

TRANSCONTINENTAL REALTY INVESTORS INC  
Form 10-Q  
August 16, 2010  
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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 June 30, 2010

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)

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Nevada  
(State or Other Jurisdiction of  
Incorporation or Organization)

94-6565852  
(I.R.S. Employer  
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. 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<br>(Class) | 8,113,469<br>(Outstanding at August 1, 2010) |
|--|--|

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

|  | <b>June 30, 2010</b>  | <b>December 31, 2009</b> |
|--|---|--------------------------|
|  | <b>(dollars in thousands, except share and par value amounts)</b> |                          |
| <b>Assets</b>  |   |                          |
| Real estate, at cost   | \$ 1,470,661  | \$ 1,520,043             |
| Real estate held for sale at cost, net of depreciation (\$1,252 and \$1,252 for 2010 and 2009)                         | 5,147   | 5,147                    |
| Real estate subject to sales contracts at cost, net of depreciation (\$19,236 for 2010 and \$13,985 for 2009)          | 72,609  | 59,048                   |
| Less accumulated depreciation  | (145,214)   | (137,054)                |
| Total real estate  | 1,403,203   | 1,447,184                |
| Notes and interest receivable  |   |                          |
| Performing (including \$38,581 in 2010 and \$39,703 in 2009 from affiliates and related parties)                       | 47,030  | 48,051                   |
| Less allowance for estimated losses  | (2,804)   | (2,804)                  |
| Total notes and interest receivable  | 44,226  | 45,247                   |
| Cash and cash equivalents  | 4,363   | 5,665                    |
| Investments in unconsolidated subsidiaries and investees   | 8,938   | 9,358                    |
| Other assets   | 88,381  | 100,833                  |
| Total assets   | \$ 1,549,111  | \$ 1,608,287             |
| <b>Liabilities and Shareholders Equity</b>   |   |                          |
| Liabilities:   |   |                          |
| Notes and interest payable   | \$ 1,090,165  | \$ 1,121,737             |
| Notes related to assets held-for-sale  | 4,969   | 5,002                    |
| Notes related to subject to sales contracts  | 71,286  | 61,886                   |
| Affiliate payables   | 49,270  | 50,163                   |
| Deferred revenue (from sales to related parties)   | 64,277  | 60,678                   |
| Accounts payable and other liabilities (including \$955 in 2010 and \$163 in 2009 from affiliates and related parties) | 54,860  | 63,405                   |
|  | 1,334,827   | 1,362,871                |
| Commitments and contingencies:   |   |                          |
| Shareholders equity:   |   |                          |

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|   |              |              |
|---|--------------|--------------|
| Preferred stock, Series C: \$.01 par value, authorized 10,000,000 shares, issued and outstanding 30,000 shares in 2010 and 2009 respectively (liquidation preference \$100 per share). Series D: \$.01 par value, authorized, issued and outstanding 100,000 shares in 2010 and 2009 respectively | 1            | 1            |
| Common stock, \$.01 par value, authorized 10,000,000 shares; issued and outstanding 8,113,669 for 2010 and 2009   | 81           | 81           |
| Paid-in capital   | 261,588      | 262,118      |
| Retained earnings   | (65,385)     | (34,718)     |
| Total Transcontinental Realty Investors, Inc. shareholders' equity  | 196,285      | 227,482      |
| Non-controlling interest  | 17,999       | 17,934       |
| Total equity  | 214,284      | 245,416      |
| Total liabilities and equity  | \$ 1,549,111 | \$ 1,608,287 |

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

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

|   | <b>For the Three Months</b>                                       |                 | <b>For the Six Months</b> |                 |
|---|---|-----------------|---------------------------|-----------------|
|   | <b>Ended June 30,</b>   |                 | <b>Ended June 30,</b>     |                 |
|   | <b>2010</b>   | <b>2009</b>     | <b>2010</b>               | <b>2009</b>     |
|   | <b>(dollars in thousands, except share and per share amounts)</b> |                 |                           |                 |
| <b>Revenues:</b>  |   |                 |                           |                 |
| Rental and other property revenues (including \$908 and \$845 for the three months and \$1,766 and \$1,684 for the six months ended 2010 and 2009 respectively from affiliates and related parties) | \$ 34,951   | \$ 36,769       | \$ 71,680                 | \$ 72,565       |
| <b>Expenses:</b>  |   |                 |                           |                 |
| Property operating expenses (including \$429 and \$481 for the three months and \$884 and \$963 for the six months ended 2010 and 2009 respectively from affiliates and related parties)            | 20,994  | 18,367          | 41,089                    | 40,799          |
| Depreciation and amortization   | 7,421   | 7,249           | 14,348                    | 14,311          |
| General and administrative (including \$786 and \$879 for the three months and \$1,677 and \$1,824 for the six months ended 2010 and 2009 respectively from affiliates and related parties)         | 1,816   | 1,918           | 3,652                     | 3,579           |
| Provision on impairment of notes receivable and real estate assets  |   | 28,196          |                           | 28,575          |
| Advisory fee to affiliate   | 2,962   | 2,943           | 6,058                     | 5,801           |
| <b>Total operating expenses</b>   | <b>33,193</b>   | <b>58,673</b>   | <b>65,147</b>             | <b>93,065</b>   |
| Operating income (loss)   | 1,758   | (21,904)        | 6,533                     | (20,500)        |
| <b>Other income (expense):</b>  |   |                 |                           |                 |
| Interest income (including \$605 and \$214 for the three months and \$1,295 and \$424 for the six months ended 2010 and 2009 respectively from affiliates and related parties)                      | 832   | 731             | 1,691                     | 1,367           |
| Other income  | 249   | 180             | 914                       | 3,285           |
| Mortgage and loan interest (including \$883 and \$750 for the three months and \$1,721 and \$835 for the six months ended 2010 and 2009 respectively from affiliates and related parties)           | (17,771)  | (17,847)        | (34,434)                  | (33,854)        |
| Earnings from unconsolidated subsidiaries and investees   | (193)   | (300)           | (253)                     | (300)           |
| Litigation settlement   |   | (14)            |                           | 744             |
| <b>Total other expenses</b>   | <b>(16,883)</b>   | <b>(17,250)</b> | <b>(32,082)</b>           | <b>(28,758)</b> |
| Loss before gain on land sales, non-controlling interest, and tax   | (15,125)  | (39,154)        | (25,549)                  | (49,258)        |
| Gain (loss) on land sales   | (5,640)   | 6,548           | (5,634)                   | 6,296           |
| Loss from continuing operations before tax  | (20,765)  | (32,606)        | (31,183)                  | (42,962)        |
| Income tax benefit (expense)  | 92  | 199             | 268                       | (94)            |

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|  |             |             |             |             |
|--|-------------|-------------|-------------|-------------|
| Net loss from continuing operations  | (20,673)    | (32,407)    | (30,915)    | (43,056)    |
| <b>Discontinued operations:</b>  |             |             |             |             |
| Income (loss) from discontinued operations                                 | 402         | 569         | 767         | (301)       |
| Gain (loss) on sale of real estate from discontinued operations            | (139)       |             | (139)       | 532         |
| Income tax expense from discontinued operations                            | (92)        | (199)       | (220)       | (81)        |
| Net income from discontinued operations                                    | 171         | 370         | 408         | 150         |
| Net loss   | (20,502)    | (32,037)    | (30,507)    | (42,906)    |
| Net (income) loss attributable to non-controlling interest                 | 113         | 88          | (160)       | 198         |
| Net loss attributable to Transcontinental Realty Investors, Inc.           | (20,389)    | (31,949)    | (30,667)    | (42,708)    |
| Preferred dividend requirement   | (264)       | (252)       | (527)       | (502)       |
| Net loss applicable to common shares                                       | \$ (20,653) | \$ (32,201) | \$ (31,194) | \$ (43,210) |
| <b>Earnings per share - basic</b>  |             |             |             |             |
| Loss from continuing operations  | \$ (2.57)   | \$ (4.01)   | \$ (3.89)   | \$ (5.34)   |
| Discontinued operations  | 0.02        | 0.05        | 0.05        | 0.02        |
| Net loss applicable to common shares                                       | \$ (2.55)   | \$ (3.96)   | \$ (3.84)   | \$ (5.32)   |
| <b>Earnings per share - diluted</b>  |             |             |             |             |
| Loss from continuing operations  | \$ (2.57)   | \$ (4.01)   | \$ (3.89)   | \$ (5.34)   |
| Discontinued operations  | 0.02        | 0.05        | 0.05        | 0.02        |
| Net loss applicable to common shares                                       | \$ (2.55)   | \$ (3.96)   | \$ (3.84)   | \$ (5.32)   |
| Weighted average common share used in computing earnings per share         | 8,113,669   | 8,113,669   | 8,113,669   | 8,113,669   |
| Weighted average common share used in computing diluted earnings per share | 8,113,669   | 8,113,669   | 8,113,669   | 8,113,669   |
| <b>Amounts attributable to Transcontinental Realty Investors, Inc.</b>     |             |             |             |             |
| Loss from continuing operations  | \$ (20,560) | \$ (32,319) | \$ (31,075) | \$ (42,858) |
| Income from discontinued operations  | 171         | 370         | 408         | 150         |
| Net loss   | \$ (20,389) | \$ (31,949) | \$ (30,667) | \$ (42,708) |

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, 2010**

**(unaudited)**

**(dollars in thousands)**

| <b>Total</b> | <b>Comprehensive<br/>Loss</b> | <b>Preferred<br/>Stock</b> | <b>Common Stock<br/>Shar</b> | <b>Treasury</b> | <b>Paid-in</b> | <b>Retained</b> | <b>Accumulated<br/>Other<br/>Comprehensive</b> | <b>Non-Controlling</b> |
|--------------|-------------------------------|----------------------------|------------------------------|-----------------|----------------|-----------------|--|------------------------|
|--------------|-------------------------------|----------------------------|------------------------------|-----------------|----------------|-----------------|--|------------------------|