	4,351	2,315
Accounts payable and accrued liabilities including \$152 and \$101 relating to real estate properties held for sale	2,647	3,481
Deposits payable	1,117	2,064
Dividends payable	-	15,565
Total liabilities	63,248	83,127
Minority interest in consolidated entity	4,465	121
Commitments and contingencies	-	-
Shareholders' equity:		
Preferred shares, \$1 par value:		
Authorized 10,000 shares, none issued	-	-
Shares of beneficial interest, \$3 par value:		
Authorized number of shares, unlimited, issued 12,711 shares in both periods	38,133	38,133
Additional paid-in capital	166,871	166,402

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Accumulated other comprehensive income – net unrealized gain on available-for-sale securities	1,360	7,126
Distributions in excess of earnings	(65,533)	(14,311)
Cost of 1,434 and 1,206 treasury shares of beneficial interest	(11,303)	(10,578)
Total shareholders' equity	129,528	186,772
Total liabilities and shareholders' equity	\$ 197,241	\$ 270,020

See Accompanying Notes to Consolidated Financial Statements.

BRT REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
Revenues:				
Interest on real estate loans	\$ 1,313	\$ 3,821	\$ 7,618	\$ 13,436
Loan fee income	196	547	803	1,657
Income from real estate properties	1,011	377	2,996	1,090
Other, primarily investment income	174	390	537	1,532
Total Revenues	2,694	5,135	11,954	17,715
Expenses:				
Interest on borrowed funds	923	1,734	3,725	5,179
Advisor's fees, related party	289	451	941	1,372
Impairment charges	371	1,445	9,311	1,495
Provision for loan loss	-	6,400	17,530	11,700
Foreclosure related professional fees	97	438	687	1,664
Debt restructuring expenses	685	-	685	-
General and administrative – including \$261 and \$263 to related parties for the three month periods, respectively, and \$747 and \$781 for the nine month periods, respectively	1,928	1,669	5,318	5,173
Other taxes	-	130	18	230
Expenses relating to real estate properties including interest on mortgages payable of \$47 and \$37 for the three month periods, respectively, and \$119 and \$112 for the nine month periods, respectively	1,582	1,094	4,231	1,654
Amortization and depreciation	212	191	1,063	469
Total Expenses	6,087	13,552	43,509	28,936
Loss before equity in earnings (loss) of unconsolidated joint ventures, gain on sale of joint venture interests and available-for-sale securities, minority interest and discontinued operations	(3,393)	(8,417)	(31,555)	(11,221)
Equity in earnings (loss) of unconsolidated joint ventures	104	171	(1,983)	1,322
Loss before gain on sale of joint venture interests and available-for-sale securities, minority interest and discontinued operations	(3,289)	(8,246)	(33,538)	(9,898)
Gain on sale of joint venture interests	-	-	271	-
Gain on sale of available-for-sale securities	92	7,885	92	11,703
Minority interest	217	(41)	131	(95)
(Loss) income from continuing operations	(2,980)	(402)	(33,044)	1,709
Discontinued Operations				
(Loss) income from operations	(329)	97	(943)	(294)

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Impairment charges	(2,211)	(5,402)	(17,522)	(5,305)
Gain on sale of real estate assets	257	25	287	1,424
Loss from discontinued operations	(2,283)	(5,280)	(18,178)	(4,175)
Net loss	\$ (5,263)	\$ (5,682)	\$ (51,222)	\$ (2,466)
Loss per share of beneficial interest:				
(Loss) income from continuing operations	\$ (.25)	\$ (.03)	\$ (2.83)	\$.15
Loss from discontinued operations	(.20)	(.45)	(1.56)	(.36)
Basic and diluted loss per share	\$ (.45)	\$ (.48)	\$ (4.39)	\$ (.21)
Cash distributions per common share	\$ -	\$.62	\$ -	\$ 1.86
Weighted average number of common shares outstanding:				
Basic	11,624,219	11,768,857	11,667,055	11,623,249
Diluted	11,624,219	11,768,857	11,667,055	11,623,249

See Accompanying Notes to Consolidated Financial Statements

BRT REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited)

(Dollar amounts in thousands except for per share amounts)

	Shares of Beneficial Interest	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Distributions In Excess of Earnings	Treasury Shares	Total
Balances, September 30, 2008	\$ 38,133	\$ 166,402	\$ 7,126	\$ (14,311)	\$ (10,578)	\$ 186,772
Restricted stock vesting		(189)			189	-
Compensation expense – restricted stock	-	658	-	-	-	658
Shares repurchased (184,455 shares)					(914)	(914)
Net loss	-	-	-	(51,222)	-	(51,222)
Other comprehensive loss - net unrealized loss on available-for-sale securities	-	-	(5,766)	-	-	(5,766)
Comprehensive loss	-	-	-	-	-	(56,988)
Balances, June 30, 2009	\$ 38,133	\$ 166,871	\$ 1,360	\$ (65,533)	\$ (11,303)	\$ 129,528

See Accompanying Notes to Consolidated Financial Statements.

BRT REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Amounts in Thousands)

	Nine Months Ended June 30,	
	2009	2008
Cash flows from operating activities:		
Net (loss)	\$ (51,222)	\$ (2,466)
Adjustments to reconcile net (loss) to net cash (used in) provided by operating activities:		
Provision for loan losses	17,530	11,700
Impairment charges	26,833	6,800
Amortization and depreciation	1,397	1,020
Accretion of securities discount	(13)	-
Accretion of junior subordinated notes principal	133	-
Amortization of deferred fee income	(730)	(1,613)
Amortization of restricted stock	658	636
Gain on sale of available-for-sale securities	(92)	(11,703)
Gain on sale of joint venture interests	(271)	-
Gain on sale of real estate assets from discontinued operations	(287)	(1,424)
Equity in loss (earnings) of unconsolidated joint ventures	1,983	(1,322)
Distribution of earnings of unconsolidated joint ventures	111	1,666
Minority interest	(131)	95
Increase in straight line rent	(12)	(12)
Increases and decreases from changes in other assets and liabilities:		
Decrease in interest and dividends receivable	856	1,308
Increase in prepaid expenses	(1,872)	(170)
Decrease in accounts payable and accrued liabilities	(1,781)	(1,112)
Increase in other receivables	(1,775)	-
Increase in deferred costs	-	(463)
Decrease in other assets, net	506	56
Net cash (used in) provided by operating activities	(8,179)	2,996
Cash flows from investing activities:		
Collections from real estate loans	9,039	32,399
Additions to real estate loans	(12,650)	(35,791)
Loan loss recoveries	2,000	-
Net costs capitalized to real estate owned	(2,286)	(1,284)
Collection of loan fees	461	1,300
Proceeds from sale of real estate owned	18,371	5,480
Purchase of available-for-sale securities	(4,196)	-
Proceeds from sale of available-for-sale securities	242	15,541
Contributions to unconsolidated ventures	(781)	(1,068)
Distributions of capital of unconsolidated ventures	545	1,293
Proceeds from the sale of joint venture interests	1,350	-
Net cash provided by investing activities	12,095	17,870

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Cash flows from financing activities:		
Proceeds from borrowed funds	6,000	31,000
Repayment of borrowed funds	(9,000)	(39,000)
Increase in deferred mortgage costs	(794)	-
Capital contributions from minority interest, net	3,117	(210)
Mortgage amortization	(64)	(59)
Cash distribution – common shares	(15,565)	(21,337)
Issuance of shares – dividend reinvestment and stock purchase plan	-	6,981
Repurchase of shares	(914)	-
Net cash (used in) provided by financing activities	(17,220)	(22,625)
Net decrease in cash and cash equivalents	(13,304)	(1,759)
Cash and cash equivalents at beginning of period	35,765	17,103
Cash and cash equivalents at end of period	\$ 22,461	\$ 15,344
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 6,074	\$ 4,741
Non cash investing and financing activity:		
Seller financing provided for sale of real estate	\$ 6,070	\$ -
Reclassification of loan to real estate upon foreclosure	\$ 37,681	\$ 64,446
Reclassification of real estate properties to real estate held for sale	\$ 7,868	\$ -
Accrued distributions	\$ -	\$ 7,297
Junior subordinated notes redeemed to cancel statutory trust common securities	\$ 1,702	\$ -
Assumption of mortgages of consolidated joint venture	\$ 2,100	\$ -

See Accompanying Notes to Consolidated Financial Statements.

BRT REALTY TRUST AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Note 1 – Organization and Background

BRT Realty Trust is a real estate investment trust organized as a business trust in 1972 under the laws of the Commonwealth of Massachusetts. Our primary business is and has been for over twenty five years, to originate and hold for investment short-term senior and junior commercial mortgage loans secured by real property in the United States. Our objective is to provide our shareholders with returns over time, including quarterly cash distributions and capital appreciation, by originating mortgage loans secured by a diversified portfolio of real property. Due to the current credit crisis however, our business focus has temporarily shifted emphasis from originating loans to servicing our loan portfolio, workout activities, pursuing foreclosure actions, acquiring the underlying property in a foreclosure proceeding and supervising real estate assets.

Note 2 - Basis of Preparation

The accompanying interim unaudited consolidated financial statements as of June 30, 2009 and for the three and nine months ended June 30, 2009 and June 30, 2008 reflect all normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the results for such interim periods. The results of operations for the three and nine months ended June 30, 2009 are not necessarily indicative of the results for the full year. The balance sheet as of September 30, 2008 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

Certain items on the consolidated financial statements for the preceding period have been reclassified to conform with the current consolidated financial statements.

The consolidated financial statements include the accounts and operations of BRT Realty Trust, its wholly owned subsidiaries, and its majority-owned or controlled real estate entities and its interests in variable interest entities in which it is the primary beneficiary.

With respect to its unconsolidated joint ventures, as (i) the Trust is primarily the managing member but does not exercise substantial operating control over these entities pursuant to EITF 04-5 “Determining Whether a General Partner, or the General Partners as a Group Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights,” or the Trust is not the managing member and (ii) such entities are not variable-interest entities pursuant to FASB Interpretation No. 46(R), “Consolidation of Variable Interest Entities – an interpretation of ARB No.5,” the Trust has determined that such joint ventures should be accounted for under the equity method of accounting for financial statement purposes.

RBH-TRB Newark Holdings LLC was determined to be a Variable Interest Entity (“VIE”) because the Trust has disproportionately few voting rights as compared with its obligations to absorb expected losses or rights to receive expected residual returns. The Trust was determined to be the Primary Beneficiary as it is expected to absorb a majority of the VIE’s expected losses. For these reasons, the Trust has consolidated the operations of the VIE in the Trust’s consolidated financial statements.

Material intercompany items and transactions have been eliminated. BRT Realty Trust and its subsidiaries are hereinafter referred to as "BRT" or the "Trust."

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These statements should be read in conjunction with the consolidated financial statements and related notes which are included in BRT's Annual Report on Form 10-K for the year ended September 30, 2008.

The preparation of the financial statements in conformity with accounting principles generally accepted in the

Note 3 - Shareholders' Equity

United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from those estimates.

Distributions

During the quarter ended June 30, 2009, BRT did not declare or pay any distributions to its shareholders.

Stock Options

As of June 30, 2009, there were 22,500 stock options outstanding. All of these options are exercisable. During the three and nine months ended June 30, 2009, no options were exercised.

Restricted Shares

As of June 30, 2009, 7,790 and 349,250 shares were issued under the Trust's 2009 and 2003 incentive plans, respectively, both of which were approved by BRT shareholders. The number of shares allocated to these plans is 500,000 and 350,000, respectively. Since inception of the plans, 55,760 shares have vested.

The shares granted under both plans vest five years from the date of issuance and, under certain circumstances, may vest earlier. For accounting purposes, the restricted shares are not included in the outstanding shares shown on the balance sheet until they vest, but are included in the earnings per share computation. The Trust adopted the provisions of Financial Accounting Standards Board ("FASB") No. 123 (R), "Share-Based Payment (revised 2004)." These provisions require that the estimated fair value of restricted shares at the date of grant be amortized ratably into expense over the appropriate vesting period. For the three and nine months ended June 30, 2009 and 2008, the Trust recorded \$217,000 and \$658,000, and \$226,000 and \$636,000, respectively, of compensation expense, as a result of the outstanding restricted shares. At June 30, 2009, \$2,176,000 has been deferred as unearned compensation and will be charged to expense over the remaining weighted average vesting period of approximately 3.3 years.

Per Share Data

Basic loss per share was determined by dividing net loss for the period by the weighted average number of common shares outstanding during each period.

Diluted loss per share reflects the potential dilution that could occur if securities or other contracts to issue common shares were exercised or converted into common shares or resulted in the issuance of common shares that then shared in the earnings of the Trust.

Basic and diluted shares for the three months ended June 30, 2009 and 2008 were 11,624,219 and 11,768,857, respectively. For the nine months ended June 30, 2009 and 2008, basic and diluted shares were 11,667,055 and 11,623,249, respectively.

The impact of dilutive securities is not included in the computation of loss per share for the three or nine months ended June 30, 2009 and 2008, as the inclusion of such common share equivalents would be anti-dilutive.

Note 4 - Real Estate Loans

At June 30, 2009, information relating to real estate loans, all of which are short term (three years or less), is summarized as follows (dollar amounts in thousands):

First mortgage loans:	Earning Interest	Non-Earning Interest	Total	Allowance For Possible Losses (1)	Real Estate Loans, Net
Multi-family residential	\$ 7,615	\$ 2,744	\$ 10,359	\$ (1,621)	\$ 8,738
Condominium units (existing multi-family and commercial units)	41,481	-	41,481	-	41,481
Hotel condominium units	4,445	-	4,445	-	4,445
Land	6,434	-	6,434	-	6,434
Office building w/retail	-	22,967	22,967	(6,418)	16,549
Hotel	-	3,283	3,283	(553)	2,730
Residential	254	-	254	-	254
Second mortgage loans:					
Multi-family residential	-	1,250	1,250	-	1,250
Retail	-	179	179	-	179
	60,229	30,423	90,652	(8,592)	82,060
Deferred fee income	(115)	(363)	(478)	-	(478)
Real estate loans	\$ 60,114	\$ 30,060	\$ 90,174	\$ (8,592)	\$ 81,582

(1) All allowance for possible losses relates to non-earning loans.

At June 30, 2009, there were six non-earning loans outstanding to six separate, unrelated borrowers. These loans have an aggregate outstanding principal balance of \$30,423,000, and represent 34% of total real estate loans and 15% of total assets. The Trust recognized \$0 and \$68,000, respectively, of cash basis interest on non-earning loans in the three and nine month periods ended June 30, 2009.

Note 4 - Real Estate Loans (Continued)

Information regarding these non-earning loans is set forth in the table below (dollar amounts in thousands):

Location	Utica, NY	New Jersey	Brooklyn, NY	Ft Wayne, IN	Manhattan, NY	Manhattan, NY
Number of Loans	1	1	1	1	1	1