

TRANSCONTINENTAL REALTY INVESTORS INC  
Form 10-Q  
August 14, 2008  
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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, 2008

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)

**95-6565852**  
(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)

(Former name, former address and former fiscal year, if changed since last report)

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

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 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

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE**

**PRECEDING FIVE YEARS:**

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

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)

**8,072,767**  
(Outstanding at July 31, 2008)

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**TRANSCONTINENTAL REALTY INVESTORS, INC.**

**FORM 10-Q**

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

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
	<b>(dollars in thousands)</b>	
<b>Assets</b>		
Real Estate held for investment	\$ 1,409,489	\$ 1,327,913
Less accumulated depreciation	(100,297)	(97,368)
	1,309,192	1,230,545
Real estate held for sale	36,924	69,561
Real estate subject to sales contracts	63,468	64,320
Notes and interest receivable performing (including \$11,417 in 2008 and \$4,339 in 2007 from affiliates and related parties)	35,097	34,677
Allowance for losses	(1,978)	(1,978)
	33,119	32,699
Cash and cash equivalents	346	11,239
Marketable equity securities, at market value	1,405	13,157
Investment in equity investees	35,379	27,569
Other assets (including \$1,779 in 2008 and \$151 in 2007 from affiliates and related parties)	89,927	72,099
	\$ 1,569,760	\$ 1,521,189
<b>Liabilities and Shareholders Equity</b>		
Liabilities:		
Notes and interest payable (including \$8,892 in 2008 and \$8,270 in 2007 from affiliates and related parties)	\$ 1,010,951	\$ 1,007,226
Liabilities related to assets held for sale	34,995	107,847
Liabilities related to assets subject to sales contract	63,264	62,513
Other liabilities (including \$64,376 in 2008 and \$2,807 in 2007 from affiliates and related parties)	110,331	56,501
	1,219,541	1,234,087
Commitments and contingencies		
Minority Interest	1,692	1,621
Shareholders Equity:		
Common stock, \$.01 par value; 10,000,000 shares authorized; 8,113,669 and 8,113,669 issued and 8,072,767 and 8,078,966 outstanding shares at 2008 and 2007 respectively.	81	81
Preferred stock, series C: \$.01 par value; authorized 10,000,000 shares; issued and outstanding 30,000 shares at 2008 and 2007 (liquidation preference \$100 per share).	1	1
Paid in capital	282,064	274,733
Treasury stock	(673)	(577)
Retained Earnings	65,849	12,771

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Other comprehensive income (loss)	1,205	(1,528)
	348,527	285,481
	\$ 1,569,760	\$ 1,521,189

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 June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
	(dollars in thousands)		(dollars in thousands)	
<b>Revenue:</b>				
Rental and other property revenues (including \$369 and \$(34) for the three months ended, \$972 and \$702 for the six months ended 2008 and 2007 respectively from affiliates and related parties)	\$ 34,692	\$ 30,347	\$ 66,344	\$ 60,579
<b>Expenses:</b>				
Property operating expenses (including \$1,722 and \$1,797 for the three months ended, \$3,463 and \$3,472 for the six months ended 2008 and 2007 respectively from affiliates and related parties)	19,938	17,053	40,965	33,881
Depreciation and amortization	5,910	5,937	11,725	10,089
General and administrative (including \$893 and \$245 for the three months ended, \$1,929 and \$1,588 for the six months ended 2008 and 2007 respectively from affiliates and related parties)	2,272	2,497	4,667	5,205
Advisory fee to affiliate	2,966	2,696	5,962	5,096
Total operating expenses	31,086	28,183	63,319	54,271
Operating income	3,606	2,164	3,025	6,308
<b>Other income (expense):</b>				
Interest income (including \$(63) and \$150 for the three months ended, \$232 and \$688 for the six months ended 2008 and 2007 respectively from affiliates and related parties)	541	662	1,303	1,392
Other income	494	495	796	819
Mortgage and loan interest expense (including \$137 and \$184 for the three months ended, \$422 and \$363 for the six months ended 2008 and 2007 respectively from affiliates and related parties)	(16,831)	(15,693)	(34,035)	(30,171)
Provision for allowance on notes receivable and impairment			(7,000)	
Total other income (expense)	(15,796)	(14,536)	(38,936)	(27,960)
Loss before gain on land sales, minority interest and equity in earnings (loss) of investee	(12,190)	(12,372)	(35,911)	(21,652)
Gain on land sales	2,580		3,855	1,122
Net income fee to affiliate				704
Minority interest		(26)		4
Equity in income (loss) of investees	(568)	700	4,544	700
Loss from continuing operations before income tax expense	(10,178)	(11,698)	(27,512)	(19,122)
Income tax (benefit) expense	(1,429)	(417)	28,207	(15)
Net Income (loss) from continuing operations	(11,607)	(12,115)	695	(19,137)
Income (loss) from discontinued operations before income taxes	(4,085)	(1,191)	80,590	(42)
Income tax (benefit) expense	1,429	417	(28,207)	15
Net income (loss) from discontinuing operations	(2,656)	(774)	52,383	(27)

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Net income (loss)	(14,263)	(12,889)	53,078	(19,164)
Preferred dividend requirement	(239)	(227)	(479)	(455)
Net income (loss) applicable to common shares	\$ (14,502)	\$ (13,116)	\$ 52,599	\$ (19,619)

**Earnings Per Share**

**Basic earnings per share**

Net income (loss) from continued operations	(1.47)	(1.57)	0.02	(2.49)
Discontinued operations	(0.33)	(0.09)	6.49	
Net income (loss) applicable to common shares	\$ (1.80)	\$ (1.66)	\$ 6.51	\$ (2.49)

**Diluted earnings per share**

Net income (loss) from continued operations	\$ (1.47)	\$ (1.57)	\$ 0.02	\$ (2.49)
Discontinued operations	(0.33)	(0.09)	6.49	
Net income (loss) applicable to common shares	\$ (1.80)	\$ (1.66)	\$ 6.51	\$ (2.49)

**Weighted average common shares used in computing earnings per share:**

Basic	8,073,659	7,877,365	8,074,571	7,888,008
Diluted	8,073,659	7,877,365	8,074,571	7,888,008

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



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**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

**For the Six Months Ended June 30, 2008**

(dollars in thousands)

(unaudited)

	SHARES OF COMMON STOCK SHARES	AMOUNT	SHARES OF PREFERRED STOCK SHARES	AMOUNT	PAID-IN CAPITAL	SHARES OF TREASURY STOCK SHARES	AMOUNT	ACCUMULATED (DEFICIT) RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL CAPITAL
<b>Balance, December 31, 2007</b>	8,113,669	\$ 81	130,000	\$ 1	\$ 274,733	34,703	\$ (577)	\$ 12,771	\$ (1,528)	\$ 285,481
Unrealized gain on foreign currency translation									9,685	9,685
Unrealized loss on marketable securities									(6,952)	(6,952)
Net income								53,078		53,078
Series C preferred stock dividends					(106)					(106)
Series D preferred stock dividends (7% per year)					(373)					(373)
Acquisition of minority interest					7,810					7,810
Repurchase of common stock						6,199	(96)			(96)
<b>Balance, June 30, 2008</b>	8,113,669	\$ 81	130,000	\$ 1	\$ 282,064	40,902	\$ (673)	\$ 65,849	\$ 1,205	\$ 348,527

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

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

	<b>For the Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(dollars in thousands)</b>	
<b>Cash Flows from Operating Activities:</b>		
Reconciliation of net income (loss) to net cash used by operating activities		
Net income (loss) applicable to common shares	\$ 52,599	\$ (19,619)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	12,074	12,244
Amortization of deferred borrowing costs	3,161	2,762
Gain on sale of land	(3,855)	(1,122)
Gain on sale of income producing properties	(99,974)	(3,648)
Equity in earnings of investees	(4,544)	(700)
(Gain) loss on foreign currency transaction		4
Allowance for impairment reserve	7,000	
(Gain) loss allocated to minority interest		(4)
(Increase) decrease in assets:		
Prepaid expense	105	(2,575)
Interest receivable	(591)	
Escrows	(12,022)	1,472
Rent receivables	(1,919)	(1,577)
Other assets	1,319	(14,916)
Earnest money	(3,967)	5,310
Increase (decrease) in liabilities:		
Accrued interest payable	(1,662)	
Intercompany payable	62,738	
Other liabilities	(9,057)	15,633
Net cash provided by (used in) operating activities	1,405	(6,736)
<b>Cash Flows from Investing Activities:</b>		
Collections on notes receivable	1,671	13,378
Funding of notes receivable		
Proceeds from sale of land	11,592	4,531
Acquisition of land held for development	(15,214)	(14,506)
Acquisition of income producing properties	(63,227)	(112,193)
Construction and development of new properties	(65,413)	(91,682)
Proceeds from sale of real estate	139,674	24,061
Improvement of land held for development	(466)	(2,869)
Improvement of income producing properties	(4,021)	(8,094)
Investment in marketable securities	11,752	(697)
Acquisition of minority interest	71	(1,301)
Investment in unconsolidated real estate entities	(810)	(3,659)
Net cash provided by (used in) investing activities	15,609	(193,031)
<b>Cash Flows from Financing Activities:</b>		
Payments on notes payable	(8,995)	(6,332)
Change in due from affiliates	(4,119)	28,186

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Proceeds from notes payable	129,085	251,630
Repurchase of common stock	(96)	(393)
Payment on note from sold income producing properties	(146,557)	(62,997)
Deferred borrowing costs	2,775	(10,039)
Net cash provided by (used in) financing activities	(27,907)	200,055
Net increase (decrease) in cash and cash equivalents	(10,893)	288
Cash and cash equivalents, beginning of year	11,239	4,803
Cash and cash equivalents, end of year	\$ 346	\$ 5,091

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

**Table of Contents****TRANSCONTINENTAL REALTY INVESTORS, INC.****SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION****(unaudited)**

	<b>For the Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(dollars in thousands)</b>	
Cash paid for interest	\$ 38,721	\$ 35,473
<b>Schedule of noncash investing and financing activities:</b>		
Unrealized foreign currency translation gain (loss)	\$ 9,685	\$ (1,101)
Unrealized gain (loss) on marketable securities	\$ (6,952)	\$ 791
Notes receivable allowance	\$ (1,500)	\$
Notes receivable received from affiliate	\$	\$ 22,111

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 TCI . American Realty Investors, Inc. owns approximately 83.2% 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.

***Properties***

The Company owned or had interests in a total property portfolio of 75 and 89 properties as of June 30, 2008 and December 31, 2007, respectively. The commercial properties aggregate approximately 5.4 million and 4.8 million net rentable square feet as of June 30, 2008 and December 31, 2007, respectively.

At June 30, 2008 the properties consisted of:

27 commercial buildings, which consists of 17 office buildings, six commercial warehouses, and four retail centers;

48 apartment communities; and

6,325 acres of developed and undeveloped land.

The Company is involved in the construction of 13 apartment development projects as of June 30, 2008. 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, 2007.

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### *Newly issued accounting standards.*

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. ( SFAS No. 157 ). SFAS No. 157 defines fair value and establishes a framework for measuring fair value, which includes a hierarchy based on the quality of inputs used to measure fair value. SFAS No. 157 also expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 requires the categorization of financial assets and liabilities, based on the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to the quoted prices in active markets for identical assets and liabilities and lowest priority to unobservable inputs. SFAS No. 157 requires the use of observable market data, when available, in making fair value measurements. When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement. The levels of the SFAS No. 157 fair value hierarchy are described as follows:

Level 1 Financial assets and liabilities whose values are based on unadjusted quoted market prices for identical assets and liabilities in an active market that the Company has the ability to access.

Level 2 Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable for substantially the full term of the asset or liability.

Level 3 Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

SFAS No. 157 became effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB deferred the effective date of SFAS No. 157 for one year for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The FASB also removed certain leasing transactions from the scope of SFAS No. 157. On January 1, 2008, the Company adopted SFAS No. 157. The Company currently does not have any non-financial assets or non-financial liabilities that are required to be measured under SFAS No. 157.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115*. ( SFAS No. 159 ). SFAS No. 159 permits entities to choose, at specified election dates, to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses shall be reported on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 became effective for fiscal years beginning after November 15, 2007. On January 1, 2008, the Company adopted SFAS No. 159 and has currently not elected to measure any financial instruments or other items (not currently required to be measured at fair value) at fair value.

In December 2007, the FASB issued SFAS No. 141 (revised in 2007) ( SFAS 141R ), *Business Combinations*. SFAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combinations. SFAS 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008. Accordingly, any business combinations the Company engages in will be recorded and disclosed following existing accounting principles until January 1, 2009. The Company expects SFAS 141R will affect the Company's consolidated financial statements when effective, but the nature and magnitude of the specific effects will depend upon the nature, term and size of the acquisitions, if any, the Company consummates after the effective date.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. effective for financial statements issued for fiscal years beginning after December 15, 2008. SFAS No. 160 states that accounting and reporting for minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS No. 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, and will impact the recording of minority interest. The Company is currently evaluating the effects the adoption of SFAS No. 160 will have on its financial position and results of operations.

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For the six month period ended June 30, 2008, we sold 22 income producing properties for an aggregate sales price of \$151.4 million. We received \$55.2 million in cash after paying off \$86.0 million in existing debt and we recorded a gain on sale of \$99.8 million. We purchased six buildings at an aggregate cost of \$62.4 million. The buildings were financed with \$17.4 million cash and \$42.6 million in new debt, plus accrued closing costs. We sold 80.1 acres of land located in Texas for an aggregate sales price of \$11.6 million. We received \$2.3 million in cash and provided \$2.2 million in seller financing after paying off existing mortgages of \$4.7 million. We recorded a \$3.9 million gain on sales. We purchased 259.5 acres of land located in Texas for an aggregate purchase price of \$16.0 million. The land was financed with \$7.1 million in cash and \$8.9 million in new debt.

	Cost Beginning of Year	Acquisition	Capital Improvements	Development Costs	Completed Developments	Property Sales	Impairment Charges	Reclassifications and Other Adjustments *	Cost 6/30/2008	Accumulated Depreciation 6/30/2008
Apartments	\$ 394,848	\$ 21,647	\$	\$	\$	\$	\$	\$ 79,326	\$ 495,821	\$ 36,304
Apartments under construction	153,144			49,206				(57,437)	144,913	
Other developments in progress	99,513			16,207				51,828	167,548	
Commercial properties	302,386	41,580	4,021					54,273	402,260	63,797
Hotels	35,358							(35,358)		
Land held for development	245,296	15,214	466			(11,592)		(50,437)	198,947	196
Real estate held for investment	\$ 1,230,545	\$ 78,441	\$ 4,487	\$ 65,413	\$	\$ (11,592)	\$	\$ 42,195	\$ 1,409,489	\$ 100,297
Real estate held for sale	\$ 69,561	\$	\$	\$	\$	\$ (139,674)	\$	\$ 112,853	\$ 42,740	\$ 5,816
Real estate subject to sales contract	\$ 64,320	\$	\$	\$	\$	\$	\$	\$ 8,714	\$ 73,034	\$ 9,566

\*Change is due to reclassification of grouping for discontinued operations or construction.

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A summary of selected transactions is discussed below:

On January 15, 2008, we purchased 4.0 acres of land in Dallas, Texas known as Woodmont TCI XIV for \$6.4 million. We financed the transaction with \$1.9 million cash, a new mortgage of \$4.1 million with a commercial lender and accrued \$400,000 in commissions payable. The mortgage is secured by the property, accrues interest at Prime plus 0.75%.

On January 25, we sold 14 apartment complexes in a single transaction for an aggregate sales price of \$89.9 million and recorded a gain on sale of \$65.5 million. We received cash of \$25.8 million after paying off existing mortgages of \$56.6 million, and \$7.5 million in commissions and other closing costs. The properties consisted of:

4400 Apartments, a 92 unit complex in Midland, Texas

Arbor Pointe, a 194 unit complex in Odessa, Texas

Ashton Way, a 178 unit complex in Midland, Texas

Autumn Chase, a 94 unit complex in Midland, Texas

Courtyard Apartments, a 133 unit complex in Midland, Texas

Coventry Point, a 120 unit complex in Midland, Texas

Fairway, a 152 unit complex in Longview, Texas

Fountains at Waterford, a 172 unit complex in Midland, Texas

Hunters Glen, a 260 unit complex in Midland, Texas

Southgate, a 180 unit complex in Odessa, Texas

Sunchase, a 300 unit complex in Odessa, Texas

Thornwood, a 109 unit complex in Midland, Texas

Westwood, a 79 unit complex in Odessa, Texas



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Woodview, a 232 unit complex in Odessa, Texas

On January 31, 2008, we sold the Lexington office building, a 75,000 square foot commercial building located in Colorado Springs, Colorado for \$5.4 million. We received cash of \$1.6 million after paying off the existing mortgage of \$3.5 million and \$300,000 in closing costs. We recorded a \$700,000 gain on sale.

On February 6, 2008, we sold the Fairway View Apartments, a 264 unit complex located in El Paso, Texas for \$10.3 million recording a gain on sale of \$6.0 million. We received \$4.8 million in cash after paying off the existing mortgage of \$5.3 million and closing costs.

On February 14, 2008, we sold 3 hotels located in Chicago, Illinois in a single transaction for \$30.0 million recording a gain on sale of \$18.4 million. We received cash of \$9.8 million after paying off existing mortgages of \$18.5 million and closing costs. The properties consisted of:

City Suites Hotel, a 45 room hotel;

Majestic Hotel, a 55 room hotel; and

Willows Hotel, a 52 room hotel.

On March 28, 2008 we sold all of our shares in S.P. Zoo (a Polish Corporation) for \$11.8 million. The sale of the shares represented our 66.67% interest in the Radisson-SAS Hotel Akademia, a 161 room hotel located in Wroclaw, Poland. We received cash of \$11.8 million upon sale of our shares and recorded a gain on sale of \$7.7 million.

On April 2, 2008, we acquired the Bridgewood Ranch apartments, a 106 unit complex located in Kaufman, Texas for \$7.6 million. We financed the purchase with a new mortgage secured by the property of \$5.1 million, cash of \$1.3 million, and \$1.2 million in liabilities. The mortgage accrues interest at the higher rate of 6.75% or Prime plus 0.25% and matures in January 2009.

On April 16, 2008, we acquired the Quail Hollow apartments, a 200 unit complex located in Holland, Ohio for \$14.1 million. We financed the purchase with a new mortgage secured by the property of \$11.5 million, cash of \$77,000, and \$2.6 million in liabilities. The mortgage accrues interest at 7.00% and matures in October 2011.

On June 10, 2008, we sold 20.6 acres of undeveloped land located in Irving, Texas for \$7.2 million, recording a \$1.9 million gain on sale. We received \$2.0 million in cash and provided \$2.2 million in seller financing, after paying down \$2.9 million in existing debt, and incurring \$100,000 in closing costs.

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On June 26, 2008, we purchased the Stanford Centre, a 274,684 square foot commercial building located in Dallas, Texas including 3.1 acres of land, for \$38.8 million. We financed the transaction with \$11.5 million in cash and a \$26.1 million mortgage from a commercial bank. In addition, we incurred \$1.2 million in accruals and credits at closing. The note accrues interest at LIBOR plus 3.75% and matures on July 1, 2011.

**NOTE 3. NOTES AND INTEREST RECEIVABLE**

<b>Borrower</b>	<b>Maturity Date</b>	<b>Interest Rate</b>	<b>Amount</b>	<b>Security</b>
<b>Performing loans:</b>				
400 St. Paul	Oct-2008	9.25%	\$ 3,612	Office Building, Dallas, TX
Atlantic Hotels, LLC	Aug-2009	8.50%	2,000	Atlantic Sands Hotel, Virginia Beach, VA
Basic Capital Management <sup>(1)</sup>	Oct-2008	7.00%	1,252	Industrial building, Arlington, TX
Basic Capital Management <sup>(1)</sup>	Oct-2008	7.00%	1,523	Retail building, Cary, NC
Dallas Fund XVII LP	Oct-2008	9.00%	4,969	Assignment of partnership interests
Everest Heights Dallas Real Estate, Inc.	Sept-2008	10.00%	2,187	20 acres undeveloped land, Valley Ranch, TX
Garden Centura LP	Sept-2008	7.00%	4,866	Excess cash flow from partnership
Miscellaneous related party notes <sup>(1)</sup>	Various	Various	2,302	
Ocean Beach Partners <sup>(1)</sup>	Dec-2009	7.00%	3,279	Folsom Land (36 acres in Farmers Branch, TX)
Pioneer Austin Development	Oct-2008	10.00%	2,407	33 acres undeveloped land, Austin, TX
Syntek Acquisition Corp <sup>(1)</sup>	Aug-2010	Prime +1.00%	3,354	Unsecured
Thornwood Wrap Note, ICC Surfwood	Jul-2009	7.50%	1,638	Unsecured
Accrued interest			1,708	
Allowance for estimated losses			(1,978)	
<b>Total</b>			<b>\$ 33,119</b>	

<sup>(1)</sup> Related party

**NOTE 4. INVESTMENT IN EQUITY INVESTEEES**

**Unconsolidated real estate entities.** TCI's investment in unconsolidated real estate entities at June 30, 2008 included equity securities of two publicly traded real estate entities, Income Opportunity Realty Investors, Inc. ( IORI ) and ARI, related parties, and interests in real estate joint venture partnerships. ARI is a related party that owns 83.2% of TCI's common stock and consolidates TCI's financial accounts and operations.

TCI accounts for its investment in IORI and ARI and the joint venture partnerships using the equity method. Garden Centura, L.P. is accounted for on the cost method.

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TCI's investment in real estate entities at June 30, 2008, was as follows:

Investee	Percentage of TCI's Ownership at June 30, 2008	Carrying Value of Investment at June 30, 2008	Market Value <sup>(a)</sup> of Investment at June 30, 2008
IORI	24.92%	\$ 11,673	\$ 4,667
ARI	7.16%	14,680	6,610
Garden Centura, L.P	5.00%	2,003	
Other		14,023	
Allowance for investment		(7,000)	
		\$ 35,379	

(a) Based on stock closing price on June 30, 2008 and is not necessarily indicative of the fair market value of the investee's net assets. Set forth below is summarized results of operations of equity investees for the first six months of 2008 and 2007:

	2008	2007
Revenues	\$ 31,052	\$ 46,724
Property operating expenses	(25,924)	(33,197)
Depreciation	(3,173)	(3,770)
Interest expense	(13,808)	(19,858)
Loss before gains on sale of real estate and discontinued operations	(11,853)	(10,101)
Gain on sale of real estate	5,902	
Income (loss) from discontinued operations	21,586	(2,142)
Net income (loss)	\$ 15,635	\$ (12,243)

**NOTE 5. MARKETABLE EQUITY SECURITIES**

We own approximately 9.24% of the common stock of Realty Korea CR-REIT Co., Ltd. No. 1 (CR REIT). In April, the CR REIT common stock was delisted from the Korean Stock Exchange (KOSPI), in accordance with the corporate restructuring REIT regulation in Korea, and is in the process of liquidation. At that time we received a \$4.8 million dividend payout for the partial liquidation of the CR REIT.

**NOTE 6. RELATED PARTIES**

The following table reconciles the beginning and ending affiliate receivable balances as of June 30, 2008:

Balance, December 31, 2007	\$ (2,564)
Cash transfers	49,900
Cash repayments	(80,306)
Fees and commissions payable to affiliate	(24,611)
Payables through Prime	(5,157)
Balance, June 30, 2008	\$ (62,738)

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At June 30, 2008, other assets included \$369,000 due from an affiliate for rent. In addition, at June 30, 2008 TCI owed \$3.5 million to Regis Property Management for management fees and sales commissions. TCI owes Income Opportunity Investors, Inc., an affiliate, \$2.1 million in accrued interest relating to Garden Centura land.

**Table of Contents****NOTE 7. NOTES PAYABLE**

	Balance Beginning of Year	Additional Borrowings				Repayments		Reclassifications and Other Adjustments	Balance 6/30/2008
		Acquisitions	Developments	Refinancings	Amortization	Property Sales	Refinancings		
Apartments	\$ 338,033	\$ 19,307	\$	\$	\$ (3,269)	\$	\$	\$ (11,156)	\$ 342,915
Apartments under construction	130,699		44,966						175,665
Other developments in progress	135,755		15,846				(4,777)	(32,083)	114,741
Commercial properties	231,804	26,076		4,000	(1,715)			(1,587)	258,578
Hotels	42,917							(42,917)	
Land held for development	119,294	13,403		5,487	(4,219)	(29,193)		(2,559)	102,213
Corporate and other	4,425				(20)	(3,902)		10,039	10,542
Accrued interest	4,299							1,998	6,297
Real estate held for investment	\$ 1,007,226	\$ 58,786	\$ 60,812	\$ 9,487	\$ (9,223)	\$ (33,095)	\$ (4,777)	\$ (78,265)	\$ 1,010,951
Real estate held for sale	\$ 107,847	\$	\$	\$	\$ (228)	\$ (108,685)	\$	\$ 36,061	\$ 34,995
Real estate subject to sales contract	\$ 62,513	\$	\$	\$	\$	\$	\$	\$ 751	\$ 63,264

With respect to the additional notes payable due to the acquisition of properties, the following summarizes the activity for 2008:

**Apartments**

In connection with the purchase of Woodmont TCI XIV land in Dallas, Texas on January 15, 2008, we financed the acquisition with a new mortgage loan of \$4.1 million collateralized by the land property purchased. The note accrues interest at Prime plus 0.75%. The note is payable in monthly installments of interest only with the balance due along with all unpaid and accrued interest due at maturity on July 25, 2009.

In connection with the purchase of Bridgewood apartments in Kaufman, Texas on April 2, 2008, we financed the acquisition with a new mortgage loan of \$5.1 million collateralized by the apartment complex purchased. The note accrues interest at Prime plus 0.25%. The note is payable in monthly installments of interest and principal through maturity on January 1, 2009, at which time all accrued unpaid interest and principal are due.

In connection with the purchase of Quail Hollow apartments in Holland, Ohio on April 16, 2008, we financed the acquisition with a new mortgage loan of \$11.5 million collateralized by the apartment complex purchased. The note accrues interest at 7.00%. The note is payable in monthly installments of interest and principal through maturity on October 25, 2011, at which time all accrued unpaid interest and principal are due.

**Commercial Properties**

In connection with the purchase of Stanford Centre office building in Dallas, Texas on June 27, 2008, we financed the acquisition with a new mortgage loan of \$26.1 million, collateralized by the office building purchased. The note accrues interest at LIBOR plus 3.75%. The note is payable in monthly installments of interest only with the balance due along with all unpaid and accrued interest due at maturity on July 1, 2011.

**Table of Contents****NOTE 8. OPERATING SEGMENTS**

The Company's segments are based on the Company's method of internal reporting which classifies its operations by property type. The Company's 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 six months ended June 30, 2008 and 2007, including segment assets and expenditures:

	Commercial Properties	Apartments	Hotels	Land	Other	Total
<b>For three months ended 6/30/08</b>						
Operating revenue	\$ 14,640	\$ 19,373	\$	\$ 676	\$ 3	\$ 34,692
Operating expenses	8,142	11,294		656	(154)	19,938
Depreciation and amortization	2,644	3,264		2		5,910
Mortgage and loan interest	4,149	8,309		3,091	1,282	16,831
Interest income					541	541
Gain on land sales				2,580		2,580
Segment operating income (loss)	\$ (295)	\$ (3,494)	\$	\$ (493)	\$ (584)	\$ (4,866)
Capital expenditures	3,191	4,030		3,948		11,169
Assets	338,463	604,430		323,985	42,314	1,309,192
<b>Property Sales</b>						
Sales price	\$	\$ 3,650	\$	\$ 9,598	\$	\$ 13,248
Cost of sale		1,735		6,868		8,603
Deferred current gain				150		150
Recognized prior deferred gain						
Gain on sale	\$	\$ 1,915	\$	\$ 2,580	\$	\$ 4,495
<b>For three months ended 6/30/07</b>						
Operating revenue	\$ 14,715	\$ 15,294	\$	\$ 127	\$ 211	\$ 30,347
Operating expenses	8,071	7,826		686	470	17,053
Depreciation and amortization	3,156	2,777		4		5,937
Mortgage and loan interest	4,578	6,943		3,884	288	15,693
Gain on land sales					662	662
Segment operating income (loss)	\$ (1,090)	\$ (2,252)	\$	\$ (4,447)	\$ 115	\$ (7,674)
Capital expenditures	2,966			2,044		5,010
Assets	308,252	513,557		363,252		1,185,061
<b>Property Sales</b>						
Sales price	\$	\$	\$	\$ 9,865	\$	\$ 9,865
Cost of sale				6,174		6,174
Deferred current gain				3,691		3,691
Recognized prior deferred gain						

Gain on sale	\$	\$	\$	\$	\$	\$
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The tables below reconcile the segment information to the corresponding amounts in the Consolidated Statements of Operations and Consolidated Balance Sheet:

	6/30/2008	6/30/2007
<b>For three months ended</b>		
Segment operating income (loss)	\$ (4,866)	\$ (7,674)
Other non-segment items of income (expense)		
General and administrative	(2,272)	(2,497)
Advisory fees	(2,966)	(2,696)
Litigation		
Bad debt and allowance		
Net income fee		
Other income (expense)	494	495
Equity in earnings of investees	(568)	700
Minority interest		(26)
Deferred tax	(1,429)	(417)
Income (loss) from continuing operations	\$ (11,607)	\$ (12,115)

**SEGMENT ASSET RECONCILIATION TO TOTAL ASSETS**

	6/30/2008	6/30/2007
Segment assets	\$ 1,309,192	\$ 1,185,061
Investments in real estate partnerships	35,379	34,232
Other assets	124,797	110,192
Assets held for sale	100,392	107,327
Total assets	\$ 1,569,760	\$ 1,436,812



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	Commercial Properties	Apartments	Hotels	Land	Other	Total
<b>For six months ended 6/30/08</b>						
Operating revenue	\$ 27,574	\$ 37,405	\$	\$ 1,335	\$ 30	\$ 66,344
Operating expenses	17,013	21,789		2,396	(233)	40,965
Depreciation and amortization	5,268	6,453		4		11,725
Mortgage and loan interest	8,549	16,990		6,230	2,266	34,035
Interest income					1,303	1,303
Gain on land sales				3,855		3,855
Segment operating income (loss)	\$ (3,256)	\$ (7,827)	\$	\$ (3,440)	\$ (700)	\$ (15,223)
Capital expenditures	3,191	4,030		3,948		11,169
Assets	338,463	604,430		323,985	42,314	1,309,192
<b>Property Sales</b>						
Sales price	\$ 35,797	\$ 103,877	\$ 11,749	\$ 12,471	\$	\$ 163,894
Cost of sale	16,949	30,477	4,023	8,466		59,915
Deferred current gain				150		150
Recognized prior deferred gain						
Gain on sale	\$ 18,848	\$ 73,400	\$ 7,726	\$ 3,855	\$	\$ 103,829

	Commercial Properties	Apartments	Hotels	Land	Other	Total
<b>For six months ended 6/30/07</b>						
Operating revenue	\$ 28,532	\$ 31,235	\$	\$ 267	\$ 545	\$ 60,579
Operating expenses	15,419	16,419		1,544	499	33,881
Depreciation and amortization	5,053	5,026		10		10,089
Mortgage and loan interest	7,987	13,611		7,360	1,213	30,171
Interest income					1,392	1,392
Gain on land sales				1,122		1,122
Segment operating income (loss)	\$ 73	\$ (3,821)	\$	\$ (7,525)	\$ 225	\$ (11,048)
Capital expenditures	2,966			2,044		5,010
Assets	308,252	513,557		363,252		1,185,061
<b>Property Sales</b>						
Sales price	\$	\$ 24,650	\$	\$ 22,901	\$	\$ 47,551
Cost of sale		21,002		18,088		39,090
Deferred current gain				3,691		3,691
Recognized prior deferred gain						
Gain on sale	\$	\$ 3,648	\$	\$ 1,122	\$	\$ 4,770

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

	6/30/2008	6/30/2007
<b>For six months ended</b>		
Segment operating income (loss)	\$ (15,223)	\$ (11,048)
Other non-segment items of income (expense)		
General and administrative	(4,667)	(5,205)
Advisory fees	(5,962)	(5,096)
Litigation		
Bad debt and allowance	(7,000)	
Net income fee		704
Other income (expense)	796	819
Equity in earnings of investees	4,544	700
Minority interest		4
Deferred tax	28,207	(15)
Income (loss) from continuing operations	\$ 695	\$ (19,137)

**SEGMENT ASSET RECONCILIATION TO TOTAL ASSETS**

	6/30/2008	6/30/2007
Segment assets	\$ 1,309,192	\$ 1,185,061
Investments in real estate partnerships	35,379	34,232
Other assets	124,797	110,192
Assets held for sale	100,392	107,327
Total assets	\$ 1,569,760	\$ 1,436,812

**NOTE 9. 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.

The following table summarizes income from discontinued operations (net of minority interest) and the related realized gains on sales of real estate from discontinued operations.

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	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2008	2007	2008	2007
<b>Revenue</b>				
Rental	\$ 1,601	\$ 10,973	\$ 6,254	\$ 20,110
Property operations	1,579	6,982	4,138	13,560
	22	3,991	2,116	6,550
<b>Expenses</b>				
Interest	(709)	(3,892)	(6,444)	(7,464)
General and administrative	(548)	(217)	(605)	(217)
Depreciation	(179)	(1,073)	(528)	(2,559)
	(1,436)	(5,182)	(7,577)	(10,240)
Net loss from discontinued operations before gains on sale of real estate	(1,414)	(1,191)	(5,461)	(3,690)
Gain on sale of discontinued operations	1,915		99,974	3,648
Net income fee to affiliate	(4,586)		(4,586)	
Net sales fee to affiliate			(9,337)	
Income (loss) from discontinued operations	(4,085)	(1,191)	80,590	(42)
Tax benefit	1,429	417	(28,207)	15
Income (loss) from discontinued operations	\$ (2,656)	\$ (774)	\$ 52,383	\$ (27)

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 2008 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 10. 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.

**Guarantees.** We are a joint grantor, with Income Opportunity Realty Investors, Inc., an affiliated entity, on a loan with an outstanding balance of \$37.3 million as of June 30, 2008. We have \$8.7 million of this amount included in the Notes and interest payable section on our balance sheet. As a joint grantor 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.

**NOTE 11. SUBSEQUENT EVENTS**

On July 23, 2008, we purchased 24.1 acres of land known as Las Colinas land located in Irving, Texas for \$6.7 million. We financed the transaction with \$2.2 million in cash and a \$4.5 million mortgage secured by the property.

On July 23, 2008, we purchased 246.0 acres of land known as Windmill Farms Harlan land located in Kaufman County, Texas for \$6.8 million. We financed the transaction with \$1.3 million cash and seller financing of \$5.5 million.

**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

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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 words do not relate solely to 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 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

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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. Other sections of this report, including Part I, Item I Business Risk Factors, include additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can we assess the impact of all such risk factors 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 risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Investors should also refer to our quarterly reports on Form 10-Q for future periods and current reports on Form 8-K as we file them with the SEC, and to other materials we may furnish to the public from time to time through Forms 8-K or otherwise.

### *Overview*

TCI is an externally advised and managed real estate investment company that owns a diverse portfolio of income-producing properties and land held for development. The Company's portfolio of income-producing properties includes residential apartment communities, office buildings, hotels and other commercial properties. TCI's 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. TCI acquires land primarily in urban in-fill locations or high-growth suburban markets. We are an active buyer and seller. During 2008, we acquired over \$78.4 million and sold over \$163.0 million of land and income-producing properties.

As of June 30, 2008, the Company owned approximately 9,356 units in 48 residential apartment communities and 27 commercial properties of approximately 5.4 million rentable square feet. In addition, we own over 6,325 acres of land held for development and 13 projects under construction.

We finance our acquisitions primarily through operating cash flow, 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

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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; and renting hotel rooms to guests. TCI is advised by Prime under a contractual arrangement that is reviewed annually by TCI's Board of Directors. TCI's commercial properties are managed by Regis Commercial while the Company's hotels are managed by Regis Hotel. TCI currently contracts with four third-party companies to manage the Company's apartment communities. Approximately 83.2% of TCI's common stock is owned by ARI. TCI is a C Corporation for U.S. federal income tax purposes and files an annual consolidated income tax return with ARI. TCI does not qualify as a Real Estate Investment Trust (REIT) for federal income tax purposes primarily due to ARI's majority ownership of the Company.

***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 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.

Other intangible assets acquired include amounts for in-place lease values that are based on our evaluation of the specific characteristics of each tenant's lease. Factors to be considered include estimates of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, we consider leasing commissions, legal and other related expenses.

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 face value.



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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 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.

### ***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 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, *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

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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 66 guidelines.

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### ***Non-performing Notes Receivable***

TCI considers a note receivable to be non-performing when the maturity date has passed without principal repayment and the borrower is not making interest payments. Any new note receivable that results from a modification or extension of a note considered non-performing will also be considered non-performing, without regard to the borrower's adherence to payment terms.

### ***Interest Recognition on Notes Receivable***

Interest income is not recognized on notes receivable that have been delinquent for 60 days or more. In addition, accrued but unpaid interest income is only recognized to the extent that the net realizable value of the underlying collateral exceeds the carrying value of the receivable.

### ***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;

the collection of mortgage notes receivable;

the collection of receivables from affiliated companies;

refinancing of existing mortgage notes payable; and

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;

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

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### ***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.

Cash and cash equivalents were \$346,000 and \$5.1 million as of the six months ended June 30, 2008 and 2007, respectively. For the six months ended June 30, 2008, cash provided by operating activities was \$1.4 million, cash provided by investing activities was \$15.6 million and cash used in financing activities was \$(27.9) million.

Cash provided by operating activities was \$1.4 million for the six months ended June 30, 2008. Our primary source of cash from operating activities is from rental income on properties. Our primary use of cash for operations is from daily operating costs, general and administrative, interest expense, and land holding costs.

Cash provided by investing activities was \$15.6 million. The majority of the cash is from the sale of income producing properties of \$139.7 million. We sold 22 properties in seven transactions. The most significant transaction was the sale of 14 apartments; The 4400, Arbor Pointe, Ashton Way, Autumn Chase, Courtyard, Coventry Pointe, Fairway, Fountains at Waterford, Hunters Glen, Southgate, Sunchase, Thornwood, Westwood, and Woodview located in Midland and Odessa, Texas in a single transaction. This was followed by the sale of three hotels in a single transaction; City Suites, Majestic, and the Willows, located in Chicago, Illinois and five other transactions consisting of the Lexington commercial building in Colorado Springs, Colorado, the Fairway View apartments in El Paso, Texas, the Executive Court in Memphis, Tennessee, the Hotel Akademia in Worclaw, Poland, and the Willow Creek apartments in El Paso, Texas. The sale of land provided \$11.6 million. We sold 80.1 acres of undeveloped land located in Texas. We received \$11.8 million from our investments in marketable securities. This was offset by \$(63.2) million used to purchase income producing properties. We acquired six properties consisting of two apartment complexes; Bridgewood Ranch in Kaufman, Texas, and Quail Hollow in Holland, Ohio and four commercial buildings; Alpenloan building in Dallas, Texas, Teleport Boulevard building in Irving, Texas, Thermalloy Building in Farmers Branch, Texas, and Stanford Centre in Dallas, Texas. We used \$(65.4) million on the construction and development of 13 apartment complexes. In addition, we purchased 259 acres of undeveloped land in Dallas, Texas and the surrounding area for \$(15.2) million.

Cash used in financing activities was \$(27.9) million. We paid off the existing notes on properties sold consisting of 22 buildings and 80.1 acres of land using \$(146.6) million. We paid down \$(9.0) million in recurring debt obligations. This was offset by \$129.1 million in note proceeds which were used to acquire 259 acres of undeveloped land, two apartments, Bridgewood and Quail Hollow, and four commercial buildings, Alpenloan building, Teleport Boulevard building, Thermalloy building and Stanford Centre.

Management reviews the carrying values of TCI's properties 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 not all amounts due under the terms of the note will be collected. If impairment is found to exist, a provision for loss is recorded by a charge against earnings. The note receivable review includes an evaluation of the collateral property securing such 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.

### ***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.

### ***Commitments and Contingencies***

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

### ***Results of Operations***

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The following discussion is based on our Consolidated Statements of Operations for the three and six months ended June 30, 2008 and 2007 as included in Part 1, Item 1 Financial Statements of this report. We had or owned interests in a total property portfolio of 75 and 93 properties as of June 30, 2008 and 2007, respectively.

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***Comparison of the three months ended June 30, 2008 as compared to the same period ended June 30, 2007***

For the three months ended June 30, 2008, TCI reported a net loss applicable to common shares of \$(14.5) million or \$(1.80) per diluted earnings per share, as compared to a net loss applicable to common shares of \$(13.1) million or \$(1.66) per diluted earnings per share.

**Revenues**

Rental and other property revenues increased by \$4.3 million for the three months ended June 30, 2008 as compared to the same period ended 2007. A significant portion of the increase was from apartments that are in the lease up stage. For the three months ended June 30, 2008, we had 14 new apartments in the lease up stage with revenues of \$4.0 million as compared to five new apartments in the lease up stage during the same period ended 2007 with revenues of \$1.4 million in revenues. New properties acquired during the second quarter 2008 increased revenues by \$600,000. Revenues generated from our land holdings were up by \$550,000 in 2008 as compared to 2007. The remainder of increase is due to an overall increase in occupancy in both the commercial and apartment portfolios.

**Expenses**

Property operating expenses increased by \$2.9 million for the three months ended June 30, 2008 as compared to the same period ended June 30, 2007. The majority of the increase of \$1.9 million was due to our new apartments which are in the lease up phase, and \$300,000 came from our acquisitions of new properties in the second quarter of 2008. The remainder of the increase is from an overall increase in prices effecting operating costs.

Depreciation and amortization were relatively consistent for the three months ended June 30, 2008 as compared to the same period ended 2007.

General and administrative costs were also consistent for the three months ended June 30, 2008 as compared to the same period ended 2007.

Advisory fees increased by \$270,000 for the three months ended June 30, 2008 as compared to the same period ended 2007. The increase is due to an overall increase in revenues in our operating activities. Advisory fees are based in part on revenues received.

**Other Income/ Expense**

Interest income decreased by \$121,000 for the three months ended June 30, 2008 as compared to the same period ended 2007. This is due to our reduction in notes receivable from our affiliates compared to the prior period ended 2007.

Other income was relative consistent for the three months ended June 30, 2008 as compared to the same period ended 2007.

Mortgage and loan interest expense increased by \$1.1 million for the three months ended June 30, 2008 as compared to the same period ended 2007. The majority of the increase of \$1.0 million is due to new apartments in the lease up phase. During the construction of the apartments the interest expense is capitalized. Once construction is completed and the apartments start leasing up, the interest on the construction loans goes to expense. Of the 14 apartments currently in the lease up phase, ten of those apartments incurred interest expense during the three months ended June 2008, and no interest expense was incurred for the same period ended 2007.

Gain on land sales was \$2.6 million for the three month period ended June 30, 2008. We sold 66.2 acres of undeveloped land in Texas in four transactions, averaging a gain of \$41,000 per acre. No land was sold during the same period ended 2007.

Equity in investees decreased by \$1.3 million for the three months ended June 30, 2008 as compared to the same period ended 2007. The equity in investees represents our equity prorata share of the unconsolidated investments. The majority of the decrease is due to loss incurred during the second quarter in our investment in Income Opportunity Realty Investors, Inc., an affiliated entity.

Net loss from discontinued operations decreased by \$1.9 million for the three months ended June 30, 2008 as compared to the same period ended 2007. Discontinued operations relates to 25 apartments of which one was sold in the second quarter of 2008 and six commercial buildings and four hotels. Income from discontinued operations for the three months ended June 30, 2008 and 2007 is included below:

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	For the Three Months Ended June 30,	
	2008	2007
<b>Revenue</b>		
Rental	\$ 1,601	\$ 10,973
Property operations	1,579	6,982
	22	3,991
<b>Expenses</b>		
Interest	(709)	(3,892)
General and administration	(548)	(217)
Depreciation	(179)	(1,073)
	(1,436)	(5,182)
Net loss from discontinued operations before gains on sale of real estate	(1,414)	(1,191)
Gain on sale of discontinued operations	1,915	
Net income fee to affiliate	(4,586)	
Net sales fee to affiliate		
Income (loss) from discontinued operations	(4,085)	(1,191)
Tax benefit	1,429	417
Income (loss) from discontinued operations	\$ (2,656)	\$ (774)

***Comparison of the six months ended June 30, 2008 as compared to the same period ended June 30, 2007***

For the six months ended June 30, 2008, TCI reported a net income applicable to common shares of \$52.6 million or \$6.51 per diluted earnings per share, as compared to a net loss applicable to common shares of \$(19.6) million or \$(2.49) per diluted earnings per share.

**Revenues**

Rental and other property revenues increased by \$5.8 million for the six month period ended June 30, 2008 as compared to the same period ended 2007. Our new apartments which are in the lease up phase generated an increase in revenues of \$4.6 million. We have 14 new apartments that are currently in the lease up phase. These new apartments generated revenues of \$7.1 million for the six month period ended June 30, 2008, as compared to five apartments in the lease up phase generating \$2.5 million in revenues for the same period ended 2007. Current year acquisitions provided additional revenues of \$600,000. The remaining increase is due to overall increased occupancies in both our apartments and commercial portfolios.

**Expenses**

Property operating expenses increased by \$7.1 million for the six months ended June 30, 2008 as compared to the same period ended 2007. Our new apartments that went into lease up phase increased our operating expenses by \$3.6 million. We had 14 apartments in lease up phase as compared to five in the prior period ended June 30, 2007 and the operating costs in our apartment portfolio increased by \$1.8 million. The operating costs on our commercial portfolio increased by \$1.6 million as compared to prior period. The remaining difference is due to a slight increase in our land holding costs.

Depreciation increased by \$1.6 million for the six month period ended June 30, 2008 as compared to the same period ended 2007. The majority of the increase is due to our new apartments which were completed and went into the lease up phase, and the acquisition of new properties during the current period.

General and administrative expenses decreased by \$538,000 for the six months ended June 30, 2008 as compared to the same period ended 2007. This is due to management's efforts to control costs.



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The advisory fee to the affiliate increased by \$866,000 for the six month period ended June 30, 2008 as compared to the same period ended 2007. The fee is based in part on our gross net assets which have increased as compared to the prior period.

### **Other Income/Expense**

Interest income for the six months ended June 30, 2008 is relatively consistent as compared to the same period ended 2007.

Other income for the six months ended June 30, 2008 is relatively consistent as compared to the same period ended 2007.

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Mortgage and loan interest expense increased by \$3.9 million for the six months ended June 30, 2008 as compared to the same period ended 2007. The majority of the increase of \$3.3 million is due to new apartments in the lease up phase. During the construction of the apartments the interest expense is capitalized. Once construction is completed and the apartments start leasing up, the interest expense on the loans goes to expense. Of the 14 apartments currently in the lease up phase, ten of those apartments incurred interest expense during the six months ended June 2008, and no interest expense for the same period ended 2007. The remaining increase is due to higher rates on new loans that accompanied the purchases of our properties, and higher rates associated with the refinancings of existing debt.

Bad debt allowance expense was \$7.0 million for the six months ended June 30, 2008. Management recorded an allowance account against various investments within our portfolio.

Gain on land sales was \$3.6 million for the six month period ended June 30, 2008. We sold 80.1 acres of land for an average gain of \$50,000 per acre.

Net income fee to affiliate decreased by \$700,000 for the six months ended June 30, 2008 as compared to the same period ended June 30, 2007. This fee is based on our income. There is no fee from continuing operations due to losses incurred during the quarter.

Equity in income of investee increased by \$3.8 million for the six months ended June 30, 2008 as compared to the same period ended 2007. The majority of the increase is due to our equity prorata share of the earnings of Income Opportunity Realty Investors, Inc., an affiliated entity.

Income from discontinued operations increased by \$52.4 million for the six months ended June 30, 2008 as compared to the same period ended 2007. Discontinued operations relates to 25 apartments of which 16 were sold in 2008 and six commercial buildings of which two were sold in 2008 and four hotels were sold in 2008. Income from discontinued operations for the six months ended June 30, 2008 and 2007 is included below:

	<b>For the Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Revenue</b>		
Rental	\$ 6,254	\$ 20,110
Property operations	4,138	13,560
	2,116	6,550
<b>Expenses</b>		
Interest	(6,444)	(7,464)
General and administrative	(605)	(217)
Depreciation	(528)	(2,559)
	(7,577)	(10,240)
Net loss from discontinued operations before gains on sale of real estate	(5,461)	(3,690)
Gain on sale of discontinued operations	99,974	3,648
Net income fee to affiliate	(4,586)	
Net sales fee to affiliate	(9,337)	
Income (loss) from discontinued operations	80,590	(42)
Tax benefit	(28,207)	15
Income (loss) from discontinued operations	\$ 52,383	\$ (27)

**Tax Matter**

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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 reported a loss, after the use of net operating loss carryforwards, for federal income tax purposes in the first six months of 2008 and a loss, after the use of net operating loss carryforwards, in the first six months of 2007; therefore, it recorded no provision for income taxes.

At June 30, 2008, TCI had a net deferred tax asset of \$34 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.

**Table of Contents*****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, TCI 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 June 30, 2008, TCI's exposure to a change in interest rates on its debt is as follows:

	Balance	Weighted Average Interest Rate	Effect of 1% Increase in Base Rates
Notes payable:			
Variable rate	\$ 281,825	6.03%	
Total decrease in TCI's annual net income			\$ 2,818
Per share			0.35

**ITEM 4. 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 June 30, 2008, 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, Transcontinental Realty Investors, Inc. (the Company) repurchased 1,700 shares of its equity securities. The following table sets forth a summary by month for the quarter of repurchases made and the specified number of shares that may be repurchased under the stock repurchase program as specified below:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Program</b>	<b>Maximum Number of Shares that May Yet be Purchased Under the Program<sup>(a)</sup></b>
Balance as of March 31, 2008			1,284,512	124,488
April 30, 2008	600	\$ 18.15	1,285,112	123,888
May 31, 2008	700	\$ 18.00	1,285,812	123,188
June 30, 2008	400	\$ 16.48	1,286,212	122,788
Total	1,700			

- (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;

<b>Exhibit Number</b>	<b>Description</b>
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 Chief Financial Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
31.3*	Certification Chief Accounting 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: August 14, 2008

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

(Principal Executive Officer)

Date: August 14, 2008

By: /s/ David R. Fletcher  
David R. Fletcher  
Executive Vice President and Chief Financial Officer

Date: August 14, 2008

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

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**TRANSCONTINENTAL REALTY INVESTORS, INC.**

**EXHIBITS TO QUARTERLY REPORT ON FORM 10-Q**

**For the Period Ended June 30, 2008**

<b>Exhibit Number</b>	<b>Description of Exhibits</b>
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 Chief Financial Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
31.3*	Certification Chief Accounting 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