TRANSCONTINENTAL REALTY INVESTORS INC
Form 10-Q/A
May 01, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A

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

For the quarterly period ended June 30, 2011

or

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

For the transition period from to

Commission File Number 001-09240

TRANSCONTINENTAL REALTY INVESTORS, INC.
(Exact Name of Registrant as Specified in Its Charter)

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

1603 LBJ Freeway, Suite 800, Dallas, Texas 75234
(Address of principal executive offices)
(Zip Code)

(469) 522-4200
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
xYes ¨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 a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨Yes xNo.

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, $.01 par value	8,413,469
(Class)	(Outstanding at August 5, 2011)

AMENDMENT NO. 1 TO
QUARTERLY REPORT ON FORM 10-Q FOR
TRANSCONTINENTAL REALTY INVESTORS, INC.

The undersigned Registrant hereby further amends the following items, exhibits, or other portions of its Quarterly Report on Form 10-Q for the period ended June 30, 2011 as set forth below and as reflected in the substituted pages attached hereto which replace the same numbered pages in the original filing:

- Page 6-10, Item 1 “Financial Statements.” The consolidated balance sheets, consolidated statements of operations, consolidated statements of shareholders’ equity, consolidated statements of comprehensive income (loss) and consolidated statements of cash flow have been revised, in the current period, to reflect the written request of the Staff of the Securities and Exchange Commission on March 27, 2012, to correctly adhere to the guidelines presented in paragraphs 250-10-45-22 to 24 of the FASB Accounting Standards Codification. Assets transferred to Transcontinental Realty Investors, Inc. (“TCI”), from its parent, American Realty Investors, Inc. (“ARL”) were originally, and have been historically, recorded at fair value and have been corrected to reflect ARL’s original cost basis. During an eight year period following the consolidation of TCI as of March 2003, ARL sold to TCI a total of 14 properties (most of which were transactions for undeveloped land) for a total purchase price of $116.0 million. ARL’s cost basis for such transactions was $60.0 million, resulting in a total step-up in basis for TCI of $56.0 million. The consideration provided for such acquisitions was through affiliate/intercompany obligations, not cash transfers. Of the $56.0 million step-up in TCI’s basis from such sales, approximately $26.6 million related to assets no longer held by TCI which were sold in 2011. To better comply with the accounting literature and requirements, TCI reduced its intercompany obligations to ARL and reversed the income statement effect resulting from the disposition of such assets. This results in an increase in net income of approximately 26.6 million for TCI.

- Page 16, Item 1, Note 2 “Real Estate Activity.” An addition was made to the real estate activity disclosure to describe the correction to the asset values of those assets acquired by TCI from its parent, ARL, at cost basis.

- Page 19, Item 1, Note 6 “Related Party Transactions.” In correcting the cost basis for assets sold from ARL to TCI, the related party obligations between TCI and ARL were reduced and the change was reflected in the footnote disclosure.

- Page 20-22, Item 1, Note 7 “Operating Segments.” The operating segments were adjusted, in the current period, to reflect the changes in the financial statements..

- Page 25-34, Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” A disclosure was added to describe the correction to the asset values of those assets acquired by TCI from its parent, ARL, at cost basis and the financial results and description of variances were adjusted to reflect the financial statement changes.

- Exhibit 31.1 – Certification by the Principal Executive Officer required by Securities Exchange Act Rules 13a-14 and 15d-14

- Exhibit 31.2 – Certification by the Principal Financial Officer required by Securities Exchange Act Rules 13a-14 and 15d-14

- Exhibit 32.1 – Certification pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this Amendment to be signed on its behalf by the undersigned, thereunto duly-authorized.

	TRANSCONTINENTAL REALTY INVESTORS, INC.
Date: May 1, 2012	By:/s/ Daniel J. Moos Daniel J. Moos President and Chief Executive Officer (Principal Executive Officer)
Date: May 1, 2012	By:/s/ Gene S. Bertcher Gene S. Bertcher Executive Vice President and Chief Financial Officer (Principal Financial Officer)

TRANSCONTINENTAL REALTY INVESTORS, INC.
FORM 10-Q
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED BALANCE SHEETS
(unaudited)

	June 30, 2011	December 31, 2010
	(dollars in thousands, except share and par value amounts)	
Assets		
Real estate, at cost	$992,574	$1,074,635
Real estate subject to sales contracts at cost, net of depreciation ($54,940 for 2011 and $58,579 for 2010)	156,270	232,495
Less accumulated depreciation	(105,917)	(94,016)
Total real estate	1,042,927	1,213,114
Notes and interest receivable		
Performing (including $58,246 in 2011 and $66,011 in 2010 from affiliates and related parties)	60,614	71,766
Less allowance for estimated losses (including $2,097 in 2011 and $3,061 in 2010 from affiliates and related parties)	(3,777)	(4,741)
Total notes and interest receivable	56,837	67,025
Cash and cash equivalents	7,067	11,259
Investments in unconsolidated subsidiaries and investees	7,441	8,146
Affiliate receivables	23,125	-
Other assets	70,510	85,217
Total assets	$1,207,907	$1,384,761
Liabilities and Shareholders' Equity		
Liabilities:		
Notes and interest payable	$800,362	$831,322
Notes related to subject to sales contracts	125,083	190,693
Affiliate payables	-	47,261
Deferred gain (from sales to related parties)	81,827	82,841
Accounts payable and other liabilities (including $1,680 in 2011 and $1,466 in 2010 from affiliates and related parties)	40,514	49,196
	1,047,786	1,201,313
Shareholders' equity:		
Preferred stock, Series C: $.01 par value, authorized 10,000,000 shares, issued and outstanding 30,000 shares in 2011 and 2010 respectively (liquidation preference $100 per share). Series D: $.01 par value, authorized, issued and outstanding 100,000 shares in 2011 and 2010 respectively	1	1

Common stock, $.01 par value, authorized 10,000,000 shares; issued 8,413,669 and 8,113,669 for 2011 and 2010 and outstanding 8,413,469 and 8,113,469 for 2011 and 2010	84	81
Treasury stock at cost; 200 shares in 2011 and 2010	(2)	(2)
Paid-in capital	274,405	271,682
Retained earnings	(128,063)	(101,914)
Total Transcontinental Realty Investors, Inc. shareholders' equity	146,425	169,848
Non-controlling interest	13,696	13,600
Total equity	160,121	183,448
Total liabilities and equity	$1,207,907	$1,384,761

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

TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2011	2010	2011	2010
	(dollars in thousands, except share and per share amounts)			
Revenues:				
Rental and other property revenues (including $358 and $908 for the three months and $730 and $1,766 for the six months ended 2011 and 2010 respectively from affiliates and related parties)	$31,785	$30,589	$61,439	$61,287
Expenses:				
Property operating expenses (including $403 and $429 for the three months and $675 and $884 for the six months ended 2011 and 2010 respectively from affiliates and related parties)	16,200	18,129	32,675	35,338
Depreciation and amortization	4,371	6,353	10,433	12,214
General and administrative (including $906 and $786 for the three months and $1,748 and $1,677 for the six months ended 2011 and 2010 respectively from affiliates and related parties)	2,588	1,793	4,730	3,619
Provision on impairment of notes receivable and real estate assets	444	-	6,503	-
Advisory fee to affiliate	2,626	2,962	5,246	6,058
Total operating expenses	26,229	29,237	59,587	57,229
Operating income	5,556	1,352	1,852	4,058
Other income (expense):				
Interest income (including $700 and $567 for the three months and $1,051 and $1,220 for the six months ended 2011 and 2010 respectively from affiliates and related parties)	704	832	1,130	1,691
Other income	100	249	1,314	914
Mortgage and loan interest (including $1,269 and $883 for the three months and $1,567 and $1,721 for the six months ended 2011 and 2010 respectively from affiliates and related parties)	(14,611)	(15,663)	(28,035)	(30,377)
Earnings from unconsolidated subsidiaries and investees	117	(50)	57	(112)
Total other expenses	(13,690)	(14,632)	(25,534)	(27,884)

Loss before gain on land sales, non-controlling interest, and tax	(8,134)	(13,280)	(23,682)	(23,826)
Gain (loss) on land sales	1,285	(5,640)	2,081	(5,634)
Loss from continuing operations before tax	(6,849)	(18,920)	(21,601)	(29,460)
Income tax benefit	2,584	554	1,637	431
Net loss from continuing operations	(4,265)	(18,366)	(19,964)	(29,029)
Discontinued operations:				
Loss from discontinued operations	(469)	(1,444)	(1,440)	(956)
Loss on sale of real estate from discontinued operations	(6,914)	(139)	(3,238)	(139)
Income tax expense from discontinued operations	(2,584)	(554)	(1,637)	(383)
Net loss from discontinued operations	(9,967)	(2,137)	(6,315)	(1,478)
Net loss	(14,232)	(20,503)	(26,279)	(30,507)
Net (income) loss attributable to non-controlling interest	46	113	130	(160)
Net loss attributable to Transcontinental Realty Investors, Inc.	(14,186)	(20,390)	(26,149)	(30,667)
Preferred dividend requirement	(277)	(264)	(551)	(527)
Net loss applicable to common shares	$(14,463)	$(20,654)	$(26,700)	$(31,194)
Earnings per share - basic				
Loss from continuing operations	$(0.53)	$(2.28)	$(2.45)	$(3.66)
Loss from discontinued operations	(1.18)	(0.26)	(0.76)	(0.18)
Net loss applicable to common shares	$(1.71)	$(2.54)	$(3.21)	$(3.84)
Earnings per share - diluted				
Loss from continuing operations	$(0.53)	$(2.28)	$(2.45)	$(3.66)
Loss from discontinued operations	(1.18)	(0.26)	(0.76)	(0.18)
Net loss applicable to common shares	$(1.71)	$(2.54)	$(3.21)	$(3.84)
Weighted average common share used in computing earnings per share	8,413,469	8,113,669	8,327,281	8,113,669
Weighted average common share used in computing diluted earnings per share	8,413,469	8,113,669	8,327,281	8,113,669
Amounts attributable to Transcontinental Realty Investors, Inc.				
Loss from continuing operations	$(4,219)	$(18,253)	$(19,834)	$(29,189)
Loss from discontinued operations	(9,967)	(2,137)	(6,315)	(1,478)
Net loss	$(14,186)	$(20,390)	$(26,149)	$(30,667)

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

TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the Six Months Ended June 30, 2011
(unaudited)
(dollars in thousands)

	Total	Comprehensive Loss	Preferred Stock	Common Stock Shares	Common Stock Amount	Treasury Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest
Balance, December 31, 2010	$183,448	$ (105,122)	$ 1	8,113,669	$ 81	$ (2)	$271,682	$ (101,914)	$ -	$ 13,600
Series C preferred stock dividends (7.0% per year)	(105)	-	-	-	-	-	(105)	-	-	-
Series D preferred stock dividends (8.5% per year)	(446)	-	-	-	-	-	(446)	-	-	-
Net loss	(26,279)	(26,279)	-	-	-	-	-	(26,149)	-	(130)
Issuance of common stock	1,530	-	-	300,000	3	-	1,527	-	-	-
Sale of controlling interest	1,980	-	-	-	-	-	1,747	-	-	233
Distributions to non-controlling interests	(7)	-	-	-	-	-	-	-	-	(7)
Balance, June 30, 2011	$160,121	$ (131,401)	$ 1	8,413,669	$ 84	$ (2)	$274,405	$ (128,063)	$ -	$ 13,696

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

TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited)

	For the Six Months Ended June 30,	
	2011	2010
	(dollars in thousands)	
Net loss	$ (26,279)	$ (30,507)
Other comprehensive income (loss)	-	-
Total other comprehensive income (loss)	-	-
Comprehensive loss attributable to Transcontinental Realty Investors, Inc.	(26,279)	(30,507)
Comprehensive (income) loss attributable to non-controlling interest	130	(160)
Comprehensive loss attributable to Transcontinental Realty Investors, Inc.	$ (26,149)	$ (30,667)

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

TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the Six Months Ended June 30,	
	2011	2010
	(dollars in thousands)	
Cash Flow From Operating Activities:		
Net loss	$(26,279)	$(30,507)
Adjustments to reconcile net loss applicable to common shares to net cash used in operating activities:		
Gain on sale of land	(2,081)	5,634
Gain on sale of income producing properties	3,238	139
Depreciation and amortization	11,382	14,491
Provision on impairment of notes receivable and real estate assets	6,503	-
Amortization of deferred borrowing costs	1,767	1,074
Earnings from unconsolidated subsidiaries and investees	(128)	112
(Increase) decrease in assets:		
Accrued interest receivable	28	(128)
Other assets	(964)	7,333
Prepaid expense	2,176	52
Escrow	10,546	8,664
Earnest money	(75)	315
Rent receivables	647	(2,356)
Affiliate receivables	(23,125)	-
Increase (decrease) in liabilities:		
Accrued interest payable	4,045	624
Affiliate payables	(47,261)	(893)
Other liabilities	(10,432)	(8,836)
Net cash used in operating activities	(70,013)	(4,282)
Cash Flow From Investing Activities:		
Proceeds from notes receivable	12,109	1,438
Originations or advances on notes receivable	(986)	-
Acquisition of land held for development	30,419	(2,259)
Acquisition of income producing properties	13,588	
Proceeds from sale of income producing properties	60,852	30,043
Proceeds from sale of land	78,757	12,325
Proceeds from sale of investment in unconsolidated real estate entities	(9)	-
Proceeds from sale of investments	554	-
Investment in unconsolidated real estate entities	279	213
Improvement of land held for development	(1,101)	(1,319)
Improvement of income producing properties	(340)	(1,185)
Acquisition of non-controlling interest	-	-
Sales of controlling interest	1,980	-
Construction and development of new properties	(30,298)	(10,294)
Net cash provided by investing activities	165,804	28,962

Cash Flow From Financing Activities:		
Proceeds from notes payable	102,534	93,753
Recurring amortization of principal on notes payable	(7,764)	(5,974)
Payments or debt assumption on maturing notes payable	(195,386)	(110,607)
Deferred financing costs	(353)	(2,627)
Distributions to non-controlling interests	7	-
Common stock issuance	1,530	-
Preferred stock dividends - Series C	(105)	(105)
Preferred stock dividends - Series D	(446)	(422)
Net cash used in financing activities	(99,983)	(25,982)
Net decrease in cash and cash equivalents	(4,192)	(1,302)
Cash and cash equivalents, beginning of period	11,259	5,665
Cash and cash equivalents, end of period	$7,067	$4,363
Supplemental disclosures of cash flow information:		
Cash paid for interest	$26,023	$32,240
Cash received for income taxes, net of payments	$-	$(48)
Schedule of noncash investing and financing activities:		
Affiliate payable/receivable for ARL cost basis sales adjustment	$(57,010)	$-
Acquisition of land for ARL cost basis sales adjustment	$30,419	$-
Acquisition of income producing properties for ARL cost basis sales adjustment	$26,591	$-

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

As used herein, the terms "TCI", "the Company", "we", "our" or "us" refer to Transcontinental Realty Investors, Inc., a Neva corporation. TCI is the successor to a California business trust which was organized on September 6, 1983, and commenced operations on January 31, 1984. Effective March 31, 2003, TCI's financial results were consolidated in American Realty Investors, Inc. ("ARL") Form 10-K and related consolidated financial statements.

The Company is headquartered in Dallas, Texas and its common stock trades on the New York Stock Exchange under the symbol "NYSE: TCI". Subsidiaries of ARL own approximately 82.7% of the Company's common stock. TCI is a "C" corporation for U.S. federal income tax purposes and files an annual consolidated income tax return with ARL, whose common stock trades on the New York Stock Exchange under the symbol "NYSE: ARL".

TCI owns approximately 83.3% of the common stock of Income Opportunity Realty Investors, Inc. ("IOT"). Effective July 17, 2009, IOT's financial results were consolidated with those of ARL and TCI and their subsidiaries. Shares of IOT are traded on the American Stock Exchange under the symbol "AMEX: IOT".

TCI invests in real estate through direct ownership, leases and partnerships and it also invests in mortgage loans on real estate. Prior to April 30, 2011, Prime Income Asset Management, LLC ("Prime") was the Company's external Advisor and Cash Manager. Prime also served as an Advisor and Cash Manager to ARL and IOT. Effective April 30, 2011, Pillar Income Asset Management, Inc. ("Pillar") became the Company's external Advisor and Cash Manager under the same terms as the previous agreement with Prime. Pillar also serves as an Advisor and Cash Manager to ARL and IOT. Prior to December 31, 2010, Triad Realty Services, L.P. ("Triad") managed the Company's commercial properties and Regis Realty I, LLC ("Regis Realty") provided brokerage services. Triad and Regis Realty are affiliates of Prime. Effective January 1, 2011, Regis Realty Prime, LLC ("Regis"), an affiliate of Prime, manages our commercial properties and provides brokerage services under the same terms as the previous agreements with Triad and Regis Realty for a term of five years. TCI engages third-party companies to lease and manage its apartment properties. We have no employees.

Properties

We own or had interests in a total property portfolio of 71 income producing properties as of June 30, 2011. The properties consisted of:

- 23 commercial buildings totaling 4.2 million leasable square feet, consisting of 15 office buildings, five industrial properties, and three retail properties;
- 48 apartment communities totaling 8,919 units; excluding apartments being developed; and
- 4,891 acres of developed and undeveloped land.

We are involved in the construction of three apartment complexes as of June 30, 2011. In addition, we invest in several tracts of land and are at various stages of predevelopment on many of these properties. We partner with several third-party developers to construct residential projects. The third-party developer typically takes a general partner and majority limited partner interest in the development partnership while we take a minority limited partner interest. We are required to fund the equity contributions. The third-party developer is responsible for obtaining financing, for 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.

Basis of presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, have been condensed or omitted in accordance with such rules and regulations, although management believes the disclosures are adequate to prevent the information presented from being misleading. In the opinion of management, all adjustments (consisting of normal recurring matters) considered necessary for a fair presentation have been included. The results of operations for the six months ended June 30, 2011, are not necessarily indicative of the results that may be expected for other interim periods or for the full fiscal year.

The year-end Consolidated Balance Sheet at December 31, 2010, was derived from the audited financial statements at that date, but does not include all of the information and disclosures required by GAAP for complete financial statements. For further information, refer to the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010. Certain 2010 financial statement amounts have been reclassified to conform to the 2011 presentation, including adjustments for discontinued operations.

Principles of consolidation

The accompanying Consolidated Financial Statements include the accounts of the Company, its subsidiaries, generally all of which are wholly-owned, and all entities in which we have a controlling interest. Arrangements that are not controlled through voting or similar rights are accounted for as a Variable Interest Entity (VIE), in accordance with the provisions and guidance of ASC Topic 810 “Consolidation”, whereby we have determined that we are a primary beneficiary of the VIE and meet certain criteria of a sole general partner or managing member as identified in accordance with Emerging Issues Task Force (“EITF”) Issue 04-5, Investor’s Accounting for an Investment in a Limited Partnership when the Investor is the Sole General Partner and the Limited Partners have Certain Rights (“EITF 04-5”). VIEs are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders as a group lack adequate decision making ability, the obligation to absorb expected losses or residual returns of the entity, or have voting rights that are not proportional to their economic interests. The primary beneficiary generally is the entity that provides financial support and bears a majority of the financial risks, authorizes certain capital transactions, or makes operating decisions that materially affect the entity’s financial results. All significant intercompany balances and transactions have been eliminated in consolidation.

In determining whether we are the primary beneficiary of a VIE, we consider qualitative and quantitative factors, including, but not limited to: the amount and characteristics of our investment; the obligation or likelihood for us or other investors to provide financial support; our and the other investors’ ability to control or significantly influence key decisions for the VIE; and the similarity with and significance to the business activities of us and the other investors. Significant judgments related to these determinations include estimates about the current future fair values and performance of real estate held by these VIEs and general market conditions.

For entities in which we have less than a controlling financial interest or entities where we are not deemed to be the primary beneficiary, the entities are accounted for using the equity method of accounting. Accordingly, our share of the net earnings or losses of these entities is included in consolidated net income. Our investments in ARL and Garden Centura, L.P. are accounted for under the equity method.