

BRT REALTY TRUST
Form 10-Q
May 06, 2010

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 March 31, 2010

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 website, 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, 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.

14,111,667 Shares of Beneficial Interest,
\$3 par value, outstanding on May 5, 2010

Part 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	March 31, 2010 (Unaudited)	September 30, 2009
ASSETS		
Real estate loans		
Earning interest	\$ 13,241	\$ 44,677
Non-earning interest	37,398	2,836
	50,639	47,513
Deferred fee income	(178)	(44)
Allowance for possible losses	(4,820)	(1,618)
	45,641	45,851
Purchase money mortgage loans	16,948	16,804
Real estate loans held for sale	-	16,915
Real estate properties net of accumulated depreciation of \$1,461 and \$1,145	56,340	55,544
Investment in unconsolidated ventures at equity	786	2,477
Cash and cash equivalents	51,381	25,708
Available-for-sale securities at market	5,890	8,963
Real estate properties held for sale	2,732	14,204
Other assets	6,059	6,867
Total Assets	\$ 185,777	\$ 193,333
LIABILITIES AND EQUITY		
Liabilities:		
Junior subordinated notes	\$ 40,521	\$ 40,234
Mortgages payable	10,146	9,460
Accounts payable and accrued liabilities	1,110	2,149
Deposits payable	1,563	1,965
Dividends payable	-	13,308
Total Liabilities	53,340	67,116
Commitments and contingencies	-	-
Equity:		
BRT Realty Trust 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, 15,148 and 12,711 issued	45,445	38,133
Additional paid-in capital	171,866	167,073
Accumulated other comprehensive income—net unrealized gain on available-for-sale securities	1,442	2,711
Retained deficit	(79,252)	(75,374)
Cost of 1,430 and 1,438 treasury shares of beneficial interest	(11,197)	(11,316)
Total BRT Realty Trust shareholders' equity	128,304	121,227
Noncontrolling interests	4,133	4,990

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Total Equity	132,437	126,217
Total Liabilities and Equity	\$ 185,777	\$ 193,333

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2010	2009	2010	2009
Revenues:				
Interest on real estate loans	\$ 714	\$ 2,457	\$ 1,159	\$ 6,305
Interest on purchase money mortgage loans	335	-	685	-
Loan fee income	13	123	115	607
Rental revenues from real estate properties	862	358	1,739	727
Other, primarily investment income	103	162	210	363
Total revenues	2,027	3,100	3,908	8,002
Expenses:				
Interest on borrowed funds	523	1,403	1,045	2,802
Advisor's fees, related party	204	295	397	652
Provision for loan loss	-	17,530	3,165	17,530
Impairment charges	-	1,150	-	1,150
Foreclosure related professional fees	148	242	169	590
General and administrative—including \$191 and \$223 to related party for the three month periods and \$433 and \$486 for the six month periods, respectively	1,588	1,739	3,016	3,407
Operating expenses relating to real estate properties including interest on mortgages payable of \$159 and \$36 for the three month periods and \$313 and \$72 for the six month periods, respectively	1,003	348	1,982	779
Amortization and depreciation	209	572	433	851
Total expenses	3,675	23,279	10,207	27,761
Total revenues less total expenses	(1,648)	(20,179)	(6,299)	(19,759)
Equity in earnings (loss) of unconsolidated ventures	35	(2,171)	110	(2,087)
Gain on sale of joint venture interests	-	271	-	271
Gain on sale of available-for-sale securities	-	-	1,586	-
Loss from continuing operations	(1,613)	(22,079)	(4,603)	(21,575)
Discontinued operations:				
Loss from operations	(136)	(644)	(542)	(1,227)
Impairment charges	-	(19,600)	(745)	(23,100)
Gain on sale of real estate assets	22	29	1,275	29
Discontinued operations	(114)	(20,215)	(12)	(24,298)
Net loss	(1,727)	(42,294)	(4,615)	(45,873)
Less net loss (income) attributable to non controlling interests	370	(42)	737	(86)
Net loss attributable to common shareholders	\$ (1,357)	\$ (42,336)	\$ (3,878)	\$ (45,959)
Basic and diluted per share amounts attributable to common shareholders:				
Loss from continuing operations	\$ (.09)	\$ (1.89)	\$ (.28)	\$ (1.85)
Discontinued operations	(.01)	(1.73)	-	(2.08)
Basic and diluted loss per share	\$ (.10)	\$ (3.62)	\$ (.28)	\$ (3.93)

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Amounts attributable to BRT Realty Trust:

Loss from continuing operations	\$	(1,243)	\$	(22,121)	\$	(3,866)	\$	(21,661)
Discontinued operations		(114)		(20,215)		(12)		(24,298)
Net loss	\$	(1,357)	\$	(42,336)	\$	(3,878)	\$	(45,959)

Weighted average number of common shares
outstanding:

Basic and diluted		14,090,229		11,682,037		13,647,654		11,688,473
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See accompanying notes to consolidated financial statements.

BRT REALTY TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Unaudited)

(Amounts in thousands except for per share amounts)

	Shares of Beneficial Interest	Additional Paid-In Capital	Accumulated Other Comprehensive Income	Retained Deficit	Treasury Shares	Non Controlling Interest	Total
Balances, September 30, 2009	\$ 38,133	\$ 167,073	\$ 2,711	\$ (75,374)	\$ (11,316)	\$ 4,990	\$ 126,217
Restricted stock vesting	-	(242)	-	-	242	-	-
Compensation expense – restricted stock	-	431	-	-	-	-	431
Shares issued – stock dividend (2,437,352 shares)	7,312	4,604	-	-	-	-	11,916
Distributions to non controlling interests	-	-	-	-	-	(120)	(120)
Shares repurchased (22,972 shares)	-	-	-	-	(123)	-	(123)
Net loss	-	-	-	(3,878)	-	(737)	(4,615)
Other comprehensive loss - net unrealized loss on available-for-sale securities (net of reclassification adjustment for gains of \$1,557 included in net loss)	-	-	(1,269)	-	-	-	(1,269)
Comprehensive loss	-	-	-	-	-	-	(5,884)
Balances, March 31, 2010	\$ 45,445	\$ 171,866	\$ 1,442	\$ (79,252)	\$ (11,197)	\$ 4,133	\$ 132,437

See Accompanying Notes to Consolidated Financial Statements.

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

	Six Months Ended March 31,	
	2010	2009
Cash flows from operating activities:		
Net loss	\$ (4,615)	\$ (45,873)
Adjustments to reconcile net loss to net cash used in operating activities:		
Provision for loan loss	3,165	17,530
Impairment charges	745	24,250
Amortization and depreciation	450	1,171
Amortization of deferred fee income	(114)	(541)
Accretion of junior subordinated notes principal	287	-
Amortization of securities discount	(34)	-
Amortization of restricted stock	431	441
Gain on sale of real estate assets from discontinued operations	(1,275)	(29)
Gain on sale of available for sale securities	(1,586)	-
Gain on sale of joint venture interests	-	(271)
Equity in (earnings) loss of unconsolidated joint ventures	(110)	2,087
Distribution of earnings of unconsolidated joint ventures	100	61
Increase in straight line rent	(218)	(8)
Increases and decreases from changes in other assets and liabilities:		
Decrease in interest and dividends receivable	337	646
Decrease in prepaid expenses	777	79
Decrease in accounts payable and accrued liabilities	(1,340)	(1,490)
Increase in deferred costs	(38)	-
Increase in security deposits and other receivable	(146)	-
Other	(37)	(517)
Net cash used in operating activities	(3,221)	(2,464)
Cash flows from investing activities:		
Collections from real estate loans	7,255	6,074
Additions to real estate loans	(10,525)	(12,726)
Proceeds from the sale of loans	16,815	-
Loan loss recoveries	37	100
Net costs capitalized to real estate owned	(1,585)	(1,872)
Collection of loan fees	248	258
Proceeds from sale of real estate owned	12,474	1,010
Proceeds from sale of available for sale securities	3,425	-
Contributions to unconsolidated joint ventures	-	(143)
Distributions of capital of unconsolidated joint ventures	1,701	476
Proceeds from the sale of joint venture interests	-	1,350
Net cash provided by (used in) investing activities	29,845	(5,473)
Cash flows from financing activities:		
Proceeds from borrowed funds	-	6,000

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Repayment of borrowed funds	-	(3,000)
Increase in deferred credit facility costs	-	(462)
Increase in mortgages payable	731	-
Mortgage principal payments	(45)	(42)
Cash distribution – common shares	(1,334)	(15,565)

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

	Six Months Ended	
	March 31,	
	2010	2009
Expenses associated with stock issuance	(60)	-
Capital distribution to non-controlling interests	(120)	-
Repurchase of shares	(123)	(670)
Net cash used in financing activities	(951)	(13,739)
Net increase (decrease) in cash and cash equivalents	25,673	(21,676)
Cash and cash equivalents at beginning of period	25,708	35,765
Cash and cash equivalents at end of period	\$ 51,381	\$ 14,089
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 300	\$ 2,588
Non cash investing and financing activity:		
Seller financing provided for sale of real estate	\$ -	\$ 1,478
Common stock dividend – portion paid in the Trust’s common shares	\$ 11,916	\$ -
Reclassification of loans to real estate upon foreclosure	\$ -	\$ 8,970
Reclassification of real estate properties held for sale to real estate	\$ 8,552	\$ 9,924

See Accompanying Notes to Consolidated Financial Statements.

BRT REALTY TRUST AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)
March 31, 2010

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 credit crisis, our business focus temporarily shifted emphasis from the origination of loans to servicing our loan portfolio, workout activities, pursuing foreclosure actions, acquiring the underlying properties in foreclosure proceedings, supervising real estate assets and selling real estate assets acquired in foreclosure proceedings. While we continue to focus on our remaining troubled assets, we have begun to shift our emphasis back to our primary business of originating loans.

Note 2 - Basis of Preparation

The accompanying interim unaudited consolidated financial statements as of March 31, 2010 and for the three and six months ended March 31, 2010 and March 31, 2009 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 six months ended March 31, 2010 are not necessarily indicative of the results for the full year. The balance sheet as of September 30, 2009 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. Material intercompany items and transactions have been eliminated. BRT Realty Trust and its subsidiaries are hereinafter referred to as "BRT" or the "Trust."

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 this VIE in the Trust's consolidated financial statements.

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 or the Trust is not the managing member and (ii) such entities are not VIE's, the Trust has determined that such joint ventures should be accounted for under the equity method of accounting for financial statement purposes.

Note 2 - Basis of Preparation (Continued)

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, 2009.

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements. Actual results could differ from those estimates.

Note 3 - Equity

Common Share Dividend Distribution

During the quarter ended March 31, 2010, the Trust did not declare a cash dividend to its shareholders.

Restricted Shares

As of March 31, 2010, there were 132,940 and 349,250 restricted shares issued under the Trust's 2009 and 2003 incentive plans, respectively. The total number of shares allocated to these plans are 500,000 and 350,000, respectively. During the quarter ended March 31, 2010, the Trust issued 125,150 restricted shares of beneficial interest under its 2009 incentive plan. The shares issued vest five years from the date of issuance and under certain circumstances may vest earlier. Since inception of the plans, 88,560 shares have vested. For accounting purposes, the restricted stock is not included in the outstanding shares shown on the balance sheet until they vest, but is included in the earnings per share computation. The estimated fair value of restricted stock at the date of grant is being amortized ratably into expense over the applicable vesting period. For the three and six months ended March 31, 2010 and 2009, the Trust recorded \$213,000 and \$431,000 and \$220,000 and \$441,000 of compensation expense, respectively, as a result of the outstanding restricted shares. At March 31, 2010, \$2,082,000 has been deferred as unearned compensation and will be charged to expense over the remaining weighted average vesting period of approximately 3.5 years.

Per Share Data

Basic (loss) earnings per share attributable to holders of shares of beneficial interest in BRT Realty Trust were determined by dividing net (loss) income for the period by the weighted average number of common shares outstanding during each period.

Diluted (loss) earnings per share attributable to holders of shares of beneficial interest in BRT Realty Trust reflect 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 March 31, 2010 and 2009 were 14,090,229 and 11,682,037, respectively, and 13,647,654 and 11,688,473 for the six months ended March 31, 2010 and 2009, respectively.

The impact of dilutive securities is not included in the computation of loss per share for the three and six months ended March 31, 2010 and 2009, as the inclusion of such common share equivalents would be anti-dilutive.

Note 4 - Real Estate Loans and Purchase Money Mortgages

At March 31, 2010, information relating to real estate loans, all of which are first mortgage loans, is summarized as follows (dollar amounts in thousands):

	Earning Interest	Non-Earning Interest	Total	Allowance For Possible Losses (1)	Real Estate Loans, Net
First mortgage loans:					
Multi-family residential	\$ 11,066	\$ 2,836	\$ 13,902	\$ (1,835)	\$ 12,067
Vacant loft building	-	26,075	26,075	(2,985)	23,090
Condominium units	-	8,487	8,487	-	8,487
Hotel condominium units	878	-	878	-	878
Retail	1,297	-	1,297	-	1,297
	13,241	37,398	50,639	(4,820)	45,819
Deferred fee income	(92)				