

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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LIBERTE INVESTORS/

CIK: **60153** | IRS No.: **751328153** | State of Incorporation: **MA** | Fiscal Year End: **0630**
Type: **10-Q** | Act: **34** | File No.: **001-06802** | Film No.: **94528231**
SIC: **6798** Real estate investment trusts

Mailing Address
1600 VICEROY DR
DALLAS TX 75235

Business Address
1420 VICEROY DR
DALLAS TX 75235
2148795800

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
- - --- EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1994

OR

- - --- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

FOR TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 1-6802

LIBERTE INVESTORS

(Exact name of Registrant as specified in its Charter)

CREATED UNDER DECLARATION OF TRUST
PURSUANT TO THE LAWS OF
THE COMMONWEALTH OF MASSACHUSETTS
(State or other jurisdiction
of incorporation or organization)

75-1328153
(I.R.S. Employer
Identification No.)

1420 VICEROY DRIVE
DALLAS, TEXAS
(Address of principal executive offices)

75235
(Zip Code)

Registrant's telephone number, including area code (214) 879-5497

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 X NO

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS
DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.

YES X * NO

* The registrant's confirmed plan of reorganization did not provide for a distribution of securities; however, all required documents and reports have been timely filed by the Registrant both prior to and after confirmation.

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares outstanding of each of the issuer's class of securities as of May 6, 1994: Shares of Beneficial Interest, no par - 12,423,208 shares.

FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 1994
LIBERTE INVESTORS

INDEX

<TABLE>
<CAPTION>

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

Consolidated Balance Sheet - March 31, 1994 Pro Forma, March 31, 1994 and June 30, 1993	3
Consolidated Statement of Operations - Quarter and Nine Months Ended March 31, 1994 and 1993	4
Consolidated Statement of Cash Flows - Nine Months Ended March 31, 1994 and 1993	5
Notes to Consolidated Financial Statements	6
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	8

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS	13
ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	14
ITEM 5. OTHER INFORMATION	15
ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K	18
SIGNATURES	19

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEET
LIBERTE INVESTORS AND SUBSIDIARY
(Debtor-in-possession)

<TABLE>
<CAPTION>

	March 31, 1994 Pro Forma (Unaudited)	March 31, 1994 (Unaudited)	June 30, 1993 (See Note)
	----- <C>	----- <C>	----- <C>
Assets			
Mortgage loans on real estate:			
Earning	\$ 7,478,000	\$ 77,557,437	\$ 113,126,692
Nonearning	6,868,000	16,700,636	24,442,450
Foreclosed real estate:			
Earning	--	73,417,202	73,065,058
Nonearning	23,840,000	81,465,181	91,351,468
	38,186,000	249,140,456	301,985,668
Less: Allowance for possible losses	15,875,000	42,044,800	53,938,817
	22,311,000	207,095,656	248,046,851
Cash and cash equivalents	6,586,000	5,457,133	2,428,902
Restricted cash investments	438,000	34,242,690	5,368,318
Note receivable	6,000,000	--	--
Accrued interest and other receivables	342,000	982,167	1,514,551
Other assets	542,000	576,803	4,216,111
	----- \$ 36,219,000	----- \$ 248,354,449	----- \$ 261,574,733
	=====	=====	=====
Liabilities and Shareholders' Equity			
Liabilities			
Prepetition liabilities not subject to compromise:			
Escrow deposits	\$ --	\$ 1,553,799	\$ 2,036,631

Prepetition liabilities subject to compromise:			
Notes payable	--	83,127,839	87,725,250
Subordinated notes	--	100,000,000	100,000,000
Accrued management fees	--	--	216,814
Accrued interest and other liabilities	--	10,606,192	8,004,817
Postpetition liabilities:			
Accrued interest and other liabilities	712,000	4,560,432	--
	-----	-----	-----
	712,000	199,848,262	197,983,512
Shareholders' Equity			
Shares of Beneficial Interest, no par value, unlimited authorization:			
12,423,208 issued and outstanding at March 31, 1994 and 11,773,208 issued and outstanding at June 30, 1993			
	35,507,000	48,506,187	63,591,221
	-----	-----	-----
	\$ 36,219,000	\$ 248,354,449	\$ 261,574,733
	=====	=====	=====

</TABLE>

NOTE: The balance sheet at June 30, 1993 has been derived from the audited financial statements at that date.

See notes to consolidated financial statements.

3

4

CONSOLIDATED STATEMENT OF OPERATIONS (Unaudited)
LIBERTE INVESTORS AND SUBSIDIARY
(Debtor-in-Possession)

<TABLE>
<CAPTION>

	Quarter Ended March 31		Nine Months Ended March 31	
	1994	1993	1994	1993
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Income				
Mortgage loan interest	\$ 1,514,118	\$ 2,902,212	\$ 5,412,178	\$ 8,760,532
Temporary investment interest	39,385	35,236	126,892	240,520
Foreclosed real estate and other	1,232,519	989,488	3,980,057	2,285,266
	-----	-----	-----	-----
	2,786,022	3,926,936	9,519,127	11,286,318
	-----	-----	-----	-----
Expenses				
Interest (contractual interest was \$3,768,500 and \$12,150,318 for the quarter and nine months ended March 31, 1994, respectively)	1,143,500	4,369,407	7,600,318	11,975,553
Provision for possible losses	2,975,000	1,000,000	3,175,000	6,250,000
Management fees	544,095	718,340	1,737,524	2,267,143
Legal and audit	120,000	630,000	705,000	1,455,000
Trustees' fees and expenses	85,088	80,154	229,980	264,578
Foreclosed real estate	754,390	879,685	2,329,078	2,594,855
Debt restructure	--	--	2,132,902	1,352,545
Other	550,019	575,016	2,092,528	1,584,672
	-----	-----	-----	-----
	6,172,092	8,252,602	20,002,330	27,744,346
	-----	-----	-----	-----
Net loss before reorganization items	(3,386,070)	(4,325,666)	(10,483,203)	(16,458,028)
Reorganization items:				
Professional fees	(4,174,211)	--	(5,483,036)	--
Interest earned on accumulated cash resulting from Chapter 11 proceedings	225,688	--	271,830	--
	-----	-----	-----	-----
	(3,948,523)	--	(5,211,206)	--
	-----	-----	-----	-----
Net loss	\$ (7,334,593)	\$ (4,325,666)	\$ (15,694,409)	\$ (16,458,028)

	=====	=====	=====	=====
Net loss per Share of				
Beneficial Interest:				
Loss before reorganization items	\$ (.27)	\$ (.37)	\$ (.86)	\$ (1.40)
Reorganization items	(.32)	--	(.43)	--
	-----	-----	-----	-----
Net loss	\$ (.59)	\$ (.37)	\$ (1.29)	\$ (1.40)
	=====	=====	=====	=====
Weighted average number of				
Shares of Beneficial Interest	12,423,208	11,773,208	12,155,142	11,793,912
Cash dividends declared per share	--	--	--	--

</TABLE>

See notes to consolidated financial statements.

4

5

CONSOLIDATED STATEMENT OF CASH FLOWS (Unaudited)
LIBERTE INVESTORS AND SUBSIDIARY
(Debtor-in-Possession)

<TABLE>
<CAPTION>

	Nine Months Ended March 31	
	1994	1993
	-----	-----
<S>	<C>	<C>
Operating activities:		
Net loss before reorganization items	\$ (10,483,203)	\$ (16,458,028)
Noncash expenses and revenues included in net loss:		
Provision for possible losses	3,175,000	6,250,000
Net change in other receivables, assets and liabilities	7,351,609	(3,450,465)
	-----	-----
Net cash provided (used) by operating activities before reorganization items	43,406	(13,658,493)
	-----	-----
Interest earned on accumulated cash resulting from Chapter 11 proceedings	271,830	--
Professional fees	(894,588)	--
	-----	-----
Net cash used by reorganization items	(622,758)	--
	-----	-----
Net cash used by operating activities	(579,352)	(13,658,493)
	-----	-----
Investing activities:		
Collections on mortgage loans	26,940,224	25,476,277
Advances on mortgage loans	(314,387)	(1,554,705)
Expenditures on foreclosed real estate	(2,012,645)	(2,655,193)
Sales and basis reductions of foreclosed real estate	12,466,174	20,856,490
Net purchases of restricted cash investments	(28,874,372)	(6,102,142)
	-----	-----
Net cash provided by investing activities	8,204,994	36,020,727
	-----	-----
Financing activities:		
Decrease in notes payable	(4,597,411)	(29,552,912)
	-----	-----
Net cash used by financing activities	(4,597,411)	(29,552,912)
	-----	-----
Net increase (decrease) in unrestricted cash and cash equivalents	3,028,231	(7,190,678)
Unrestricted cash and cash equivalents at		

beginning of period	2,428,902	11,073,535
	-----	-----
Unrestricted cash and cash equivalents at end of period	\$ 5,457,133	\$ 3,882,857
	=====	=====
Schedule of noncash investing and financing activities:		
Transfer of mortgage loans to foreclosed real estate	\$ 13,729,234	\$ 5,334,478
Charge-offs to allowance for possible losses, net	\$ 15,069,017	\$ 16,870,073
Sale of foreclosed real estate financed by mortgage loans	\$ 3,888,112	\$ 14,679,561

</TABLE>

See notes to consolidated financial statements.

5

6

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
LIBERTE INVESTORS AND SUBSIDIARY
MARCH 31, 1994

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended March 31, 1994 are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 1994. For further information, refer to the financial statements and footnotes included in the Annual Report on Form 10-K of Liberte Investors, for the fiscal year ended June 30, 1993.

During the quarter ended March 31, 1993, Liberte Investors capitalized, for a nominal amount, Liberte Corp., a wholly-owned subsidiary. All intercompany balances and transactions have been eliminated. Liberte Corp. is currently inactive. As used herein, the "Trust" refers to Liberte Investors and its subsidiary.

On January 24, 1994, the Trust's modified plan of reorganization was confirmed. Therefore, the prepetition liabilities subject to compromise have been compromised because they will not be paid in accordance with their contractual terms in effect prior to the Trust's Chapter 11 filing.

NOTE B - RECLASSIFICATIONS

Certain June 30, 1993 balances have been reclassified to conform to the March 31, 1994 presentation.

NOTE C - PRO FORMA FINANCIAL INFORMATION

On January 24, 1994, the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court") entered an order confirming a modified plan of reorganization (the "Plan") for the Trust. Under the Plan, most of the Trust's assets will be transferred to Resurgence Properties Inc. ("RPI") and RPI's common stock will be distributed to the holders of the Trust's outstanding subordinated indebtedness in full satisfaction of such holders' claims against the Trust. RPI will assume all of the Trust's obligations to its senior lenders on restructured terms. The restructured company (the "Reorganized Trust") will emerge as an essentially debt-free entity, the shares of which will continue to be owned by the existing holders of the Shares of Beneficial Interest. See "Part II - ITEM 1. LEGAL PROCEEDINGS."

On April 7, 1994, the Trust emerged from bankruptcy. The preceding unaudited pro forma balance sheet illustrates the pro forma effects of the transactions contemplated by the Plan on the financial condition of the Trust as of March 31, 1994 (assuming consummation of the Plan and payment of accrued reorganization expenses and claims had occurred on that date).

As part of this process, mortgage loans of \$79.9 million, the related accrued interest receivable of \$.6 million and foreclosed real estate of \$131.0 million were transferred to RPI. An allowance for possible losses of \$6.5 million on mortgage loans and \$19.7 million on foreclosed real estate also were transferred.

6

7

The Trust paid closing costs, made debt payments and transferred cash to RPI totaling \$29.3 million. After assuming payment of \$3.4 million of accrued reorganization expenses and claims, the Trust was left with unrestricted cash and cash equivalents of \$6.6 million and restricted cash and cash equivalents of \$.4 million.

The Trust received a \$6.0 million note receivable from RPI and \$.3 million of preferred stock in RPI. The Trust transferred additional assets totaling \$.3 million and liabilities for escrow deposits totaling \$1.6 million to RPI and adjusted its accrued liabilities by \$.2 million.

In accordance with the terms of the Plan of Reorganization, the Trust was relieved of its liability on the \$83.1 million of senior debt, the \$100.0 million of subordinated debt and the related \$9.5 million of accrued interest on the subordinated debt. The recording of the above transactions resulted in a charge to equity of \$13.0 million.

Fresh-start reporting, in which the emerging entities' assets and liabilities would have been adjusted to their fair value, was considered but deemed inappropriate since the reorganization value of the Trust's assets immediately before the confirmation of the Plan was not less than the total of all post-petition liabilities and allowed claims. Also, there was no change in control of the Trust's ownership. Thus the assets and liabilities of the emerging entities have not been adjusted to fair value.

In the opinion of management, the unaudited pro forma balance sheet reflects all adjustments necessary to present fairly such pro forma data; however, such a balance sheet is not necessarily indicative of what the actual financial position would have been on March 31, 1994 had the Plan been consummated and accrued reorganization expenses and claims paid on that date and is not necessarily indicative of future statements of financial position.

7

8

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

On October 25, 1993 the Trust filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code. Until emergence from bankruptcy, the Trust managed its business as a debtor-in-possession subject to Bankruptcy Court approval of any actions outside the ordinary course of business. On January 24, 1994, the Bankruptcy Court entered an order confirming a modified plan of reorganization for the Trust (the "Plan"). The Plan was consummated on April 7, 1994.

Operations resulted in a loss of \$7,334,593 for the quarter ended March 31, 1994, compared to a loss of \$4,325,666 for the same period in fiscal 1993. Contributing to the larger loss were the following factors: an increase in the provision for possible losses and reorganization expense and a decrease in mortgage loan income. These factors were partially offset by: an increase in foreclosed real estate income and interest earned on accumulated cash resulting from Chapter 11 proceedings and a decrease in interest expense, legal and audit expense and management fees. The Trust cannot predict the size of the provision for possible losses in fiscal 1994, but will continue to monitor the status of each of its assets in light of current market conditions and to provide for possible losses in its mortgage loan portfolio and its foreclosed real estate portfolio as necessary.

Income on mortgage loans decreased from \$2.9 million in the third quarter of

fiscal 1993 to \$1.5 million in the third quarter of fiscal 1994. The majority of the \$1.4 million decrease was the result of a decrease in average earning loans. Average earning loans decreased from \$148.7 million with a yield of 7.91% in the third quarter of fiscal 1993 to \$79.5 million with a yield of 7.72% in the third quarter of fiscal 1994. The decrease in yield included amortization of deferred financing fees in the third quarter of fiscal 1993 which were fully amortized in the second quarter of fiscal 1994.

Income on mortgage loans decreased from \$8.8 million for the first nine months of fiscal 1993 to \$5.4 million for the first nine months of fiscal 1994. The \$3.4 million decrease was the result of a decrease in the average earning loans, which more than offset a small increase in yield. Average earning loans decreased from \$152.4 million with a yield of 7.66% for the first nine months of fiscal 1993 to \$92.3 million with a yield of 7.81% for the first nine months of fiscal 1994.

Average nonearning loans for the third quarter of fiscal 1994 totaled \$18.3 million compared to \$17.6 million for the comparable period in fiscal 1993. Assuming that the yield on these loans would have been the same as the yield on earning loans had they been on earning status, income on mortgage loans would have been \$.3 million higher in both the third quarter of fiscal 1994 and 1993. Average nonearning loans for the first nine months of fiscal 1994 totaled \$25.1 million compared to \$20.0 million for the comparable period of fiscal 1993. Assuming that the yield on these loans would have been the same as the yield on earning loans had they been on earning status, income on mortgage loans would have been \$1.5 million higher for the first nine months of fiscal 1994 and \$1.1 million higher for the first nine months of fiscal 1993. The Trust's efforts to reduce nonearning assets and improve the operating performance of real estate assets continues. These efforts include: monthly analysis of project revenues and expenses and the leasing activity of the project manager; regular visits to each project to review projections, operating budgets, maintenance, capital expenditures and performance of the project manager; listing of projects for sale and active monitoring of the activities of the listing broker; advertising and mail contact with national and regional sales prospects known to the Trust; auctions of certain selected properties; replacement of the project manager and/or listing agent if performance is unsatisfactory; and employing consultants to assist the Trust in developing strategies for leasing and selling certain

8

9

assets, such as retail properties. Although the Trust has seen some general improvement in occupancy levels and some isolated improvement in rental rates, continuing problems in the real estate industry, including the lack of traditional bank financing for real estate transactions and generally depressed rents, the Trust could have increases in nonearning loans. The size of any increases in nonearning loans will be a function of the foregoing variables, and consequently cannot be quantified at this time.

There was no new loan production during the quarters ended March 31, 1994 and 1993. The Trust has not sought any new business in recent years and continues to limit new loan originations in accordance with its current policy of reducing its indebtedness and the size of its loan and foreclosed real estate portfolio.

Income on foreclosed real estate increased from \$1.0 million in the third quarter of fiscal 1993 to \$1.2 million in the third quarter of fiscal 1994, and from \$2.3 million for the first nine months of fiscal 1993 to \$4.0 million for the same period in fiscal 1994. This increase resulted from a change in the status of several projects from nonearning to earning status during the third quarter of fiscal 1993. This change in status was made due to improved occupancy levels.

Interest expense decreased from \$4.4 million in the third quarter of fiscal 1993 to \$1.1 million in the third quarter of fiscal 1994. Of the \$3.3 million decrease, \$2.7 million was the result of a decrease in the average cost of debt and \$.6 million was the result of a decrease in the average debt outstanding. Average debt outstanding declined from \$209.0 million with an average cost of 8.48% in the third quarter of fiscal 1993 to \$183.1 million with an average cost of 2.53% for the same period in fiscal 1994. The decrease in average cost of debt includes the impact of ceasing to accrue interest on the Trust's \$100.0 million principal amount 10 1/2% Subordinated Notes due June 1, 1993 (the "Subordinated Notes") when the Trust filed its Chapter 11 petition on October 25, 1993. Interest expense decreased from \$12.0 million for the first nine

months of fiscal 1993 to \$7.6 million for the first nine months of fiscal 1994. Of the \$4.4 million decrease, \$2.0 million was the result of a decrease in average debt outstanding and \$2.4 million was the result of a decrease in the average cost of debt. Average debt outstanding declined from \$220.5 million with an average cost of 7.24% for the first nine months of fiscal 1993 to \$183.5 million with an average cost of 5.52% for the same period in fiscal 1994. The average cost of debt decreased in fiscal 1994 as a result of the Trust ceasing to accrue interest on the Subordinated Notes. This was partially offset by the expiration of an interest rate swap, which had resulted in a reduction of interest expense, and the increase in the rate on the Trust's senior debt to the default rate of prime or the corporate base rate plus 200 basis points for the period beginning May 16, 1993, until the Trust filed its Chapter 11 petition on October 25, 1993. Average cost of debt for these purposes includes bank fees and other rate adjustments such as the net effect of the interest rate swap referred to above. This swap produced a reduction of interest costs of \$184,000 in the third quarter of fiscal 1993 and \$1,253,000 for the first nine months of fiscal 1993.

The provision for possible losses was \$3.0 in the third quarter of fiscal 1994 compared to \$1.0 million in the third quarter of fiscal 1993. The allowance for possible losses was \$42.0 million at March 31, 1994, compared to \$53.9 million at June 30, 1993 and \$48.4 million at March 31, 1993. While the Trust believes the allowance for possible losses is adequate at March 31, 1994, management will continue to periodically review the portfolio using then current information to make the estimates and assumptions that are used to determine the allowance for loan losses and the valuation of the real estate acquired in connection with foreclosures or in satisfaction of loans. These estimates and assumptions are susceptible to significant changes due to changes in the market conditions upon which they are based.

9

10

The provision for possible losses on mortgage loans was a reversal of \$1.4 million in the third quarter of fiscal 1994 compared to no provision for possible losses on mortgage loans in the third quarter of fiscal 1993. The \$1.4 million reversal of unallocated reserves on mortgage loans was in anticipation of the transfer of 85% of the Trust's mortgage loans to RPI. Upon emergence from bankruptcy, the Trust's mortgage loans decreased from \$94.3 million at March 31, 1994, to \$14.3 million.

The provision for possible losses on foreclosed real estate was \$4.4 million in the third quarter of fiscal 1994 compared to \$1.0 million in the third quarter of fiscal 1993. The provision for possible losses on foreclosed real estate in the third quarter of fiscal 1994 includes (i) a provision for condominium lots that were sold for less than book value in an all cash sale, (ii) provisions on two properties that are secured by development rights that expire in the near future and the extensions on those rights have become somewhat questionable and (iii) increases in estimates of future losses on disposition of foreclosed real estate. The allowance for losses on foreclosed real estate was \$32.0 million at March 31, 1994, compared to \$28.8 million at March 31, 1993. At March 31, 1994, foreclosed real estate totaled \$154.9 million compared to \$160.2 million at March 31, 1993. Any loss incurred upon foreclosure of collateral underlying a loan is charged to the allowance for possible losses on mortgage loans.

The following is a summary of transactions affecting the Trust's allowance for possible losses for the nine months ended March 31, 1994, compared to the nine months ended March 31, 1993:

<TABLE>
<CAPTION>

	Nine Months Ended March 31, 1994		
	Mortgage Loans	Foreclosed Real Estate	Total
<S>	<C>	<C>	<C>
Balance July 1, 1993	\$ 17,728,367	\$ 36,210,450	\$ 53,938,817
Provision for possible losses	200,000	--	200,000
Amounts charged off, net of recoveries	(509,622)	(461,960)	(971,582)
Balance September 30, 1993	17,418,745	35,748,490	53,167,235
Provision for possible losses	--	--	--
Amounts charged off, net of recoveries	(970,398)	(5,370,596)	(6,340,994)

Balance December 31, 1993	16,448,347	30,377,894	46,826,241
Provision for possible losses	(1,408,000)	4,383,000	2,975,000
Amounts charged off, net of recoveries	(5,040,794)	(2,715,647)	(7,756,441)
Balance March 31, 1994	\$ 9,999,553	\$ 32,045,247	\$ 42,044,800

</TABLE>

10

11

<TABLE>
<CAPTION>

	Nine Months Ended March 31, 1993		
	Mortgage Loans	Foreclosed Real Estate	Total
<S>	<C>	<C>	<C>
Balance July 1, 1992	\$ 23,275,974	\$ 35,765,577	\$ 59,041,551
Provision for possible losses	702,000	1,448,000	2,150,000
Amounts charged off, net of recoveries	(543,765)	(3,156,665)	(3,700,430)
Balance September 30, 1992	23,434,209	34,056,912	57,491,121
Provision for possible losses	--	3,100,000	3,100,000
Amounts charged off, net of recoveries	(2,007,728)	(2,418,941)	(4,426,669)
Balance December 31, 1992	21,426,481	34,737,971	56,164,452
Provision for possible losses	--	1,000,000	1,000,000
Amounts charged off, net of recoveries	(1,817,240)	(6,925,734)	(8,742,974)
Balance March 31, 1993	\$ 19,609,241	\$ 28,812,237	\$ 48,421,478

</TABLE>

Management fees were lower in the third quarter of fiscal 1994 than in the comparable period in fiscal 1993 because invested assets, upon which the management fees are based, were lower in the third quarter of fiscal 1994 compared to the third quarter of fiscal 1993. Debt restructure expense includes expenses incurred prior to October 25, 1993 (when the Trust filed its Chapter 11 petition) for legal and financial advisors and consultants' fees for the Trust and certain representatives of the Trust's subordinated noteholders and shareholders. Reorganization expense includes accrued amounts incurred since the filing of the Chapter 11 petition for legal and financial advisors and consulting fees for the Trust and certain representatives of the Trust's subordinated noteholders, senior debt holders and shareholders. The Trust has accumulated cash during the Chapter 11 proceedings because during such proceedings it has not been permitted to pay interest on the subordinated debt. Interest earned on this accumulation of cash totaled \$226,000 and was earned on an average balance of \$28.0 million for the third quarter at a yield of 3.22%.

LIQUIDITY AND CAPITAL RESOURCES

For the last five fiscal years, the Trust has faced substantial liquidity problems due to reduced cash flows from operating and investing activities, the required substitution of bank financing for commercial paper financing and its inability to borrow additional funds under its bank credit facilities. The Trust expects its liquidity and earnings to continue to be adversely affected by the weakened real estate market, which has resulted in, among other things, substantial nonearning assets and a significant reduction in the availability of real estate financing. The Trust has ceased investing in new mortgage loans, except for minor investments in properties currently financed or owned, concentrating its efforts on liquidating its mortgage loan and real estate investments for cash and notes, and on retiring its senior indebtedness.

Prior to its emergence from bankruptcy, the Trust's principal funding requirements were operating expenses, interest expense and the repayment of its indebtedness. (Since emergence from bankruptcy, the Trust is debt-free.) Subsequent to emergence, the Trust anticipates that its primary sources of

funding operating expenses will be its collections on mortgage loans and proceeds from the sale of foreclosed property.

Operating activities for the first nine months of fiscal 1994 used \$579,000 compared to \$13,658,000 used in the first nine months of fiscal 1993. The table below reflects cash flow from operating activities (in thousands):

<TABLE>
<CAPTION>

	Nine Months Ended March 31	
	1994	1993
<S>	<C>	<C>
Total income	\$ 9,519	\$ 11,286
Interest expense	(7,600)	(11,975)
Net interest margin	1,919	(689)
Operating expenses	(9,227)	(9,519)
Net change in other receivables, assets and liabilities	7,352	(3,450)
Reorganization items	(623)	--
Net cash used by operating activities	\$ (579)	\$ (13,658)

</TABLE>

Net cash provided by investing activities for the first nine months of fiscal 1994 was \$8,205,000 compared to \$36,021,000 provided in the first nine months of fiscal 1993. The table below reflects cash flow from investing activities (in thousands):

<TABLE>
<CAPTION>

	Nine Months Ended March 31	
	1994	1993
<S>	<C>	<C>
Collections on mortgage loans	\$ 26,940	\$ 25,476
Advances on mortgage loans	(314)	(1,555)
Sales and basis reductions of foreclosed real estate	12,466	20,857
Expenditures on foreclosed real estate	(2,013)	(2,655)
Net purchases of restricted cash investments	(28,874)	(6,102)
Net cash provided by investing activities	\$ 8,205	\$ 36,021

</TABLE>

Debt was reduced by \$4,597,000 in the first nine months of fiscal 1994 compared to \$29,553,000 in the first nine months of fiscal 1993. The Trust ceased making principal payments on its senior debt in August 1993.

Amounts to be advanced under existing commitments were reduced from \$903,778 at June 30, 1993 to \$479,167 at March 31, 1994. The pro forma amount to be advanced at March 31, 1994, was \$156,905.

At March 31, 1994, the Trust had \$83.1 million of senior indebtedness and \$100 million of 10 1/2% subordinated notes outstanding. This debt was satisfied in full upon the Trust's emergence from bankruptcy on April 7, 1994.

On October 25, 1993, the Trust filed a voluntary petition for reorganization under Chapter 11 of the Federal Bankruptcy Code in the Bankruptcy Court. Until emergence from bankruptcy, the Trust managed its business as a debtor-in-possession subject to Bankruptcy Court approval of any actions outside the ordinary course of business. See "Part II - ITEM 1. LEGAL PROCEEDINGS" below.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On October 25, 1993, the Trust filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). On November 2, 1993, the Trust filed with the Bankruptcy Court a disclosure statement (the "Disclosure Statement") and related Chapter 11 plan of reorganization (the "Original Plan").

The Disclosure Statement was approved by the Bankruptcy Court on December 16, 1993, and was subsequently circulated to all holders of the Trust's senior indebtedness, Subordinated Notes and Shares of Beneficial Interest, together with ballots to accept or reject the Original Plan. The Trust obtained the requisite consents to the Original Plan in January 1994, and on January 24, 1994, the Bankruptcy Court entered an order confirming a modified plan of reorganization for the Trust (the "Plan"). On April 7, 1994, the Trust emerged from bankruptcy. Pursuant to the Plan, certain assets and liabilities were transferred to RPI and RPI's common stock was distributed to the holders of the Trust's outstanding subordinated indebtedness in full satisfaction of such holders' claims against the Trust. See "Part I - Note C - PRO FORMA FINANCIAL INFORMATION."

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Trust's Plan of Reorganization was approved on January 14, 1994, by the holders of the Shares of Beneficial Interest by the following vote:

Shares Voted "FOR"	Shares Voted "AGAINST"	Shares "ABSTAINING"
4,637,967	54,635	7,730,606

ITEM 5. OTHER INFORMATION

REIT STATUS

The Trust believes that it has operated, and expects that it will continue to operate, in such manner as to qualify for taxation as a real estate investment trust (a "REIT") under the Internal Revenue Code (the "Code"), but no assurance can be given that it will at all times so qualify. To qualify as a REIT, the Trust must satisfy various requirements under the Code, including requirements concerning the nature and composition of its income and assets. Generally, an entity can qualify as a REIT only if 95 percent of its gross income constitutes "qualifying income" as defined in Section 856 of the Code (the "95% Test"). Because more than 5% of the Trust's gross income during the taxable years ending June 30, 1992 (the "1992 Year") and June 30, 1993 (the "1993 Year"), consisted of income from an interest rate swap and because it is uncertain whether income derived from such interest rate swaps constitutes qualifying income, it is unclear whether the Trust satisfied the 95% Test for the 1992 Year and the 1993 Year. The Trust believes that such income should be treated as qualifying income for purposes of the 95% Test and has filed a request for a ruling from the Internal Revenue Service (the "IRS") to confirm that such treatment is appropriate. No assurance can be given, however, that the IRS will issue a favorable ruling.

In addition, in order to qualify as a REIT, the Trust must distribute at least 95% of its REIT taxable income. The Trust was prohibited from paying dividends to its shareholders by its senior debt agreements and during its Chapter 11 proceedings. Absent those restrictions, no dividends would have been paid because the Trust did not have taxable income.

So long as the Trust qualifies as a REIT and satisfies the 95% distribution requirement, the Trust will generally be taxable only on its undistributed taxable income. Distributions out of current or accumulated earnings and profits will be taxed to shareholders as ordinary income or capital gain, as the case may be. Distributions in excess of the Trust's accumulated and current earnings and profits will constitute a nontaxable return of capital to the shareholders (except insofar as such distributions exceed the cost basis of the Shares of Beneficial Interest), but will result in a corresponding reduction in the cost basis of the Shares of Beneficial Interest. The Trust will notify each shareholder of the proportion of distributions made during the taxable year which constitutes ordinary income, capital gain or a return of capital. Distributions by the Trust will normally not be eligible for the dividends received deduction for corporations. Should the Trust incur losses, shareholders will not be entitled to include such losses in their individual income tax returns.

If the Trust does not qualify as a REIT in any taxable year, it will be taxed as a corporation pursuant to Subchapter C of the Code. In determining its potential liability for tax as a corporation, the Trust believes, assuming it does not undergo an ownership change that would limit the use of net operating loss carryovers under Section 382 of the Code, that it would be able to utilize its net operating loss carryovers and other tax benefits to shelter itself from regular federal income taxation and, in substantial part, from alternative minimum taxation. However, if the Trust were to undergo an ownership change (other than an ownership change pursuant to a bankruptcy plan that meets the requirements of Section 382(1)(5) of the Code), the ability of the Trust to use its net operating loss carryforwards to offset income earned by the Trust after the ownership change would be severely limited, as would the Trust's ability to deduct losses recognized on certain sales of assets occurring after the ownership change. Accordingly, the Trust believes that, if it ceased to qualify as a REIT and became taxable as a regular corporation, it could incur substantial liability for federal income taxes in the event of an ownership change not meeting the requirements of Section 382(1)(5) of the Code.

15

16

If the Trust ceases to qualify as a REIT, funds available for distribution to shareholders would be reduced by the amount of any tax liability payable by the Trust to federal tax authorities. Such distributions, if any, would not be deductible by the Trust in computing its taxable income but would be eligible for the dividends received deduction for corporate shareholders to the extent paid out of the Trust's current and cumulative earnings and profits. In addition, unless entitled to relief under specific statutory provisions, the Trust would be ineligible for REIT status for the succeeding four taxable years.

The foregoing description is general in character. For a complete description, reference should be made to the pertinent Code sections and the Regulations issued thereunder.

TRANSFER RESTRICTIONS

In order to preserve the Trust's REIT status under the Code, there are certain restrictions on the transfer of Shares of Beneficial Interest, with such exceptions and pursuant to such procedures as are described in the Declaration of Trust. For the Trust to qualify as a REIT, not more than 50% in value of its outstanding Shares of Beneficial Interest may be owned, directly or indirectly, by five or fewer individuals (as defined in the Code to include certain entities) during the last half of a taxable year. The Shares of Beneficial Interest must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year, and certain other requirements as to assets, distributions and percentages of the Trust's gross income from particular activities must be met. The Declaration of Trust contains provisions prohibiting the ownership, directly or indirectly, by five or fewer individuals of more than 50% in value of the outstanding Shares of Beneficial Interest during the last half of the Trust's taxable year.

In order to avoid limitations on the use of the Trust's tax attributes, the Declaration of Trust generally prohibits the transfer of Shares of Beneficial Interest to any Person who is a holder of 5% or more of the Shares of Beneficial Interest or to any Person who would become a holder of 5% or more of the Shares of Beneficial Interest after giving effect to the transfer, directly or by attribution. "Person" for this purpose is defined broadly to mean any individual, corporation, estate, debtor, association, company, partnership, joint venture or similar organization.

If a transfer violates this prohibition, either (i) the Shares of Beneficial Interest that were purported to be transferred in excess of the 5% limit will be deemed to remain the property of the initial transferor, or (ii) upon election by the Trust, such Shares of Beneficial Interest shall be transferred to an agent designated by the Trust, who will sell them in an arm's-length transaction, the proceeds of such sale to be allocated to the purported transferee up to (x) the amount paid by such transferee for such Shares of Beneficial Interest and (y) where the purported transfer was by gift inheritance or any similar transfer, the fair market value of such Shares of Beneficial Interest at the time of the purported transfer.

If the purported transferee has resold the Shares of Beneficial Interest to an unrelated party in an arm's-length transaction, the purported transferee will be deemed to have sold the Shares of Beneficial Interest as agent for the initial transferor, and will be required to transfer the proceeds of such sale to the agent designated by the Trust, except to the extent that the agent grants written permission to the purported transferee to retain a portion of the proceeds up to the amount that would have been payable to such transferee had the Shares of Beneficial Interest been sold by the agent rather than by the purported transferee.

The Declaration of Trust will further provide that the Trust may require, as a condition to the registration of the transfer of any Shares of Beneficial Interest, that the proposed transferee furnish

16

17

to the Trust all information reasonably requested by the Trust with respect to the proposed transferee's direct or indirect ownership interests in Shares of Beneficial Interest.

The Board of Trustees of the Trust will have the power to preapprove transfers that would otherwise be prohibited under the foregoing provisions.

All certificates evidencing ownership of Shares of Beneficial Interest will bear a conspicuous legend referencing the transfer restrictions.

BOARD OF TRUSTEES

Pursuant to the Plan, immediately following consummation of the Plan, the Board of Trustees consisted only of Robert Ted Enloe III, Gene H. Bishop and Edward W. Rose III.

17

18

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

None.

(b) Reports on Form 8-K:

The Registrant filed a report on Form 8-K dated January 7, 1994, to report that the Registrant, certain of the Registrant's senior secured lenders, the members of the Official Unsecured Creditors and the Official Committee of Equity Securities Holders executed a Stipulation and Agreement Suspending Plan Litigation setting forth an agreement in principle which would resolve certain potential disputes regarding the treatment of the senior secured lenders under the plan or

reorganization of the Registrant.

The Registrant filed a report on Form 8-K dated February 9, 1994, to report that on January 24, 1994, the Bankruptcy Court entered an order confirming a plan of reorganization for the Registrant.

18

19

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunder duly authorized.

LIBERTE INVESTORS

Date: May 12, 1994

By: /s/ TED ENLOE
Ted Enloe
President and Chief Executive Officer

Date: May 12, 1994

By: /s/ B. A. BREEDING
B. A. Breeding
Senior Vice President - Control

19