

TRANSCONTINENTAL REALTY INVESTORS INC
Form 10-Q
November 13, 2009
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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 September 30, 2009

or

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

For the transition period from _____ to _____

Commission File Number 001-09240

TRANSCONTINENTAL REALTY INVESTORS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada
(State or Other Jurisdiction of

Incorporation or Organization)

1800 Valley View Lane, Suite 300, Dallas, Texas 75234

94-6565852
(I.R.S. Employer

Identification No.)

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(Address of principal executive offices)

(Zip Code)

(469) 522-4200

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of 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

* The registrant has not yet been phased into the interactive data requirements.

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 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

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 Common Stock, as of the latest practicable date.

Common Stock, \$.01 par value
(Class)

8,113,669
(Outstanding at November 6, 2009)

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TRANSCONTINENTAL REALTY INVESTORS, INC.

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****TRANSCONTINENTAL REALTY INVESTORS, INC.****CONSOLIDATED BALANCE SHEETS****(unaudited)**

	September 30, 2009	December 31, 2008
	(dollars in thousands, except share and par value amounts)	
Assets		
Real estate, at cost	\$ 1,542,096	\$ 1,526,016
Real estate held for sale at cost, net of depreciation (\$2,209 and \$0 for 2009 and 2008)	5,375	8,018
Real estate subject to sales contracts at cost, net of depreciation (\$13,545 for 2009 and \$12,226 for 2008)	53,780	60,807
Less accumulated depreciation	(133,175)	(114,050)
Total real estate	1,468,076	1,480,791
Notes and interest receivable		
Performing (including \$42,188 in 2009 and \$17,323 in 2008 from affiliates and related parties)	56,125	42,413
Less allowance for estimated losses	(2,804)	(3,293)
Total notes and interest receivable	53,321	39,120
Cash and cash equivalents	1,983	5,983
Investments in securities	-	2,775
Investments in unconsolidated subsidiaries and investees	11,885	23,365
Other assets (including \$0 in 2009 and \$1,077 in 2008 from affiliates and related parties)	83,118	88,033
Total assets	\$ 1,618,383	\$ 1,640,067

Liabilities and Shareholders Equity**Liabilities:**

Notes and interest payable (including \$0 in 2009 and \$9,103 in 2008 to affiliates and related parties)	\$ 1,126,098	\$ 1,100,852
Notes related to assets held-for-sale	4,646	4,191
Notes related to subject to sales contracts	62,021	62,972
Affiliate payables	35,723	62,367
Accounts payable and other liabilities (including \$36,350 in 2009 and \$0 in 2008 from affiliates and related parties)	118,473	84,989
	1,346,961	1,315,371

Commitments and contingencies:

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Shareholders' equity:

Preferred Stock, Series C: \$.01 par value, authorized 10,000,000 shares, issued and outstanding 30,000 shares in 2009 and 2008 respectively (liquidation preference \$100 per share). Series D: \$.01 par value, authorized, issued and outstanding 100,000 shares in 2009 and 2008 respectively	1	1	
Common Stock, \$.01 par value, authorized 10,000,000 shares; issued and outstanding 8,113,669 for 2009 and 2008	81		81
Paid-in capital	262,688		263,290
Retained earnings	(9,021)		44,980
Accumulated other comprehensive income	-		2,575
Total Transcontinental Realty Investors, Inc. shareholders' equity	253,749		310,927
Non-controlling interest	17,673		13,769
Total equity	271,422		324,696
Total liabilities and equity	\$ 1,618,383	\$	1,640,067

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

Table of Contents**TRANSCONTINENTAL REALTY INVESTORS, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited)**

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
	(dollars in thousands, except share and per share amounts)			
Revenues:				
Rental and other property revenues (including \$782 and \$738 for three months and \$2,393 and \$1,923 for nine months for 2009 and 2008 respectively from affiliates and related parties)	\$ 40,503	\$ 36,442	\$ 115,418	\$ 104,616
Expenses:				
Property operating expenses (including \$1,841 and \$1,843 for three months and \$5,521 and \$5,306 for nine months for 2009 and 2008 respectively from affiliates and related parties)	22,340	23,072	64,986	66,111
Depreciation and amortization	7,409	5,265	22,077	17,197
General and administrative (including \$1,126 and \$1,368 for three months and \$2,821 and \$3,297 for nine months for 2009 and 2008 respectively from affiliates and related parties)	3,310	2,214	6,853	6,891
Advisory fee to affiliate	3,110	2,894	8,874	8,857
Total operating expenses	36,169	33,445	102,790	99,056
Operating income	4,334	2,997	12,628	5,560
Other income (expense):				
Interest income (including \$424 and \$185 for three months and \$855 and \$633 for nine months for 2009 and 2008 respectively from affiliates and related parties)	665	688	1,950	1,990
Other income	296	2,410	3,581	3,206
Mortgage and loan interest (including \$676 and \$1,188 for three months and \$1,795 and \$1,610 for nine months for 2009 and 2008 respectively from affiliates and related parties)	(18,945)	(16,586)	(53,822)	(51,586)
Earnings from unconsolidated subsidiaries and investees	(53)	(1,863)	(353)	2,681
Litigation Settlement	(64)	-	681	-
Provision on impairment of notes receivable and real estate assets	-	-	(28,575)	(7,000)
Total other expenses	(18,101)	(15,351)	(76,538)	(50,709)
Loss before gain on land sales, non-controlling interest, and tax	(13,767)	(12,354)	(63,910)	(45,149)
Gain on land sales	-	696	6,296	4,551
Loss from continuing operations before tax	(13,767)	(11,658)	(57,614)	(40,598)
Income tax benefit	648	1,754	897	30,460
Net loss from continuing operations	(13,119)	(9,904)	(56,717)	(10,138)

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Discontinued operations:				
Income (loss) from discontinued operations	(53)	4,767	410	(13,189)
Gain on sale of real estate from discontinued operations	3,027	244	3,559	100,218
Income tax expense from discontinued operations	(1,041)	(1,754)	(1,389)	(30,460)
Net income (loss)	(11,186)	(6,647)	(54,137)	46,431
Less: net income (loss) attributable to non-controlling interest	(107)	-	136	-
Net income (loss) attributable to Transcontinental Realty Investors, Inc.	(11,293)	(6,647)	(54,001)	46,431
Preferred dividend requirement	(254)	(239)	(756)	(718)
Net income (loss) applicable to common shares	\$ (11,547)	\$ (6,886)	\$ (54,757)	\$ 45,713
Earnings per share - basic				
Loss from continuing operations	\$ (1.65)	\$ (1.25)	\$ (7.08)	\$ (1.34)
Discontinued operations	0.24	0.40	0.32	7.00
Net income (loss) applicable to common shares	\$ (1.41)	\$ (0.85)	\$ (6.76)	\$ 5.66
Earnings per share - diluted				
Loss from continuing operations	\$ (1.65)	\$ (1.25)	\$ (7.08)	\$ (1.34)
Discontinued operations	0.24	0.40	0.32	7.00
Net income (loss) applicable to common shares	\$ (1.41)	\$ (0.85)	\$ (6.76)	\$ 5.66
Weighted average common share used in computing earnings per share	8,113,669	8,083,882	8,113,669	8,077,663
Weighted average common share used in computing diluted earnings per share	8,113,669	8,083,882	8,113,669	8,077,663
Amounts attributable to Transcontinental Realty Investors, Inc.				
Loss from continuing operations	\$ (13,226)	\$ (9,904)	\$ (56,581)	\$ (10,138)
Income from discontinued operations	1,933	3,257	2,580	56,569
Net income (loss)	\$ (11,293)	\$ (6,647)	\$ (54,001)	\$ 46,431

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

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TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

For the Nine Months Ended September 30, 2009

(unaudited)

(dollars in thousands)

	Total	Comprehensive loss	Preferred Stock	Common Stock Shares	Amount	Treasury Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest
Balance, December 31, 2008	\$ 324,696	\$ -	\$ 1	8,113,669	\$ 81	\$ -	\$ 263,290	\$ 44,980	\$ 2,575	\$ 13,769
Unrealized loss on investment securities	(2,575)	(2,575)	-	-	-	-	-	-	(2,575)	-
Series D preferred stock dividends (7% per year)	(159)	-	-	-	-	-	(159)	-	-	-
Series C preferred stock dividends	(597)	-	-	-	-	-	(597)	-	-	-
Net loss	(54,137)	(54,137)	-	-	-	-	-	(54,001)	-	(136)
Acquisition of controlling interest	4,040	-	-	-	-	-	-	-	-	4,040
Acquisition of non-controlling interest	154	-	-	-	-	-	154	-	-	-
Comprehensive loss		\$ (56,712)								
Balance, September 30, 2009	\$ 271,422		\$ 1	8,113,669	\$ 81	\$ -	\$ 262,688	\$ (9,021)	\$ -	\$ 17,673

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Net cash provided by financing activities	17,051	10,604
Net decrease in cash and cash equivalents	(4,000)	(8,125)
Cash and cash equivalents, beginning of period	5,983	11,239
Cash and cash equivalents, end of period	\$ 1,983	\$ 3,114

Supplemental disclosures of cash flow information:

Cash paid for interest	\$ 57,383	\$ 57,835
Cash paid for income taxes, net of refunds	\$ 1,728	\$ 16

Schedule of noncash investing and financing activities:

Unrealized foreign currency translation gain	\$ -	\$ 9,685
Unrealized loss on marketable securities	\$ (2,575)	\$ (6,952)
Note receivable allowance	\$ -	\$ (1,500)
Notes receivable received from affiliate	\$ 2,341	\$ -
Note paydown from right to build sale	\$ 1,500	\$ -
Acquisition of real estate to satisfy note receivable	\$ (1,847)	\$ -
Assigned ownership rights for debt transfer	\$ (4,000)	\$ -

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

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	2009	2008
Net income (loss)	\$ (54,137)	\$ 46,431
Other comprehensive income (loss)		
Unrealized gain on foreign currency translation	-	9,685
Unrealized loss on investment securities	(2,575)	(6,952)
Total other comprehensive income (loss)	(2,575)	2,733
Comprehensive income (loss)	(56,712)	49,164
Comprehensive income attributable to non-controlling interest	136	1,419
Comprehensive income (loss) attributable to Transcontinental Realty Investors, Inc.	\$ (56,576)	\$ 50,583

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

Transcontinental Realty Investors, Inc. (TCI , We , The Company , Our or Us) is a Nevada corporation and invests in real estate through direct ownership, leases and partnerships.

The Company is headquartered in Dallas, Texas and its Common Stock trades on the New York Stock Exchange under the symbol (NYSE: TCI). Subsidiaries of American Realty Investors, Inc. own approximately 84% of the Company's Common Stock (NYSE: ARL). Prime Income Asset Management, LLC (Prime) is the Company's external advisor. Regis Realty I, LLC, an affiliate of Prime, manages the Company's commercial properties. Regis Hotel I, LLC, another Prime affiliate, manages the Company's hotel investments. TCI engages four third-party companies to lease and manage its apartment properties. TCI is a C Corporation for U.S. federal income tax purposes and files an annual consolidated income tax return with ARL. TCI does not qualify as a Real Estate Investment Trust (REIT) for federal income tax purposes primarily due to ARL's majority ownership of the Company.

On July 17, 2009, the Company acquired from Syntek West, Inc., (SWI), 2,518,934 shares of Common Stock, par value \$0.01 per share of IOT at an aggregate price of \$17,884,431 (approximately \$7.10 per share), the full amount of which was paid by the Company through an assumption of an aggregate amount of indebtedness of \$17,884,431 on the outstanding balance owed by SWI to IOT. The 2,518,934 shares of IOT Common Stock acquired by the Company constituted approximately 60.4% of the issued and outstanding Common Stock of IOT. The Company has owned for several years an aggregate of 1,037,184 shares of Common Stock of IOT (approximately 25% of the issued and outstanding). After giving effect to the transaction on July 17, 2009, the Company owns an aggregate of 3,556,118 shares of IOT Common Stock which constitutes approximately 85.3% of the shares of Common Stock of IOT outstanding (which is a total of 4,168,214 shares). Shares of IOT are traded on the American Stock Exchange.

With the Company's acquisition of the additional shares on July 17, 2009, which increased the aggregate ownership to in excess of 80%, beginning in July 2009, IOT's results of operations will now be consolidated with those of the Company for tax and financial reporting purposes. At the time of the acquisition, the historical accounting value of IOT's assets was \$112 million and liabilities were \$43 million. In that the shares of IOT acquired by TCI were from a related party, the values recorded by TCI are IOT's historical accounting values at the date of transfer. The net difference between the purchase price and historical accounting basis of the assets and liabilities acquired was \$35 million and has been reflected by TCI as deferred income.

On July 1, 2009, the Advisory and Cash Management Agreements between IOT and SWI were terminated by mutual agreement. SWI had served as IOT's cash manager since July 1, 2003. On July 1, 2009, IOT entered into an Advisory and Cash Management Agreement with Prime Income Asset Management, LLC (Prime). Prime also serves as a cash manager to the Company and ARL.

Properties

The Company owned or had interests in a total property portfolio of 87 income producing properties as of September 30, 2009. The properties consisted of:

29 commercial buildings totaling 5.2 million leasable square feet, which consists of 19 office buildings, six commercial warehouses, and four retail centers;

58 apartment communities totaling 11,586 units; inclusive of two development properties in the lease up phase, excluding apartments being developed; and

6,796 acres of developed and undeveloped land.

The Company invests in several tracts of land and is at several stages of predevelopment on many of these properties. The Company partners with various third-party developers to construct residential projects. The third-party developer typically takes a general partner interest in the development partnership while the Company takes a limited partner (and majority) interest. The Company is required to fund the equity contributions. The third-party developer is responsible for obtaining financing, hiring a general contractor and for the overall management and

delivery of the project, and is compensated with a fee equal to a certain percentage of the construction costs.

The accompanying interim financial statements are unaudited; however, the financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all the disclosures required by accounting principles generally accepted in the United States of America for complete

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financial statements. In the opinion of management, all adjustments necessary for a fair presentation of the financial statements for these periods have been included. The results of operations for the interim periods are not necessarily indicative of the results to be obtained for other interim periods or for the full fiscal year. The year end consolidated 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. These financial statements should be read in conjunction with the Company's financial statement and notes thereto contained in the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2008.

Newly issued accounting standards

In June 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update No. 2009-01 (ASU No. 2009-01) was issued to amend topic Accounting Standard Codification 105 (ASC 105) Generally Accepted Accounting Principles—an amendment based on Statement of Financial Accounting Standard No. 168—the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles. This amendment establishes the FASB Accounting Standards Codification (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification is effective for interim and annual periods ending on or after September 15, 2009.

In December 2007, the FASB issued SFAS No. 141-R now referred to as ASC 805 Business Combinations. The statement improves the reporting of information about a business combination and its effects. The statement establishes principles and requirements for how the acquirer will recognize and measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquisition. Also, the statement determines the recognition and measurement of goodwill acquired in the business combination or a gain from a bargain purchase, and finally, determines the disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. The Company has adopted this pronouncement on January 1, 2009 and will apply its requirements to future business combinations.

On January 1, 2009, the FASB issued SFAS No. 160 now referred to as ASC 810 Consolidations. The statement is to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. This standard defines a non-controlling interest, previously called a minority interest, as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. It requires, among other items, that a non-controlling interest be included in the consolidated statement of financial position within equity separate from the parent's equity; consolidated net income to be reported at amounts inclusive of both the parent's and non-controlling interest's shares and, separately, the amounts of consolidated net income attributable to the parent and non-controlling interest all on the consolidated statement of operations; and if a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary be measured at fair value and a gain or loss be recognized in net income based on such fair value. The presentation and disclosure requirements were applied retrospectively. Other than the change in presentation of non-controlling interests, the adoption had no impact on the Financial Statements.

In April 2009, the FASB issued FSP FAS No. 157-4 now referred to as ASC 820 Fair Value Measurements and Disclosures, which provides additional guidance for applying the provisions that define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions. It requires an evaluation of whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. If there has been a change, transactions or quoted prices may not be indicative of fair value and a significant adjustment may need to be made to those prices to estimate fair value. Additionally, an entity must consider whether the observed transaction was orderly (that is, not distressed or forced). If the transaction was orderly, the obtained price can be considered a relevant observable input for determining fair value. If the transaction is not orderly, other valuation techniques must be used when estimating fair value. It was applied prospectively for interim periods ending after June 15, 2009.

In April 2009, the FASB issued FSP FAS No 107-1 and Accounting Principles Board (APB) No. 28-1 now referred to as ASC 825-10-50 Disclosure about Fair Value of Financial Instruments. It required disclosures about fair value of financial instruments in interim financial statements, in addition to the annual financial statements as already required and will be required for interim periods ending after June 15, 2009. The application of this standard will not have a material impact on our financial statements.

In April 2009, the FASB issued FSP FAS No. 115-2 and FAS No. 124-2 Recognition and Presentation of Other-Than-Temporary Impairments. The standard establishes a different other-than-temporary impairment indicator for debt securities

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than previously prescribed. If it is more likely than not that an impaired security will be sold before the recovery of its cost basis, either due to the investor's intent to sell or because it will be required to sell the security, the entire impairment is recognized in earnings. Otherwise, only the portion of the impaired debt security related to estimated credit losses is recognized in earnings, while the remainder of the impairment is recorded in other comprehensive income and recognized over the remaining life of the debt security. In addition, the standard expands the presentation and disclosure requirements for other-than-temporary-impairments for both debt and equity securities. It was applied prospectively for interim periods ending after June 15, 2009.

In May 2009, the FASB issued SFAS No. 165 now referred to as ASC 855 Subsequent Events, which establishes general standards of accounting and disclosure of events that occur after the balance sheet date but before the financial statements are issued or available to be issued. It was applied prospectively for interim periods ending after June 15, 2009.

In June 2009, the FASB issued SFAS No. 166 Accounting for Transfers of Financial Assets an amendment of FASB Statement No. 140, to improve the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows and a transferor's continuing involvement, if any, in transferred financial assets. This Statement must be applied as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009. Additionally, on and after the effective date, the concept of a qualified special-purpose entity is no longer relevant for accounting purposes.

In June 2009, the FASB issued SFAS No. 167 Amendments to FASB Interpretation No. 46(R) (SFAS No. 167), which modifies the approach to determining the primary beneficiary of a variable interest entity (VIE) and requires companies to more frequently assess whether they must consolidate a VIE. The statement is effective as of the beginning of each reporting entity's first annual reporting period that begins after November 15, 2009.

NOTE 2. REAL ESTATE ACTIVITY

The highlights of our significant real estate transactions for the nine months ended September 30, 2009 are listed below.

In January 2009, we sold 9.3 acres of land known as Woodmont Schiff-Park Forest land for a sales price of \$7.7 million. We received \$3.9 million in cash after paying off the existing note of \$3.2 million, closing costs and commissions. In addition, we booked a \$2.1 million receivable. There was no gain or loss on the sale of the property.

In April 2009, we sold the Cullman Shopping Center, a 92,500 square foot facility located in Cullman, Alabama for a sales price of \$4.0 million. We recorded a deferred gain on sale of \$1.9 million after paying off the existing debt of \$0.9 million and closing costs.

In April 2009, we sold 3.02 acres of land known as West End land, for a sales price of \$8.5 million. We recorded a gain on sale of \$4.9 million after paying off the existing debt of \$3.4 million and closing costs.

In April 2009, we sold 3.13 acres of land known as Verandas at City View land, for a sales price of \$1.3 million. We recorded a gain of \$0.7 million after paying off the existing debt of \$1.3 million and closing costs.

In June 2009, we sold 3.96 acres of land known as Teleport land, for a sales price of \$1.1 million. We recorded a gain of \$0.4 million after paying off the existing debt of \$0.14 million and closing costs.

In July 2009, TCI sold 29.53 acres of Hines Meridian land and 807.90 acres of Travis Ranch land. We recorded no gain or loss after paying off the existing debt of \$13.5 million.

In August 2009, we sold the 5000 Space Center, a 101,500 square foot facility located in San Antonio, Texas and the 5360 Tulane Commercial building, a 30,000 square foot facility located in Atlanta, Georgia for a sales price of \$4.0 million. We recorded a gain on sale of \$3.0 million after paying off the existing debt of \$1.3 million and closing costs.

In September 2009, TCI purchased 54.86 acres of Gautier land located at Gautier, Mississippi for \$3.4 million.

We continued to invest in the development of apartment projects. For the nine months ended September 30, 2009, we have expended \$27.9 million on the construction of various apartment projects and capitalized \$4.3 million of interest costs.

NOTE 3. NOTES AND INTEREST RECEIVABLE

Our receivables as of September 30, 2009 are listed below (dollars in thousands):

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Borrower	Maturity Date	Interest	
		Rate	Amount
Performing loans:			
3334Z Apts, LP	04/12	6.50%	\$ 1,875
Basic Capital Management ⁽¹⁾	10/11	Prime + 2%	1,252
Basic Capital Management ⁽¹⁾	10/11	Prime + 2%	1,523
Dallas Fund XVII LP	10/09	9.00%	6,168
Garden Centura LP ⁽¹⁾	N/A	7.00%	2,630
Miscellaneous related party notes ⁽¹⁾	Various	Various	1,233
Miscellaneous non-related party notes	Various	Various	1,028
Ocean Beach Partners ⁽¹⁾	12/09	7.00%	3,279
Pioneer Austin Development	10/08 ⁽²⁾	18.00%	2,407
Housing for Seniors of Humble, LLC	12/09	11.50%	2,000
Housing for Seniors of Humble, LLC	12/09	11.50%	6,363
UHF Inc. (Marquis at VR)	12/13	12.00%	2,805
UHF Inc. (Echo Station)	12/13	12.00%	1,872
UHF Inc. (Cliffs of El Dorado)	09/10	10.00%	2,990
UHF Inc. (Timbers of Terrell)	12/13	12.00%	1,416
UHF Inc. (Tivoli)	12/13	12.00%	1,825
UHF Inc. (Parkside Crossing)	12/13	12.00%	2,172
UHF Inc. (Sendero Ridge)	12/13	12.00%	5,228
UHF Inc. (Limestone Ranch)	12/13	12.00%	2,320
UHF Inc. (Limestone Canyon)	12/13	12.00%	3,080
Accrued interest			2,659
Allowance for estimated losses			(2,804)
Total			\$ 53,321

⁽¹⁾ Related Party⁽²⁾ Renegotiating note**NOTE 4. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES AND INVESTEEES**

Investments in unconsolidated subsidiaries, jointly owned companies and other investees in which we have a 20% to 50% interest or otherwise exercise significant influence are carried at cost, adjusted for the Company's proportionate share of their undistributed earnings or losses, via the equity method of accounting. ARL is our parent company. IOT is a related entity. ARL is considered an unconsolidated subsidiary.

Investments accounted for via the equity method consists of the following:

		Percentage ownership as of	
		September 30, 2009	September 30, 2008
American Realty Investors, Inc.	⁽¹⁾	2%	3%
Income Opportunity Investors, Inc.	⁽³⁾	0%	25%
Garden Centura, LP.	⁽²⁾	5%	5%

⁽¹⁾ Unconsolidated subsidiary⁽²⁾ Other investees⁽³⁾ Consolidated subsidiary as of 7/09

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Our interest in the Common Stock of ARL and our partnership interest in Garden Centura, LP in the amount of 2% and 5%, respectively are accounted for under the equity method because we exercise significant influence over the operations and financial activities. Accordingly, the investments are carried at cost, adjusted for the companies' proportionate share of earnings or losses.

The market values, other than unconsolidated subsidiaries, as of the quarter ended September 30, 2009 and 2008 were not

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determinable as there were no readily traded markets for these entities.

The following is a summary of the financial position and results of operations from our unconsolidated subsidiaries and investees for the nine months ended September 30, 2009 and 2008 (dollars in thousands):

For the nine months ended September 30, 2009	Unconsolidated Subsidiaries	Other Investees	Total
Real estate, net of accumulated depreciation	\$ 230,018	\$ 77,710	\$ 307,728
Notes receivable	41,756	-	41,756
Other assets	179,196	6,391	185,587
Notes payable	(227,247)	(48,828)	(276,075)
Other liabilities	(111,676)	(2,107)	(113,783)
Shareholders equity/partners capital	\$ (112,047)	\$ (33,166)	\$ (145,213)
Rents and interest and other income	\$ 29,264	\$ 7,676	\$ 36,940
Depreciation	(1,908)	(2,404)	(4,312)
Operating expenses	(26,758)	(2,897)	(29,655)
Gain on land sales	5,309	-	5,309
Interest expense	(12,885)	(2,296)	(15,181)
Income (loss) from continuing operations	(6,978)	79	(6,899)
Income from discontinued operations	6,236	-	6,236
Net income (loss)	\$ (742)	\$ 79	\$ (663)
Companys proportionate share of earnings	\$ (18)	\$ 4	\$ (14)

For the nine months ended September 30, 2008	Unconsolidated Subsidiaries	Other Investees	Total
Real estate, net of accumulated depreciation	\$ 259,011	\$ 79,806	\$ 338,817
Notes receivable	66,899	-	66,899
Other assets	266,606	6,663	273,269
Notes payable	(280,146)	(51,181)	(331,327)
Other liabilities	(115,940)	(1,849)	(117,789)
Shareholders equity/partners capital	\$ (196,430)	\$ (33,439)	\$ (229,869)
Rents and interest and other income	\$ 34,831	\$ 8,812	\$ 43,643
Depreciation	(2,180)	(2,286)	(4,466)
Operating expenses	(30,480)	(3,154)	(33,634)
Gain on land sales	1,769	-	1,769
Interest expense	(16,603)	(2,541)	(19,144)
Involuntary conversion	7,434	-	7,434
Income tax benefit	7,538	-	7,538
Income from continuing operations	2,309	831	3,140
Income from discontinued operations	25,686	-	25,686

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Net income	\$	27,995	\$	831	\$	28,826
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Companys proportionate share of earnings	\$	6,581	\$	42	\$	6,623
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NOTE 5. INVESTMENTS IN SECURITIES

Our investments in securities which consisted of our investment in Realty Korea CR-REIT, Ltd. were completely disposed of in the current year.

Table of Contents**NOTE 6. RELATED PARTY TRANSACTIONS**

The following table reconciles the beginning and ending balances of accounts receivable from and (accounts payable) to affiliates as of September 30, 2009 (dollars in thousands).

Balance, December 31, 2008	\$ (62,367)
Cash transfers	46,671
Cash repayments	(34,624)
Fees and commissions payable to affiliate	(16,282)
Advances due to financing proceeds	494
Note receivable with affiliate	14,488
Payables through Prime	15,897
Balance, September 30, 2009	\$ (35,723)

During the ordinary course of business, we have related party transactions that include, but are not limited to rent income, interest income, interest expense, general and administrative costs, commissions, management fees, and property expenses. In addition, we have assets and liabilities that include related party amounts. The affiliated amounts included in assets and liabilities, and the affiliated revenues and expense received paid are shown on the face of the financial statements.

NOTE 7. NOTES PAYABLE

In conjunction with the development of various apartment projects and other developments, we drew down \$20.6 million in construction loans during the nine months ended September 30, 2009.

NOTE 8. IMPAIRMENT INVESTMENTS AND REAL ESTATE ASSETS

During the course of the Company's review of the carrying value of its investment and ownership of real estate assets, it was determined that an impairment charge of \$28.6 million was required during the nine months ended September 30, 2009.

In June 2009, eight partnerships in which the company had ownership interests filed for Chapter Eleven bankruptcy protection. TCI's investment in the real estate partnerships was approximately \$40.0 million. Based upon the company's estimates of the fair market value of the investments, impairments were recorded resulting in a loss of \$18.0 million in the investment portfolio. Based upon TCI's estimates of fair market value of its real estate assets, impairments were recorded in land we currently hold. Further, the Company incurred an \$8.8 million loss for land that was sold in the third quarter. As of September 30, 2009, the land that was sold was impaired to reflect the reduced value.

NOTE 9. OPERATING SEGMENTS

Our segments are based on management's method of internal reporting which classifies its operations by property type. The segments are commercial, apartments, hotels and land. Significant differences between and among the accounting policies of the operating segments as compared to the Consolidated Financial Statements principally involve the calculation and allocation of administrative expenses. The Company evaluates the performance of each of the operating segments and allocates resources to them based on their operating income and cash flow.

Presented below is the Company's reportable segments' operating income for the three and nine months ended September 30, 2009 and 2008, including segment assets and expenditures: (dollars in thousands)

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For the Three Months ended September 30, 2009	Commercial					Total
	Properties	Apartments	Hotels	Land	Other	
Operating revenue	\$ 16,077	\$ 24,161	\$ -	\$ 15	\$ 250	\$ 40,503
Operating expenses	7,996	13,379	-	716	249	22,340
Depreciation and amortization	3,002	4,407	-	-	-	7,409
Mortgage and loan interest	4,099	9,937	-	3,225	1,684	18,945
Interest income	-	-	-	-	665	665
Gain on land sales	-	-	-	-	-	-
Segment operating gain (loss)	\$ 980	\$ (3,562)	\$ -	\$ (3,926)	\$ (1,018)	\$ (7,526)
Capital expenditures	(245)	-	-	-	-	(245)
Assets	328,586	736,793	-	343,542	-	1,408,921
Property Sales						
Sales price	\$ 4,000	\$ -	\$ -	\$ -	\$ -	\$ 4,000
Cost of sale	973	-	-	-	-	973
Deferred current gain	-	-	-	-	-	-
Recognized prior deferred gain	-	-	-	-	-	-
Gain on sale	\$ 3,027	\$ -	\$ -	\$ -	\$ -	\$ 3,027

For the Three Months ended September 30, 2008	Commercial					Total
	Properties	Apartments	Hotels	Land	Other	
Operating revenue	\$ 14,893	\$ 21,504	\$ -	\$ 44	\$ 1	\$ 36,442
Operating expenses	8,139	13,632	-	759	542	23,072
Depreciation and amortization	2,029	3,235	-	1	-	5,265
Mortgage and loan interest	4,260	9,016	-	2,165	1,145	16,586
Interest income	-	-	-	-	688	688
Gain on land sales	-	-	-	696	-	696
Segment operating gain (loss)	\$ 465	\$ (4,379)	\$ -	\$ (2,185)	\$ (998)	\$ (7,097)
Capital expenditures	644	87	-	-	-	731
Assets	338,891	652,603	-	407,195	-	1,398,689
Property Sales						
Sales price	\$ 3,586	\$ -	\$ -	\$ 2,087	\$ -	\$ 5,673
Cost of sale	3,342	-	-	1,391	-	4,733
Deferred current gain	-	-	-	-	-	-
Recognized prior deferred gain	-	-	-	-	-	-
Gain on sale	\$ 244	\$ -	\$ -	\$ 696	\$ -	\$ 940

The tables below reconcile the segment information to the corresponding amounts in the Consolidated Statements of Operations:

	For Three Months Ended	
	September 30, 2009	September 30, 2008
Segment operating loss	\$ (7,526)	\$ (7,097)
Other non-segment items of income (expense)		
General and administrative	(3,310)	(2,214)
Advisory fees	(3,110)	(2,894)
Litigation settlement	(64)	-
Other income	296	2,410

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Equity in earnings of investees	(53)	(1,863)
Deferred tax benefit	648	1,754
Loss from continuing operations	\$ (13,119)	\$ (9,904)

SEGMENT ASSET RECONCILIATION TO TOTAL ASSETS

	For Three Months Ended	
	September 30,	
	2009	2008
Segment assets	\$ 1,408,921	\$ 1,398,689
Investments in real estate partnerships	11,885	27,801
Other assets	138,422	137,246
Assets held for sale	59,155	66,315
Total assets	\$ 1,618,383	\$ 1,630,051

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For the Nine Months ended September 30, 2009	Commercial					Total
	Properties	Apartments	Hotels	Land	Other	
Operating revenue	\$ 45,738	\$ 69,471	\$ -	\$ 68	\$ 141	\$ 115,418
Operating expenses	24,408	38,939	-	1,439	200	64,986
Depreciation and amortization	9,097	12,980	-	-	-	22,077
Mortgage and loan interest	12,099	29,819	-	10,255	1,649	53,822
Interest income	-	-	-	-	1,950	1,950
Gain on land sales	-	-	-	6,296	-	6,296
Segment operating gain (loss)	\$ 134	\$ (12,267)	\$ -	\$ (5,330)	\$ 242	\$ (17,221)
Capital expenditures	551	(142)	-	-	-	409
Assets	328,586	736,793	-	343,542	-	1,408,921
Property Sales						
Sales price	\$ 8,000	\$ -	\$ -	\$ 19,505	\$ -	\$ 27,505
Cost of sale	3,018	-	-	13,209	-	16,227
Deferred current gain	1,955	-	-	-	-	1,955
Recognized prior deferred gain	-	-	-	-	532	532
Gain on sale	\$ 3,027	\$ -	\$ -	\$ 6,296	\$ 532	\$ 9,855

For the Nine Months ended September 30, 2008	Commercial					Total
	Properties	Apartments	Hotels	Land	Other	
Operating revenue	\$ 42,389	\$ 61,128	\$ -	\$ 1,087	\$ 12	\$ 104,616
Operating expenses	25,059	38,264	-	2,479	309	66,111
Depreciation and amortization	7,287	9,907	-	3	-	17,197
Mortgage and loan interest	12,773	27,995	-	7,395	3,423	51,586
Interest income	-	-	-	-	1,990	1,990
Gain on land sales	-	-	-	4,551	-	4,551
Segment operating loss	\$ (2,730)	\$ (15,038)	\$ -	\$ (4,239)	\$ (1,730)	\$ (23,737)
Capital expenditures	3,899	86	-	-	-	3,985
Assets	338,891	652,603	-	407,195	-	1,398,689
Property Sales						
Sales price	\$ 39,383	\$ 103,877	\$ 11,749	\$ 14,558	\$ -	\$ 169,567
Cost of sale	20,291	30,477	4,023	9,857	-	64,648
Deferred current gain	-	-	-	150	-	150
Recognized prior deferred gain	-	-	-	-	-	-
Gain on sale	\$ 19,092	\$ 73,400	\$ 7,726	\$ 4,551	\$ -	\$ 104,769

The tables below reconcile the segment information to the corresponding amounts in the Consolidated Statements of Operations:

	For Nine Months Ended	
	September 30,	September 30,
	2009	2008
Segment operating loss	\$ (17,221)	\$ (23,737)
Other non-segment items of income (expense)		

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General and administrative	(6,853)	(6,891)
Advisory fees	(8,874)	(8,857)
Provision on impairment of notes receivable and real estate assets	(28,575)	(7,000)
Litigation settlement	681	2,681
Other income	3,581	3,206
Equity in earnings of investees	(353)	-
Deferred tax benefit	897	30,460
Loss from continuing operations	\$ (56,717)	\$ (10,138)

SEGMENT ASSET RECONCILIATION TO TOTAL ASSETS

	For Nine Months Ended	
	September 30,	
	2009	2008
Segment assets	\$ 1,408,921	\$ 1,398,689
Investments in real estate partnerships	11,885	27,801
Other assets	138,422	137,246
Assets held for sale	59,155	66,315
Total assets	\$ 1,618,383	\$ 1,630,051

Table of Contents**NOTE 10. DISCONTINUED OPERATIONS**

The Company applies the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 requires that long-lived assets that are to be disposed of by sale be measured at the lesser of (1) book value or (2) fair value less cost to sell. In addition, it requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions.

Income from discontinued operations for 2009 relates to the sale of the Cullman Shopping Center and an office building and shopping center held for sale as of September 30, 2009. In addition, we recognized the deferred gain on the sale of the Hartford building sold in 2002 in accordance with the requirements per SFAS No. 66. Discontinued operations for 2008 relates to 26 income producing properties consisting of 18 apartments, three commercial buildings and four hotels that were sold in 2008, and one commercial property sold and an office building and shopping center held for sale as of September 30, 2009. (dollars in thousands)

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2009	2008	2009	2008
Revenue				
Rental	\$ 313	\$ 1,600	\$ 1,283	\$ 6,025
Property operations	186	75	479	2,362
	127	1,525	804	3,663
Expenses				
Interest	(95)	(142)	(334)	(5,621)
General and administrative	(36)	(20)	(18)	(609)
Depreciation	(50)	(11)	(196)	(113)
	(181)	(173)	(548)	(6,343)
Net income (loss) from discontinued operations before gains on sale of real estate	(54)	1,352	256	(2,680)
Gain on sale of discontinued operations	3,027	244	3,559	100,218
Equity in investee gain on sale of real estate	1	2,898	154	2,898
Net income fee to affiliates	-	517	-	(13,407)
Income from discontinued operations	2,974	5,011	3,969	87,029
Tax expense	(1,041)	(1,754)	(1,389)	(30,460)
Net income from discontinued operations	\$ 1,933	\$ 3,257	\$ 2,580	\$ 56,569

The Company's application of SFAS No. 144 results in the presentation of the net operating results of these qualifying properties sold or held for sale during 2009 as income from discontinued operations. The application of SFAS No. 144 does not have an impact on net income available to common shareholders. SFAS No. 144 only impacts the presentation of these properties within the Consolidated Statements of Operations.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Partnership Obligations. TCI is the limited partner in partnerships that are currently constructing residential properties. As permitted in the respective partnership agreements, TCI intends to purchase the interests of the general and any other limited partners in these partnerships subsequent to the completion of these projects. The amounts paid to buy out the nonaffiliated partners are limited to development fees earned by the non-affiliated partners, and are set forth in the respective partnership agreements.

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Guarantees. We are a joint guarantor with IOT, an affiliated entity, on a loan with an outstanding balance of \$36.5 million as of September 30, 2009. We have \$8.5 million of this amount included in the notes and interest payable section on our balance sheet. As a joint guarantor of the loan, we have joint and several liability of the obligations and liabilities of the loan in its entirety, which include but are not limited to payment of all unpaid and accrued interest and principal for the entire outstanding loan balance.

Liquidity. Management believes that TCI will generate excess cash from property operations; such excess, however, will not be sufficient to discharge all of TCI's obligations as they become due. Management intends to sell income producing assets, refinance real estate, and obtain additional borrowings primarily secured by real estate to meet its liquidity requirements.

Litigation. TCI is involved in various other lawsuits arising in the ordinary course of business. Management is of the opinion that the outcome of these lawsuits will have no material impact on TCI's financial condition, results of operations or liquidity.

Table of Contents**NOTE 12. EARNINGS PER SHARE**

Earnings per share (EPS) have been computed pursuant to the provisions of SFAS No. 128 Earnings Per Share. The computation of basic EPS is calculated by dividing income available to common shareholders by the weighted-average number of common shares outstanding during the period. Shares issued during the period shall be weighted for the portion of the period that they were outstanding. We have issued and outstanding 10,000 shares of stock options. These are considered in the computation of diluted earnings per share if the effect of applying the treasury stock method is dilutive. We have 30,000 shares of Series C Cumulative Convertible Preferred Stock issued and outstanding. The stock has a liquidation preference of \$100.00 per share. After September 30, 2006, the stock may be converted into Common Stock at 90% of the daily average closing price of the Common Stock for the prior five trading days. The effects of the Series C Cumulative Convertible Preferred Stock are included in the dilutive earnings per share if applying the if-converted method is dilutive. For the nine months ended September 30, 2009, the preferred stock and the stock options were anti-dilutive and thus not included in the EPS calculation. The net income used for calculating the basic and diluted shares did not change. The reconciliation of the weighted average shares outstanding from the basic to the diluted shares is shown below:

	September 30,	
	2009	2008
Weighted average shares outstanding	8,113,669	8,077,663
Dilutive shares:		
Options	-	-
Convertible preferred stock	-	-
Diluted weighted average shares outstanding	8,113,669	8,077,663

NOTE 13. SUBSEQUENT EVENTS

On October 20, 2009, we sold the 2010 Valley View Office building; a 40,666 square foot facility located in Farmers Branch, Texas for a sales price of \$3.2 million and recorded a deferred gain of \$0.8 million. We also sold the Parkway Centre building; a 28,374 square foot facility located in Dallas, Texas for a sales price of \$4.0 million and recorded a deferred gain of \$0.6 million due to being sold to related party.

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

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report.

This Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws, principally, but not only, under the captions Business, Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations. We caution investors that any forward-looking statements in this report, or which management may make orally or in writing from time to time, are based on management's beliefs and on assumptions made by, and information currently available to, management. When used, the words anticipate, believe, expect, intend, may, might, plan, estimate, project, should, will, result and similar expressions which historical matters are intended to identify forward-looking statements. These statements are subject to risks, uncertainties, and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties, and factors, that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. We caution you that, while forward-looking statements reflect our good faith beliefs when we make them, they are not guarantees of future performance and are impacted by actual events when they occur after we make such statements. We expressly disclaim any responsibility to update our forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following:

general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew

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leases, dependence on tenants' financial condition, and competition from other developers, owners and operators of real estate);

risks associated with the availability and terms of construction and mortgage financing and the use of debt to fund acquisitions and developments;

demand for apartments and commercial properties in the Company's markets and the effect on occupancy and rental rates;

the Company's ability to obtain financing, enter into joint venture arrangements in relation to or self-fund the development or acquisition of properties;

risks associated with the timing and amount of property sales and the resulting gains/losses associated with such sales;

failure to manage effectively our growth and expansion into new markets or to integrate acquisitions successfully;

risks and uncertainties affecting property development and construction (including, without limitation, construction delays, cost overruns, inability to obtain necessary permits and public opposition to such activities);

risks associated with downturns in the national and local economies, increases in interest rates, and volatility in the securities markets;

costs of compliance with the Americans with Disabilities Act and other similar laws and regulations;

potential liability for uninsured losses and environmental contamination;

risks associated with our dependence on key personnel whose continued service is not guaranteed; and

the other risk factors identified in this Form 10-Q, including those described under the caption "Risk Factors."

The risks included here are not exhaustive. Some of the risks and uncertainties that may cause our actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements, include among others, the factors listed and described at Item 1A "Risk Factors" in the Company's Annual Report on Form 10-K, which investors should review. There have been no changes from the risk factors previously described in the Company's Form 10-K for the fiscal year ended December 31, 2008 (the Form 10-K).

Other sections of this report may also include suggested factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time-to-time and it is not possible for management to predict all such matters: nor can we assess the impact of all such matter on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these uncertainties, investors should not place undue reliance on forward-looking statements as prediction of actual results. Investors should also refer to our quarterly reports on Form 10-Q for future periods and to other materials we may furnish to the public from time to time through Forms 8-K or otherwise as we file them with the SEC.

Overview

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We are an externally advised and managed real estate investment company that owns a diverse portfolio of income producing properties and land held for development. Our portfolio of income-producing properties includes residential apartment communities, office buildings, and other commercial properties. Our portfolio of land held for development consists of land primarily located in central Texas. In addition, we have land in Louisiana, Arkansas, Florida, and Mississippi. Our investment strategy includes acquiring existing income-producing properties as well as developing new properties on land already owned or acquired for a specific development project. We acquire land primarily in urban in-fill locations or high-growth suburban markets. We generate revenues from rents and lease income on apartments and commercial properties. We receive mineral royalties on certain land holdings. In addition, we receive interest income from affiliated receivables and certain mortgages that we have financed or obtained. In addition, we generate cash flows through the sale of our assets. We are an active buyer and seller of income producing properties and land. During the nine months ended September 30, 2009, we acquired \$5.9 million and sold for a sales price of \$30.0 million of land and \$8.0 million in income producing properties.

The current state of the economy, including rising unemployment, constrained capital and the dramatic deleveraging of the financial system, has had a significant impact on the fundamentals of our business, including but not limited to: overall market occupancy, leasing rates, leasing renewals, purchases and dispositions of assets. The continuing loss of market liquidity is affecting all classes of debt securities, and has translated into a decline of funding availability and increased borrowing costs. Historically, we have been well positioned to reduce our exposure to down turns in the economy. Although historical results cannot be relied upon to project future results, we anticipate the diversity within our asset portfolio, the

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continued development of our apartment projects, and continued efforts to obtain non-traditional financing will allow us to proactively manage our assets.

As of September 30, 2009, the Company owned approximately 11,586 units in 58 residential apartment communities inclusive of two developed properties in the lease up phase and 29 commercial properties of approximately 5.2 million rentable square feet. In addition, we own 6,796 acres of land held for development.

On July 17, 2009, the Company acquired from Syntek West, Inc., (SWI), 2,518,934 shares of Common Stock, par value \$0.01 per share of IOT at an aggregate price of \$17,884,431 (approximately \$7.10 per share), the full amount of which was paid by the Company through an assumption of an aggregate amount of indebtedness of \$17,884,431 on the outstanding balance owed by SWI to IOT. The 2,518,934 shares of IOT Common Stock acquired by the Company constituted approximately 60.4% of the issued and outstanding Common Stock of IOT. The Company has owned for several years an aggregate of 1,037,184 shares of Common Stock of IOT (approximately 25% of the issued and outstanding). After giving effect to the transaction on July 17, 2009, the Company owns an aggregate of 3,556,118 shares of IOT Common Stock which constitutes approximately 85.3% of the shares of Common Stock of IOT outstanding (which is a total of 4,168,214 shares). Shares of IOT are traded on the American Stock Exchange.

With the Company's acquisition of the additional shares on July 17, 2009, which increased the aggregate ownership to in excess of 80%, beginning in July 2009, IOT's results of operations will now be consolidated with those of the Company for tax and financial reporting purposes.

On July 1, 2009, the Advisory and Cash Management Agreements between IOT and SWI were terminated by mutual agreement. SWI had served as IOT's cash manager since July 1, 2003. On July 1, 2009, IOT entered into an Advisory and Cash Management Agreement with Prime Income Asset Management, LLC (Prime). Prime also serves as a cash manager to the Company and ARL.

At July 17, 2009, IOT owned the following real estate assets:

Commercial	Location	Square feet
2010 Valley View (office building)	Farmers Branch, TX	40,666
Parkway Center (shopping center)	Dallas, TX	28,374
Total		69,040

Land	Location	Acres
Eagle Crest (industrial warehouse) ⁽¹⁾	Farmers Branch, TX	18.59
Three Hickory Centre	Farmers Branch, TX	6.64
Travelers Land ⁽²⁾	Farmers Branch, TX	193.15
Total		218.38

⁽¹⁾ Includes a 133,000 square foot warehouse

⁽²⁾ Sold 15.07 acres to TCI 9/09

We finance our acquisitions primarily through proceeds from the sale of land and income-producing properties and debt financing primarily in the form of property-specific first-lien mortgage loans from commercial banks and institutional lenders. We financed our development projects principally with short-term, variable interest rate construction loans that are converted to long-term, fixed rate amortizing mortgages when the development project is completed and occupancy has been stabilized. The Company will, from time to time, also enter into partnerships with various investors to acquire income-producing properties or land and to sell interests in certain of its wholly owned properties. When the Company sells assets, it may carry a portion of the sales price generally in the form of a short-term, interest bearing seller-financed note receivable. The Company generates operating revenues primarily by leasing apartment units to residents; leasing office, retail and industrial space to commercial tenants.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, requires management to use judgment in the application of accounting policies, including making

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estimates and assumptions. We base our estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied resulting in a different presentation of our financial statements. From time to time, we evaluate our estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current information. Below is a discussion of accounting policies that we consider critical in that they may require complex judgment in their application or require estimates about matters that are inherently uncertain.

Real Estate

Upon acquisitions of real estate, TCI assesses the fair value of acquired tangible and intangible assets, including land, buildings, tenant improvements, above-market and below-market leases, origination costs, acquired in-place leases, other identified intangible assets and assumed liabilities in accordance with Statement of Financial Accounting Standards, SFAS No. 141, Business Combinations, and allocates the purchase price to the acquired assets and assumed liabilities, including land at appraised value and buildings at replacement cost.

We assess and consider fair value based on estimated cash flow projections that utilize appropriate discount and/or capitalization rates, as well as available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known and anticipated trends, and market and economic conditions. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant. We also consider an allocation of purchase price of other acquired intangibles, including acquired in-place leases that may have a customer relationship intangible value, including (but not limited to) the nature and extent of the existing relationship with the tenants, the tenants' credit quality and expectations of lease renewals. Based on our acquisitions to date, our allocation to customer relationship intangible assets has been immaterial.

We record acquired above-market and below-market leases at their fair values (using a discount rate which reflects the risks associated with the leases acquired) equal to the difference between (1) the contractual amounts to be paid pursuant to each in-place lease and (2) management's estimate of fair market lease rates for each corresponding in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market fixed rate renewal options for below-market leases.

Real estate is stated at depreciated cost. The cost of buildings and improvements includes the purchase price of property, legal fees and other acquisition costs. Costs directly related to the development of properties are capitalized. Capitalized development costs include interest, property taxes, insurance, and other project costs incurred during the period of development.

Management reviews its long-lived assets used in operations for impairment when there is an event or change in circumstances that indicates an impairment in value. An impairment loss is recognized if the carrying amount of its assets is not recoverable and exceeds its fair value. If such impairment is present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. If we determine that impairment has occurred, the affected assets must be reduced to their fair value.

SFAS No. 144 requires that qualifying assets and liabilities and the results of operations that have been sold, or otherwise qualify as held for sale, be presented as discontinued operations in all periods presented if the property operations are expected to be eliminated and the Company will not have significant continuing involvement following the sale. The components of the property's net income that is reflected as discontinued operations include the net gain (or loss) upon the disposition of the property held for sale, operating results, depreciation and interest expense (if the property is subject to a secured loan). We generally consider assets to be held for sale when the transaction has been approved by our Board of Directors, or a committee thereof, and there are no known significant contingencies relating to the sale, such that the property sale within one year is considered probable. Following the classification of a property as held for sale, no further depreciation is recorded on the assets.

A variety of costs are incurred in the acquisition, development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. Our capitalization policy on development properties is guided by SFAS No. 34

Capitalization of Interest Cost, and SFAS No. 67 Accounting for Costs and the Initial Rental Operations of Real Estate Properties. The costs of land and buildings under development include

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specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We consider a construction project as substantially completed and held available for occupancy upon the receipt of certificates of occupancy, but no later than one year from cessation of major construction activity. We cease capitalization on the portion (1) substantially completed and (2) occupied or held available for occupancy, and we capitalize only those costs associated with the portion under construction.

Impairment of Notes Receivable and Real Estate Assets

Management reviews the carrying values of our properties, investment in real estate partnerships, and mortgage notes receivable at least annually and whenever events or a change in circumstances indicate that impairment may exist. Impairment is considered to exist if, in the case of a property, the future cash flow from the property (undiscounted and without interest) is less than the carrying amount of the property. For notes receivable, impairment is considered to exist if it is probable that all amounts due under the terms of the note will not be collected. If impairment is found to exist, a provision for loss is recorded by a charge against earnings to the extent that the investment in the note exceeds management's estimate of the fair value of the collateral securing such note. The mortgage note receivable review includes an evaluation of the collateral property securing each note. The property review generally includes: (1) selective property inspections, (2) a review of the property's current rents compared to market rents, (3) a review of the property's expenses, (4) a review of maintenance requirements, (5) a review of the property's cash flow, (6) discussions with the manager of the property, and (7) a review of properties in the surrounding area.

Investments in Unconsolidated Real Estate Ventures

Except for ownership interests in variable interest entities, TCI accounts for our investments in unconsolidated real estate ventures under the equity method of accounting because the Company exercises significant influence over, but does not control, these entities. These investments are recorded initially at cost, as investments in unconsolidated real estate ventures, and subsequently adjusted for equity in earnings and cash contributions and distributions. Any difference between the carrying amount of these investments on the Company's balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in earnings of unconsolidated real estate ventures over the life of the related asset. Under the equity method of accounting, TCI's net equity is reflected within the Consolidated Balance Sheets, and our share of net income or loss from the joint ventures is included within the Consolidated Statements of Operations. The joint venture agreements may designate different percentage allocations among investors for profits and losses; however, TCI's recognition of joint venture income or loss generally follows the joint venture's distribution priorities, which may change upon the achievement of certain investment return thresholds. For ownership interests in variable interest entities, the Company consolidates those in which we are the primary beneficiary.

Recognition of Rental Income

Rental income for commercial property leases is recognized on a straight-line basis over the respective lease terms. In accordance with SFAS No. 141, we recognize rental revenue of acquired in-place above-market and below-market leases at their fair values over the terms of the respective leases. On our Consolidated Balance Sheets, we include as a receivable the excess of rental income recognized over rental payments actually received pursuant to the terms of the individual commercial lease agreements.

Reimbursements of operating costs, as allowed under most of our commercial tenant leases, consist of amounts due from tenants for common area maintenance, real estate taxes and other recoverable costs, and are recognized as revenue in the period in which the recoverable expenses are incurred. We record these reimbursements on a gross basis, since we generally are the primary obligor with respect to purchasing goods and services from third-party suppliers, have discretion in selecting the supplier and have the credit risk with respect to paying the supplier.

Rental income for residential property leases is recorded when due from residents and is recognized monthly as earned, which is not materially different than on a straight-line basis as lease terms are generally for periods of one year or less.

Revenues for hotel properties for room sales and guest services are recognized as rooms are occupied and services are rendered.

An allowance for doubtful accounts is recorded for all past due rents and operating expense reimbursements considered to be uncollectible.

Revenue Recognition on the Sale of Real Estate

Sales of real estate are recognized when and to the extent permitted by Statement of Financial Accounting Standards No. 66,

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Accounting for Sales of Real Estate. (SFAS No. 66), as amended by SFAS No. 144. Until the requirements of SFAS No. 66 for full profit recognition have been met, transactions are accounted for using the deposit, installment, cost recovery or financing method, whichever is appropriate. When TCI provides seller financing, gain is not recognized at the time of sale unless the buyer's initial investment and continuing investment are deemed to be adequate as determined by SFAS No. 66 guidelines.

Interest Recognition on Notes Receivable

Interest income is accrued when due, except for cash flow notes. On cash flow notes accrued but unpaid interest income is only recognized to the extent that cash is received.

Related Party Transactions

The Company has historically engaged in and may continue to engage in certain business transactions with related parties, including but not limited to asset acquisition and dispositions. Transactions involving related parties cannot be presumed to be carried out on an arm's length basis due to the absence of free market forces that naturally exist in business dealings between two or more unrelated entities. Related party transactions may not always be favorable to our business and may include terms, conditions and agreements that are not necessarily beneficial to or in the best interest of our company.

Allowance for Estimated Losses

A valuation allowance is provided for estimated losses on notes receivable considered to be impaired. Impairment is considered to exist when it is probable that all amounts due under the terms of the note will not be collected. Valuation allowances are provided for estimated losses on notes receivable to the extent that the investment in the note exceeds management's estimate of fair value of the collateral securing such note.

Fair Value of Financial Instruments

The following assumptions were used in estimating the fair value of TCI's notes receivable, marketable equity securities and notes payable. For performing notes receivable, the fair value was estimated by discounting future cash flows using current interest rates for similar loans. For non-performing notes receivable, the estimated fair value of TCI's interest in the collateral property was used. For marketable equity securities, fair value was based on the year-end closing market price of each security. For notes payable, the fair value was estimated using current rates for mortgages with similar terms and maturities.

Liquidity and Capital Resources

Our principal sources of cash have historically been and will continue to be:

property operations;

proceeds from land and income-producing property sales;

collection of mortgage notes receivable;

collection of receivables from affiliated companies;

refinancing of existing mortgage notes payable; and

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additional borrowing, including mortgage notes payable and lines of credit.

Our principal liquidity needs over the next twelve months include:

funding of normal recurring expenses and obligations;

funding current development costs not covered by construction loans;

meeting debt service requirements including loan maturities;

funding capital expenditures; and

funding acquisition costs for land and income-producing properties not covered by acquisition financing.

We draw on multiple financing sources to fund our long-term capital needs. We generally fund our development projects with construction loans.

Management anticipates that our available cash from property operations may not be sufficient to meet all of our cash requirements. Management intends to selectively sell land and income producing assets, refinance or extend real estate debt and seek additional borrowing secured by real estate to meet its liquidity requirements. Historically, management has been successful at extending a portion of the Company's current maturity obligations. Management also anticipates funding

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ongoing real estate development projects and the acquisition of new real estate from cash generated by sales of land and income-producing properties, debt refinancing or extensions and additional borrowings.

Cash flow summary

The following summary discussion of our cash flows is based on the statements of cash flows as presented in Item 1 and is not meant to be an all-inclusive discussion of the changes in our cash flow (dollars in thousands).

	September 30,		
	2009	2008	Variance
Net cash provided by (used in) operating activities	\$ (39,569)	\$ 28,150	\$ (67,719)
Net cash provided by (used in) investing activities	\$ 18,518	\$ (46,879)	\$ 65,397
Net cash provided by financing activities	\$ 17,051	\$ 10,604	\$ 6,447

Our cash from operating activities decreased \$67.7 million as compared to the prior period. The primary use of cash for operations is daily operating costs, general and administrative expenses, advisory fees, and land holding costs. Our primary source of cash from operating activities is from rental income on properties. In addition, we have an affiliated account in which excess cash is transferred to or from.

Our cash from investing activities increased \$65.4 million as compared to the prior period. The decrease in proceeds is primarily attributable to the decrease in sales of income producing properties. There was a sale of an income producing property in the current period. In the prior year period, we sold 18 apartment complexes, three commercial buildings, and four hotels. In the current period, we also used less cash on investing activities. We expended \$76.1 million less on construction and development, and \$44.0 million less on acquisitions of land as compared to the prior period.

Our cash from financing activities increased \$6.4 million for the period ended September 30, 2009. The increase is due to proceeds from construction draws for apartments and other developments in progress. In addition, we received proceeds from new debt. This was offset by payments on recurring debt obligations and maturing notes payable. For the same period ended 2008, the primary use of cash was to pay off the debt on the mortgages for the properties sold, and the primary source of cash was from proceeds on notes payable to acquire properties and proceeds on construction draws.

Commitments and Contingencies

TCI has contractual obligations and commitments primarily concerning payment of mortgages.

Results of Operations

The following discussion is based on our Consolidated Statements of Operations for the nine months ended September 30, 2009 and 2008 as included in Part 1, Item 1 Financial Statements of this report. The total property portfolio represents all income producing properties held as of September 30 for the period presented. Sales subsequent to quarter ended represent properties in the total property portfolio that have been repositioned to discontinued operations. Continuing operations consists of the total property portfolio less any sales subsequent to the quarter end. We had a total property portfolio of 87 and 80 as of the nine months ended September 30, 2009, and 2008, respectively as shown below:

	2009	2008
Continuing operations	85	76
Sales subsequent to year end	2	4
Total property portfolio	87	80

The discussion of our results of operations is based on management's review of operations, which is based on our segments. Our segments consist of apartments, commercial buildings, hotels, land and other. For discussion purposes, we break these segments down into the following sub-categories; same property portfolio, newly acquired properties, and developed properties in the lease up phase. The same property portfolio consists of properties that were held by us for the entire period for both years being compared. The newly acquired property portfolio consists of properties that we acquired but have not held for the entire period for both periods being compared. Developed properties in the lease up phase

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are properties that are in the being developed. As we complete each phase of the project, we lease up that phase and include those operations in our income. Once a developed property becomes leased up and is held the entire period for both periods under comparison, it is

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reclassified to the same property portfolio. Income producing properties that we have sold or are held for sale get reclassified to discontinuing operations.

Results of operations for the three months ended September 30, 2009 as compared to the same period ended 2008

For the three months ended September 30, 2009, we reported a net loss applicable to common shares of (\$11.5) million or (\$1.41) per diluted earnings per share, as compared to a net loss of (\$6.9) million or (\$.85) per diluted earnings per share for the same period ended 2008.

Revenues

Rental and other property revenues increased by \$4.1 million as compared to the prior year period which by segment is an increase in the apartment portfolio of \$2.7 million, the commercial portfolio of \$1.2 million, and an increase in land and other portfolio of \$0.2 million. Within the apartment portfolio, a \$2.7 million increase was due to the developed properties being leased up. There appears to be a continued demand for newly developed properties. Within the commercial portfolio, the same property portfolio increased by \$0.2 million and the acquired properties increased by \$1.0 million.

Expenses

Property operating expenses decreased by \$0.7 million as compared to the prior year period which by segment is a decrease in the apartment portfolio of \$0.3 million, a decrease in the commercial portfolio of \$0.1 million and a decrease in the land and other of \$0.3 million. Within the apartment portfolio, decreases came from the same properties which decreased by \$0.8 million and the developed properties which increased by \$0.5 million. Within the commercial portfolio, the same portfolio decreased by \$0.2 million and the acquired properties increased by \$0.1 million.

Depreciation and amortization increased by \$2.1 million as compared to the prior year period which by segment is an increase in the apartment portfolio of \$1.1 million, and an increase in the commercial portfolio of \$1.0 million. Within the apartment portfolio, increases came from the same properties portfolio of \$0.2 million and the developed properties increased by \$0.9 million. Within the commercial properties, the acquired properties increased by \$1.0 million.

Other Income (Expense)

Other income decreased by \$2.1 million as compared to the prior year period. The decrease is due to disposition of our investment in the Korean REIT in 2009.

Mortgage and loan interest expense increased by \$2.4 million as compared to the prior year period which by segment is an increase in the apartment portfolio of \$1.0 million and a decrease in the commercial portfolio of \$0.2 million, an increase in land portfolio of \$1.1 million and an increase in other portfolio of \$0.5 million. Within the apartment portfolio the same properties decreased by \$0.2 million, which was offset by an increase in the developed properties of \$1.2 million. Within the commercial portfolio, the acquired properties decreased by \$0.2 million.

Earnings from unconsolidated subsidiaries and investees increased by \$1.8 million. There were no material amounts of equity pickup from investees in the current period.

The 2009 discontinued operations consist of the Cullman Shopping Center and an office building and shopping center held for sale as of September 30, 2009. Discontinued operations for 2008 relates to 26 income producing properties consisting of 18 apartments, three commercial buildings and four hotels that were sold in 2008, and one commercial property sold and an office building and shopping center held for sale as of September 30, 2009. The gain on sale, taxes and net income fee to affiliates that are associated with the properties sold during the period presented are also included in discontinued operations as shown below (dollars in thousands).

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	For the Three Months Ended September 30,	
	2009	2008
Revenue		
Rental	\$ 313	\$ 1,600
Property operations	186	75
	127	1,525
Expenses		
Interest	(95)	(142)
General and administrative	(36)	(20)
Depreciation	(50)	(11)
	(181)	(173)
Net income (loss) from discontinued operations before gains on sale of real estate	(54)	1,352
Gain on sale of discontinued operations	3,027	244
Equity in investee gain on sale of real estate	1	2,898
Net income fee to affiliates	-	517
Income from discontinued operations	2,974	5,011
Tax expense	(1,041)	(1,754)
Net income from discontinued operations	\$ 1,933	\$ 3,257

Results of operations for the nine months ended September 30, 2009 as compared to the same period ended 2008

For the nine months ended September 30, 2009, we reported a net loss applicable to common shares of (\$54.8) million or (\$6.76) per diluted earnings per share, as compared to a net income of \$45.7 million or \$5.66 per diluted earnings per share for the same period ended 2008.

Revenues

Rental and other property revenues increased by \$10.8 million as compared to the prior year period which by segment is an increase in the apartment portfolio of \$8.3 million, the commercial portfolio of \$3.3 million, offset by a decrease in the land portfolio of \$1.0 million and an increase in other of \$0.2 million. Within the apartment portfolio, a \$9.9 million increase was due to the developed properties being leased up which was offset by a \$1.6 million decrease in the same property portfolio. There appears to be a continued demand for newly developed properties. Within the commercial portfolio, the acquired properties increased by \$2.8 million and an increase in same store portfolio of \$0.5 million.

Expenses

Property operating expenses decreased by \$1.1 million as compared to the prior year period which by segment is an increase in the apartment portfolio of \$0.7 million and a decrease in the commercial portfolio of \$0.7 million, land portfolio of \$1.0 million and other of \$0.1 million. Within the apartment portfolio, decreases came from the same properties of \$1.9 million and the developed properties which increased by \$2.6 million. Within the commercial portfolio, the same properties decreased by \$0.6 million and the acquired properties decreased by \$0.1 million.

Depreciation and amortization increased by \$4.9 million as compared to the prior year period which by segment is an increase in the apartment portfolio of \$3.1 million, and an increase in the commercial portfolio of \$1.8 million. Within the apartment portfolio, same properties increased by \$0.4 and the developed properties increased by \$2.7 million. Within the commercial properties, the same properties increased by \$0.3 million and the acquired properties increased by \$1.5 million.

Other Income (Expense)

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Other income increased by \$0.4 million as compared to the prior year period. The increase is due to the gains on the disposition of our investment in the Korean REIT in 2009.

Mortgage and loan interest expense increased by \$2.2 million as compared to the prior year period which by segment is an increase in the apartment portfolio of \$1.8 million, a decrease in the commercial portfolio of \$0.7 million, an increase in the land portfolio of \$2.9 million and decrease in other portfolio of \$1.8 million. Within the apartment portfolio the same properties decreased by \$2.6 million, which was offset by an increase in the developed properties of \$4.4 million. Within the

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commercial portfolio, the same properties decreased by \$0.1 million and the acquired properties decreased by \$0.6 million.

Earnings from unconsolidated subsidiaries and investees decreased by \$3.0 million. There were no material amounts of equity pickup from investees in the current period.

Provision on impairment of notes receivable, investment in real estate partnerships, and real estate assets increased by \$21.6 million as compared to the prior year period. Impairment was recorded as an additional loss in the investment portfolio of \$18.0 million, impairment in land we currently hold and \$8.8 million in land that was sold in the third quarter for a loss. As of September 30, 2009, properties were impaired to reflect reduced value. In the prior year period, we posted a \$7.0 million reserve for certain investments within our portfolio.

Gain on land sales increased by \$1.7 million as compared to the prior year period. The increase was due to recording a gain of \$4.7 million on the sale of 3 acres of land known as West End land. In addition, we sold 9.2 acres of land known as Woodmont Schiff-Park Forest land at break even. We sold 3.13 acres of Verandas at City View land for a gain of \$0.7 million, sold 3.96 acres of land known as Teleport land for a gain of \$0.4 million and booked sale of interest in Southwood land for a gain of \$0.5 million. There were no other land sales during the year. In the prior year period, we sold 87.5 acres of land for a gain of \$4.6 million.

The 2009 discontinued operations consist of the sale of the Cullman Shopping Center and an office building and shopping center held for sale as of September 30, 2009. In addition, we recognized the deferred gain on the sale of the Hartford building sold in 2002 in accordance with the requirements per SFAS No. 66. Discontinued operations for 2008 relates to 26 income producing properties consisting of 18 apartments, three commercial buildings and four hotels that were sold in 2008, and one commercial property sold and an office building and shopping center held for sale as of September 30, 2009. The gain on sale, taxes and net income fee to affiliates that are associated with the properties sold during the period presented are also included in discontinued operations as shown below (dollars in thousands).

	For the Nine Months Ended September 30,	
	2009	2008
Revenue		
Rental	\$ 1,283	\$ 6,025
Property operations	479	2,362
	804	3,663
Expenses		
Interest	(334)	(5,621)
General and administrative	(18)	(609)
Depreciation	(196)	(113)
	(548)	(6,343)
Net income (loss) from discontinued operations before gains on sale of real estate	256	(2,680)
Gain on sale of discontinued operations	3,559	100,218
Equity in investee gain on sale of real estate	154	2,898
Net income fee to affiliates	-	(13,407)
Income from discontinued operations	3,969	87,029
Tax expense	(1,389)	(30,460)
Net income from discontinued operations	\$ 2,580	\$ 56,569

Tax Matters

Financial statement income varies from taxable income principally due to the accounting for income and losses of investees, gains and losses from asset sales, depreciation on owned properties, amortization of discounts on notes receivable and payable and the difference in the allowance for estimated losses. TCI had a loss for federal income tax purposes in the first nine months of 2009, and a loss in 2008; therefore, it

recorded no provision for income taxes.

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At September 30, 2009, TCI had a net deferred tax asset of \$59.6 million due to tax deductions available to it in future years. However, as management cannot determine that it is more likely than not that TCI will realize the benefit of the deferred tax assets, a 100% valuation allowance has been established.

Inflation

The effects of inflation on TCI's operations are not quantifiable. Revenues from property operations tend to fluctuate proportionately with inflationary increases and decreases in housing costs. Fluctuations in the rate of inflation also affect sales values of properties and the ultimate gain to be realized from property sales. To the extent that inflation affects interest rates, earnings from short-term investments, the cost of new financings and the cost of variable interest rate debt will be affected.

Environmental Matters

Under various federal, state and local environmental laws, ordinances and regulations, the Company may be potentially liable for removal or remediation costs, as well as certain other potential costs, relating to hazardous or toxic substances (including governmental fines and injuries to persons and property) where property-level managers have arranged for the removal, disposal or treatment of hazardous or toxic substances. In addition, certain environmental laws impose liability for release of asbestos-containing materials into the air, and third parties may seek recovery for personal injury associated with such materials.

Management is not aware of any environmental liability relating to the above matters that would have a material adverse effect on TCI's business, assets or results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

At September 30, 2009, TCI's exposure to a change in interest rates on its debt is as follows (dollars in thousands except per share):

	Balance	Weighted Average Interest Rate	Effect of 1% Increase In Base Rates
Notes payable:			
Variable rate	\$ 345,075	5.77%	\$ 3,451
Total decrease in TCI's annual net income			3,451
Per share			\$ 0.43

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ITEM 4T. CONTROLS AND PROCEDURES

- (a) As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Principal Executive Officer and Chief Financial Officer per the Company's disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based upon that evaluation, the Company's Principal Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.

- (b) There have been no changes in the Company's internal controls over financial reporting during the quarter ended September 30, 2009 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

During the period of time covered by this report, no equity securities of Transcontinental Realty Investors, Inc. s stock were repurchased. The following table sets forth a summary by month for the quarter ended September 30, 2009 of repurchases made and the specified numbers of shares that may be repurchased under the stock repurchase program as specified below:

Period	Total Number of Shares Purchased	Average Price Paid per share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet be Purchased Under the Program ^(a)
Balance at June 30, 2009			1,286,212	122,788
July 31, 2009	-	-	1,286,212	122,788
August 31, 2009	-	-	1,286,212	122,788
September 30, 2009	-	-	1,286,212	122,788
Total	-			

- (a) On June 23, 2000, the TCI Board of Directors approved a share repurchase program for up to 1,409,000 shares of our Common Stock. This repurchase program has no termination date.

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ITEM 6. EXHIBITS

The following exhibits are filed with this report or incorporated by reference as indicated;

Exhibit Number	Description
3.0	Articles of Incorporation of Transcontinental Realty Investors, Inc., (incorporated by reference to Exhibit No. 3.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991).
3.1	Certificate of Amendment to the Articles of Incorporation of Transcontinental Realty Investors, Inc., (incorporated by reference to the Registrant's Current Report on Form 8-K, dated June 3, 1996).
3.2	Certificate of Amendment of Articles of Incorporation of Transcontinental Realty Investors, Inc., dated October 10, 2000 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
3.3	Articles of Amendment to the Articles of Incorporation of Transcontinental Realty Investors, Inc., setting forth the Certificate of Designations, Preferences and Rights of Series A Cumulative Convertible Preferred Stock, dated October 20, 1998 (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998).
3.4	Certificate of Designation of Transcontinental Realty Investors, Inc., setting for the Voting Powers, Designations, References, Limitations, Restriction and Relative Rights of Series B Cumulative Convertible Preferred Stock, dated October 23, 2000 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
3.5	Certificate of Designation of Transcontinental Realty Investors, Inc., Setting for the Voting Powers, Designating, Preferences, Limitations, Restrictions and Relative Rights of Series C Cumulative Convertible Preferred Stock, dated September 28, 2001 (incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).
3.6	Articles of Amendment to the Articles of Incorporation of Transcontinental Realty Investors, Inc. Decreasing the Number of Authorized Shares of and Eliminating Series B Preferred Stock dated December 14, 2001 (incorporated by reference to Exhibit 3.7 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001).
3.7	By-Laws of Transcontinental Realty Investors, Inc. (incorporated by reference to Exhibit No. 3.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991).
3.8	Certificate of Designation of Transcontinental Realty Investors, Inc. setting forth the Voting Powers, Designations, Preferences, Limitations, Restrictions and Relative Rights of Series D Cumulative Preferred Stock filed August 14, 2006 with the Secretary of State of Nevada (incorporated by reference to Registrant's Current Report on Form 8-K for event dated November 21, 2006 at Exhibit 3.8 thereof).
10.0	Advisory Agreement dated as of October 1, 2003, between Transcontinental Realty Investors, Inc. and Prime Income Asset Management, LLC (incorporated by reference to Exhibit 10.0 to the registrant's current report on Form 8-K for event occurring October 1, 2003).
31.1*	Certification of President and Chief Operating Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
31.2*	Certification by the Chief Financial Officer and Principal Financial Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
32.1*	Certification pursuant to 18 U.S.C. 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

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SIGNATURE PAGE

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 thereunto duly authorized.

TRANSCONTINENTAL REALTY INVESTORS, INC.

Date: November 13, 2009

By: /s/ Daniel J. Moos
Daniel J. Moos
President and Chief Operating Officer

(Principal Executive Officer)

Date: November 13, 2009

By: /s/ Gene S. Bertcher
Gene S. Bertcher
Executive Vice President and Chief Financial Officer

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TRANSCONTINENTAL REALTY INVESTORS, INC.

EXHIBITS TO QUARTERLY REPORT ON FORM 10-Q

For the Period Ended September 30, 2009

Exhibit Number	Description of Exhibits
31.1*	Certification Chief Operating Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
31.2*	Certification by the Chief Financial Officer and Principal Financial Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
32.1*	Certification pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith