INVESTORS REAL ESTATE TRUST
Form 10-Q
March 12, 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 January 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 March 8, 2010, it had 74,200,203 common shares of beneficial interest outstanding.

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PART I
ITEM 1. FINANCIAL STATEMENTS - THIRD QUARTER - FISCAL 2010
INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

	(in thousands, except share data) January 31, 2010	April 30, 2009
ASSETS		
Real estate investments		
Property owned	$ 1,793,995	$ 1,729,585
Less accumulated depreciation	(298,523)	(262,871)
	1,495,472	1,466,714
Development in progress	1,164	0
Unimproved land	5,987	5,701
Mortgage loans receivable, net of allowance of $3 and $3, respectively	159	160
Total real estate investments	1,502,782	1,472,575
Other assets		
Cash and cash equivalents	47,790	33,244
Restricted cash	36,500	0
Marketable securities – available-for-sale	420	420
Receivable arising from straight-lining of rents, net of allowance of $900 and $842, respectively	17,102	16,012
Accounts receivable, net of allowance of $288 and $286, respectively	5,259	2,738
Real estate deposits	978	88
Prepaid and other assets	1,903	1,051
Intangible assets, net of accumulated amortization of $51,648 and $44,887, respectively	52,797	52,173
Tax, insurance, and other escrow	10,044	7,261
Property and equipment, net of accumulated depreciation of $843 and $957, respectively	1,332	1,015
Goodwill	1,392	1,392
Deferred charges and leasing costs, net of accumulated amortization of $13,072 and $11,010, respectively	17,637	17,122
TOTAL ASSETS	$ 1,695,936	$ 1,605,091
LIABILITIES AND EQUITY		
LIABILITIES		
Accounts payable and accrued expenses	$ 36,453	$ 32,773
Revolving lines of credit	6,579	5,500
Mortgages payable	1,091,945	1,070,158
Other	1,368	1,516
TOTAL LIABILITIES	1,136,345	1,109,947
COMMITMENTS AND CONTINGENCIES (NOTE 6)		
REDEEMABLE NONCONTROLLING INTERESTS – CONSOLIDATED REAL ESTATE ENTITIES	1,765	1,737
EQUITY		
Investors Real Estate Trust shareholders’ equity		
	27,317	27,317

Preferred Shares of Beneficial Interest (Cumulative redeemable preferred shares, no par value, 1,150,000 shares issued and outstanding at January 31, 2010 and April 30, 2009, aggregate liquidation preference of $28,750,000)		
Common Shares of Beneficial Interest (Unlimited authorization, no par value, 73,965,593 shares issued and outstanding at January 31, 2010, and 60,304,154 shares issued and outstanding at April 30, 2009)	569,439	461,648
Accumulated distributions in excess of net income	(189,340)	(155,956)
Total Investors Real Estate Trust shareholders' equity	407,416	333,009
Noncontrolling interests – Operating Partnership (20,852,895 units at January 31, 2010 and 20,838,197 units at April 30, 2009)	139,448	148,199
Noncontrolling interests – consolidated real estate entities	10,962	12,199
Total equity	557,826	493,407
TOTAL LIABILITIES AND EQUITY	$ 1,695,936	$ 1,605,091

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

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

	Three Months Ended January 31		Nine Months Ended January 31	
	(in thousands, except per share data)			
	2010	2009	2010	2009
REVENUE				
Real estate rentals	$49,161	$49,061	$146,783	$145,575
Tenant reimbursement	10,969	11,873	33,764	33,778
TOTAL REVENUE	60,130	60,934	180,547	179,353
EXPENSES				
Interest	17,447	17,341	52,048	51,307
Depreciation/amortization related to real estate investments	14,486	14,023	42,986	40,821
Utilities	4,577	4,961	13,123	14,002
Maintenance	7,584	7,672	21,407	21,256
Real estate taxes	7,868	7,549	23,763	22,406
Insurance	982	734	2,910	2,238
Property management expenses	4,998	4,983	13,707	13,754
Administrative expenses	1,683	1,213	4,404	3,569
Advisory and trustee services	107	123	371	337
Other expenses	536	313	1,468	1,157
Amortization related to non-real estate investments	592	527	1,716	1,455
Impairment of real estate investments	818	0	1,678	0
TOTAL EXPENSES	61,678	59,439	179,581	172,302
Gain on involuntary conversion	1,660	0	1,660	0
Interest income	140	123	268	556
Other income	112	29	239	132
Income before gain on sale of other investments	364	1,647	3,133	7,739
Gain on sale of other investments	0	0	0	54
NET INCOME	364	1,647	3,133	7,793
Net loss (income) attributable to noncontrolling interests – Operating Partnership	39	(284)	(381)	(1,631)
Net loss attributable to noncontrolling interests – consolidated real estate entities	49	15	2	97
Net income attributable to Investors Real Estate Trust	452	1,378	2,754	6,259
Dividends to preferred shareholders	(593)	(593)	(1,779)	(1,779)
NET (LOSS) INCOME AVAILABLE TO COMMON SHAREHOLDERS	$(141)	$785	$975	$4,480
NET INCOME PER COMMON SHARE – BASIC AND DILUTED	$.00	$.02	$.02	$.08

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

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INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (unaudited)
for the nine months ended January 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, 2008	1,150	$ 27,317	57,732	$439,255	$ (122,498)	$ 173,557	$517,631
Net income attributable to Investors Real Estate Trust and nonredeemable noncontrolling interests					6,259	1,496	7,755
Distributions – common shares					(29,555)	(10,785)	(40,340)
Distributions – preferred shares					(1,779)		(1,779)
Distribution reinvestment plan			903	8,707			8,707
Shares issued			93	885			885
Partnership units issued						3,730	3,730
Redemption of units for common shares			400	2,670		(2,670)	0
Adjustments to redeemable noncontrolling interests				(212)			(212)
Other			(1)	(9)		443	434
Balance January 31, 2009	1,150	$ 27,317	59,127	$451,296	$ (147,573)	$ 165,771	$496,811

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					2,754	336	3,090

nonredeemable noncontrolling interests							
Distributions – common shares					(34,359)	(10,720)	(45,079)
Distributions – preferred shares					(1,779)		(1,779)
Distribution reinvestment plan			923	7,821			7,821
Shares issued			12,463	99,022			99,022
Partnership units issued						2,888	2,888
Redemption of units for common shares			277	1,678		(1,678)	0
Adjustments to redeemable noncontrolling interests				(134)			(134)
Other			(1)	(596)		(814)	(1,410)
Balance January 31, 2010	1,150	$ 27,317	73,966	$569,439	$ (189,340)	$ 150,410	$557,826

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

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

	Nine Months Ended January 31 (in thousands) 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$3,133	$7,793
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45,754	43,059
Gain on sale of real estate, land and other investments	0	(54)
Gain on involuntary conversion	(1,660)	0
Impairment of real estate investments	1,678	0
Bad debt expense	1,078	1,047
Changes in other assets and liabilities:		
Increase in receivable arising from straight-lining of rents	(1,213)	(1,916)
(Increase) decrease in accounts receivable	(2,765)	903
Increase in prepaid and other assets	(852)	(1,165)
(Increase) decrease in tax, insurance and other escrow	(2,783)	371
Increase in deferred charges and leasing costs	(3,244)	(3,646)
Increase (decrease) in accounts payable, accrued expenses, and other liabilities	3,773	(2,764)
Net cash provided by operating activities	42,899	43,628
CASH FLOWS FROM INVESTING ACTIVITIES		
Net (payments) proceeds of real estate deposits	(890)	1,137
Principal proceeds on mortgage loans receivable	1	373
Increase in restricted cash	(36,500)	0
Proceeds from sale of real estate and other investments	138	67
Insurance proceeds received	705	1,073
Payments for acquisitions and improvements of real estate investments	(72,947)	(50,248)
Net cash used by investing activities	(109,493)	(47,598)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from sale of common shares, net of issue costs	98,872	885
Proceeds from mortgages payable	122,265	43,358
Principal payments on mortgages payable	(99,362)	(39,089)
Principal payments on revolving lines of credit and other debt	(15,538)	(11,052)
Net (payments) proceeds from noncontrolling partner – consolidated real estate entities	(475)	717
Proceeds from revolving lines of credit and other debt	15,500	20,500
Repurchase of fractional shares and partnership units	(10)	(9)
Distributions paid to common shareholders, net of reinvestment of $7,242 and $8,124, respectively	(27,117)	(21,431)
Distributions paid to preferred shareholders	(1,779)	(1,779)
Distributions paid to noncontrolling interests – Unitholders of the Operating Partnership, net of reinvestment of $579 and $582, respectively	(10,141)	(10,202)
Distributions paid to noncontrolling interests – consolidated real estate entities	(926)	(116)
Distributions paid to redeemable noncontrolling interest – consolidated real estate entities	(149)	(113)
Redemption of partnership units	0	(158)
Net cash provided (used) by financing activities	81,140	(18,489)

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	14,546	(22,459)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	33,244	53,481
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$47,790	$31,022

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

	Nine Months Ended January 31 (in thousands)	
	2010	2009
SUPPLEMENTARY SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES FOR THE PERIOD		
Distribution reinvestment plan	$7,242	$8,124
Operating partnership distribution reinvestment plan	579	582
Assets acquired through the issuance of operating partnership units	2,888	3,730
Operating partnership units converted to shares	1,678	2,670
Accounts payable included within real estate investments	418	(976)
Adjustments to redeemable noncontrolling interests	134	212
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest on mortgages	50,560	51,072
Interest other	470	204
	$51,030	$51,276

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

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INVESTORS REAL ESTATE TRUST AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (unaudited)
for the nine months ended January 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 January 31, 2010, IRET owned 77 multi-family residential properties with 9,669 apartment units and 173 commercial properties, consisting of office, medical, industrial and retail properties, totaling 12.0 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 its 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 78.0% and 74.3%, respectively, as of January 31, 2010 and April 30, 2009. 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 Current Report on Form 8-K for the fiscal year ended April 30, 2009, filed with the SEC on September 18, 2009.

RECLASSIFICATIONS

Certain previously reported amounts have been reclassified to conform to the current financial statement presentation. As a result of the adoption of the amended guidance contained in ASC 810, Consolidation, as described below in Recent Accounting Pronouncements, we:

- reclassified to noncontrolling interests - consolidated real estate entities and noncontrolling interests - Operating Partnership, both of which are components of equity, $11.0 million and $139.4 million at January 31, 2010, and $12.2 million and $148.2 million at April 30, 2009, respectively, which amounts were previously reported as minority interests on our condensed consolidated balance sheets;

- reported as separate captions within our condensed consolidated statements of operations the following: net income (including net income attributable to noncontrolling interests and net income attributable to Investors Real Estate Trust); net loss attributable to noncontrolling interests - consolidated real estate entities; net income (loss) attributable to noncontrolling interests - Operating Partnership; and net income attributable to Investors Real Estate Trust, of $3.1 million, $(2,000), $381,000 and $2.8 million, respectively, for the nine months ended January 31, 2010; $7.8 million, $(97,000), $1.6 million and $6.3 million, respectively, for the nine months ended January 31, 2009; $364,000, $(49,000), $(39,000) and $452,000, respectively, for the three months ended January 31, 2010 and $1.6 million, $(15,000), $284,000 and $1.4 million for the three months ended January 31, 2009;

- utilized net income including noncontrolling interests of $3.1 million for the nine months ended January 31, 2010 and $7.8 million for the nine months ended January 31, 2009 as the starting point on our condensed consolidated statements of cash flows in order to reconcile net income to cash flows from operating activities, rather than beginning with net income excluding noncontrolling interests; and

- presented as "redeemable noncontrolling interest" in the mezzanine section of the Company's condensed consolidated balance sheets as of January 31, 2010 and April 30, 2009 the higher of historical cost or fair value of the noncontrolling interest in a joint venture of the Company in which the Company's unaffiliated partner, at its election, can require the Company to buy its interest at a purchase price to be determined by an appraisal conducted in accordance with the terms of the agreement, or at a negotiated price.

These reclassifications had no effect on previously reported net income attributable to IRET, or net cash flows from operating activities. Also, net income per common share continues to be based on net income attributable to IRET.

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.

Effective May 1, 2009, the Company adopted FASB amended guidance that characterized ownership interests in a subsidiary that are held by owners other than the parent as noncontrolling interests (previously reported on the consolidated balance sheet as "minority interest"). Under the amended guidance, noncontrolling interest represents the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. Such noncontrolling interests are reported on the consolidated balance sheets within equity, separately from the Company's equity. Revenues, expenses and net income or loss attributable to both the Company and noncontrolling interests are reported on the consolidated statements of operations. The Company will classify any securities that are redeemable for cash or other assets at the option of the holder, or not solely within the control of the Company, outside of permanent equity in the consolidated balance sheet. The Company will make this determination based on terms in the applicable agreements, specifically in relation to redemption provisions. With respect to noncontrolling interests for which the Company has a choice to settle the contract by delivery of its own shares, the Company evaluates whether it controls the actions or events necessary to issue the maximum number of common shares that could be required to be delivered at the time of settlement of the contract to determine whether the noncontrolling interests are permanent equity.

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The Company has concluded that for its noncontrolling interests that allow for redemption in either cash or Company shares (i.e., the limited partnership units of the Operating Partnership), all such provisions are solely within its control. As a result of its evaluation, the Company has determined that all of these noncontrolling interests qualify as permanent equity. As of January 31, 2010, the Operating Partnership's noncontrolling interests have a redemption value of approximately $182.0 million (based on the Company's closing common share price on the NASDAQ Global Select Market on that date of $8.73), which represents the amount that would be paid to the Operating Partnership's outside noncontrolling limited partners. The Company has one joint venture which allows the Company's unaffiliated partner, at its election, to require the Company to buy its interest at a purchase price to be determined by an appraisal conducted in accordance with the terms of the agreement, or at a negotiated price. The Company is not aware of any intent of the joint venture partner to exercise this option. However, because the redemption of this interest is not solely within the control of the Company, the related noncontrolling interest is presented as "redeemable noncontrolling interest" in the mezzanine section of the Company's condensed consolidated balance sheets as of January 31, 2010 and April 30, 2009.

In December 2007, the FASB issued an update to its guidance on accounting for business combinations. The amended guidance significantly changes the accounting for and reporting of business combination transactions in consolidated financial statements. The amended guidance requires an acquiring entity to recognize acquired assets and liabilities assumed in a transaction at fair value as of the acquisition date, changes the disclosure requirements for business combination transactions and changes the accounting treatment for certain items, including contingent consideration agreements which are required to be recorded at acquisition date fair value and acquisition costs which are required to be expensed as incurred. The Company adopted this guidance on May 1, 2009. The Company believes that such adoption could materially impact its future financial results to the extent that it acquires significant amounts of real estate, as related acquisition costs will be expensed as incurred compared to the Company's former practice of capitalizing such costs and amortizing them over the estimated useful life of the assets acquired.

In September 2006, the FASB issued guidance that defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. The guidance was effective for the Company on May 1, 2008; however, the FASB deferred the effective date for certain non-financial assets and liabilities not re-measured at fair value on a recurring basis to fiscal years beginning after November 15, 2008, or, for the Company, its first quarter of fiscal year 2010. The adoption of the guidance pertaining to non-financial assets and liabilities by the Company on May 1, 2009 did not have a material impact on the Company's consolidated financial statements.

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 January 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.

In June 2008, the FASB issued guidance that states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share ("EPS") pursuant to the two-class method. The amended guidance is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented shall be adjusted retrospectively (including interim financial statements, summaries of earnings, and selected financial data) to conform with the provisions of the amended guidance. Early application is not permitted. The Company currently has no unvested share-based payment awards outstanding, but it is possible that in the future some may be granted under its 2008 Incentive Award Plan approved by shareholders in September 2008. The Company's adoption of this guidance on May 1, 2009 did not impact the Company's EPS calculations.

In June 2009, the FASB issued new guidance that amends the existing guidance as follows: a) to require an enterprise to perform an analysis to determine whether the enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity, identifying the primary beneficiary of a variable interest entity, b) to require ongoing reassessment of whether an enterprise is the primary beneficiary of a variable interest entity, rather than only when specific events occur, c) to eliminate the quantitative approach previously required for determining the primary beneficiary of a variable interest, d) to amend certain guidance for determining whether an entity is a variable interest entity, e) to add an additional reconsideration event when

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changes in facts and circumstances pertinent to a variable interest entity occur, f) to eliminate the exception for troubled debt restructuring regarding variable interest entity reconsideration, and g) to require advanced disclosures that will provide users of financial statements with more transparent information about an enterprise's involvement in a variable interest entity. The new guidance is effective for the first annual reporting period that begins after November 15, 2009. The Company is currently evaluating the impact that the adoption of this guidance will have on the Company's 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 nine months ended January 31, 2010, the Company incurred a loss of $1.7 million due to impairment of three properties. The Company recorded a charge for impairment of approximately $818,000 on a retail property in Ladysmith, Wisconsin, based upon receipt of a market offer to purchase and the Company's probable intention to dispose of the property. The Company recorded a charge for impairment of approximately $152,000 on its former headquarters building in Minot, North Dakota, based upon receipt and acceptance of a market offer to purchase. The Company also recorded an impairment charge of approximately $708,000 on a retail property located in Kentwood, Michigan. This property's tenant has vacated the premises but continues to pay rent under a lease agreement that will expire on October 29, 2010. Broker representations and market data for this retail property provided the basis for the impairment charge. During the nine months ended January 31, 2009, the Company incurred no losses due to impairment.

RESTRICTED CASH AND COMPENSATING BALANCES

Under the terms of a Pledge Agreement entered into with First International Bank and Trust, Watford City, North Dakota, as security for a loan from First International for the purchase of the Company's five assisted living facilities in Wyoming, the Company is required to maintain on deposit with First International a compensating balance, restricted as to withdrawal, of $36.5 million, the amount of the loan. The Company also 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, and First International Bank, Watford City, North Dakota, deposit of $3.2 million.

GAIN ON INVOLUNTARY CONVERSION

During the third quarter of fiscal year 2010, the Company reached an agreement for final settlement of insurance claims related to a fiscal year 2009 fire loss and realized a $1.7 million gain from involuntary conversion, as the final proceeds of $2.4 million exceeded our estimated basis in the assets requiring replacement, with a final payment of approximately $743,000 received subsequent to quarter end on February 16, 2010.

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 nine months ended January 31, 2010 and 2009, respectively, the Company added approximately $7.5 million and $618,000 of new intangible assets and $20,000 and $54,000 of new intangible liabilities. The weighted average lives of the intangible assets and intangible liabilities acquired in the nine months ended January 31, 2010 and 2009 are 17.4 years and 1.8 years, respectively. 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.

The Company's identified intangible assets and intangible liabilities at January 31, 2010 and April 30, 2009 were as follows:

	(in thousands)	
	January 31, 2010	April 30, 2009
Identified intangible assets (included in intangible assets):		
Gross carrying amount	$104,445	$ 97,060
Accumulated amortization	(51,648)	(44,887)
Net carrying amount	$52,797	$ 52,173
Indentified intangible liabilities (included in other liabilities):		
Gross carrying amount	$2,659	$ 2,638
Accumulated amortization	(2,291)	(2,122)
Net carrying amount	$368	$ 516

The effect of amortization of acquired below-market leases and acquired above-market leases on rental income was approximately $(12,000) and $39,000 for the three months ended January 31, 2010 and 2009, respectively, and $(38,000) and $162,000 for the nine months ended January 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)
2011	$ 59
2012	46
2013	28
2014	29
2015	12

Amortization of all other identified intangible assets (a component of depreciation and amortization expense) was $2.1 million and $2.9 million for the three months ended January 31, 2010 and 2009, respectively, and $6.7 million and $8.2 million for the nine months ended January 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)
2011	$ 6,738
2012	4,731
2013	3,757
2014	3,351
2015	2,993

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 January 31, 2010 and April 30, 2009 were $1.4 million. The annual review at April 30, 2009 indicated no impairment and there was no indication of impairment at January 31, 2010.

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.

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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 and nine months ended January 31, 2010 and 2009:

	Three Months Ended January 31		Nine Months Ended January 31	
	(in thousands, except per share data)			
	2010	2009	2010	2009
NUMERATOR				
Net income attributable to Investors Real Estate Trust	$452	$1,378	$2,754	$6,259
Dividends to preferred shareholders	(593)	(593)	(1,779)	(1,779)
Numerator for basic earnings per share – net (loss) income available to common shareholders	(141)	785	975	4,480
Noncontrolling interests – Operating Partnership	(39)	284	381	1,631
Numerator for diluted earnings per share	$(180)	$1,069	$1,356	$6,111
DENOMINATOR				
Denominator for basic earnings per share - weighted average shares	73,607	58,832	67,375	58,373
Effect of convertible operating partnership units	20,909	21,206	20,909	21,269
Denominator for diluted earnings per share	94,516	80,038	88,284	79,642
NET INCOME PER COMMON SHARE – BASIC AND DILUTED	$.00	$.02	$.02	$.08

NOTE 4 • EQUITY

During the second quarter of fiscal year 2010, IRET completed a public offering of 9,200,000 common shares of beneficial interest at $8.25 per share (before underwriting discounts and commissions). Proceeds of the offering included in equity totaled $72,105,000 after deducting underwriting discounts and commissions but before deducting offering expenses. During the first quarter of fiscal year 2010, IRET completed a public offering of 3,000,000 common shares of beneficial interest at $8.70 per share (before underwriting discounts and commissions). Proceeds of the offering included in equity totaled $24,795,000 after deducting underwriting discounts and commissions but before deducting offering expenses.

As of January 31, 2010, approximately 277,000 Units have been converted to common shares during fiscal year 2010, with a total value of approximately $1.7 million included in equity, and approximately 9,000 common shares have been issued under the Company's 401(k) plan, with a total value of approximately $73,000 included in equity. Approximately 1.0 million additional common shares have been issued under the Company's Distribution Reinvestment and Share Purchase Plan during the nine months ended January 31, 2010 with a total value of $8.8 million included in equity.

NOTE 5 • SEGMENT REPORTING

IRET reports its results in five reportable segments: multi-family residential properties, and commercial office, medical (including senior housing), industrial and 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.

IRET measures the performance of its segments based on net operating income ("NOI"), which the Company defines as total revenues less property operating expenses and real estate taxes. 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.

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The revenues and net operating income for these reportable segments are summarized as follows for the three and nine month periods ended January 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 January 31, 2010	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
Real estate revenue	$19,060	$ 20,303	$ 14,223	$ 3,230	$ 3,314	$60,130
Real estate expenses	9,860	9,233	4,481	1,073	1,362	26,009
Gain on involuntary conversion	1,660	0	0	0	0	1,660
Net operating income	$10,860	$ 11,070	$ 9,742	$ 2,157	$ 1,952	35,781
Interest						(17,447)
Depreciation/amortization						(15,078)
Administrative, advisory and trustee fees						(1,790)
Other expenses						(536)
Impairment of real estate investment						(818)
Other income						252
Net income						$364

	(in thousands)					
Three Months Ended January 31, 2009	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
Real estate revenue	$19,394	$ 20,793	$ 13,346	$ 3,429	$ 3,972	$60,934
Real estate expenses	9,406	9,548	4,435	885	1,625	25,899
Net operating income	$9,988	$ 11,245	$ 8,911	$ 2,544	$ 2,347	35,035
Interest						(17,341)
Depreciation/amortization						(14,550)
Administrative, advisory and trustee fees						(1,336)
Other expenses						(313)
Other income						152
Net income						$1,647

	(in thousands)					
Nine Months Ended January 31, 2010	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
Real estate revenue	$ 57,399	$ 61,952	$ 41,172	$ 9,964	$ 10,060	$ 180,547
Real estate expenses	28,233	27,766	12,135	3,226	3,550	74,910
Gain on involuntary conversion	1,660	0	0	0	0	1,660
Net operating income	$ 30,826	$ 34,186	$ 29,037	$ 6,738	$ 6,510	107,297
Interest						(52,048)
Depreciation/amortization						(44,702)

Administrative, advisory and trustee fees		(4,775)
Other expenses		(1,468)
Impairment of real estate investment		(1,678)
Other income		507
Net income	$	3,133

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Nine Months Ended January 31, 2009	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
	(in thousands)					
Real estate revenue	$57,397	$ 62,321	$ 39,172	$ 9,500	$ 10,963	$179,353
Real estate expenses	27,060	28,194	12,061	2,420	3,921	73,656
Net operating income	$30,337	$ 34,127	$ 27,111	$ 7,080	$ 7,042	105,697
Interest						(51,307)
Depreciation/amortization						(42,276)
Administrative, advisory and trustee fees						(3,906)
Other expenses						(1,157)
Other income						688
Gain on sale of other investments						54
Net income						$7,793

Segment Assets and Accumulated Depreciation

Segment assets are summarized as follows as of January 31, 2010, and April 30, 2009, along with reconciliations to the condensed consolidated financial statements:

As of January 31, 2010	Multi-Family Residential	Commercial-Office	Commercial-Medical	Commercial-Industrial	Commercial-Retail	Total
	(in thousands)					
Segment Assets						
Property owned	$551,565	$ 581,282	$ 429,698	$ 113,224	$ 118,226	$1,793,995
Less accumulated depreciation/amortization	(127,132)	(84,605)	(50,643)	(14,821)	(21,322)	(298,523)
Total property owned	$424,433	$ 496,677	$ 379,055	$ 98,403	$ 96,904	1,495,472
Cash and cash equivalents						47,790
Restricted cash						36,500
Marketable securities						420
Receivables and other assets						