TRANSCONTINENTAL REALTY INVESTORS INC
Form 10-Q
August 14, 2009

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 June 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	94-6565852
(State or Other Jurisdiction of	(I.R.S. Employer
Incorporation or Organization)	Identification No.)

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

(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. xYes ¨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 x (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 xNo.

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	8,113,669
(Class)	(Outstanding at August 5, 2009)

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TRANSCONTINENTAL REALTY INVESTORS, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TRANSCONTINENTAL REALTY INVESTORS, INC.

CONSOLIDATED BALANCE SHEETS

(unaudited)

	June 30, 2009	December 31, 2008
	(dollars in thousands, except share and par value amounts)	
Assets		
Real estate, at cost	$ 1,521,141	$ 1,526,016
Real estate held for sale at cost, net of depreciation ($0 for 2009 and 2008)	-	8,018
Real estate subject to sales contracts at cost, net of depreciation ($13,105 for 2009 and $12,226 for 2008)	54,220	60,807
Less accumulated depreciation	(127,604)	(114,050)
Total real estate	1,447,757	1,480,791
Notes and interest receivable		
Performing (including $14,831 in 2009 and $17,323 in 2008 from affiliates and related parties)	35,087	42,413
Less allowance for estimated losses	(1,012)	(3,293)
Total notes and interest receivable	34,075	39,120
Cash and cash equivalents	740	5,983
Investments in securities	-	2,775
Investments in unconsolidated subsidiaries and investees	23,158	23,365
Other assets (including $5,765 in 2009 and $1,077 in 2008 from affiliates and related parties)	84,966	88,033
Total assets	$ 1,590,696	$ 1,640,067

Liabilities and Shareholders Equity		
Liabilities:		
Notes and interest payable (including $9,386 in 2009 and $9,103 in 2008 to affiliates and related parties)	$ 1,113,014	$ 1,100,852
Notes related to assets held-for-sale	-	4,191
Notes related to subject to sales contracts	62,155	62,972
Accounts payable and other liabilities (including $62,212 in 2009 and $62,367 in 2008 to affiliates and related parties)	136,652	147,356

		1,311,821		1,315,371
Commitments and contingencies:				
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		262,950		263,290
Retained earnings		2,272		44,980
Accumulated other comprehensive income		-		2,575
Total Transcontinental Realty Investors, Inc. shareholders equity		265,304		310,927
Non-controlling interest		13,571		13,769
Total equity		278,875		324,696
Total liabilities and equity	$	1,590,696	$	1,640,067

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

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TRANSCONTINENTAL REALTY INVESTORS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	For the Three Months Ended June 30, 2009	For the Three Months Ended June 30, 2008	For the Six Months Ended June 30, 2009	For the Six Months Ended June 30, 2008
	(dollars in thousands, except share and per share amounts)			
Revenues:				
Rental and other property revenues (including $772 and $369 for three months and $1,611 and $972 for six months for 2009 and 2008 respectively from affiliates and related parties)	$ 38,473	$ 35,713	$ 75,846	$ 68,361
Expenses:				
Property operating expenses (including $1,878 and $1,722 for three months and $3,680 and $3,463 for six months for 2009 and 2008 respectively from affiliates and related parties)	18,763	21,144	42,835	43,083
Depreciation and amortization	7,494	6,027	14,802	11,959
General and administrative (including $815 and $893 for three months and $1,695 and $1,929 for six months for 2009 and 2008 respectively from affiliates and related parties)	1,933	2,278	3,497	4,681
Advisory fee to affiliate	2,944	2,965	5,801	5,962
Total operating expenses	31,134	32,414	66,935	65,685
Operating income	7,339	3,299	8,911	2,676
Other income (expense):				
Interest income (including $278 and $153 for three months and $431 and $448 for six months for 2009 and 2008 respectively from affiliates and related parties)	731	541	1,367	1,303
Other income	(564)	494	3,342	797
Mortgage and loan interest (including $750 and $137 for three months and $1,401 and $422 for six months for 2009 and 2008 respectively from affiliates and related parties)	(18,487)	(17,315)	(35,116)	(35,049)
Earnings (loss) from unconsolidated subsidiaries and investees	(300)	(568)	(300)	4,544
Litigation Settlement	745	-	745	-
Provision on impairment of notes receivable and real estate assets	(28,196)	-	(28,575)	(7,000)
Total other expenses	(46,071)	(16,848)	(58,537)	(35,405)
Loss before gain on land sales, non-controlling interest, and tax	(38,732)	(13,549)	(49,626)	(32,729)
Gain on land sales	6,548	2,580	6,296	3,855

Loss from continuing operations before tax		(32,184)		(10,969)		(43,330)		(28,874)
Income tax benefit (expense)		51		(1,153)		(59)		28,683
Net loss from continuing operations		(32,133)		(12,122)		(43,389)		(191)
Discontinued operations:								
Income (loss) from discontinued operations		146		(5,209)		211		(18,022)
Gain on sale of real estate from discontinued operations		-		1,915		532		99,974
Income tax benefit (expense) from discontinued operations		(51)		1,153		(260)		(28,683)
Net income (loss)		(32,038)		(14,263)		(42,906)		53,078
Less: net income attributable to non-controlling interest		89		-		198		-
Net income (loss) attributable to Transcontinental Realty Investors, Inc.		(31,949)		(14,263)		(42,708)		53,078
Preferred dividend requirement		(252)		(239)		(502)		(479)
Net income (loss) applicable to common shares	$	(32,201)	$	(14,502)	$	(43,210)	$	52,599
Earnings per share - basic								
Loss from continuing operations	$	(3.99)	$	(1.53)	$	(5.41)	$	(0.09)
Discontinued operations		0.01		(0.27)		0.06		6.60
Net income (loss) applicable to common shares	$	(3.98)	$	(1.80)	$	(5.35)	$	6.51
Earnings per share - diluted								
Loss from continuing operations	$	(3.99)	$	(1.53)	$	(5.41)	$	(0.09)
Discontinued operations		0.01		(0.27)		0.06		6.60
Net income (loss) applicable to common shares	$	(3.98)	$	(1.80)	$	(5.35)	$	6.51
Weighted average common share used in computing earnings per share		8,113,669		8,073,659		8,113,669		8,074,571
Weighted average common share used in computing diluted earnings per share		8,113,669		8,073,659		8,113,669		8,074,571
Amounts attributable to Transcontinental Realty Investors, Inc.								
Loss from continuing operations	$	(32,044)	$	(12,122)	$	(43,191)	$	(191)
Income from discontinued operations		95		(2,141)		483		53,269
Net income (loss)	$	(31,949)	$	(14,263)	$	(42,708)	$	53,078

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 Six Months Ended June 30, 2009

(unaudited)

(dollars in thousands)

	Total	Comprehensive loss	Preferred Stock	Common Stock Shares	Common Stock Amount	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)	(106)	-	-	-	-	(106)	-	-	-
Series C preferred stock dividends	(396)	-	-	-	-	(396)	-	-	-
Net loss	(42,906)	(42,906)	-	-	-	-	(42,708)	-	(198)
Acquisition of non-controlling interest	162	-	-	-	-	162	-	-	-
Comprehensive loss		$ (45,481)							
Balance, June 30, 2009	$ 278,875		$ 1	8,113,669	$ 81	$ 262,950	$ 2,272	$ -	$ 13,571

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

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TRANSCONTINENTAL REALTY INVESTORS, INC.

STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)

For the Six Months Ended June 30, 2009

(unaudited)

	2009	2008
Net income (loss)	$ (42,906)	$ 53,078
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)	(45,481)	55,811
Comprehensive loss attributable to non-controlling interest	198	-
Comprehensive income (loss) attributable to Transcontinental Realty Investors, Inc.	$ (45,283)	$ 55,811

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

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TRANSCONTINENTAL REALTY INVESTORS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	For the Six Months Ended June 30, 2009	2008
	(dollars in thousands)	
Cash Flow From Operating Activities:		
Net (loss) income applicable to common shares	$ (43,210)	$ 52,599
Adjustments to reconcile net loss applicable to common shares to net cash used in operating activities:		
Gain on sale of land	(6,296)	(3,855)
Depreciation and amortization	14,780	12,074
Provision on impairment of notes receivable and real estate assets	28,575	7,000
Amortization of deferred borrowing costs	1,897	3,161
Earnings from unconsolidated subsidiaries and investees	147	(4,544)
Gain on sale of income producing properties	(532)	(99,974)
(Increase) decrease in assets:		
Accrued interest receivable	(27)	(591)
Other assets	(4,714)	1,319
Prepaid expense	513	105
Escrow	12,186	(12,022)
Earnest money	(2,614)	(3,967)
Rent receivables	(4,624)	(1,919)
Increase (decrease) in liabilities:		
Accrued interest payable	48	(1,662)
Intercompany change	1,027	58,619
Other liabilities	(11,731)	(9,057)
Net cash used in operating activities	(14,575)	(2,714)
Cash Flow From Investing Activities:		
Proceeds from notes receivables ($3,077 in 2009, $0 in 2008 from affiliates)	5,072	1,671
Acquisition of land held for development	(650)	(15,214)
Proceeds from sales of income producing properties	4,000	139,674
Proceeds from sale of land	12,431	11,592
Investment in unconsolidated real estate entities	207	(810)
Improvement of land held for development	(2,578)	(466)
Improvement of income producing properties	(975)	(4,021)
Acquisition of minority interest	(198)	71
Investment in marketable equity securities	2,775	11,752
Acquisition of income producing properties	-	(63,227)
Construction and development of new properties	(19,646)	(65,413)
Net cash provided by investing activities	438	15,609
Cash Flow From Financing Activities:		
Proceeds from notes payable	24,526	129,085
Recurring amortization of principal on notes payable	(8,603)	(8,995)
Payments on maturing notes payable	(9,331)	(146,557)
Deferred financing costs	2,302	2,775
Repurchase of common stock	-	(96)

Net cash provided by (used in) financing activities		8,894		(23,788)
Net decrease in cash and cash equivalents		(5,243)		(10,893)
Cash and cash equivalents, beginning of period		5,983		11,239
Cash and cash equivalents, end of period	$	740	$	346
Supplemental disclosures of cash flow information:				
Cash paid for interest	$	34,970	$	38,721
Cash paid for income taxes, net of refunds	$	1,110	$	-
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	$	-

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

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 direc 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 TCI . Subsidiaries of American Realty Investors, Inc. own approximately 83% 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.

Properties

The Company owned or had interests in a total property portfolio of 85 income producing properties as of June 30, 2009. The properties consisted of:

- 29 commercial buildings totaling 5.1 million leasable square feet, which consists of 18 office buildings, eight commercial warehouses, and three retail centers;
- 56 apartment communities totaling 11,282 units; inclusive of one development property in the lease up phase, excluding apartments being developed; and
- 7,273 acres of developed and undeveloped land.

The Company is involved in the construction of two apartment development projects as of June 30, 2009. In addition, 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 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

On January 1, 2009, we adopted SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51, (SFAS No. 160). SFAS No. 160 amends Accounting Research Bulletin No. 51, Consolidated Financial Statements, 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. SFAS No.160 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 of SFAS No. 160 were applied retrospectively. Other than the change in presentation of non-controlling interests, the adoption of SFAS No. 160 had no impact on the Financial Statements.

In April 2009, the FASB issued FSP FAS No. 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies (FSP FAS No. 141(R)-1). This pronouncement amends SFAS No. 141-R to clarify the initial and subsequent recognition, subsequent accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. FSP SFAS No. 141(R)-1 requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value, as determined in accordance with SFAS No. 157, if the acquisition-date fair value can be reasonably estimated. If the acquisition-date fair value of an asset or liability cannot be reasonably estimated, the asset or liability would be measured at the amount that would be recognized in accordance with FASB Statement No. 5, Accounting for Contingencies (SFAS No. 5), and FASB Interpretation No. 14, Reasonable Estimation of the Amount of a Loss. FSP SFAS No. 141(R)-1 became effective for the Company as of January 1, 2009. As the provisions of FSP FAS No. 141(R)-1 are applied prospectively to business combinations with an acquisition date on or after the guidance became effective, the impact on our financials cannot be determined until the transactions occur.

In April 2009, the FASB issued FSP FAS No. 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS No. 157-4), which provides additional guidance for applying the provisions of SFAS No. 157. SFAS No. 157 defines 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. This FSP 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, 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. FSP FAS No. 157-4 must be applied prospectively for interim periods ending after June 15, 2009. We are currently assessing the impact that FSP FAS No. 157-4 may have on our financial statements.

In April 2009, the FASB issued FSP FAS No. 107-1 and Accounting Principles Board (APB) No. 28-1, Interim Disclosures about Fair Value of Financial Instruments, which amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments, (SFAS No. 107) and APB Opinion No. 28, Interim Financial Reporting, respectively, to require disclosures about fair value of financial instruments in interim financial statements, in addition to the annual financial statements as already required by SFAS No. 107. FSP FAS No. 107-1 and APB No. 28-1 will be required for interim periods ending after June 15, 2009. As FSP FAS No. 107-1 and APB No. 28-1 provides only disclosure requirements; 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 (FSP FAS No. 115-2 and FAS No. 124-2), which amends SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities and SFAS No. 124, Accounting for Certain Investments Held by Not-for-Profit Organizations . This standard establishes a different other-than-temporary impairment indicator for debt securities 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. FSP FAS No. 115-2 and FAS No. 124-2 must be applied prospectively for interim periods ending after June 15, 2009. We are currently assessing the impact that FSP FAS No. 115-2 and FAS No. 124-2 may have on our financial statements.

NOTE 2. REAL ESTATE ACTIVITY

The highlights of our significant real estate transactions for the six months ended June 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.

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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.

We continued to invest in the development of apartment projects. For the six months ended June 30, 2009, we have expended $16.4 million on the construction of various apartment projects and capitalized $3.2 million of interest costs.

NOTE 3. NOTES AND INTEREST RECEIVABLE

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

Borrower		Maturity Date	Interest Rate	Amount	Security
Performing loans:					
	3334Z APTS, LP	04/12	6.50%	$ 1,875	100% Interest in 3334Z Apartments
	Basic Capital Management [1]	10/11	Prime + 2%	1,252	Industrial building, Arlington, TX
	Basic Capital Management [1]	10/11	Prime + 2%	1,523	Retail building, Cary, NC
	CTMGT Travis Ranch, LLC	08/14	6.00%	5,488	Unsecured
	Dallas Fund XVII LP	10/09	9.00%	6,000	Assignment of partnership interests
	Garden Centura LP [1]	N/A	7.00%	3,518	Excess cash flow from partnership
	Miscellaneous related party notes [1]	Various	Various	1,455	Various secured interest
	Miscellaneous non-related party notes	Various	Various	405	Various secured interest
	Pioneer Austin Development	10/08 [2]	18.00%	2,407	33 acres undeveloped land, Austin, TX
	Syntek Acquisition Corp [1]	08/10	Prime + 1%	3,354	Unsecured
	Ocean Beach Partners [1]	12/09	7.00%	3,279	Folsom Land (36 acres in Farmers Branch, TX)
	Thornwood Wrap Note, ICC Surfwood	07/09	Prime + 1.5%	1,638	Unsecured
	Accrued interest			2,893	
	Allowance for estimated losses			(1,012)	
Total				$ 34,075	

[1] Related Party

[2] Renegotiating note

NOTE 4. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES AND INVESTEES

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. American Realty Investors, Inc. (ARL) is our parent company. Income Opportunity Investors, Inc. (IOT) is a related entity. Both ARL and IOT are considered unconsolidated subsidiaries.

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

		Percentage ownership at June 30, 2009	at June 30, 2008
American Realty Investors, Inc.	[1]	3%	7%
Income Opportunity Investors, Inc.	[1]	25%	25%
Garden Centura, LP.	[2]	5%	5%

(1) Unconsolidated subsidiary

(2) Other investees

Our interest in the Common Stock of ARL and our partnership interest in Garden Centura, LP in the amount of 3% 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 June 30, 2009 and 2008 were not 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 six months ended June 30, 2009 and 2008 (dollars in thousands):

For the six months ended June 30, 2009	**Unconsolidated Subsidiaries**	**Other Investees**	**Total**
Real estate, net of accumulated depreciation	$ 269,534	$ 78,385	$ 347,919
Notes receivable	79,264	-	79,264
Other assets	222,185	6,212	228,397
Notes payable	(270,094)	(49,685)	(319,779)
Other liabilities	(116,531)	(2,015)	(118,546)
Shareholders equity/partners capital	$ (184,358)	$ (32,897)	$ (217,255)
Rents and interest and other income	$ 21,445	$ 4,994	$ 26,439
Depreciation	(1,322)	(1,557)	(2,879)
Operating expenses	(15,816)	(1,961)	(17,777)
Gain on land sales	1,912	-	1,912
Interest expense	(10,156)	(1,666)	(11,822)
Income from continuing operations	(3,937)	(190)	(4,127)
Income from discontinued operations	3,817	-	3,817
Net income (loss)	$ (120)	$ (190)	$ (310)
Company s proportionate share of earnings	$ (172)	$ (10)	$ (182)