

AMERICAN REALTY INVESTORS INC  
Form 10-Q  
November 13, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

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 001-15663

AMERICAN REALTY INVESTORS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada  
(State or Other Jurisdiction of  
Incorporation or Organization)

75-2847135  
(I.R.S. Employer  
Identification No.)

1603 Lyndon B. Johnson 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.  Yes  No

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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.

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 definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No.

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

Common Stock, \$.01 par value (Class)	14,027,619 (Outstanding at November 12, 2014)
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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2014	December 31, 2013
	(dollars in thousands, except share and par value amounts)	
Assets		
Real estate, at cost	\$745,544	\$799,698
Real estate held for sale at cost, net of depreciation (\$2,066 for 2014 and \$2,390 for 2013)	44,288	16,427
Real estate subject to sales contracts at cost, net of depreciation (\$2,212 for 2014 and \$1,949 for 2013)	19,594	27,598
Less accumulated depreciation	(125,352 )	(143,429 )
Total real estate	684,074	700,294
Notes and interest receivable		
Performing (including \$147,978 in 2014 and \$145,754 in 2013 from related parties)	163,335	153,275
Non-performing	3,151	3,140
Less allowance for doubtful accounts (including \$15,537 in 2014 and \$15,809 in 2013 from related parties)	(18,279 )	(19,600 )
Total notes and interest receivable	148,207	136,815
Cash and cash equivalents	4,383	16,437
Restricted cash	28,813	32,929
Investments in unconsolidated subsidiaries and investees	4,137	3,789
Receivable from related party	22,930	14,086
Other assets	43,442	38,972
Total assets	\$935,986	\$943,322
Liabilities and Shareholders' Equity		
Liabilities:		
Notes and interest payable	\$597,469	\$618,930
Notes related to assets held for sale	42,883	17,100
Notes related to subject to sales contracts	18,769	23,012
Deferred revenue (including \$74,303 in 2014 and 2013 from sales to related parties)	76,148	76,148
Accounts payable and other liabilities (including \$10,634 in 2014 and \$15,394 in 2013 to related parties)	55,917	73,271
	791,186	808,461
Shareholders' equity:		
Preferred stock, Series A: \$2.00 par value, authorized 15,000,000 shares, issued and outstanding	3,126	4,908

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2,461,252 shares in 2014 and 3,353,954 shares in 2013 (liquidation preference \$10 per share),

including 900,000 shares in 2014 and 2013 held by ARL or subsidiaries. Series

K: \$2.00 par value,

authorized, issued and outstanding 0 shares in 2014 and 135,000 shares in 2013

(liquidation

preference \$22 per share)

Common stock, \$0.01 par value, authorized 100,000,000 shares; issued 14,443,404

shares in 2014

and 11,941,174 shares in 2013; outstanding 14,027,619 shares in 2014 and 11,525,389

shares in 2013;

including 140,000 shares held by TCI (consolidated) in 2014 and 229,214 shares held by

TCI

(consolidated) in 2013.

Treasury stock at cost; 415,785 shares in 2014 and 2013

Paid-in capital

Retained earnings

Total American Realty Investors, Inc. shareholders' equity

Non-controlling interest

Total equity

Total liabilities and equity

141		115
(6,395	)	(6,395 )
108,844		102,974
(8,046	)	(11,795 )
97,670		89,807
47,130		45,054
144,800		134,861
\$935,986		\$943,322

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

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

For the Three Months  
Ended  
September 30,  
2014                  2013                  For the Nine Months Ended  
September 30,  
2014                  2013  
(dollars in thousands, except per share amounts)

## Revenues:

Rental and other property revenues (including \$175 and \$165 for the three months and \$525 and \$497 for the nine months ended 2014 and 2013, respectively, from related parties)	\$ 19,326	\$ 19,530	\$ 57,986	\$ 57,810
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## Expenses:

Property operating expenses (including \$171 and \$178 for the three months and \$484 and \$550 for the nine months ended 2014 and 2013, respectively, from related parties)	10,766	10,387	30,677	29,107
Depreciation and amortization	4,463	4,053	13,099	11,820
General and administrative (including \$926 and \$878 for the three months and \$2,686 and \$2,765 for the nine months ended 2014 and 2013, respectively, from related parties)	1,590	1,867	6,770	5,911
Provision on impairment of notes receivable and real estate assets	-	1,125	-	1,926
Net income fee to related party	(186 )	55	514	159
Advisory fee to related party	2,225	2,584	6,670	7,625
Total operating expenses	18,858	20,071	57,730	56,548
Operating income (loss)	468	(541 )	256	1,262

## Other income (expenses):

Interest income (including \$4,699 and \$3,718 for the three months and \$14,693 and \$10,574 for the nine months ended 2014 and 2013, respectively, from related parties)	5,106	3,778	15,264	10,831
Other income	1,332	59	1,738	2,734
Mortgage and loan interest (including \$978 and \$1,168 for the three months and \$2,709 and \$2,849 for the nine months ended 2014 and 2013, respectively, from related parties)	(9,053 )	(9,130 )	(26,573 )	(27,152 )
Deferred borrowing costs amortization	(848 )	(247 )	(2,078 )	(2,672 )
Loan charges and prepayment penalties	(1,044 )	(49 )	(2,626 )	(4,166 )
Loss on sale of investments	-	(275 )	-	(283 )
Earnings from unconsolidated subsidiaries and investees	320	69	266	256
Litigation settlement	(86 )	(2,739 )	3,666	(2,727 )
Total other expenses	(4,273 )	(8,534 )	(10,343 )	(23,179 )
Loss before gain on land sales, non-controlling interest, and taxes	(3,805 )	(9,075 )	(10,087 )	(21,917 )

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Gain on land sales	40	598	634	563
Net loss from continuing operations before taxes	(3,765 )	(8,477 )	(9,453 )	(21,354 )
Income tax benefit	786	402	5,030	8,561
Net loss from continuing operations	(2,979 )	(8,075 )	(4,423 )	(12,793 )
Discontinued operations:				
Net income (loss) from discontinued operations	477	1,021	(454 )	(970 )
Gain on sale of real estate from discontinued operations	1,769	127	14,826	25,429
Income tax expense from discontinued operations	(786 )	(402 )	(5,030 )	(8,561 )
Net income from discontinued operations	1,460	746	9,342	15,898
Net income (loss)	(1,519 )	(7,329 )	4,919	3,105
Net (income) loss attributable to non-controlling interest	200	903	(1,170 )	(803 )
Net income (loss) attributable to American Realty Investors, Inc.	(1,319 )	(6,426 )	3,749	2,302
Preferred dividend requirement	(427 )	(613 )	(1,653 )	(1,839 )
Net income (loss) applicable to common shares	\$(1,746 )	\$(7,039 )	\$2,096	\$463
Earnings per share - basic				
Net loss from continuing operations	\$(0.24 )	\$(0.68 )	\$(0.59 )	\$(1.34 )
Net income from discontinued operations	0.11	0.06	0.76	1.38
Net income (loss) applicable to common shares	\$(0.13 )	\$(0.62 )	\$0.17	\$0.04
Earnings per share - diluted				
Net loss from continuing operations	\$(0.24 )	\$(0.68 )	\$(0.59 )	\$(1.34 )
Net income from discontinued operations	0.11	0.06	0.76	1.38
Net income (loss) applicable to common shares	\$(0.13 )	\$(0.62 )	\$0.17	\$0.04
Weighted average common shares used in computing earnings per share	13,619,647	11,525,389	12,231,146	11,525,389
Weighted average common shares used in computing diluted earnings per share	13,619,647	11,525,389	12,231,146	11,525,389