

TRANSCONTINENTAL REALTY INVESTORS INC

Form 10-Q

November 12, 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 September 30, 2010

or

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

For the transition period from _____ to _____

Commission File Number 001-09240

TRANSCONTINENTAL REALTY INVESTORS, INC.

(Exact Name of Registrant as Specified in Its Charter)

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Nevada (State or Other Jurisdiction of Incorporation or Organization)	94-6565852 (I.R.S. Employer Identification No.)
1800 Valley View Lane, Suite 300, Dallas, Texas 75234	
(Address of principal executive offices)	
(Zip Code)	
(469) 522-4200	
(Registrant's telephone number, including area code)	

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

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

Yes No

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer (do not check if a smaller reporting company) Smaller reporting company

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

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

Common Stock, \$.01 par value (Class)	8,113,469 (Outstanding at November 1, 2010)
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TRANSCONTINENTAL REALTY INVESTORS, INC.

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

	September 30, 2010	December 31, 2009
	(dollars in thousands, except share and par value amounts)	
Assets		
Real estate, at cost	\$ 1,424,078	\$ 1,520,043
Real estate held for sale at cost, net of depreciation (\$3,503 and \$1,252 for 2010 and 2009)	16,251	5,147
Real estate subject to sales contracts at cost, net of depreciation (\$10,049 for 2010 and \$13,985 for 2009)	23,985	59,048
Less accumulated depreciation	(141,812)	(137,054)
Total real estate	1,322,502	1,447,184
Notes and interest receivable		
Performing (including \$62,694 in 2010 and \$41,529 in 2009 from affiliates and related parties)	69,579	48,051
Less allowance for estimated losses	(2,804)	(2,804)
Total notes and interest receivable	66,775	45,247
Cash and cash equivalents	5,037	5,665
Investments in unconsolidated subsidiaries and investees	8,745	9,358
Other assets	88,051	100,833
Total assets	\$ 1,491,110	\$ 1,608,287
Liabilities and Shareholders Equity		
Liabilities:		
Notes and interest payable	\$ 1,055,811	\$ 1,121,737
Notes related to assets held-for-sale	15,036	5,002
Notes related to subject to sales contracts	18,754	61,886
Affiliate payables	48,108	50,163
Deferred revenue (from sales to related parties)	89,129	60,678
Accounts payable and other liabilities (including \$1,310 in 2010 and \$163 in 2009 from affiliates and related parties)	59,375	63,405
	1,286,213	1,362,871

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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 8,113,669 and outstanding 8,113,469 and 8,113,669 for 2010 and 2009	81	81
Treasury stock at cost; 200 and 0 shares in 2010 and 2009	(2)	-
Paid-in capital	261,321	262,118
Retained earnings	(74,340)	(34,718)
Total Transcontinental Realty Investors, Inc. shareholders' equity	187,061	227,482
Non-controlling interest	17,836	17,934
Total equity	204,897	245,416
Total liabilities and equity	\$ 1,491,110	\$ 1,608,287

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
	(dollars in thousands, except share and per share amounts)			
Revenues:				
Rental and other property revenues (including \$873 and \$902 for the three months and \$2,576 and \$2,576 for the nine months ended 2010 and 2009 respectively from affiliates and related parties)	\$ 33,070	\$ 33,643	\$ 101,773	\$ 100,581
Expenses:				
Property operating expenses (including \$426 and \$429 for the three months and \$1,290 and \$1,391 for the nine months ended 2010 and 2009 respectively from affiliates and related parties)	19,288	19,617	58,663	56,825
Depreciation and amortization	6,996	6,381	20,842	19,309
General and administrative (including \$471 and \$1,196 for the three months and \$2,148 and \$3,019 for the nine months ended 2010 and 2009 respectively from affiliates and related parties)	1,346	2,564	4,976	7,014
Provision on impairment of notes receivable and real estate assets	-	-	-	28,575
Advisory fee to affiliate	3,054	3,073	9,112	8,874
Total operating expenses	30,684	31,635	93,593	120,597
Operating income (loss)	2,386	2,008	8,180	(20,016)
Other income (expense):				
Interest income (including \$497 and \$364 for the three months and \$1,792 and \$739 for the nine months ended 2010 and 2009 respectively from affiliates and related parties)	669	582	2,360	1,949
Other income	640	295	1,554	3,579
Mortgage and loan interest (including \$698 and \$772 for the three months and \$2,419 and \$2,174 for the nine months ended 2010 and 2009 respectively from affiliates and related parties)	(15,262)	(16,717)	(48,376)	(47,999)
Earnings from unconsolidated subsidiaries and investees	(70)	(53)	(323)	(353)
Litigation settlement	-	(64)	-	681
Total other expenses	(14,023)	(15,957)	(44,785)	(42,143)
Loss before gain on land sales, non-controlling interest, and tax	(11,637)	(13,949)	(36,605)	(62,159)
Gain (loss) on land sales	(371)	-	(6,005)	6,296
Loss from continuing operations before tax	(12,008)	(13,949)	(42,610)	(55,863)
Income tax benefit	1,006	951	1,071	490

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Net loss from continuing operations	(11,002)	(12,998)	(41,539)	(55,373)
Discontinued operations:				
Loss from discontinued operations	(1,018)	(309)	(832)	(1,658)
Gain on sale of real estate from discontinued operations	3,893	3,027	3,754	3,559
Income tax expense from discontinued operations	(1,006)	(951)	(1,023)	(665)
Net income from discontinued operations	1,869	1,767	1,899	1,236
Net loss	(9,133)	(11,231)	(39,640)	(54,137)
Net (income) loss attributable to non-controlling interest	178	(62)	18	136
Net loss attributable to Transcontinental Realty Investors, Inc.	(8,955)	(11,293)	(39,622)	(54,001)
Preferred dividend requirement	(269)	(254)	(797)	(756)
Net loss applicable to common shares	\$ (9,224)	\$ (11,547)	\$ (40,419)	\$ (54,757)
Earnings per share - basic				
Loss from continuing operations	\$ (1.37)	\$ (1.64)	\$ (5.22)	\$ (6.90)
Discontinued operations	0.23	0.22	0.23	0.15
Net loss applicable to common shares	\$ (1.14)	\$ (1.42)	\$ (4.99)	\$ (6.75)
Earnings per share - diluted				
Loss from continuing operations	\$ (1.37)	\$ (1.64)	\$ (5.22)	\$ (6.90)
Discontinued operations	0.23	0.22	0.23	0.15
Net loss applicable to common shares	\$ (1.14)	\$ (1.42)	\$ (4.99)	\$ (6.75)
Weighted average common share used in computing earnings per share	8,113,495	8,113,669	8,113,610	8,113,669
Weighted average common share used in computing diluted earnings per share	8,113,495	8,113,669	8,113,610	8,113,669
Amounts attributable to Transcontinental Realty Investors, Inc.				
Loss from continuing operations	\$ (10,824)	\$ (13,060)	\$ (41,521)	\$ (55,237)
Income from discontinued operations	1,869	1,767	1,899	1,236
Net loss	\$ (8,955)	\$ (11,293)	\$ (39,622)	\$ (54,001)

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 Nine Months Ended September 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)	(159)	-	-	-	-	-	(159)	-	-	-
Series D preferred stock dividends (8.5% per year)	(638)	-	-	-	-	-	(638)	-	-	-
Net loss	(39,640)	(39,640)	-	-	-	-	-	(39,622)	-	(18)
Sale of controlling interest	22	-	-	-	-	-	-	-	-	22
Distributions to non-controlling interests	(7)	-	-	-	-	-	-	-	-	(7)
Adjustment to non-controlling interests for consolidation	(95)	-	-	-	-	-	-	-	-	(95)
Repurchase of treasury shares	(2)	-	-	-	-	(2)	-	-	-	-
Balance, September 30, 2010	\$ 204,897	\$ (121,788)	\$ 1	8,113,669	\$ 81	\$ (2)	\$ 261,321	\$ (74,340)	\$ -	\$ 17,836

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 Nine Months Ended	
	2010	September 30, 2009
	(dollars in thousands)	
Net loss	\$ (39,640)	\$ (54,137)
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.	(39,640)	(56,712)
Comprehensive loss attributable to non-controlling interest	18	136
Comprehensive loss attributable to Transcontinental Realty Investors, Inc.	\$ (39,622)	\$ (56,576)

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

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	For the Nine Months Ended September 30,	
	2010	2009
	(dollars in thousands)	
Cash Flow From Operating Activities:		
Net loss applicable to common shares	\$ (40,419)	\$ (54,757)
Adjustments to reconcile net loss applicable to common shares to net cash used in operating activities:		
(Gain) loss on sale of land	6,005	(6,296)
Gain on sale of income producing properties	(3,754)	(3,559)
Depreciation and amortization	21,649	22,273
Provision on impairment of notes receivable and real estate assets	-	28,575
Amortization of deferred borrowing costs	1,577	2,892
Earnings due to non-controlling interest	(18)	-
Earnings from unconsolidated subsidiaries and investees	122	199
(Increase) decrease in assets:		
Accrued interest receivable	(343)	208
Other assets	8,561	582
Prepaid expense	815	571
Escrow	5,537	9,804
Earnest money	900	(1,328)
Rent receivables	(1,726)	(7,054)
Increase (decrease) in liabilities:		
Accrued interest payable	1,239	(3,340)
Affiliate payables	(2,055)	(26,644)
Other liabilities	(4,324)	(1,695)
Net cash used in operating activities	(6,234)	(39,569)
Cash Flow From Investing Activities:		
Proceeds from notes receivable (\$1,443 in 2010, \$3,077 in 2009 from affiliates)	1,443	3,964
Originations of notes receivable (\$21,859 in 2010, \$0 in 2009 from affiliates)	(22,339)	-
Acquisition of land held for development	(4,937)	(5,946)
Proceeds from sale of income producing properties	146,131	8,000
Proceeds from sale of land	15,674	29,954
Investment in unconsolidated real estate entities	395	11,480
Improvement of land held for development	(1,820)	(2,426)
Improvement of income producing properties	(2,017)	(1,290)
Investment in marketable equity securities	-	2,775
Acquisition of non-controlling interest	-	(136)
Sales of controlling interest	22	-
Construction and development of new properties	(23,801)	(27,857)
Net cash provided by investing activities	108,751	18,518
Cash Flow From Financing Activities:		
Proceeds from notes payable	122,248	38,653
Recurring amortization of principal on notes payable	(9,484)	(11,337)

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Payments on maturing notes payable	(115,254)	(12,117)
Debt assumption by buyer	(97,772)	-
Deferred financing costs	(2,876)	1,852
Distributions to non-controlling interests	(7)	-
Net cash provided by (used in) financing activities	(103,145)	17,051
Net decrease in cash and cash equivalents	(628)	(4,000)
Cash and cash equivalents, beginning of period	5,665	5,983
Cash and cash equivalents, end of period	\$ 5,037	\$ 1,983

Supplemental disclosures of cash flow information:

Cash paid for interest	\$ 47,339	\$ 57,383
Cash paid for income taxes, net of refunds	\$ (48)	\$ 1,728

Schedule of noncash investing and financing activities:

Unrealized loss on marketable securities	\$ -	\$ (2,575)
Notes receivable received from affiliate	\$ 21,859	\$ 2,341
Note paydown from right to build sale	\$ -	\$ 1,500
Acquisition of real estate to satisfy note receivable	\$ -	\$ (1,847)
Assigned ownership for debt transfer	\$ -	\$ (4,000)

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. Triad Realty Services, LP (Triad), an affiliate of Prime, manages the Company's commercial properties. Triad subcontracts the property-level management and leasing of our commercial properties to Regis Realty I, LLC. 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 under the symbol (AMEX: IOT).

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 75 income producing properties as of September 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;

48 apartment communities totaling 9,197 units; excluding apartments being developed; and

6,784 acres of developed and undeveloped land.

We are involved in the construction of five apartment complexes as of September 30, 2010. 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

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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

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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 nine months ended September 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 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.

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, but no later than one year from the cessation of major construction activity.

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 operations.

NOTE 2. REAL ESTATE ACTIVITY

The highlights of our significant real estate transactions for the nine months ended September 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.

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On April 16, 2010, we sold the Foxwood apartments, a 220-unit complex located in Memphis, Tennessee, to One Realco Retail, Inc., a related party under common control, for a sales price of \$5.1 million. The buyer assumed the existing mortgage of \$5.1 million secured by the property.

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On April 23, 2010, we sold the Longfellow Arms apartments, a 216-unit complex located in Longview, Texas, to Liberty Bankers Life Insurance Company, a related party under common control, for a sales price of \$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.

On May 4, 2010, we sold our investment in T Autumn Chase, Inc. to Taaco Financial, Inc., a related party under common control, for a sales price of \$16.0 million. This entity owns 16.79 acres of land known as Ewing 8 land located in Addison, Texas. 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 our investment in TCI Eton Square, LP to TX Highland RS Corp, a related party under common control, for a sales price of \$13.7 million. This entity owns a 225,566 square foot office and retail center known as Eton Square located in Tulsa, Oklahoma. 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 on May 18, 2013. 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. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost.

On July 30, 2010, we purchased 8.91 acres of Sonoma Court land located in Rockwall, Texas for \$0.9 million. This land was purchased for the development of Sonoma Court apartments, a 124-unit apartment complex. We financed the transaction with a \$0.9 million draw on a construction loan with a commercial lender.

On July 30, 2010, we sold 21.9 acres of land known as Pulaski land located in Pulaski County, Arkansas, to One Realco Land Holdings, Inc. and One Realco Corporation; both are related parties under common control, for a sales price of \$2.3 million. The buyer assumed the existing mortgage of \$1.1 million secured by the property. We recorded a loss on sale of \$1.2 million on the land parcel.

The Company had a 14.8% limited partner interest in a partnership that owned a 131-unit apartment complex known as Quail Oaks apartments, located in Balch Springs, Texas. The partnership was consolidated in accordance with ASC 810, whereby we determined that TCI was a primary beneficiary. On August 3, 2010 the partnership transferred ownership of the property to the existing lender and the result was a gain of \$1.8 million.

On August 4, 2010, we sold 6.51 acres of land known as Hines Meridian land located in Irving, Texas for a sales price of \$2.0 million. The buyer assumed the existing mortgage of \$6.2 million, secured by the property. We received \$0.4 million in cash, after paying in full the existing debt of \$0.9 million and providing seller financing of \$0.5 million. The note accrues interest at 8% and is payable at maturity on August 11, 2011. We recorded a gain on sale of \$0.6 million on the land parcel.

On August 30, 2010, we sold the Mason Park apartments, a 312-unit complex located in Katy, Texas for a sales price of \$22.9 million. We recorded a gain on sale of \$0.3 million on the apartment sale.

On September 21, 2010, we sold our investment in EQK Bridgeview Plaza, Inc. to Warren Road Farm, Inc., a related party under common control, for a sales price of \$8.3 million. This entity owns a 122,205 square foot retail center known as Bridgeview Plaza located in La Crosse, Wisconsin. We provided \$2.1 million in seller financing with a five-year note receivable. The note accrues interest at 6% and is payable at maturity on September 21, 2015. The buyer assumed the existing mortgage of \$6.2 million, secured by the property, but did not assume the obligation of TCI's guarantee on the loan. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost.

On September 21, 2010, we sold our investment in Transcontinental Brewery, Inc. to Warren Road Farm, Inc., a related party under common control, for a sales price of \$3.8 million. This entity owns a 29,784 square foot office building and 13.0 acres of land known as Eagle Crest located in Farmers Branch, Texas. The buyer assumed the existing mortgage of \$2.4 million, secured by the property. A five-year note receivable for \$1.4 million was given as consideration, with an interest rate of 6%, payable at maturity on September 21, 2015. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost.

On September 21, 2010, we sold our investment in South Cochran Corporation to Warren Road Farm, Inc., a related party under common control, for a sales price of \$2.2 million. This entity owns a 220,461 square foot retail center known as Dunes Plaza located in Michigan City, Indiana. In addition, we sold a \$1.0 million intercompany receivable. The buyer assumed the existing mortgage of \$3.2 million, secured by the

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property, but did not assume the obligation of TCI's guarantee on the loan. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement and questionable recovery of investment cost.

On September 21, 2010, we sold our investment in Thornwood Apartments, LLC to Warren Road Farm, Inc., a related party under common control, for a sales price of \$6.7 million. This entity owns 245.95 acres of land known as Windmill Farms-Harlan land

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located in Kaufman County, Texas. We provided \$1.1 million in seller financing with a five-year note receivable. The note accrues interest at 6% and is payable at maturity on September 21, 2015. The buyer assumed the existing mortgage of \$5.5 million, secured by the property. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, inadequate initial investment and questionable recovery of investment cost.

On September 28, 2010, we sold the Baywalk apartments, a 192-unit complex located in Galveston, Texas for a sales price of \$8.2 million. We recorded a gain on sale of \$1.8 million on the apartment sale.

In December 2003, TCI sold four properties to subsidiaries of United Housing Foundation, Inc., a Texas Non-Profit 501(c)3 Corporation. TCI sold the Limestone at Vista Ridge apartments for \$19.0 million, the Limestone Canyon apartments for \$18.0 million, the Sendero Ridge apartments for \$29.4 million and the Tivoli apartments for \$16.1 million. At the time of the sale, TCI remained as the guarantor on the existing mortgages and the sales were not recorded. Instead, these transactions were accounted for on the deposit method and the properties and corresponding debt continued to be consolidated by TCI. These mortgages have since been refinanced and such refinancing does not include any obligations by TCI as guarantor. TCI recorded the sale as of September 30, 2010 and recorded \$25.2 million in deferred gain on the sale. Due to the related party nature of these sales, TCI will not record the gain on the sale until the properties are sold to a third party.

We continued to invest in the development of apartment projects. For the nine months ended September 30, 2010, we have expended \$22.5 million on the construction of various apartment complexes and capitalized \$1.3 million of interest costs.

NOTE 3. NOTES AND INTEREST RECEIVABLE

Our receivables as of September 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%	2,633	Excess cash flow from partnership
Housing for Seniors of Humble, LLC (Lakeshore Villas) ⁽¹⁾	12/27	5.25%	2,000	Unsecured
Housing for Seniors of Humble, LLC (Lakeshore Villas) ⁽¹⁾	12/27	5.25%	6,363	Membership interest in Housing for Seniors of Humble, LLC
Miscellaneous non-related party notes	Various	Various	1,523	Various secured interest
Miscellaneous related party notes ⁽¹⁾	Various	Various	2,947	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⁾	12/27	5.25%	1,668	100% Interest in Unified Housing of Temple, LLC
United Housing Foundation, Inc. (Limestone Canyon) ⁽¹⁾	12/27	5.25%	7,720	100% Interest in Unified Housing of Austin, LLC
United Housing Foundation, Inc. (Limestone Ranch) ⁽¹⁾	12/27	5.25%	8,250	100% Interest in Unified Housing of Vista Ridge, LLC
United Housing Foundation, Inc. (Parkside Crossing) ⁽¹⁾	12/27	5.25%	1,936	100% Interest in Unified Housing of Parkside Crossing, LLC
United Housing Foundation, Inc. (Sendero Ridge) ⁽¹⁾	12/27	5.25%	9,987	100% Interest in Unified Housing of Sendero Ridge, LLC
United Housing Foundation, Inc. (Timbers of Terrell) ⁽¹⁾	12/27	5.25%	1,323	100% Interest in Unified Housing of Terrell, LLC
United Housing Foundation, Inc. (Tivoli) ⁽¹⁾	12/27	5.25%	7,966	100% Interest in Unified Housing of Tivoli, LLC
Accrued interest			1,937	
Total Performing			\$ 69,579	
Allowance for estimated losses			(2,804)	
Total			\$ 66,775	

⁽¹⁾ Related party notes

NOTE 4. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES AND INVESTEEES

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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.

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Investments in unconsolidated subsidiaries and other investees consist of the following:

	Percentage Ownership	
	at September 30, 2010	at September 30, 2009
American Realty Investors, Inc. ⁽¹⁾	2%	2%
Garden Centura, L.P. ⁽²⁾	5%	5%

⁽¹⁾ Unconsolidated subsidiary

⁽²⁾ Other investees

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, but do not control these entities. Accordingly, the investments are carried at cost, adjusted for the companies' proportionate share of earnings or losses.

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

As of September 30, 2010	Unconsolidated Subsidiaries	Other Investees	Total
Real estate, net of accumulated depreciation	\$ 243,090	\$ 75,240	\$ 318,330
Notes receivable	45,032	-	45,032
Other assets	163,231	6,213	169,444
Notes payable	(231,901)	(48,366)	(280,267)
Other liabilities	(120,424)	(2,408)	(122,832)
Shareholders' equity/partners' capital	(99,028)	(30,679)	(129,707)

For the Nine Months Ended September 30, 2010

Revenue	\$ 24,277	\$ 5,992	\$ 30,269
Depreciation	(1,933)	(2,324)	(4,257)
Operating expenses	(22,706)	(2,906)	(25,612)
Gain on land sales	1,519	-	1,519
Interest expense	(12,635)	(2,706)	(15,341)
Loss from continuing operations	(11,478)	(1,944)	(13,422)
Income from discontinued operations	8,206	-	8,206
Net loss	\$ (3,272)	\$ (1,944)	\$ (5,216)
Company's proportionate share of loss	\$ (81)	\$ (97)	\$ (178)

As of September 30, 2009

Total

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	Unconsolidated Subsidiaries	Other Investees	
Real estate, net of accumulated depreciation	\$ 230,018	\$ 77,710	\$ 307,728
Notes receivable	41,756	-	41,756
Other assets	179,196	6,391	185,587
Notes payable	(227,247)	(48,828)	(276,075)
Other liabilities	(111,676)	(2,107)	(113,783)
Shareholders' equity/partners' capital	(112,047)	(33,166)	(145,213)

For the Nine Months Ended September 30, 2009

Revenue	\$ 29,264	\$ 7,676	\$ 36,940
Depreciation	(1,908)	(2,404)	(4,312)
Operating expenses	(26,758)	(2,897)	(29,655)
Gain on land sales	5,309	-	5,309
Interest expense	(12,885)	(2,296)	(15,181)
Income (loss) from continuing operations	(6,978)	79	(6,899)
Loss from discontinued operations	6,236	-	6,236
Net income (loss)	\$ (742)	\$ 79	\$ (663)
Company's proportionate share of income (loss)	\$ (18)	\$ 4	\$ (14)

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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, 290-unit complex. The note 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, a 240-unit complex located in Gautier, Mississippi. 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.

On July 29, 2010, we refinanced the existing mortgage on Heather Creek apartments, a 200-unit complex located in Mesquite, Texas, for a new mortgage of \$12.0 million. We paid down the existing debt of \$11.5 million and \$0.7 million in closing costs. The note accrues interest at 4.33% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on August 1, 2050.

On July 30, 2010, a construction loan with a commercial lender in the amount of \$11.2 million was obtained to fund the development of the Sonoma Court apartments, a 124-unit complex located in Rockwall, Texas. The loan accrues interest at 5.35%, 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 November 1, 2051.

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On September 14, 2010, a construction loan with a commercial lender in the amount of \$16.5 million was obtained to fund the development of the Lodge at Pecan Creek apartments, a 192-unit complex located in Denton, Texas. The loan accrues interest at 5.05%, payable monthly as interest only, until March 1, 2012. Thereafter, payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on March 1, 2052.

In conjunction with the development of various apartment projects and other developments, we drew down \$27.6 million in construction loans during the nine months ended September 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 September 30, 2010 (dollars in thousands):

Balance, December 31, 2009	\$ (50,163)
Cash transfers	34,867
Cash repayments	(28,265)
Fees and commissions payable to affiliates	(15,857)
Advances due to financing proceeds	1,702
Notes receivable with affiliate	183
Payables through Prime	9,425
Balance, September 30, 2010	\$ (48,108)

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 nine months ended September 30, 2010 and 2009, including segment assets and expenditures (dollars in thousands):

For the Three Months Ended September 30, 2010	Commercial Properties	Apartments	Land	Other	Total
Operating revenue	\$ 13,404	\$ 19,546	\$ 119	\$ 1	\$ 33,070
Operating expenses	8,139	10,743	443	(37)	19,288
Depreciation and amortization	2,977	4,019	-	-	6,996
Mortgage and loan interest	4,292	8,142	1,867	961	15,262
Interest income	-	-	-	669	669
Loss on land sales	-	-	(371)	-	(371)
Segment operating loss	\$ (2,004)	\$ (3,358)	\$ (2,562)	\$ (254)	\$ (8,178)
Capital expenditures	377	374	-	-	751
Assets	314,521	616,400	375,330	-	1,306,251
Property Sales					
Sales price	\$ -	\$ 33,491	\$ 8,709	\$ -	\$ 42,200
Cost of sale	-	29,598	9,080	-	38,678
Deferred current gain	-	-	-	-	-
Recognized prior deferred gain	-	-	-	-	-
Gain (loss) on sale	\$ -	\$ 3,893	\$ (371)	\$ -	\$ 3,522
For the Three Months Ended September 30, 2009					
	Commercial Properties	Apartments	Land	Other	Total
Operating revenue	\$ 15,332	\$ 18,957	\$ 48	\$ (694)	\$ 33,643
Operating expenses	8,516	10,750	301	50	19,617
Depreciation and amortization	2,990	3,485	13	(107)	6,381
Mortgage and loan interest	4,032	7,924	3,371	1,390	16,717
Interest income	-	-	-	582	582
Gain on land sales	-	-	-	-	-
Segment operating loss	\$ (206)	\$ (3,202)	\$ (3,637)	\$ (1,445)	\$ (8,490)
Capital expenditures	191	-	-	-	191
Assets	324,828	598,231	399,297	-	1,322,356
Property Sales					
Sales price	\$ 4,000	\$ -	\$ -	\$ -	\$ 4,000
Cost of sale	973	-	-	-	973
Deferred current gain	-	-	-	-	-
Recognized prior deferred gain	-	-	-	-	-
Gain on sale	\$ 3,027	\$ -	\$ -	\$ -	\$ 3,027

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

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	For Three Months Ended	
	September 30,	
	2010	2009
Segment operating loss	\$ (8,178)	\$ (8,490)
Other non-segment items of income (expense)		
General and administrative	(1,346)	(2,564)
Advisory fees	(3,054)	(3,073)
Litigation settlement	-	(64)
Provision on impairment of notes receivable and real estate assets	-	-
Other income	640	295
Equity in earnings of investees	(70)	(53)
Deferred tax benefit	1,006	951
Loss from continuing operations	\$ (11,002)	\$ (12,998)

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

	September 30,	
	2010	2009
Segment assets	\$ 1,306,251	\$ 1,322,356
Investments in real estate partnerships	8,745	11,884
Other assets	159,863	138,423
Assets held for sale	16,251	145,720
Total assets	\$ 1,491,110	\$ 1,618,383

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For the Nine Months Ended September 30, 2010	Commercial Properties	Apartments	Land	Other	Total
Operating revenue	\$ 41,971	\$ 59,552	\$ 279	\$ (29)	\$ 101,773
Operating expenses	24,230	32,234	2,178	21	58,663
Depreciation and amortization	8,920	11,922	-	-	20,842
Mortgage and loan interest	12,910	25,566	6,944	2,956	48,376
Interest income	-	-	-	2,360	2,360
Loss on land sales	-	-	(6,005)	-	(6,005)
Segment operating loss	\$ (4,089)	\$ (10,170)	\$ (14,848)	\$ (646)	\$ (29,753)
Capital expenditures	1,190	681	179	-	2,050
Assets	314,521	616,400	375,330	-	1,306,251
Property Sales					
Sales price	\$ 28,740	\$ 58,583	\$ 18,963	\$ -	\$ 106,286
Cost of sale	28,954	51,016	24,968	-	104,938
Deferred current gain	-	3,599	-	-	3,599
Recognized prior deferred gain	-	-	-	-	-
Gain (loss) on sale	\$ (214)	\$ 3,968	\$ (6,005)	\$ -	\$ (2,251)

For the Nine Months Ended September 30, 2009	Commercial Properties	Apartments	Land	Other	Total
Operating revenue	\$ 45,390	\$ 55,602	\$ 418	\$ (829)	\$ 100,581
Operating expenses	24,164	31,493	1,262	(94)	56,825
Depreciation and amortization	9,030	10,372	40	(133)	19,309
Mortgage and loan interest	11,890	23,190	11,270	1,649	47,999
Interest income	-	-	-	1,949	1,949
Gain on land sales	-	-	6,296	-	6,296
Segment operating income (loss)	\$ 306	\$ (9,453)	\$ (5,858)	\$ (302)	\$ (15,307)
Capital expenditures	1,029	230	-	-	1,259
Assets	324,828	598,231	399,297	-	1,322,356
Property Sales					
Sales price	\$ 8,000	\$ -	\$ 19,505	\$ -	\$ 27,505
Cost of sale	3,018	-	13,209	-	16,227
Deferred current gain	1,955	-	-	-	1,955
Recognized prior deferred gain	532	-	-	-	532
Gain on sale	\$ 3,559	\$ -	\$ 6,296	\$ -	\$ 9,855

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

	For Nine Months Ended September 30,	
	2010	2009
Segment operating loss	\$ (29,753)	\$ (15,307)
Other non-segment items of income (expense)		
General and administrative	(4,976)	(7,014)
Advisory fees	(9,112)	(8,874)
Litigation settlement	-	681
Provision on impairment of notes receivable and real estate assets	-	(28,575)

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Other income	1,554	3,579
Equity in earnings of investees	(323)	(353)
Deferred tax benefit (expense)	1,071	490
Loss from continuing operations	\$ (41,539)	\$ (55,373)

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

	September 30,	
	2010	2009
Segment assets	\$ 1,306,251	\$ 1,322,356
Investments in real estate partnerships	8,745	11,884
Other assets	159,863	138,423
Assets held for sale	16,251	145,720
Total assets	\$ 1,491,110	\$ 1,618,383

Table of Contents**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 September 30, 2010. Included in discontinued operations are a total of 10 and 16 properties for 2010 and 2009, respectively. Properties sold in 2010 have been reclassified to discontinued operations for current and prior year reporting periods. In 2010, we had one apartment complex held for sale (Island Bay), and sold eight apartment complexes (Baywalk, Foxwood, Limestone Canyon, Limestone Ranch, Longfellow Arms, Mason Park, Sendero Ridge and Tivoli) and transferred our limited partnership interest in a consolidated entity that owned an apartment complex (Quail Oaks). In 2009, we sold one apartment complex (Bridges on Kinsey), and five commercial properties (2010 Valley View, 5000 Space Center, 5360 Tulane, Cullman Shopping Center and Parkway Centre). 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 the properties sold and held-for-sale (dollars in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenue				
Rental	\$ 1,162	\$ 6,059	\$ 6,431	\$ 16,037
Property operations	937	2,987	3,603	8,639
	225	3,072	2,828	7,398
Expenses				
Other income	50	71	50	84
Interest	(1,145)	(2,308)	(3,018)	(6,157)
General and administrative	(47)	(77)	(78)	(172)
Depreciation	(161)	(1,067)	(815)	(2,964)
	(1,303)	(3,381)	(3,861)	(9,209)
Net loss from discontinued operations before gains on sale of real estate	(1,078)	(309)	(1,033)	(1,811)
Gain on sale of discontinued operations	3,893	3,027	3,754	3,559
Equity in earnings of investees	60	-	201	153
Income from discontinued operations	2,875	2,718	2,922	1,901
Tax expense	(1,006)	(951)	(1,023)	(665)
Net income from discontinued operations	\$ 1,869	\$ 1,767	\$ 1,899	\$ 1,236

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 several 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 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

On October 5, 2010, we sold the Island Bay apartments, a 458-unit complex located in Galveston, Texas, for a sales price of \$14.0 million. The existing mortgage of \$14.0 million is secured by the property.

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On October 22, 2010, we sold our investment in Continental Common, Inc., which owns a 512,593 square foot office building known as 1010 Commons, located in New Orleans, Louisiana, 17.2 acres of land known as Lacy Longhorn land, located in Farmers Branch, Texas and 44.17 acres of land known as Marine Creek land, located in Fort Worth, Texas, for a sales price of \$30.9 million. The existing mortgages of \$24.1 million are secured by the properties.

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 September 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 September 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 which refer to historical matters are intended to identify forward-looking statements. These statements are subject to risks, uncertainties, and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties, and factors, that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. We caution you that, while forward-looking statements reflect our good faith beliefs when we make them, they are not guarantees of future performance and are impacted by actual events when they occur after we make such statements. We expressly disclaim any responsibility to update our forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following:

general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew leases, dependence on tenants' financial condition, and competition from other developers, owners and operators of real estate);

risks associated with the availability and terms of construction and mortgage financing and the use of debt to fund acquisitions and developments;

demand for apartments and commercial properties in the Company's markets and the effect on occupancy and rental rates;

the Company's ability to obtain financing, enter into joint venture arrangements in relation to or self-fund the development or acquisition of properties;

risks associated with the timing and amount of property sales and the resulting gains/losses associated with such sales;

failure to manage effectively our growth and expansion into new markets or to integrate acquisitions successfully;

risks and uncertainties affecting property development and construction (including, without limitation, construction delays, cost overruns, inability to obtain necessary permits and public opposition to such activities);

risks associated with downturns in the national and local economies, increases in interest rates, and volatility in the securities markets;

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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.

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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 nine months ended September 30, 2010, we acquired \$4.8 million and sold for a sales price of \$169.5 million of land and income producing properties. As of September 30, 2010, we owned 9,197 units in 48 residential apartment communities and 27 commercial properties of approximately 5.0 million rentable square feet. In addition, we own 6,784 acres of land held for development and have five 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 Triad Realty Services, LP (Triad), an affiliate of Prime. Triad subcontracts the property-level management and leasing of our commercial properties to 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 guidance 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

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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 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 judgment. 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 cease capitalization when a building is considered substantially complete and ready for its intended use, but no later than one year from the cessation of major construction activity.

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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 beneficiary.

Recognition of Rental Income

Rental income for commercial property leases is recognized on a straight-line basis over the respective lease terms. In accordance with ASC Topic 805 Business Combinations, we recognize rental revenue of acquired in-place above-market and below-market leases at their fair values over the terms of the respective leases. On our Consolidated Balance Sheets, we include as a receivable the excess of rental income recognized over rental payments actually received pursuant to the terms of the individual commercial lease agreements.

Reimbursements of operating costs, as allowed under most of our commercial tenant leases, consist of amounts due from tenants for common area maintenance, real estate taxes and other recoverable costs, and are recognized as revenue in the period in which the recoverable expenses are incurred. We record these reimbursements on a gross basis, since we generally are the primary obligor with respect to purchasing goods and services from third-party suppliers, have discretion in selecting the supplier and have the credit risk with respect to paying the supplier.

Rental income for residential property leases is recorded when due from residents and is recognized monthly as earned, which is not materially different than on a straight-line basis as lease terms are generally for periods of one year or less. An allowance for doubtful accounts is recorded for all past due rents and operating expense reimbursements considered to be uncollectible.

Revenue Recognition on the Sale of Real Estate

Sales and the associated gains or losses of real estate are recognized in accordance with the provisions of ASC Topic 360-20, Property, Plant and Equipment Real Estate Sale. The specific timing of a sale is measured against various criteria in ASC 360-20 related to the terms of the transaction and any continuing involvement in the form of management or financial assistance associated with the properties. If the sales criteria for the full accrual method are not met, we defer some or all of the gain recognition and account for the continued operations of the property by applying the finance, leasing, deposit, installment or cost recovery methods, as appropriate, until the sales criteria are met.

Non-performing Notes Receivable

We consider a note receivable to be non-performing when the maturity date has passed without principal repayment and the borrower is not making interest payments in accordance with the terms of the agreement.

Interest Recognition on Notes Receivable

For notes other than surplus cash notes, we record interest income as earned in accordance with the terms of the related loan agreements. On cash flow notes where payments are based upon surplus cash from operations, accrued but unpaid interest income is only recognized to the extent that cash is received.

Allowance for Estimated Losses

We assess the collectability of notes receivable on a periodic basis, of which the assessment consists primarily of an evaluation of cash flow projections of the borrower to determine whether estimated cash flows are sufficient to repay principal and interest in accordance with the contractual terms of the note. We recognize impairments on notes receivable when it is probable that principal and interest will not be received

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in accordance with the contractual terms of the loan. The amount of the impairment to be recognized generally is based on the fair value of the partnership's real estate that represents the primary source of loan repayment. See Note 3 Notes and Interest Receivable for details on our notes receivable.

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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.

Results of Operations

The discussion of our results of operations is based on management's review of operations, which is based on our segments. Our segments consist of apartments, commercial buildings, land and other. For discussion purposes, we break these segments down into the following sub-categories; same property portfolio, acquired properties, and developed properties in the lease-up phase. The same property portfolio consists of properties that were held by us for the entire period for both years being compared. The acquired property portfolio consists of properties that we acquired but have not held for the entire period for both periods being compared. Developed properties in the lease-up phase consist of completed projects that are being leased-up. As we complete each phase of the project, we lease-up that phase and include those revenues in our continued operations. Once a developed property becomes leased up and is held the entire period for both periods under comparison, it is considered to be included in the same property portfolio. Income producing properties that we have sold during the year are reclassified to discontinuing operations for all periods presented.

The following discussion is based on our Consolidated Statements of Operations for the nine months ended September 30, 2010 and 2009 as included in Part I, Item 1. Financial Statements of this report. The prior year's property portfolios have been adjusted for subsequent sales. Continued operations relates to income producing properties that were held during those years as adjusted for sales in the subsequent years.

At September 30, 2010 and 2009, we owned or had interests in a portfolio of 75 and 87 income producing properties, respectively. For discussion purposes, we broke this out between continued operations and discontinued operations. The total property portfolio represents all income producing properties held as of September 30 for the period presented. Sales subsequent to quarter end represent properties that were held as of period end for the periods presented, but sold in the next quarter. Continuing operations represents all properties that have not been reclassified to discontinued operations as of September 30, 2010 for the periods presented. The table below shows the number of income producing properties held at the quarter ended:

	September 30,	
	2010	2009
Continuing operations	74	74
Sales subsequent to period end	1	13
Total property portfolio	75	87

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Comparison of the three months ended September 30, 2010 to the same period ended 2009

For the three months ended September 30, 2010, we reported a net loss applicable to common shares of \$9.2 million or \$1.14 per diluted earnings per share, as compared to a net loss applicable to common shares of \$11.5 million or \$1.42 per diluted earnings per share for the same period ended 2009.

Revenues

Rental and other property revenues were \$33.1 million for the three months ended September 30, 2010. This represents a decrease of \$0.5 million, as compared to the prior period revenues of \$33.6 million. The change, by segment, is a decrease in the commercial portfolio of \$1.9 million, offset by an increase in the apartment portfolio of \$0.6 million and increases in the land and other portfolios of \$0.8 million. Within the apartment portfolio, the developed apartments had an increase of \$0.7 million and the same properties decreased by \$0.1 million. Within the commercial portfolio, the same property portfolio decreased by \$1.9 million due to an increase in vacancy, which we attribute to the current state of the economy. We have directed our efforts to apartment development and put some additional land projects on hold until the economic conditions turn around. We are also continuing to market our properties aggressively to attract new tenants and strive for continuous improvement of our properties in order to maintain our existing tenants.

Expenses

Property operating expenses were \$19.3 million for the three months ended September 30, 2010. This represents a decrease of \$0.3 million, as compared to the prior period operating expenses of \$19.6 million. This change, by segment, is a decrease in the commercial portfolio of \$0.4 million, offset by increases in the land and other portfolios of \$0.1 million.

Depreciation and amortization expense were \$7.0 million for the three months ended September 30, 2010. This represents an increase of \$0.6 million, as compared to the prior period expense of \$6.4 million. This change, by segment, is an increase in the apartment portfolio of \$0.6 million, of which \$0.4 million is attributable to the developed properties and \$0.2 million from the same properties.

General and administrative expenses were \$1.3 million for the three months ended September 30, 2010. This represents a decrease of \$1.3 million, as compared to the prior period expense of \$2.6 million. This change is due to a reduction in administrative expenses and cost reimbursements to our Advisor, in addition to reductions in professional services.

Other income (expense)

Loss on land sales was \$0.4 million for the three months ended September 30, 2010. There were no land sales in the prior period. In the current period we recorded a loss of \$1.2 million on the sale of 21.9 acres of land known as Pulaski land, offset by a gain of \$0.1 million on the sale of .43 acres of land known as McKinney 36 land, a gain of \$0.1 million on the sale of 9.78 acres of land known as Waco Swanson land, and a gain of \$0.6 million on the sale of 6.51 acres of land known as Hines Meridian land.

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Included in discontinued operations are a total of 10 and 16 properties for 2010 and 2009, respectively. Properties sold in 2010 have been reclassified to discontinued operations for current and prior year reporting periods. In 2010, we had one apartment complex held for sale (Island Bay), sold eight apartment complexes (Baywalk, Foxwood, Limestone Canyon, Limestone Ranch, Longfellow Arms, Mason Park, Sendero Ridge and Tivoli) and transferred our limited partnership interest in a consolidated entity that owned an apartment complex (Quail Oaks). In 2009, we sold one apartment complex (Bridges on Kinsey), and five commercial properties (2010 Valley View, 5000 Space Center, 5360 Tulane, Cullman Shopping Center and Parkway Centre). 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	
	September 30,	
	2010	2009
Revenue		
Rental	\$ 1,162	\$ 6,059
Property operations	937	2,987
	225	3,072
Expenses		
Other income	50	71
Interest	(1,145)	(2,308)
General and administrative	(47)	(77)
Depreciation	(161)	(1,067)
	(1,303)	(3,381)
Net loss from discontinued operations before gains on sale of real estate		
	(1,078)	(309)
Gain on sale of discontinued operations	3,893	3,027
Equity in earnings of investees	60	-
Income from discontinued operations	2,875	2,718
Tax expense	(1,006)	(951)
Net income from discontinued operations	\$ 1,869	\$ 1,767

Comparison of the nine months ended September 30, 2010 to the same period ended 2009

For the nine months ended September 30, 2010, we reported a net loss applicable to common shares of \$40.4 million or \$4.99 per diluted earnings per share, as compared to a net loss applicable to common shares of \$54.8 million or \$6.75 per diluted earnings per share for the same period ended 2009.

Revenues

Rental and other property revenues were \$101.8 million for the nine months ended September 30, 2010. This represents an increase of \$1.2 million, as compared to the prior period revenues of \$100.6 million. The change, by segment, is an increase in the apartment portfolio of \$3.9 million, an increase in the land and other portfolios of \$0.7 million, offset by a decrease in the commercial portfolio of \$3.4 million. Within the apartment portfolio, the same property portfolio increased by \$1.2 million and the developed properties increased by \$2.7 million. Within the commercial portfolio, the same property portfolio decreased by \$3.4 million due to an increase in vacancy, which we attribute to the current state of the economy. We have directed our efforts to apartment development and put some additional land projects on hold until the economic conditions turn around. We are also continuing to market our properties aggressively to attract new tenants and strive for continuous improvement of our properties in order to maintain our existing tenants.

Expenses

Property operating expenses were \$58.6 million for the nine months ended September 30, 2010. This represents an increase of \$1.8 million, as compared to the prior period operating expenses of \$56.8 million. This change, by segment, is an increase in the apartment portfolio of \$0.7 million, an increase in the commercial portfolio of \$0.1 million, an increase in the land portfolio of \$0.9 million, and an increase in the other portfolio of \$0.1 million. Within the apartment portfolio, the same apartment properties decreased \$0.3 million due to decrease in overall costs and additional repairs and maintenance. The developed apartments increased expenses by \$1.0 million. Within the commercial portfolio, there was an increase in the same properties portfolio of \$0.1 million. The increase within the land and other portfolios was primarily due to an adjustment to correct over accrual of 2008 real estate property taxes recorded in the prior period, resulting in lower operating expenses. In the current period, we incurred additional real estate tax penalties and interest that we did not incur in the prior period.

Depreciation and amortization expense were \$20.8 million for the nine months ended September 30, 2010. This represents an increase of \$1.5 million, as compared to the prior period expense of \$19.3 million. This change, by segment, is an increase in the apartment portfolio of \$1.5 million, of which \$1.0 million is attributable to the developed properties and \$0.5 million from the same properties.

General and administrative expenses were \$5.0 million for the nine months ended September 30, 2010. This represents a decrease of \$2.0 million, as compared to the prior period expense of \$7.0 million. This change is due to a reduction in administrative expenses and cost reimbursements to our Advisor, in addition to reductions in professional services.

Table of Contents**Other income (expense)**

Other income was \$1.6 million for the nine months ended September 30, 2010, as compared to \$3.6 million in the prior period. This represents a decrease of \$2.0 million, which is primarily due to \$2.8 million of gain recorded, in the prior period, on the disposition of our investment in the Korean REIT, offset by a fee for services rendered in connection with a sale of mineral rights, owned by a third party, in Poland.

Provision on impairment of notes receivable, investments in real estate partnerships, and real estate assets decreased by \$28.6 million as compared to prior period. There were no impairment reserves taken in the current period. Impairment in the prior period was recorded as an additional loss of \$1.8 million in the commercial portfolio, \$18.0 million in land we currently hold and \$8.8 million in land that was sold for a loss in subsequent periods.

Loss on land sales was \$6.0 million for the nine months ended September 30, 2010. This represents a decrease of \$12.3 million as compared to the prior period gain of \$6.3 million. In the current period we recorded a loss of \$5.2 million on the sale of 16.79 acres of land known as Ewing 8 land, a loss of \$0.4 million on the sale of 6.77 acres of land known as McKinney Corners II land, a loss of \$1.2 million on the sale of 21.9 acres of land known as Pulaski land, offset by a gain of \$0.1 million on the sale of .43 acres of land known as McKinney 36 land, a gain of \$0.1 million on the sale of 9.78 acres of land known as Waco Swanson land, and a gain of \$0.6 million on the sale of 6.51 acres of land known as Hines Meridian land. In the prior period, we sold 3.02 acres of land known as West End land for a gain of \$4.7 million. In addition, we sold 3.13 acres of Verandas at City View land for a gain of \$0.7 million, sold 3.96 acres of land known as Teleport land for a gain of \$0.4 million, and sold interest in Southwood land for a gain of \$0.5 million.

Included in discontinued operations are a total of 10 and 16 properties for 2010 and 2009, respectively. Properties sold in 2010 have been reclassified to discontinued operations for current and prior year reporting periods. In 2010, we had one apartment complex held for sale (Island Bay), sold eight apartment complexes (Baywalk, Foxwood, Limestone Canyon, Limestone Ranch, Longfellow Arms, Mason Park, Sendero Ridge and Tivoli) and transferred our limited partnership interest in a consolidated entity that owned an apartment complex (Quail Oaks). In 2009, we sold one apartment complex (Bridges on Kinsey), and five commercial properties (2010 Valley View, 5000 Space Center, 5360 Tulane, Cullman Shopping Center and Parkway Centre). 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 Nine Months Ended September 30,	
	2010	2009
Revenue		
Rental	\$ 6,431	\$ 16,037
Property operations	3,603	8,639
	2,828	7,398
Expenses		
Other income	50	84
Interest	(3,018)	(6,157)
General and administrative	(78)	(172)
Depreciation	(815)	(2,964)
	(3,861)	(9,209)
Net loss from discontinued operations before gains on sale of real estate	(1,033)	(1,811)
Gain on sale of discontinued operations	3,754	3,559
Equity in earnings of investees	201	153

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Income from discontinued operations	2,922	1,901
Tax expense	(1,023)	(665)
Net income from discontinued operations	\$ 1,899	\$ 1,236

Liquidity and Capital Resources

Our principal liquidity needs are:

fund normal recurring expenses;

meet debt service and principal repayment obligations including balloon payments on maturing debt;

fund capital expenditures, including tenant improvements and leasing costs;

fund development costs not covered under construction loans; and

fund possible property acquisitions.

Table of Contents**Our principal sources of cash have been and will continue to be:**

property operations;

proceeds from land and income-producing property sales;

collection of mortgage notes receivable;

collection of receivables from affiliated companies;

refinancing of existing debt; and

additional borrowing, including mortgage notes payable and lines of credit.

We draw on multiple financing sources to fund our long-term capital needs. We generally fund our development projects with construction loans. Management anticipates that our available cash from property operations may not be sufficient to meet all of our cash requirements. Management intends to selectively sell land and income producing assets, refinance or extend real estate debt and seek additional borrowing secured by real estate to meet its liquidity requirements. Although the past cannot predict the future, historically, management has been successful at extending a portion of our current maturity obligations and selling assets as necessary to meet current obligations.

Cash flow summary

The following summary discussion of our cash flows is based on the statements of cash flows as presented in Part I, Item 1. Financial Statements and is not meant to be an all-inclusive discussion of the changes in our cash flow (dollars in thousands):

	September 30,		
	2010	2009	Variance
Net cash used in operating activities	\$ (6,234)	\$ (39,569)	\$ 33,335
Net cash provided by investing activities	\$ 108,751	\$ 18,518	\$ 90,233
Net cash provided by (used in) financing activities	\$ (103,145)	\$ 17,051	\$ (120,196)

Our primary use of cash for operations is daily operating costs, general and administrative expenses, advisory fees and land holding costs. Our primary source of cash from operating activities is from rental income on properties. In addition, we have an affiliated account in which excess cash is transferred to or from. The majority of the overall increase in cash provided by operating activities is due to the reduction in cash paid to our affiliates.

Our cash from investing activities increased \$90.2 million as compared to the prior period. The increase is primarily attributable to the sale of income producing properties and land in the current period and less cash used for the construction and development of new properties than in the prior period. The majority of the proceeds from sales were used for payment on loans associated with those projects.

Our cash used in financing activities consists of payments on recurring debt obligations and maturing notes payable, offset by proceeds from refinancing current mortgages. There was an increase in cash used in financing activities due to payoff or assumption of debt related to the sales of income producing properties and land in the current period.

Environmental Matters

Under various federal, state and local environmental laws, ordinances and regulations, we may be potentially liable for removal or remediation costs, as well as certain other potential costs, relating to hazardous or toxic substances (including governmental fines and injuries to persons and property) where property-level managers have arranged for the removal, disposal or treatment of hazardous or toxic substances. In addition, certain environmental laws impose liability for release of asbestos-containing materials into the air, and third parties may seek recovery for personal injury associated with such materials.

Management is not aware of any environmental liability relating to the above matters that would have a material adverse effect on our business, assets or results of operations.

Inflation

The effects of inflation on our operations are not quantifiable. Revenues from property operations tend to fluctuate proportionately with inflationary increases and decreases in housing costs. Fluctuations in the rate of inflation also affect sales values of properties and the ultimate gain to be realized from property sales. To the extent that inflation affects interest rates, earnings from short-term investments, the cost of new financings and the cost of variable interest rate debt will be affected.

Table of Contents**Tax Matters**

Financial statement income varies from taxable income principally due to the accounting for income and losses of investees, gains and losses from asset sales, depreciation on owned properties, amortization of discounts on notes receivable and payable and the difference in the allowance for estimated losses. TCI had a loss for federal income tax purposes in the first nine months of 2010, and a loss in 2009; therefore, it recorded no provision for income taxes.

At September 30, 2010, TCI had a net deferred tax asset of \$85.8 million due to tax deductions available to it in future years. However, as management cannot determine that it is more likely than not that TCI will realize the benefit of the deferred tax assets, a 100% valuation allowance has been established.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

At September 30, 2010, our exposure to a change in interest rates on our debt is as follows (dollars in thousands, except per share):

	Balance	Weighted Average Interest Rate	Effect of 1% Increase In Base Rates
Notes payable:			
Variable rate	\$ 315,958	5.50%	\$ 3,160
Total decrease in TCI's annual net income			3,160
Per share			\$ 0.39

ITEM 4T. CONTROLS AND PROCEDURES

Based on an evaluation by our management (with the participation of our Principal Executive Officer and Principal Financial Officer), as of the end of the period covered by this report, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)), were effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, to allow timely decisions regarding required disclosures.

There has been no change in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table sets forth a summary by month for the quarter ended September 30, 2010 of repurchases made and the specified numbers of shares that may be repurchased under the stock repurchase program as specified below:

Period	Total Number of Shares Purchased	Average Price Paid per share	Total Number of Shares Purchased as Part of Publicly Announced Program⁽¹⁾	Maximum Number of Shares that May Yet be Purchased Under the Program⁽¹⁾
Balance at June 30, 2010			1,230,335	156,665
July 31, 2010	200	\$ 8.95	1,230,535	156,465
August 31, 2010	-	-	1,230,535	406,465
September 30, 2010	-	-	1,230,535	406,465
Total	200			

- (1) On August 10, 2010, the TCI Board of Directors approved an increase in the share repurchase program for up to an additional 250,000 shares of common stock which results in a total authorization under the repurchase program for up to 1,637,000 shares of our common stock. This repurchase program has no termination date.

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ITEM 6. EXHIBITS

The following exhibits are filed with this report or incorporated by reference as indicated;

Exhibit Number	Description
3.0	Articles of Incorporation of Transcontinental Realty Investors, Inc., (incorporated by reference to Exhibit No. 3.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991).
3.1	Certificate of Amendment to the Articles of Incorporation of Transcontinental Realty Investors, Inc., (incorporated by reference to the Registrant's Current Report on Form 8-K, dated June 3, 1996).
3.2	Certificate of Amendment of Articles of Incorporation of Transcontinental Realty Investors, Inc., dated October 10, 2000 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
3.3	Articles of Amendment to the Articles of Incorporation of Transcontinental Realty Investors, Inc., setting forth the Certificate of Designations, Preferences and Rights of Series A Cumulative Convertible Preferred Stock, dated October 20, 1998 (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998).
3.4	Certificate of Designation of Transcontinental Realty Investors, Inc., setting for the Voting Powers, Designations, References, Limitations, Restriction and Relative Rights of Series B Cumulative Convertible Preferred Stock, dated October 23, 2000 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
3.5	Certificate of Designation of Transcontinental Realty Investors, Inc., Setting for the Voting Powers, Designating, Preferences, Limitations, Restrictions and Relative Rights of Series C Cumulative Convertible Preferred Stock, dated September 28, 2001 (incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).
3.6	Articles of Amendment to the Articles of Incorporation of Transcontinental Realty Investors, Inc., Decreasing the Number of Authorized Shares of and Eliminating Series B Preferred Stock dated December 14, 2001 (incorporated by reference to Exhibit 3.7 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001).
3.7	By-Laws of Transcontinental Realty Investors, Inc. (incorporated by reference to Exhibit No. 3.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991).
3.8	Certificate of Designation of Transcontinental Realty Investors, Inc., setting forth the Voting Powers, Designations, Preferences, Limitations, Restrictions and Relative Rights of Series D Cumulative Preferred Stock filed August 14, 2006 with the Secretary of State of Nevada (incorporated by reference to Registrant's Current Report on Form 8-K for event dated November 21, 2006 at Exhibit 3.8 thereof).
10.0	Advisory Agreement dated as of October 1, 2003, between Transcontinental Realty Investors, Inc., and Prime Income Asset Management, LLC (incorporated by reference to Exhibit 10.0 to the registrant's current report on Form 8-K for event occurring October 1, 2003).
31.1*	Certification of the Principal Executive Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
31.2*	Certification by the Principal Financial Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
32.1*	Certification pursuant to 18 U.S.C. 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

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SIGNATURE PAGE

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

TRANSCONTINENTAL REALTY INVESTORS, INC.

Date: November 12, 2010

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

(Principal Executive Officer)

Date: November 12, 2010

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

(Principal Financial Officer)

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TRANSCONTINENTAL REALTY INVESTORS, INC.
EXHIBITS TO QUARTERLY REPORT ON FORM 10-Q
For the Period Ended September 30, 2010

Exhibit Number	Description of Exhibits
31.1*	Certification by the Principal Executive Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
31.2*	Certification by the Principal Financial Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
32.1*	Certification pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith