TRANSCONTINENTAL REALTY INVESTORS INC
Form 10-Q
August 16, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2010

or

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

For the transition period from __________ to __________

Commission File Number 001-09240

TRANSCONTINENTAL REALTY INVESTORS, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

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

(Address of principal executive offices)

(Zip Code)

(469) 522-4200

(Registrant s telephone number, including area code)

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

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

¨Yes ¨No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (do not check if a smaller reporting company)	Smaller reporting company ¨

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

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

Common Stock, $.01 par value	8,113,469
(Class)	(Outstanding at August 1, 2010)

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TRANSCONTINENTAL REALTY INVESTORS, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

TRANSCONTINENTAL REALTY INVESTORS, INC.

CONSOLIDATED BALANCE SHEETS

(unaudited)

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

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

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

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TRANSCONTINENTAL REALTY INVESTORS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

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

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

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

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TRANSCONTINENTAL REALTY INVESTORS, INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

For the Six Months Ended June 30, 2010

(unaudited)

(dollars in thousands)

	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, 2009	$ 245,416	$ (82,148)	$ 1	8,113,669	$ 81	$ -	$ 262,118	$ (34,718)	$ -	$ 17,934
Series C preferred stock dividends (7.0% per year)	(105)	-	-	-	-	-	(105)	-	-	-
Series D preferred stock dividends (8.5% per year)	(422)	-	-	-	-	-	(422)	-	-	-
Net income (loss)	(30,507)	(30,507)	-	-	-	-	-	(30,667)	-	160
Changes in controlling interest	(3)	-	-	-	-	-	(3)	-	-	-
Changes in non-controlling interest	(95)	-	-	-	-	-	-	-	-	(95)
Balance, June 30, 2010	$ 214,284	$ (112,655)	$ 1	8,113,669	$ 81	$ -	$ 261,588	$ (65,385)	$ -	$ 17,999

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

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TRANSCONTINENTAL REALTY INVESTORS, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(unaudited)

	For the Six Months Ended June 30, 2010	2009
	(dollars in thousands)	
Net loss	$ (30,507)	$ (42,906)
Other comprehensive income (loss)		
Unrealized loss on investment securities	-	(2,575)
Total other comprehensive loss	-	(2,575)
Comprehensive loss attributable to Transcontinental Realty Investors, Inc.	(30,507)	(45,481)
Comprehensive (income) loss attributable to non-controlling interest	(160)	198
Comprehensive loss attributable to Transcontinental Realty Investors, Inc.	$ (30,667)	$ (45,283)

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

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TRANSCONTINENTAL REALTY INVESTORS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	For the Six Months Ended June 30, 2010	2009
	(dollars in thousands)	
Cash Flow From Operating Activities:		
Net loss applicable to common shares	$ (31,194)	$ (43,210)
Adjustments to reconcile net loss applicable to common shares to net cash used in operating activities:		
(Gain) loss on sale of land	5,634	(6,296)
(Gain) loss on sale of income producing properties	139	(532)
Depreciation and amortization	14,491	14,780
Provision on impairment of notes receivable and real estate assets	-	28,575
Amortization of deferred borrowing costs	1,074	1,897
Changes in non-controlling interest	65	-
Earnings from unconsolidated subsidiaries and investees	112	147
(Increase) decrease in assets:		
Accrued interest receivable	(128)	(27)
Other assets	7,333	(4,714)
Prepaid expense	52	513
Escrow	8,664	12,186
Earnest money	315	(2,614)
Rent receivables	(2,356)	(4,624)
Increase (decrease) in liabilities:		
Accrued interest payable	624	48
Cash invested with Advisor	(893)	1,027
Other liabilities	(8,836)	(11,731)
Net cash used in operating activities	(4,904)	(14,575)
Cash Flow From Investing Activities:		
Proceeds from notes receivables ($1,438 in 2010, $3,077 in 2009 from affiliates)	1,438	5,072
Acquisition of land held for development	(2,259)	(650)
Proceeds from sale of income producing properties	30,043	4,000
Proceeds from sale of land	12,325	12,431
Investment in unconsolidated real estate entities	308	207
Improvement of land held for development	(1,319)	(2,578)
Improvement of income producing properties	(1,185)	(975)
Investment in marketable equity securities	-	2,775
Acquisition of non-controlling interest	-	(198)
Construction and development of new properties	(10,294)	(19,646)
Net cash provided by investing activities	29,057	438
Cash Flow From Financing Activities:		
Proceeds from notes payable	93,753	24,526
Recurring amortization of principal on notes payable	(5,974)	(8,603)
Payments on maturing notes payable	(74,375)	(8,375)
Debt assumption by buyer	(36,232)	(956)

Deferred financing costs		(2,627)		2,302
Net cash provided by (used in) financing activities		(25,455)		8,894
Net decrease in cash and cash equivalents		(1,302)		(5,243)
Cash and cash equivalents, beginning of period		5,665		5,983
Cash and cash equivalents, end of period	$	4,363	$	740
Supplemental disclosures of cash flow information:				
Cash paid for interest	$	32,240	$	34,970
Cash paid for income taxes, net of refunds	$	(48)	$	1,110
Schedule of noncash investing and financing activities:				
Unrealized loss on marketable securities	$	-	$	(2,575)
Notes receivable received from affiliate	$	-	$	2,341

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

Organization

As used herein, the terms we , us , our , the Company or TCI refer to Transcontinental Realty Investors, Inc., a Nevada 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. TCI invests in real estate through direct ownership, leases and partnerships and it also invests in mortgage loans on real estate.

The Company is headquartered in Dallas, Texas and its common stock trades on the New York Stock Exchange under the symbol (NYSE: TCI). Subsidiaries of American Realty Investors, Inc. own approximately 82.7% 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. TCI engages third-party companies to lease and manage its apartment properties. TCI is a C Corporation for U.S. federal income tax purposes and files an annual consolidated income tax return with ARL.

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

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

Properties

We own or had interests in a total property portfolio of 82 income producing properties as of June 30, 2010. The properties consisted of:

- 27 commercial buildings totaling 5.0 million leasable square feet, consisting of 18 office buildings, six industrial properties, and three retail properties;
- 55 apartment communities totaling 10,918 units; excluding apartments being developed; and
- 6,828 acres of developed and undeveloped land.

We are involved in the construction of three apartment complexes as of June 30, 2010. In addition, we invest in several tracts of land and are at several stages of predevelopment on many of these properties. We partner with various third-party developers to construct residential projects. The third-party developer typically takes a general partner interest in the development partnership while we take a limited partner (and majority) interest. We are 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.

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, 2010, 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, 2009, 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, 2009. Certain 2009 financial statement amounts have been reclassified to conform to the 2010 presentation, including adjustments for discontinued operations.

Principles of consolidation

The accompanying 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 judgements 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.

Real estate, depreciation, and impairment

Real estate assets are stated at the lower of depreciated cost or fair value, if deemed impaired. Major replacements and betterments are capitalized and depreciated over their estimated useful lives. Depreciation is computed on a straight-line basis over the useful lives of the properties (buildings and improvements 10-40 years; furniture, fixtures and equipment 5-10 years). The Company continually evaluates the recoverability of the carrying value of its real estate assets using the methodology prescribed in ASC Topic 360, Property, Plant and Equipment . Factors considered by management in evaluating impairment of its existing real estate assets held for investment include significant declines in property operating profits, annually recurring property operating losses and other significant adverse changes in general market conditions that are considered permanent in nature. Under ASC Topic 360, a real estate asset held for investment is not considered impaired if the undiscounted, estimated future cash flows of an asset (both the annual estimated cash flow from future operations and the estimated cash flow from the theoretical sale of the asset) over its estimated holding period are in excess of the asset s net book value at the balance sheet date. If any real estate asset held for investment is considered impaired, a loss is provided to reduce the carrying value of the asset to its estimated fair value.

Real estate held for sale

We periodically classify real estate assets as held for sale. An asset is classified as held for sale after the approval of our board of directors and after an active program to sell the asset has commenced. Upon the classification of a real estate asset as held for sale, the carrying value of the asset is reduced to the lower of its net book value or its estimated fair value, less costs to sell the asset. Subsequent to the classification of assets as held for sale, no further depreciation expense is recorded. Real estate assets held for sale are stated separately on the accompanying Consolidated Balance Sheets. Upon a decision to no longer market as an asset for sale, the asset is classified as an operating asset and depreciation expense is reinstated. The operating results of real estate assets held for sale and sold are reported as discontinued operations in the accompanying statements of operations. Income from discontinued operations includes the revenues and expenses, including depreciation and interest expense, associated with the assets. This classification of operating results as discontinued operations applies retroactively for all periods presented. Additionally, gains and losses on assets designated as held for sale are classified as part of discontinued operations.

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Cost capitalization

Costs related to planning, developing, leasing and constructing a property are capitalized and classified as Real Estate in the Consolidated Balance Sheets. We capitalize interest to qualifying assets under development based on average accumulated expenditures outstanding during the period. In capitalizing interest to qualifying assets, we first use the interest incurred on specific project debt, if any, and next use the weighted average interest rate of non-project specific debt. We capitalize interest, real estate taxes and certain operating expenses until building construction is substantially complete and the building is ready for its intended use.

We capitalize leasing costs which include commissions paid to outside brokers, legal costs incurred to negotiate and document a lease agreement and any internal costs that may be applicable. The company allocates these costs to individual tenant leases and amortizes them over the related lease term.

Fair value measurement

We apply the guidance in ASC Topic 820, Fair Value Measurements and Disclosures , to the valuation of real estate assets. These provisions define fair value as the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at the measurement date, establish a hierarchy that prioritizes the information used in developing fair value estimates and require disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable data (Level 3 measurements), such as the reporting entity s own data.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date and includes three levels defined as follows:

Level 1	Unadjusted quoted prices for identical and unrestricted assets or liabilities in active markets.
Level 2	Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
Level 3	Unobservable inputs that are significant to the fair value measurement.

A financial instrument s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Newly issued accounting pronouncements

We have considered all other newly issued accounting guidance that is applicable to our operations and the preparation of our consolidated statements, including that which we have not yet adopted. We do not believe that any such guidance will have a material effect on our financial position or results of operation.

NOTE 2. REAL ESTATE ACTIVITY

The highlights of our significant real estate transactions for the six months ended June 30, 2010 are listed below:

On February 18, 2010, we purchased 15.88 acres of Furniture Row land located in Midland, Texas for $2.2 million. This land was purchased for the development of Blue Ridge apartments, a 290-unit apartment complex. We financed the transaction with $0.3 million cash, a $0.8 million draw on a construction loan with a commercial lender and a $1.0 million loan provided by the seller. In addition, we paid $0.1 million in commissions and closing costs. The seller financing accrues interest, payable monthly, at 8.00% and matures on March 18, 2011.

On April 15, 2010, we sold 6.77 acres of land known as McKinney Corners II land located in McKinney, Texas for a sales price of $1.6 million. The existing loan of $1.4 million, secured by the property, was paid off at close. We recorded a loss on sale of $0.4 million on the land parcel.

On April 16, 2010, we sold the Foxwood apartments, a 220-unit complex located in Memphis, Tennessee for $5.1 million. The buyer assumed the existing mortgage of $5.1 million secured by the property.

On April 23, 2010, we sold the Longfellow Arms apartments, a 216-unit complex located in Longview, Texas for $20.0 million. We received $6.1 million in cash and the buyer assumed the existing mortgage of $14.4 million, secured by the property. The property was sold to a related party; therefore the gain of $3.6 million was deferred and will be recorded upon sale to a third party.

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On May 4, 2010, we sold 16.79 acres of land known as Ewing 8 land located in Addison, Texas for a sales price of $16.0 million. The buyer assumed the existing mortgage of $10.7 million secured by the property. We recorded a loss on sale of $5.3 million on the land parcel.

On May 18, 2010, we sold Eton Square, a 225,566 square foot office and retail center located in Tulsa, Oklahoma for $13.7 million. We provided $4.0 million in seller financing with a three-year note receivable. The note accrues interest at prime plus 2% and is payable at maturity. The buyer assumed the existing mortgage of $9.6 million, secured by the property, but did not assume the obligation of TCI s guarantee on the loan. Therefore, per the deposit method, the sale will not be recorded and the asset and debt will continue to remain on the books.

We continued to invest in the development of apartment projects. For the six months ended June 30, 2010, we have expended $10.3 million on the construction of various apartment complexes and capitalized $0.8 million of interest costs.

NOTE 3. NOTES AND INTEREST RECEIVABLE

Our receivables as of June 30, 2010 are listed below (dollars in thousands):

Borrower	Maturity Date	Interest Rate	Amount	Security
Performing loans:				
3334Z Apts, L.P.	04/12	6.50%	$ 1,875	100% Interest in Mountain Plaza Apartments
Basic Capital Management, Inc. (1)	10/11	prime + 2%	1,252	Industrial building, Arlington, TX
Basic Capital Management, Inc. (1)	10/11	prime + 2%	1,523	Retail building, Cary, NC
Garden Centura, L.P. (1)	N/A	7.00%	2,390	Excess cash flow from partnership
Housing for Seniors of Humble, LLC (Lakeshore Villas) (1)	12/13	11.50%	2,000	Unsecured
Housing for Seniors of Humble, LLC (Lakeshore Villas) (1)	12/13	11.50%	6,363	Membership interest in Housing for Seniors of Humble, LLC
Miscellaneous non-related party notes	Various	Various	1,401	Various secured interest
Miscellaneous related party notes (1)	Various	Various	2,593	Various secured interest
Ocean Beach Partners, L.P. (1)	12/11	7.00%	3,279	Folsom Land (36 acres in Farmers Branch, TX)
Pioneer Austin Development	10/08	18.00%	2,407	33 acres of undeveloped land, Austin, TX
United Housing Foundation, Inc. (Cliffs of El Dorado) (1)	09/10	10.00%	2,990	100% Interest in Unified Housing of McKinney, LLC
United Housing Foundation, Inc. (Echo Station) (1)	12/13	12.00%	1,668	100% Interest in Unified Housing of Temple, LLC
United Housing Foundation, Inc. (Limestone Canyon) (1)	12/13	12.00%	3,057	100% Interest in Unified Housing of Austin, LLC
United Housing Foundation, Inc. (Limestone Ranch) (1)	12/13	12.00%	2,250	100% Interest in Unified Housing of Vista Ridge, LLC
United Housing Foundation, Inc. (Parkside Crossing) (1)	12/13	12.00%	1,936	100% Interest in Unified Housing of Parkside Crossing, LLC
United Housing Foundation, Inc. (Sendero Ridge) (1)	12/13	12.00%	5,175	100% Interest in Unified Housing of Sendero Ridge, LLC
United Housing Foundation, Inc. (Timbers of Terrell) (1)	12/13	12.00%	1,323	100% Interest in Unified Housing of Terrell, LLC
United Housing Foundation, Inc. (Tivoli) (1)	12/13	12.00%	1,826	100% Interest in Unified Housing of Tivoli, LLC
Accrued interest			1,722	
Total Performing			**$ 47,030**	
Allowance for estimated losses			(2,804)	
Total			**$ 44,226**	

(1) Related party notes

NOTE 4. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES AND INVESTEES

Investments in unconsolidated subsidiaries, jointly owned companies and other investees in which we have a 20% to 50% interest or otherwise exercise significant influence are carried at cost, adjusted for the Company s proportionate share of their undistributed earnings or losses, via the equity method of accounting. American Realty Investors, Inc. (ARL) is our parent company. Income Opportunity Realty Investors, Inc. (IOT) is a related entity and as of July 2009, is now a fully consolidated subsidiary. ARL is considered an unconsolidated subsidiary.

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

		Percentage ownership as of	
		June 30, 2010	**June 30, 2009**
American Realty Investors, Inc.	(1)	2%	3%
Income Opportunity Realty Investors, Inc.	(2)	0%	25%
Garden Centura, L.P.	(3)	5%	5%

(1) Unconsolidated subsidiary

(2) Consolidated subsidiary as of 7/09

(3) Other investee

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

The market values, other than for the unconsolidated subsidiary, as of the quarter ended June 30, 2010 and 2009 were not determinable as there were no readily traded markets for these entities.

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The following is a summary of the financial position and results of operations from our unconsolidated subsidiaries and investees for the six months ended June 30, 2010 and 2009 (dollars in thousands):

For the six months ended June 30, 2010	Unconsolidated Subsidiaries	Other Investees	Total
Real estate, net of accumulated depreciation	$ 243,655	$ 75,880	$ 319,535
Notes Receivable	41,564		41,564
Other assets	165,274	5,709	170,983
Notes payable	(230,991)	(48,231)	(279,222)
Other liabilities	(117,736)	(1,984)	(119,720)
Shareholders equity/partners capital	(101,766)	(31,374)	(133,140)
Rents and interest and other income	$ 17,041	$ 4,078	$ 21,119
Depreciation	(1,194)	(1,556)	(2,750)
Operating expenses	(15,175)	(1,966)	(17,141)
Gain on land sales	1,519		1,519
Interest expense	(8,546)	(1,805)	(10,351)
Loss from continuing operations	(6,355)	(1,249)	(7,604)
Income from discontinued operations	5,821		5,821
Net loss	$ (534)	$ (1,249)	$ (1,783)
Companys proportionate share of earnings	$ (13)	$ (62)	$ (75)

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

Companys proportionate share of earnings	$	(172)	$	(10)	$	(182)

NOTE 5. INVESTMENTS IN SECURITIES

Our investments in securities include equity investments in Realty Korea CR-REIT, Ltd. (CR-REIT), which was traded on the Korean stock exchange until its dissolution in 2008. We received our final distribution during the three months ended March 31, 2009.

NOTE 6. NOTES PAYABLE

On February 18, 2010, we purchased 15.88 acres of Furniture Row land located in Midland, Texas for $2.2 million, we financed the transaction with $0.3 million cash, a $0.8 million draw on a construction loan with a commercial lender, and a $1.0 million loan provided by the seller. The seller financing accrues interest, payable monthly, at 8.00% and matures on March 18, 2011. A construction loan in the amount of $24.5 million was taken out to fund the development of Blue Ridge apartments. The loan accrues interest at 5.37%, payable monthly as interest only, until November 1, 2011. Thereafter, payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on October 1, 2051.

On March 30, 2010, we refinanced the existing mortgage on Blue Lake Villas apartments, a 186-unit complex located in Waxahachie, Texas, for a new mortgage of $10.7 million. We paid off the existing mortgage of $10.3 million and $0.5 million in closing costs. The note accrues interest at 4.75% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on April 1, 2050.

On March 30, 2010, we refinanced the existing mortgage on Spyglass of Mansfield apartments, a 256-unit complex located in Mansfield, Texas, for a new mortgage of $15.8 million. We paid off the existing mortgage of $15.5 million and $0.4 million in closing costs. The note accrues interest at 4.75% and payments of interest and principal are due monthly based upon a 37-year amortization schedule, maturing on April 1, 2047.

On March 30, 2010, we refinanced the existing mortgage on Falcon Lakes apartments, a 248-unit complex located in Arlington, Texas, for a new mortgage of $13.7 million. We paid off the existing mortgage of $13.1 million and $0.7 million in closing costs. The note accrues interest at 4.75% and payments of interest and principal are due monthly based upon a 36-year amortization schedule, maturing on April 1, 2046.

On May 13, 2010, a construction loan with a commercial lender in the amount of $17.0 million was taken out to fund the development of the Toulon apartments. The loan accrues interest at 5.37%, payable monthly as interest only, until December 1, 2011. Thereafter, payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on December 1, 2051.

On May 21, 2010, we refinanced the existing mortgage on Desoto Ranch apartments, a 248-unit complex located in Desoto, Texas, for a new mortgage of $16.3 million. We paid off the existing mortgage of $15.7 million and $0.8 million in closing costs. The note accrues interest at 4.79% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on June 1, 2050.

On May 27, 2010, we refinanced the existing mortgage on Vistas at Pinnacle Park apartments, a 332-unit complex located in Dallas, Texas, for a new mortgage of $19.1 million. We paid off the existing mortgage of $18.3 million and $1.0 million in closing costs. The note accrues interest at 4.86% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on June 1, 2050.

On May 28, 2010, a loan with a commercial lender in the amount of $3.3 million was taken out to fund real estate property taxes. The loan accrues interest at 12.5%, payable monthly as interest only, until July 1, 2012. Thereafter, payments of interest and principal are due monthly based upon an 8-year amortization schedule, maturing on June 1, 2020.

In conjunction with the development of various apartment projects and other developments, we drew down $12.6 million in construction loans during the six months ended June 30, 2010.

NOTE 7. RELATED PARTY TRANSACTIONS

The following table reconciles the beginning and ending balances of accounts receivable from and (accounts payable) to affiliates as of June 30, 2010 (dollars in thousands):

Balance, December 31, 2009	$	(50,163)
Cash transfers		24,605
Cash repayments		(20,149)
Fees and commissions payable to affiliates		(10,408)
Advances due to financing proceeds		1,526
Notes receivable with affiliate		123
Payables through Prime		5,196
Balance, June 30, 2010	$	(49,270)

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

NOTE 8. OPERATING SEGMENTS

Our segments are based on our method of internal reporting which classifies our operations by property type. Our property types are grouped into commercial, apartments, land and other operating segments. 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. We evaluate the performance of each of the operating segments and allocate resources to them based on their operating income and cash flow.

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Presented below is our reportable segments operating income for the three and six months ended June 30, 2010 and 2009, including segment assets and expenditures (dollars in thousands):

For the Three Months Ended June 30, 2010	Commercial Properties	Apartments	Land	Other	Total
Operating revenue	$ 14,046	$ 20,824	$ 92	$ (11)	$ 34,951
Operating expenses	8,065	11,759	1,163	7	20,994
Depreciation and amortization	2,966	4,455	-	-	7,421
Mortgage and loan interest	4,356	10,042	2,443	930	17,771
Interest income	-	-	-	832	832
Loss on land sales	-	-	(5,640)	-	(5,640)
Segment operating loss	$ (1,341)	$ (5,432)	$ (9,154)	$ (116)	$ (16,043)
Capital expenditures	333	-	-	-	333
Assets	317,074	701,924	379,058	-	1,398,056
Property Sales					
Sales price	$ 5,970	$ 25,092	$ 17,660	$ -	$ 48,722
Cost of sale	6,184	21,418	23,300	-	50,902
Deferred current gain	-	3,599	-	-	3,599
Recognized prior deferred gain	-	-	-	-	-
Gain (loss) on sale	$ (214)	$ 75	$ (5,640)	$ -	$ (5,779)

	Commercial Properties	Apartments	Land	Other	Total
For the Three Months Ended June 30, 2009					
Operating revenue	$ 14,812	$ 21,871	$ 86	$ -	$ 36,769
Operating expenses	7,617	10,461	439	(150)	18,367
Depreciation and amortization	3,042	4,207	-	-	7,249
Mortgage and loan interest	3,898	9,570	3,726	653	17,847
Interest income	-	-	-	731	731
Gain on land sales	-	-	6,548	-	6,548
Segment operating income (loss)	$ 255	$ (2,367)	$ 2,469	$ 228	$ 585
Capital expenditures	424	39	-	-	463
Assets	327,499	694,968	383,316	-	1,405,783
Property Sales					
Sales price	$ -	$ -	$ 11,921	$ -	$ 11,921
Cost of sale	-	-	5,373	-	5,373
Deferred current gain	-	-	-	-	-
Recognized prior deferred gain	-	-	-	-	-
Gain on sale	$ -	$ -	$ 6,548	$ -	$ 6,548

The table below reconciles the segment information to the corresponding amounts in the Consolidated Statements of Operations:

	For Three Months Ended June 30, 2010	2009
Segment operating income (loss)	$ (16,043)	$ 585
Other non-segment items of income (expense)		
General and administrative	(1,816)	(1,918)
Advisory fees	(2,962)	(2,943)
Litigation settlement	-	(14)
Provision on impairment of notes receivable and real estate assets	-	(28,196)
Other income	249	180
Equity in earnings of investees	(193)	(300)
Deferred tax benefit	92	199
Loss from continuing operations	$ (20,673)	$ (32,407)

The table below reconciles the segment information to the corresponding amounts in the Consolidated Balance Sheets:

	For Three Months Ended June 30, 2010	2009
Segment assets	$ 1,398,056	$ 1,405,783
Investments in real estate partnerships	8,938	23,158
Other assets	136,970	119,781
Assets held for sale	5,147	41,974
Total assets	$ 1,549,111	$ 1,590,696

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For the Six Months Ended June 30, 2010	Commercial Properties	Apartments	Land	Other	Total
Operating revenue	$ 28,567	$ 42,983	$ 160	$ (30)	$ 71,680
Operating expenses	16,091	23,206	1,735	57	41,089
Depreciation and amortization	5,944	8,404	-	-	14,348
Mortgage and loan interest	8,617	18,744	5,077	1,996	34,434
Interest income	-	-	-	1,691	1,691
Loss on land sales	-	-	(5,634)	-	(5,634)
Segment operating loss	$ (2,085)	$ (7,371)	$ (12,286)	$ (392)	$ (22,134)
Capital expenditures	813	260	121	-	1,194
Assets	317,074	701,924	379,058	-	1,398,056
Property Sales					
Sales price	$ 5,970	$ 25,092	$ 17,669	$ -	$ 48,731
Cost of sale	6,184	21,418	23,303	-	50,905
Deferred current gain	-	3,599	-	-	3,599
Recognized prior deferred gain	-	-	-	-	-
Gain (loss) on sale	$ (214)	$ 75	$ (5,634)	$ -	$ (5,773)

For the Six Months Ended June 30, 2009	Commercial Properties	Apartments	Land	Other	Total
Operating revenue	$ 30,058	$ 43,257	$ 231	$ (981)	$ 72,565
Operating expenses	15,647	24,334	875	(57)	40,799
Depreciation and amortization	6,041	8,270	-	-	14,311
Mortgage and loan interest	7,858	17,838	6,798	1,360	33,854
Interest income	-	-	-	1,367	1,367
Gain on land sales	-	-	6,296	-	6,296
Segment operating income (loss)	$ 512	$ (7,185)	$ (1,146)	$ (917)	$ (8,736)
Capital expenditures	932	39	45	-	1,016
Assets	327,499	694,968	383,316	-	1,405,783
Property Sales					
Sales price	$ -	$ -	$ 19,505	$ -	$ 19,505
Cost of sale	-	-	13,209	-	13,209
Deferred current gain	-	-	-	-	-
Recognized prior deferred gain	532	-	-	-	532
Gain on sale	$ 532	$ -	$ 6,296	$ -	$ 6,828

The table below reconciles the segment information to the corresponding amounts in the Consolidated Statements of Operations:

	For Six Months Ended June 30, 2010	2009
Segment operating loss	$ (22,134)	$ (8,736)
Other non-segment items of income (expense)		
General and administrative	(3,652)	(3,579)
Advisory fees	(6,058)	(5,801)
Litigation settlement	-	744
Provision on impairment of notes receivable and real estate assets	-	(28,575)
Other income	914	3,285

Equity in earnings of investees	(253)	(300)
Deferred tax benefit (expense)	268	(94)
Loss from continuing operations	$ (30,915)	$ (43,056)

The table below reconciles the segment information to the corresponding amounts in the Consolidated Balance Sheets:

	For Six Months Ended June 30,	
	2010	**2009**
Segment assets	$ 1,398,056	$ 1,405,783
Investments in real estate partnerships	8,938	23,158
Other assets	136,970	119,781
Assets held for sale	5,147	41,974
Total assets	$ 1,549,111	$ 1,590,696

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NOTE 9. DISCONTINUED OPERATIONS

We apply the provisions of ASC Topic 360 Property, Plant and Equipment . ASC Topic 360 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.

Discontinued operations relates to properties that were either sold or held for sale as of the period ended June 30, 2010. Included in discontinued operations are a total of three and seven properties for 2010 and 2009, respectively. Properties sold in 2010 that were held in 2009 have been reclassified to discontinued operations for 2010. In 2010, we had one apartment complex held for sale (Baywalk), and sold two apartment complexes (Foxwood and Longfellow Arms). In 2009, we sold one apartment complex (Bridges on Kinsey), and three commercial properties (5000 Space Center, 5360 Tulane and Cullman Shopping Center). In addition, we recognized the deferred gain on the sale of the Hartford building sold in 2002 in accordance with the requirements per ASC Topic 360-20 Property, Plant, and Equipment Real Estate Sales . The gain on sale of the properties is also included in discontinued operations for those years. The following table summarizes revenue and expense information for these properties sold and held-for-sale (dollars in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
Revenue				
Rental	$ 680	$ 1,715	$ 2,293	$ 3,366
Property operations	343	402	951	2,061
	337	1,313	1,342	1,305
Expenses				
Other income	-	-	-	13
Interest	(51)	(644)	(554)	(1,277)
General and administrative	(4)	(7)	(10)	18
Depreciation	(23)	(246)	(152)	(513)
	(78)	(897)	(716)	(1,759)
Net income (loss) from discontinued operations before gains on sale of real estate	259	416	626	(454)
Gain (loss) on sale of discontinued operations	(139)	-	(139)	532
Equity in earnings of investees	143	153	141	153
Income from discontinued operations	263	569	628	231
Tax expense	(92)	(199)	(220)	(81)
Net income from discontinued operations	$ 171	$ 370	$ 408	$ 150

Our application of ASC Topic 360 results in the presentation of the net operating results of these qualifying properties sold or held for sale during 2010 as income from discontinued operations. This does not have an impact on net income available to common shareholders and only impacts the presentation of these properties within the Consolidated Statements of Operations.

NOTE 10. COMMITMENTS AND CONTINGENCIES AND LIQUIDITY

Partnership Obligations. TCI is the limited partner in three partnerships that are currently constructing residential properties. As permitted in the respective partnership agreements, we intend 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 non-affiliated partners are limited to development fees earned by the non-affiliated partners, and are set forth in the respective partnership agreements.

Liquidity. TCI s principal liquidity needs are funding normal recurring expenses, meeting debt service requirements, funding capital expenditures, funding development costs not otherwise covered by construction loans and funding new property acquisitions not otherwise covered by acquisition financing. In 2010, we will rely on land sales, selected income producing property sales and, to the extent necessary, additional borrowings to meet our cash requirements.

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

NOTE 11. SUBSEQUENT EVENTS

There were no transactions subsequent to the period ending June 30, 2010.

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NOTE 12. EARNINGS PER SHARE

Earnings per share (EPS) have been computed pursuant to the provisions of ASC Topic 260 Earnings Per Share . The computation of basic EPS is calculated by dividing income available to common shareholders from continuing operations, adjusted for preferred dividends, by the weighted-average number of common shares outstanding during the period. Shares issued during the period shall be weighted for the portion of the period that they were outstanding. As of June 30, 2010, we have 10,000 shares of stock options outstanding. These options are considered in the computation of diluted earnings per share if the effect of applying the treasury stock method is dilutive. We have 30,000 shares of Series C Cumulative Convertible Preferred Stock issued and outstanding. The stock has a liquidation preference of $100.00 per share. After September 30, 2006, the stock may be converted into common stock at 90% of the daily average closing price of the common stock for the prior five trading days. The effects of the Series C Cumulative Convertible Preferred Stock are included in the dilutive earnings per share if applying the if-converted method is dilutive. As of June 30, 2010, the preferred stock and the stock options were anti-dilutive and thus not included in the EPS calculation.

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

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

This Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws, principally, but not only, under the captions Business , Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations . We caution investors that any forward-looking statements in this report, or which management may make orally or in writing from time to time, are based on management s beliefs and on assumptions made by, and information currently available to, management. When used, the words anticipate , believe , expect , intend , may , might , plan , estimate , project , should , will , result and similar expressions whicl 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

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

The risks included here are not exhaustive. Some of the risks and uncertainties that may cause our actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements, include among others, the factors listed and described at Part I, Item 1A. Risk Factors in the Company s Annual Report on Form 10-K, which investors should review. There have been no changes from the risk factors previously described in the Company s Form 10-K for the fiscal year ended December 31, 2009.

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

Overview

We are an externally advised and managed real estate investment company that owns a diverse portfolio of income producing properties and land held for development. Our portfolio of income-producing properties includes residential apartment communities, office buildings, and other commercial properties. Our investment strategy includes acquiring existing income-producing properties as well as developing new properties on land already owned or acquired for a specific development project. We acquire land primarily in urban in-fill locations or high-growth suburban markets. We are an active buyer and seller of real estate and during the six months ended June 30, 2010, we acquired $2.2 million and sold for a sales price of $48.7 million of land and income producing properties. As of June 30, 2010, we owned 10,918 units in 55 residential apartment communities and 27 commercial properties of approximately 5.0 million rentable square feet. In addition, we own 6,828 acres of land held for development and have three apartment complexes currently in development.

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 finance our development projects principally with short-term, variable interest rate construction loans that are converted to long-term, fixed rate amortizing mortgages when the development project is completed and occupancy has been stabilized. We 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 our wholly owned properties. When we sell assets, we may carry a portion of the sales price generally in the form of a short-term, interest bearing seller-financed note receivable. We generate operating revenues primarily by leasing apartment units to residents and leasing office, retail and industrial space to commercial tenants.

We have 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 our best interest.

We are advised by Prime under a contractual arrangement that is reviewed annually by our Board of Directors. Our commercial properties are managed by Regis Realty I, LLC. We currently contract with third-party companies to manage our apartment communities.

Critical Accounting Policies

We present our financial statements in accordance with generally accepted accounting principles in the United States (GAAP). In June 2009, the Financial Accounting Standards Board (FASB) completed its accounting guidance codification project. The FASB Accounting Standards Codification (ASC) became effective for our financial statements issued subsequent to June 30, 2009 and is the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. As of the effective date, we no longer refer to the authoritative guidance dictating our accounting methodologies under the previous accounting standards hierarchy. Instead, we refer to the ASC Codification as the sole source of authoritative literature.

The accompanying Consolidated Financial Statements include our accounts, our 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 judgements 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 are included in consolidated net income. Our investments in ARL and Garden Centura, L.P. are accounted for under the equity method.

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Real Estate

Upon acquisitions of real estate, we assess 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 ASC Topic 805 Business Combinations , and allocate 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 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.

ASC Topic 360 Property, Plant and Equipment 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 we 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 judgement. Our capitalization policy on development properties is guided by ASC Topic 835-20 Interest Capitalization of Interest and ASC Topic 970 Real Estate - General . 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.

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Investments in Unconsolidated Real Estate Ventures

Except for ownership interests in variable interest entities, we account for our investments in unconsolidated real estate ventures under the equity method of accounting because we exercise significant influence over, but do 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 our 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, our 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, our 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, we consolidate those in which we are the primary beneficia