

TRANSCONTINENTAL REALTY INVESTORS INC
Form 10-K
March 31, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2014

OR

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

Commission File Number 001-09240

Transcontinental Realty Investors, Inc.
(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of
Incorporation or organization)
1603 LBJ Freeway,
Suite 300, Dallas, Texas
(Address of principal executive offices)

94-6565852
(IRS Employer
Identification Number)
75234
(Zip Code)

(469) 522-4200
Registrant's Telephone Number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of each exchange on which registered
Common Stock, \$0.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Edgar Filing: TRANSCONTINENTAL REALTY INVESTORS INC - Form 10-K

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company)

Smaller Reporting Company

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

The aggregate market value of the shares of voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the closing price at which the common equity was last sold which was the sales price of the Common stock on the New York Stock Exchange as of June 30, 2014 (the last business day of the Registrant's most recently completed second fiscal quarter) was \$19,381,338 based upon a total of 1,361,049 shares held as of June 30, 2014 by persons believed to be non-affiliates of the Registrant. The basis of the calculation does not constitute a determination by the Registrant as defined in Rule 405 of the Securities Act of 1933, as amended, such calculation, if made as of a date within sixty days of this filing, would yield a different value.

As of March 15, 2015, there were 8,717,767 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Consolidated Financial Statements of Income Opportunity Realty Investors, Inc. Commission File No. 001-14784

Consolidated Financial Statements of American Realty Investors, Inc. Commission File No. 001-15663

INDEX TO
ANNUAL REPORT ON FORM 10-K

		Page
PART I		
Item 1.	Business	4
Item 1A.	Risk Factors	11
Item 1B.	Unresolved Staff Comments	15
Item 2.	Properties	15
Item 3.	Legal Proceedings	18
Item 4.	Mine Safety Disclosures	19
PART II		
Item 5.	Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	20
Item 6.	Selected Financial Data	21
Item 7.	Management’s Discussion and Analysis of Financial Condition and Results of Operation	22
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	33
Item 8.	Consolidated Financial Statements and Supplementary Data	35
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	73
Item 9A.	Controls and Procedures	73
Item 9B.	Other Information	73
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	74
Item 11.	Executive Compensation	80
Item 12.	Security Ownership of Certain Beneficial Owners and Management	80
Item 13.	Certain Relationships and Related Transactions, and Director Independence	82
Item 14.	Principal Accounting Fees and Services	85
PART IV		
Item 15.	Exhibits, Financial Statement Schedules	87
Signatures		89

FORWARD-LOOKING STATEMENTS

Certain Statements in this Form 10-K are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. The words “estimate”, “plan”, “intend”, “expect”, “anticipate”, “believe”, and similar expressions are intended to identify forward-looking statements. The forward-looking statements are found at various places throughout this Report and in the documents incorporated herein by reference. The Company disclaims any intention or obligations to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Although we believe that our expectations are based upon reasonable assumptions, we can give no assurance that our goals will be achieved. Important factors that could cause our actual results to differ from estimates or projections contained in any forward-looking statements are described under Part I, Item 1A. “Risk Factors”.

PART I

ITEM 1. BUSINESS

General

As used herein, the terms “TCI”, “the Company”, “We”, “Our”, or “Us” refer to Transcontinental Realty Investors, Inc. a Nevada corporation. The Company is headquartered in Dallas, Texas and its common stock trades on the New York Stock Exchange (“NYSE”) under the symbol (“TCI”). TCI is the successor to a California business trust that was organized on September 6, 1983 and commenced operations on January 31, 1984. On November 30, 1999, TCI acquired all of the outstanding shares of beneficial interest of Continental Mortgage and Equity Trust (“CMET”), a real estate company, in a tax-free exchange of shares, issuing 1,181 shares of its Common stock for each outstanding CMET share. Prior to January 1, 2000, TCI elected to be treated as a Real Estate Investment Trust (“REIT”) under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the “Code”). During the third quarter of 2000, due to a concentration of ownership TCI no longer met the requirement for tax treatment as a REIT. Effective March 31, 2003, TCI financial results were consolidated in the American Realty Investors, Inc. (“ARL”) consolidated financial statements.

TCI is a “C” corporation for U.S. federal income tax purposes and files an annual consolidated income tax return with ARL, whose common stock is traded on the NYSE under the symbol (“ARL”). Subsidiaries of ARL own approximately 80.9% of the Company’s common stock.

On July 17, 2009, the Company acquired an additional 2,518,934 shares of Common stock of Income Opportunity Realty Investors, Inc. (“IOT”), and in doing so, increased its ownership from approximately 25% to over 80% of the shares of common stock of IOT outstanding. Upon acquisition of the additional shares in 2009, IOT’s results of operations began consolidating with those of the Company for tax and financial reporting purposes. As of December 31, 2014, TCI owned 81.1% of the outstanding IOT common shares. Shares of IOT are traded on the New York Stock Exchange Euronext (“NYSE MKT”) under the symbol (“IOT”).

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’s 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 is \$25.9 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.

TCI's Board of Directors is responsible for directing the overall affairs of TCI and for setting the strategic policies that guide the Company. As of April 30, 2011, the Board of Directors delegated the day-to-day management of the Company to Pillar Income Asset Management, Inc. ("Pillar"), a Nevada corporation, under a written Advisory Agreement that is reviewed annually by TCI's Board of Directors. The directors of TCI are also directors of ARL and IOT. The Chairman of the Board of Directors of TCI also serves as the Chairman of the Board of Directors of ARL and IOT. The officers of TCI also serve as officers of ARL, IOT and Pillar.

Effective since April 30, 2011, Pillar, the sole shareholder of which is Realty Advisors, LLC, a Nevada limited liability company, the sole member of which is Realty Advisors, Inc. ("RAI"), a Nevada corporation, the sole shareholder of which is May Realty Holdings, Inc. ("MRHI", formerly known as Realty Advisors Management, Inc. "RAMI", effective August 7, 2014), a Nevada corporation, the sole shareholder of which is a trust known as the May Trust, became the Company's external Advisor and Cash Manager. Pillar's duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities. Pillar also arranges, for the Company's benefit, debt and equity financing with third party lenders and investors. Pillar also serves as an Advisor and Cash Manager to TCI and IOT. As the contractual advisor, Pillar is compensated by TCI under an Advisory Agreement that is more fully described in Part III, Item 10. "Directors, Executive Officers and Corporate Governance – The Advisor". TCI has no employees. Employees of Pillar render services to TCI in accordance with the terms of the Advisory Agreement.

Effective since January 1, 2011, Regis Realty Prime, LLC, dba Regis Property Management, LLC (“Regis”), the sole member of which is Realty Advisors, LLC, manages our commercial properties and provides brokerage services. Regis receives property management fees, construction management fees and leasing commissions in accordance with the terms of its property-level management agreement. Regis is also entitled to receive real estate brokerage commissions in accordance with the terms of a non-exclusive brokerage agreement. See Part III, Item 10. “Directors, Executive Officers and Corporate Governance – Property Management and Real Estate Brokerage”. TCI engages third-party companies to lease and manage its apartment properties.

On January 1, 2012, the Company entered into a development agreement with Unified Housing Foundation, Inc. (“UHF”) a non-profit corporation that provides management services for the development of residential apartment projects in the future. This development agreement was terminated December 31, 2013. The Company has also invested in surplus cash notes receivables from UHF and has sold several residential apartment properties to UHF in prior years. Due to this ongoing relationship and the significant investment in the performance of the collateral secured under the notes receivable, UHF has been determined to be a related party.

Our primary business is the acquisition, development and ownership of income-producing residential and commercial real estate properties. In addition, we opportunistically acquire land for future development in in-fill or high-growth suburban markets. From time to time and when we believe it appropriate to do so, we will also sell land and income-producing properties. We generate revenues by leasing apartment units to residents, and leasing office, industrial and retail space to various for-profit businesses as well as certain local, state and federal agencies. We also generate revenues from gains on sales of income-producing properties and land.

At December 31, 2014, our income-producing properties consisted of:

• 8 commercial properties consisting of four office buildings, one industrial warehouse, two retail properties, and a golf course comprising in aggregate approximately 1.8 million square feet, excluding the golf course;

- 37 residential apartment communities comprising 6,024 units, excluding apartments being developed.

The following table sets forth the location of our real estate held for investment (income-producing properties only) by asset type as of December 31, 2014:

Location	Apartments		Commercial	
	No.	Units	No.	SF
Arkansas	4	678	-	-
Colorado	2	260	-	-
Florida	-	-	1	6,722
Louisiana-Other	2	384	-	-
Mississippi	7	568	-	-
Ohio	1	200	-	-
Tennessee	2	312	-	-
Texas-Greater Dallas-Ft Worth	12	2,122	5	1,652,098
Texas-Greater Houston	2	416	-	-
Texas-San Antonio	2	468	-	-
Texas-Other	3	616	-	-
St. Thomas, US Virgin Islands	-	-	1	5,929,304
Wisconsin	-	-	1	122,205

Total	37	6,024	8	7,710,329
-------	----	-------	---	-----------

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-rate construction loans that are refinanced with the proceeds of long-term, fixed-rate amortizing mortgages when the development has been completed and occupancy has been stabilized. When we sell properties, we may carry a portion of the sales price generally in the form of a short-term, interest bearing seller-financed note receivable, secured by the property being sold. We may also from time to time enter into partnerships or joint ventures with various investors to acquire land or income-producing properties or to sell interests in certain of our properties.

We join with various third-party development companies to construct residential apartment communities. We are in the predevelopment process on several residential apartment communities but have not yet begun construction. At December 31, 2014, we had one apartment project in development. The third-party developer typically holds a general partner, as well as a limited partner interest in a limited partnership formed for the purpose of building a single property while we generally take a limited partner interest in the limited partnership. We may contribute land to the partnership as part of our equity contribution or we may contribute the necessary funds to the partnership to acquire the land. We are required to fund all required equity contributions while the third-party developer is responsible for obtaining construction financing, hiring a general contractor and for the overall management, successful completion and delivery of the project. We generally bear all the economic risks and rewards of ownership in these partnerships and therefore include these partnerships in our consolidated financial statements. The third-party developer is paid a developer fee typically equal to a percentage of the construction costs. When the project reaches stabilized occupancy, we acquire the third-party developer's partnership interests in exchange for any remaining unpaid developer fees.

At December 31, 2014, our apartment projects in development included (dollars in thousands):

Property	Location	No. of Units	Costs to Date (1)	Total Projected Costs (1)
Parc at Mansfield	Mansfield, TX	99	\$ 1,512	\$ 11,797
Total		99	\$ 1,512	\$ 11,797

(1) Costs include construction hard costs, construction soft costs and loan borrowing costs.

We have made investments in a number of large tracts of undeveloped and partially developed land and intend to a) continue to improve these tracts of land for our own development purposes or b) make the improvements necessary to ready the land for sale to other developers.

At December 31, 2014, our investments in undeveloped and partially developed land consisted of the following (dollars in thousands):

Property	Location	Date(s) Acquired	Acres	Cost	Primary Intended Use
McKinney Multi-Tracts	McKinney, TX	1997-2008	105	\$ 13,605	Mixed use
Mercer Crossing	Dallas, TX Kaufman	1996-2013	388	57,809	Mixed use Multi-family
Travis Ranch	County, TX	2008	25	2,547	residential
US Virgin Islands Multi-Tracts	St. Thomas, USVI	2005-2014	184	16,788	Single-family residential
Waco Multi-Tracts	Waco, TX Kaufman	2005-2006	173	1,072	Single-family residential
Windmill Farms(1) Other Land	County, TX	2011	2,900	43,610	residential
Holdings	Various	1990-2008	312	21,792	Various
Total Land Holdings			4,087	\$ 157,223	

(1) Windmill Farms Land was acquired by TCI in 2011 from a subsidiary of ARL, its parent, as part of the approved bankruptcy plan.

Significant Real Estate Acquisitions/Dispositions and Financings

A summary of some of the significant transactions for the year ended December 31, 2014, are discussed below:

On February 6, 2014, the Company sold a 232-unit apartment complex known as Pecan Pointe, located in Temple, Texas, to an independent third party, for a sales price of \$23.1 million. The buyer assumed the existing debt of \$16.5 million secured by the property. A gain of \$6.1 million was recorded on the sale.

On February 12, 2014, the Company exercised the first prepayment option on the settlement with the lender relating to the Amoco Building and paid \$1.2 million to settle all obligations. The remaining balance of the note in the amount of \$3.5 million, along with accrued interest, was forgiven. The 135,000 shares of Series K Convertible Preferred Stock of ARL that was pledged to the lender has been released to TCI. The Series K preferred stock was cancelled May 7, 2014.

On February 28, 2014, the Company refinanced the existing mortgage on Parc at Denham Springs apartments, a 224-unit complex located in Denham Springs, Louisiana, for a new mortgage of \$19.2 million. We paid off the existing mortgage of \$19.2 million and \$1.6 million in closing costs. The note accrues interest at 3.75% and payments of interest and principal are due monthly, maturing April 1, 2051.

On March 13, 2014, 6.6 acres of land known as Three Hickory located in Farmers Branch, Texas was transferred back to the Company as a result of the settlement agreement with the lender. On the same day TCI sold the land to IOT for \$1.2 million which resulted in a gain of \$1.2 million.

On March 25, 2014, the Company exercised its lender granted option under the settlement agreement relating to the Galleria East Center Retail / Showcase Chevrolet land which was transferred to the existing lender on February 4, 2011. We paid the balance of the notes along with all accrued and unpaid interest and received a reduction in price of \$0.4 million.

On March 26, 2014, the Company sold 6.314 acres of land known as McKinney Ranch land, located in McKinney, Texas, to an independent third party, for a sales price of \$1.7 million. We paid \$1.5 million on the existing mortgage to satisfy a portion of the multi-tract collateral debt of \$6.6 million, secured by various land parcels located in McKinney, Texas. A gain of \$0.8 million was recorded on the sale.

On March 28, 2014, the Company secured financing of \$40.0 million from an independent third party. The note has a term of five years at an interest rate of 12.0%. The note is interest only for the first year with quarterly principal payments due of \$500,000 starting April 1, 2015. The loan is secured by various equity interests in residential apartments and can be prepaid at a penalty rate of 4% for year 1 with the penalty declining by 1% each year thereafter.

On March 31, 2014, the Company entered into a settlement agreement relating to the Fenton Centre building which was transferred to the existing lender on June 7, 2011. The total amount of the settlement was \$7.0 million, \$5.0 million was paid at the time of the settlement and the remaining \$2.0 million will be paid out in equal monthly installments through November 5, 2015.

On April 3, 2014, the Company sold a 512,593 square foot commercial building known as 1010 Common, located in New Orleans, Louisiana, to an independent third party, for a sales price of \$16.6 million. A gain of \$7.0 million was recorded on the sale.

On May 28, 2014, a \$1.5 million principal payment was made to the existing Realty Advisors, Inc. mortgage and two additional land parcels, including 8.0 acres of Ladue land owned by TCI and 16.87 acres of Valwood land owned by ARL, were substituted as collateral under the note in exchange for a release of a \$4 million deposit account. The principal balance is allocated based on the land valuation.

On July 25, 2014, the Company sold 24.498 acres of land known as Stanley Tools and Kelly Lots, located in Farmers Branch, Texas, to an independent third party, for a sales price of \$4.3 million. We paid off the existing mortgage of \$1.7 million in addition to making a \$0.2 million payment on an existing mortgage related to another parcel of land located in Gulfport, Mississippi. A nominal gain was recorded on the sale.

On July 31, 2014, the Company refinanced the existing mortgage on Desoto Ranch apartments, a 248-unit complex located in Desoto, Texas, for a new mortgage of \$15.7 million. We paid off the existing mortgage of \$15.7 million and \$0.5 million in closing costs. The note accrues interest at 3.50% and payments of interest and principal are due monthly, maturing June 1, 2050.

On August 12, 2014, the Company sold a 20,715 square foot commercial building known as Sesame Square, located in Anchorage, Alaska, to an independent third party, for a sales price of \$2.6 million. We paid off the existing mortgage of \$0.8 million. A gain of \$1.8 million was recorded on the sale.

On August 28, 2014, the Company refinanced the existing mortgage on Treehouse apartments, a 160-unit complex located in Irving, Texas, for a new mortgage of \$5.8 million. We paid off the existing mortgage of \$4.7 million and

\$1.1 million in closing costs and escrows. The note accrues interest at 3.55% and payments of interest and principal are due monthly, maturing September 1, 2044.

On September 19, 2014, the Company acquired 100% ownership of Summer Breeze I-V, LLC, from an independent third party, which resulted in the acquisition of Sunset Lodge, a 216-unit complex located in Odessa, Texas. We exchanged the existing note receivable and all accrued interest in the amount of \$3.5 million for the ownership interest.

On September 23, 2014, the Company sold a 106-unit complex known as Bridgewood Ranch, located in Kaufman, Texas, to an independent third party, for a sales price of \$8.0 million. We paid off the existing mortgage of \$4.5 million and the buyer obtained a new mortgage of \$6.6 million. We did not recognize or record the sale in accordance with ASC 360-20 due to our continuing involvement as a result of having the option to repurchase the sold property at a later date. The exercise of the option is subject to the approval of the U.S. Department of Housing and Urban Development. We determined a sale had not occurred for financial reporting purposes and therefore the asset remains on our books.

On October 17, 2014, the construction loan in the amount of \$19.7 million that was taken out on July 1, 2012, to fund the development of Sunset Lodge apartments, a 216-unit complex located in Odessa, Texas, closed into permanent financing. The note accrues interest at 3.00% and payments of interest only are payable commencing August 1, 2012, through February 1, 2014, at which time principal and interest payments are due through the maturity date of February 1, 2054.

On November 3, 2014, the Company sold a 290-unit apartment complex known as Blue Ridge, located in Midland, Texas, to an independent third party, for a sales price of \$52.8 million. We paid off the existing mortgage of \$23.7 million. A gain of \$26.7 million was recorded on the sale.

On November 6, 2014, the Company acquired 100% ownership of Dun-Run Golf, Dun-Run Development, and Dun-Run Restaurants, all limited liability companies, which resulted in the acquisition of Mahogany Run Golf Course for a purchase price of \$13.3 million. The Company took out a note as seller financing to aid in the purchase in the amount of \$6.6 million. The note accrues at 8% with interest only payments due through the maturity date of November 6, 2015. An option to renew for one more year can be exercised if a \$1.0 million principal payment is made before maturity.

On November 13, 2014, the Company sold a 216-unit complex known as Sunset Lodge, as well as 5.98 acres of land, both located in Odessa, Texas, to an independent third party, for a combined sales price of \$40.6 million. The buyer assumed the existing debt of \$19.0 million secured by the property. A gain of \$18.9 million was recorded on the sale.

On December 1, 2014, the Company acquired a 208-unit complex known as Legacy at Pleasant Grove, located in Texarkana, Texas, from a third party. We exchanged the existing note receivable and all accrued interest in the amount of \$5.0 million for the complex.

On December 1, 2014, the Company acquired a 148-unit complex known as Villas at Park West I, located in Pueblo, Colorado, from a third party. We exchanged the existing note receivable and all accrued interest in the amount of \$1.3 million for the complex.

On December 1, 2014, the Company acquired a 112-unit complex known as Villas at Park West II, located in Pueblo, Colorado, from a third party. We exchanged the existing note receivable and all accrued interest in the amount of \$5.1 million for the complex.

On December 12, 2014, the Company refinanced the existing mortgage on Stanford Center, a 333,381 square foot commercial building located in Dallas, Texas, for a new mortgage of \$28.0 million. We paid off the existing mortgage of \$21.3 million and \$7.8 million in closing costs and escrows. The note accrues interest at a floating rate of 5.50% above the 30-day LIBOR index, with a floor of 5.75% and payments of interest only, maturing on January 5, 2017.

On December 30, 2014, the Company acquired 8.387 acres of land known as Bonneau Land, located in Farmers Branch, Texas, from a third party, for a purchase price of \$1.2 million.

On December 30, 2014, the Company sold 2.606 acres of land known as Carr (Luna) Land, located in Farmers Branch, Texas, to a third party, for a sales price of \$0.3 million. A loss of \$0.4 million was recorded on the sale.

In December 2010, various commercial and land holdings were sold to FRE Real Estate, Inc., a related party. During the first three months of 2011, many of these transactions were rescinded as of the original transaction date and were subsequently sold to related parties under the same ownership as FRE Real Estate, Inc. As of December 31, 2014, one commercial building, Thermalloy, remains in FRE Real Estate, Inc. The Company did not recognize or record the

sale in accordance with ASC 360-20 due to TCI's continuing involvement, which included the potential payment of cash shortfalls, future obligations under the existing mortgage and guaranty, the buyer's inadequate initial investment and the Company's questionable recovery of investment cost. The Company determined that no sale had occurred for financial reporting purposes and therefore the asset remained on the books and continued to record operating expenses and depreciation as a period cost until a sale occurred that met the requirements of ASC 360-20.

As of December 31, 2014, there remains one apartment complex, one commercial building and 110 acres of land that we have sold to a related party and have deferred the recognition of the sale. These are treated as "subject to sales contract" on the Consolidated Balance Sheets. These properties were sold to a related party in order to help facilitate an appropriate debt or organizational restructure and may or may not be transferred back to the seller upon resolution. These properties have mortgages that are secured by the property and many have corporate guarantees. According to the loan documents, the maker is currently in default on these mortgages primarily due to lack of payment and is actively involved in discussions with every lender in order to settle or cure the default situation. We have reviewed each asset and taken impairment to the extent we feel the value of the property was less than our current basis. The Company did not recognize or record the sale in accordance with ASC 360-20 due to our continuing involvement, which included the potential payment of cash shortfalls, future obligations under the existing mortgage and guaranty, the buyer's inadequate initial investment and the Company's questionable recovery of investment cost. The Company determined that no sale had occurred for financial reporting purposes and therefore the asset remained on the books and continued to record operating expenses and depreciation as a period cost until a sale occurred that met the requirements of ASC 360-20. The buyers received no compensation for the facilitation of the bankruptcy or debt restructuring process.

We continue to invest in the development of apartment projects. For the twelve months ended December 31, 2014, we have expended \$3.0 million related to the development or predevelopment of various apartment projects.

Business Plan and Investment Policy

Our business objective is to maximize long-term value for our stockholders by investing in residential and commercial real estate through the acquisition, development and ownership of apartments, commercial properties and land. We intend to achieve this objective through acquiring and developing properties in multiple markets and operating as an industry-leading landlord. We believe this objective will provide the benefits of enhanced investment opportunities, economies of scale and risk diversification, both in terms of geographic market and real estate product type. We believe our objective will also result in continuing access to favorably priced debt and equity capital. In pursuing our business objective, we seek to achieve a combination of internal and external growth while maintaining a strong balance sheet and employing a strategy of financial flexibility. We maximize the value of our apartments and commercial properties by maintaining high occupancy levels while charging competitive rental rates, controlling costs and focusing on tenant retention. We also pursue attractive development opportunities either directly or in partnership with other investors.

For our portfolio of commercial properties, we generate increased operating cash flow through annual contractual increases in rental rates under existing leases. We also seek to identify best practices within our industry and across our business units in order to enhance cost savings and gain operating efficiencies. We employ capital improvement and preventive maintenance programs specifically designed to reduce operating costs and increase the long-term value of our real estate investments.

We seek to acquire properties consistent with our business objectives and strategies. We execute our acquisition strategy by purchasing properties which management believes will create stockholder value over the long-term. We will also sell properties when management believes value has been maximized or when a property is no longer considered an investment to be held long-term.

We are continuously in various stages of discussions and negotiations with respect to development, acquisition, and disposition of projects. The consummation of any current or future development, acquisition, or disposition, if any, and the pace at which any may be completed cannot be assured or predicted.

Substantially all of our properties are owned by subsidiary companies, many of which are single-asset entities. This ownership structure permits greater access to financing for individual properties and permits flexibility in negotiating a sale of either the asset or the equity interests in the entity owning the asset. From time-to-time, our subsidiaries have invested in joint ventures with other investors, creating the possibility of risks that do not exist with properties solely owned by a TCI subsidiary. In those instances where other investors are involved, those other investors may have business, economic, or other objectives that are inconsistent with our objectives, which may in turn, require us to make investment decisions different from those if we were the sole owner.

Real estate generally cannot be sold quickly. We may not be able to promptly dispose of properties in response to economic or other conditions. To offset this challenge, selective dispositions have been a part of our strategy to maintain an efficient investment portfolio and to provide additional sources of capital. We finance acquisitions through mortgages, internally generated funds, and, to a lesser extent, property sales. Those sources provide the bulk of funds for future acquisitions. We may purchase properties by assuming existing loans secured by the acquired property. When properties are acquired in such a manner, we customarily seek to refinance the asset in order to properly leverage the asset in a manner consistent with our investment objectives.

Our businesses are not generally seasonal with regard to real estate investments. Our investment strategy seeks both current income and capital appreciation. Our plan of operation is to continue, to the extent our liquidity permits, to make equity investments in income-producing real estate such as apartments and commercial properties. We may also invest in the debt or equity securities of real estate-related entities. We intend to pursue higher risk, higher reward investments, such as improved and unimproved land where we can obtain reasonably-priced financing for substantially all of a property's purchase price. We intend to continue the development of apartment properties in selected markets in Texas and in other locations where we believe adequate levels of demand exist. We intend to pursue sales opportunities for properties in stabilized real estate markets where we believe our properties' value has been maximized. We also intend to be an opportunistic seller of properties in markets where demand exceeds current supply. Although we no longer actively seek to fund or purchase mortgage loans, we may, in selected instances, originate mortgage loans or we may provide purchase money financing in conjunction with a property sale.

Our Board of Directors has broad authority under our governing documents to make all types of investments, and we may devote available resources to particular investments or types of investments without restriction on the amount or percentage of assets that may be allocated to a single investment or to any particular type of investment, and without limit on the percentage of securities of any one issuer that may be acquired. Investment objectives and policies may be changed at any time by the Board without stockholder approval.

The specific composition from time-to-time of our real estate portfolio owned by TCI directly and through our subsidiaries depends largely on the judgment of management to changing investment opportunities and the level of risk associated with specific investments or types of investments. We intend to maintain a real estate portfolio that is diversified by both location and type of property.

Competition

The real estate business is highly competitive and TCI competes with numerous companies engaged in real estate activities (including certain entities described in Part III, Item 13. “Certain Relationships and Related Transactions, and Director Independence”), some of which have greater financial resources than TCI. We believe that success against such competition is dependent upon the geographic location of a property, the performance of property-level managers in areas such as leasing and marketing, collection of rents and control of operating expenses, the amount of new construction in the area and the maintenance and appearance of the property. Additional competitive factors include ease of access to a property, the adequacy of related facilities such as parking and other amenities, and sensitivity to market conditions in determining rent levels. With respect to apartments, competition is also based upon the design and mix of the units and the ability to provide a community atmosphere for the residents. We believe that beyond general economic circumstances and trends, the degree to which properties are renovated or new properties are developed in the competing submarket are also competitive factors. See also Part I, Item 1A. “Risk Factors”.

To the extent that TCI seeks to sell any of its properties, the sales prices for the properties may be affected by competition from other real estate owners and financial institutions also attempting to sell properties in areas where TCI’s properties are located, as well as aggressive buyers attempting to dominate or penetrate a particular market.

As described above and in Part III, Item 13. “Certain Relationships and Related Transactions, and Director Independence”, the officers and directors of TCI serve as officers and directors of ARL and IOT. Both ARL and IOT have business objectives similar to those of TCI. TCI’s officers and directors owe fiduciary duties to both IOT and ARL as well as to TCI under applicable law. In determining whether a particular investment opportunity will be allocated to TCI, IOT, or ARL, management considers the respective investment objectives of each Company and the appropriateness of a particular investment in light of each Company’s existing real estate and mortgage notes receivable portfolio. To the extent that any particular investment opportunity is appropriate to more than one of the entities, the investment opportunity may be allocated to the entity which has had funds available for investment for the longest period of time, or, if appropriate, the investment may be shared among all three or two of the entities.

In addition, as described in Part III, Item 13. “Certain Relationships and Related Transactions, and Director Independence”, TCI competes with related parties of Pillar having similar investment objectives related to the acquisition, development, disposition, leasing and financing of real estate and real estate-related investments. In resolving any potential conflicts of interest which may arise, Pillar has informed TCI that it intends to exercise its best judgment as to what is fair and reasonable under the circumstances in accordance with applicable law.

We have historically engaged in and will continue to engage in certain business transactions with related parties, including but not limited to asset acquisitions and dispositions. Transactions involving related parties cannot be presumed to be carried out on an arm’s length basis due to the absence of free market forces that naturally exist in business dealings between two or more unrelated entities. Related party transactions may not always be favorable to our business and may include terms, conditions and agreements that are not necessarily beneficial to or in the best interests of the Company.

Available Information

TCI maintains an internet site at <http://www.transconrealty-invest.com>. We make available through our website free of charge Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, reports filed pursuant to Section 16 and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such materials to the Securities and Exchange Commission. In addition, we have posted the charters for our Audit Committee, Compensation Committee and Governance and Nominating Committee, as well as our Code of Business Conduct and Ethics, Corporate Governance Guidelines on Director Independence and other information on the website. These charters and principles are not incorporated in this Report by reference. We will also provide a copy of these documents free of charge to stockholders upon written request. The Company issues Annual Reports containing audited financial statements to its common shareholders.

ITEM 1A. RISK FACTORS

An investment in our securities involves various risks. All investors should carefully consider the following risk factors in conjunction with the other information in this report before trading our securities.

Risk Factors Related to our Business

Adverse events concerning our existing tenants or negative market conditions affecting our existing tenants could have an adverse impact on our ability to attract new tenants, release space, collect rent or renew leases, and thus could adversely affect cash flow from operations and inhibit growth.

Cash flow from operations depends in part on the ability to lease space to tenants on economically favorable terms. We could be adversely affected by various facts and events over which the Company has limited or no control, such as:

- lack of demand for space in areas where the properties are located;
- inability to retain existing tenants and attract new tenants;
- oversupply of or reduced demand for space and changes in market rental rates;
- defaults by tenants or failure to pay rent on a timely basis;
- the need to periodically renovate and repair marketable space;
 - physical damage to properties;
- economic or physical decline of the areas where properties are located; and
- potential risk of functional obsolescence of properties over time.

At any time, any tenant may experience a downturn in its business that may weaken its financial condition. As a result, a tenant may delay lease commencement, fail to make rental payments when due, decline to extend a lease upon its expiration, become insolvent or declare bankruptcy. Any tenant bankruptcy or insolvency, leasing delay or failure to make rental payments when due, could result in the termination of the tenant's lease and material losses to the Company.

If tenants do not renew their leases as they expire, we may not be able to rent the space. Furthermore, leases that are renewed, and some new leases for space that is re-let, may have terms that are less economically favorable than expiring lease terms, or may require us to incur significant costs, such as renovations, tenant improvements or lease transaction costs. Any of these events could adversely affect cash flow from operations and our ability to make distributions to shareholders and service indebtedness. A significant portion of the costs of owning property, such as real estate taxes, insurance, and debt service payments, are not necessarily reduced when circumstances cause a decrease in rental income from the properties.

We may not be able to compete successfully with other entities that operate in our industry.

We experience a great deal of competition in attracting tenants for the properties and in locating land to develop and properties to acquire.

In our effort to lease properties, we compete for tenants with a broad spectrum of other landlords in each of the markets. These competitors include, among others, publicly-held REITs, privately-held entities, individual property owners and tenants who wish to sublease their space. Some of these competitors may be able to offer prospective tenants more attractive financial terms than we are able to offer.

If the availability of land or high quality properties in our markets diminishes, operating results could be adversely affected.

We may experience increased operating costs which could adversely affect our financial results and the value of our properties.

Our properties are subject to increases in operating expenses such as insurance, cleaning, electricity, heating, ventilation and air conditioning, administrative costs and other costs associated with security, landscaping, repairs, and maintenance of the properties. While some current tenants are obligated by their leases to reimburse us for a portion of these costs, there is no assurance that these tenants will make such payments or agree to pay these costs upon renewal or new tenants will agree to pay these costs. If operating expenses increase in our markets, we may not be able to increase rents or reimbursements in all of these markets to offset the increased expenses, without at the same time decreasing occupancy rates. If this occurs, our ability to make distributions to shareholders and service indebtedness could be adversely affected.

Our ability to achieve growth in operating income depends in part on our ability to develop additional properties.

We intend to continue to develop properties where warranted by market conditions. We have a number of ongoing development and land projects being readied for commencement.

Additionally, general construction and development activities include the following risks:

- construction and leasing of a property may not be completed on schedule, which could result in increased expenses and construction costs, and would result in reduced profitability for that property;

• construction costs may exceed original estimates due to increases in interest rates and increased cost of materials, labor or other costs, possibly making the property less profitable because of inability to increase rents to compensate for the increase in construction costs;

- some developments may fail to achieve expectations, possibly making them less profitable;

• we may be unable to obtain, or face delays in obtaining, required zoning, land-use, building, occupancy, and other governmental permits and authorizations, which could result in increased costs and could require us to abandon our activities entirely with respect to a project;

• we may abandon development opportunities after the initial exploration, which may result in failure to recover costs already incurred. If we determine to alter or discontinue its development efforts, future costs of the investment may be expensed as incurred rather than capitalized and we may determine the investment is impaired resulting in a loss;

- we may expend funds on and devote management's time to projects which will not be completed; and

• occupancy rates and rents at newly-completed properties may fluctuate depending on various factors including market and economic conditions, and may result in lower than projected rental rates and reduced income from operations.

We face risks associated with property acquisitions.

We acquire individual properties and various portfolios of properties and intend to continue to do so. Acquisition activities are subject to the following risks:

• when we are able to locate a desired property, competition from other real estate investors may significantly increase the seller's offering price;

- acquired properties may fail to perform as expected;

- the actual costs of repositioning or redeveloping acquired properties may be higher than original estimates;

• acquired properties may be located in new markets where we face risks associated with an incomplete knowledge or understanding of the local market, a limited number of established business relationships in the area and a relative unfamiliarity with local governmental and permitting procedures; and

• we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into existing operations, and results of operations and financial condition could be adversely affected.

We may acquire properties subject to liabilities and without any recourse, or with limited recourse, with respect to unknown liabilities. However, if an unknown liability was later asserted against the acquired properties, we might be required to pay substantial sums to settle it, which could adversely affect cash flow.

Many of our properties are concentrated in our primary markets and the Company may suffer economic harm as a result of adverse conditions in those markets.

Our properties are located principally in specific geographic areas in the southwestern, southeastern, and mid-western United States. The Company's overall performance is largely dependent on economic conditions in those regions.

We are leveraged and may not be able to meet our debt service obligations.

We had total indebtedness at December 31, 2014 of approximately \$605.6 million. Substantially all assets have been pledged to secure debt. These borrowings increase the risk of loss because they represent a prior claim on assets and most require fixed payments regardless of profitability. Our leveraged position makes us vulnerable to declines in the general economy and may limit the Company's ability to pursue other business opportunities in the future.

We may not be able to access financial markets to obtain capital on a timely basis, or on acceptable terms.

We rely on proceeds from property dispositions and third party capital sources for a portion of our capital needs, including capital for acquisitions and development. The public debt and equity markets are among the sources upon which the Company relies. There is no guarantee that we will be able to access these markets or any other source of capital. The ability to access the public debt and equity markets depends on a variety of factors, including:

- general economic conditions affecting these markets;
- our own financial structure and performance;
- the market's opinion of real estate companies in general; and
- the market's opinion of real estate companies that own similar properties.

We may suffer adverse effects as a result of terms and covenants relating to the Company's indebtedness.

Required payments on our indebtedness generally are not reduced if the economic performance of the portfolio declines. If the economic performance declines, net income, cash flow from operations and cash available for distribution to stockholders may be reduced. If payments on debt cannot be made, we could sustain a loss or suffer judgments, or in the case of mortgages, suffer foreclosures by mortgagees. Further, some obligations contain cross-default and/or cross-acceleration provisions, which means that a default on one obligation may constitute a default on other obligations.

We anticipate only a small portion of the principal of its debt will be repaid prior to maturity. Therefore, we are likely to refinance a portion of its outstanding debt as it matures. There is a risk that we may not be able to refinance existing debt or the terms of any refinancing will not be as favorable as the terms of the maturing debt. If principal balances due at maturity cannot be refinanced, extended, or repaid with proceeds from other sources, such as the proceeds of sales of assets or new equity capital, cash flow may not be sufficient to repay all maturing debt in years when significant "balloon" payments come due.

Our credit facilities and unsecured debt contain customary restrictions, requirements and other limitations on the ability to incur indebtedness, including total debt to asset ratios, secured debt to total asset ratios, debt service coverage ratios, and minimum ratios of unencumbered assets to unsecured debt. Our continued ability to borrow is subject to compliance with financial and other covenants. In addition, failure to comply with such covenants could cause a default under credit facilities, and we may then be required to repay such debt with capital from other sources. Under those circumstances, other sources of capital may not be available, or be available only on unattractive terms.

Our degree of leverage could limit our ability to obtain additional financing or affect the market price of our common stock.

The degree of leverage could affect our ability to obtain additional financing for working capital, capital expenditures, acquisitions, development or other general corporate purposes. The degree of leverage could also make us more vulnerable to a downturn in business or the general economy.

An increase in interest rates would increase interest costs on variable rate debt and could adversely impact the ability to refinance existing debt.

We currently have, and may incur more, indebtedness that bears interest at variable rates. Accordingly, if interest rates increase, so will the interest costs, which could adversely affect cash flow and the ability to pay principal and interest on our debt and the ability to make distributions to shareholders. Further, rising interest rates could limit our ability to refinance existing debt when it matures.

Unbudgeted capital expenditures or cost overruns could adversely affect business operations and cash flow.

If capital expenditures for ongoing or planned development projects or renovations exceed expectations, the additional cost of these expenditures could have an adverse effect on business operations and cash flow. In addition, we might not have access to funds on a timely basis to pay the unexpected expenditures.

Construction costs are funded in large part through construction financing, which the Company may guarantee and the Company's obligation to pay interest on this financing continues until the rental project is completed, leased up and permanent financing is obtained, or the for sale project is sold or the construction loan is otherwise paid. Unexpected delays in completion of one or more ongoing projects could also have a significant adverse impact on business operations and cash flow.

We may need to sell properties from time to time for cash flow purposes.

Because of the lack of liquidity of real estate investments generally, our ability to respond to changing circumstances may be limited. Real estate investments generally cannot be sold quickly. In the event that we must sell assets to generate cash flow, we cannot predict whether there will be a market for those assets in the time period desired, or whether we will be able to sell the assets at a price that will allow the Company to fully recoup its investment. We may not be able to realize the full potential value of the assets and may incur costs related to the early pay-off of the debt secured by such assets.

We intend to devote resources to the development of new projects.

We plan to continue developing new projects as opportunities arise in the future. Development and construction activities entail a number of risks, including but not limited to the following:

- we may abandon a project after spending time and money determining its feasibility;
 - construction costs may materially exceed original estimates;
 - the revenue from a new project may not be enough to make it profitable or generate a positive cash flow;
 - we may not be able to obtain financing on favorable terms for development of a property, if at all;
- we may not complete construction and lease-ups on schedule, resulting in increased development or carrying costs; and

- we may not be able to obtain, or may be delayed in obtaining, necessary governmental permits.

The overall business is subject to all of the risks associated with the real estate industry.

We are subject to all risks incident to investment in real estate, many of which relate to the general lack of liquidity of real estate investments, including, but not limited to:

• our real estate assets are concentrated primarily in the southwest and any deterioration in the general economic conditions of this region could have an adverse effect;

- changes in interest rates may make the ability to satisfy debt service requirements more burdensome;

• lack of availability of financing may render the purchase, sale or refinancing of a property more difficult or unattractive;

- changes in real estate and zoning laws;
- increases in real estate taxes and insurance costs;
- federal or local economic or rent control;
- acts of terrorism; and
- hurricanes, tornadoes, floods, earthquakes and other similar natural disasters.

Our performance and value are subject to risks associated with our real estate assets and with the real estate industry.

Our economic performance and the value of our real estate assets, and consequently the value of our securities, are subject to the risk that if our properties do not generate revenues sufficient to meet our operating expenses, including debt service and capital expenditures, our cash flow will be adversely affected. The following factors, among others, may adversely affect the income generated by our properties:

- downturns in the national, regional and local economic conditions (particularly increases in unemployment);
 - competition from other office and commercial buildings;

• local real estate market conditions, such as oversupply or reduction in demand for office or other commercial space;

- changes in interest rates and availability of financing;
- vacancies, changes in market rental rates and the need to periodically repair, renovate and re-let space;

• increased operating costs, including insurance expense, utilities, real estate taxes, state and local taxes and heightened security costs;

• civil disturbances, earthquakes and other natural disasters, or terrorist acts or acts of war which may result in uninsured or underinsured losses;

-

significant expenditures associated with each investment, such as debt service payments, real estate taxes, insurance and maintenance costs which are generally not reduced when circumstances cause a reduction in revenues from a property;

- declines in the financial condition of our tenants and our ability to collect rents from our tenants; and
 - decreases in the underlying value of our real estate.

Adverse economic conditions and dislocations in the credit markets could have a material adverse effect on our results of operations, and financial condition.

Our business may be affected by market and economic challenges experienced by the U.S. economy or real estate industry as a whole or by the local economic conditions in the markets in which our properties are located, including the current dislocations in the credit markets and general global economic recession. These current conditions, or similar conditions existing in the future, may adversely affect our results of operations, and financial condition as a result of the following, among other potential consequences:

• the financial condition of our tenants may be adversely affected which may result in tenant defaults under leases due to bankruptcy, lack of liquidity, operational failures or for other reasons;

- significant job losses within our tenants may occur, which may decrease demand for our office space, causing market rental rates and property values to be negatively impacted;
- our ability to borrow on terms and conditions that we find acceptable, or at all, may be limited, which could reduce our ability to pursue acquisition and development opportunities and refinance existing debt, reduce our returns from our acquisition and development activities and increase our future interest expense;

• reduced values of our properties may limit our ability to dispose of assets at attractive prices or to obtain debt financing secured by our properties and may reduce the availability of unsecured loans; and

One or more lenders could refuse to fund their financing commitment to us or could fail and we may not be able to replace the financing commitment of any such lenders on favorable terms, or at all.

Real estate investments are illiquid, and we may not be able to sell properties if and when it is appropriate to do so.

Real estate generally cannot be sold quickly. We may not be able to dispose of properties promptly in response to economic or other conditions. In addition, provisions of the Internal Revenue Code may limit our ability to sell properties (without incurring significant tax costs) in some situations when it may be otherwise economically advantageous to do so, thereby adversely affecting returns to stockholders and adversely impacting our ability to meet our obligations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

On December 31, 2014, our portfolio consisted of 45 income-producing properties consisting of 37 apartments totaling 6,024 units, eight commercial properties consisting of four office buildings, one industrial warehouse, two retail centers, and a golf course. In addition, we own or control 4,087 acres of improved and unimproved land for future development or sale. The average annual rental and other property revenue dollar per square foot is \$10.35 for the Company's residential apartment portfolio and \$10.44 for the commercial portfolio. The table below shows information relating to those properties in which we own or have an ownership interest:

Residential Apartments	Location	Units	Occupancy
Anderson Estates	Oxford, MS	48	100.00%
Blue Lake Villas I	Waxahachie, TX	186	95.70%
Blue Lake Villas II	Waxahachie, TX	70	95.70%
Breakwater Bay	Beaumont, TX	176	93.80%
Bridgewood Ranch	Kaufman, TX	106	99.10%
Capitol Hill	Little Rock, AR	156	91.70%
Curtis Moore Estates	Greenwood, MS	104	85.60%
Dakota Arms	Lubbock, TX	208	89.90%
David Jordan Phase II	Greenwood, MS	32	87.50%
David Jordan Phase III	Greenwood, MS	40	87.50%
Desoto Ranch	DeSoto, TX	248	96.00%
Falcon Lakes	Arlington, TX	248	97.20%
Heather Creek	Mesquite, TX	200	95.00%
Lake Forest	Houston, TX	240	100.00%
Legacy at Pleasant Grove	Texarkana, TX	208	93.80%
Lodge at Pecan Creek	Denton, TX	192	94.30%
Mansions of Mansfield	Mansfield, TX	208	95.20%
Mission Oaks	San Antonio, TX	228	93.00%
Monticello Estate	Monticello, AR	32	90.60%
Northside on Travis	Sherman, TX	200	96.00%
Parc at Clarksville	Clarksville, TN	168	94.60%
Parc at Denham Springs	Denham Springs, LA	224	92.40%
Parc at Maumelle	Little Rock, AR	240	90.00%
Parc at Metro Center	Nashville, TN	144	100.00%

Edgar Filing: TRANSCONTINENTAL REALTY INVESTORS INC - Form 10-K

Parc at Rogers	Rogers, AR	250	98.00%
Preserve at Pecan Creek	Denton, TX	192	96.40%
Riverwalk Phase I	Greenville, MS	32	93.80%
Riverwalk Phase II	Greenville, MS	72	91.70%
Sonoma Court	Rockwall, TX	124	96.80%
Sugar Mill	Baton Rouge, LA	160	100.00%
Toulon	Gautier, MS	240	93.80%
Treehouse	Irving, TX	160	98.10%
Villas at Park West I	Pueblo, CO	148	90.50%
Villas at Park West II	Pueblo, CO	112	97.30%
Vistas of Vance Jackson	San Antonio, TX	240	89.60%
Windsong	Fort Worth, TX	188	95.20%
	Total Apartment Units	5,824	

Apartments Subject to Sales Contract	Location	Units	Occupancy
Quail Hollow	Holland, OH	200	95.50%
	Total Apartments Subject to Sales Contract	200	
	Total Apartments /Average Occupancy rate	6,024	94.36%

Office Buildings	Location	SqFt	Occupancy
600 Las Colinas	Las Colinas, TX	512,836	78.26%
Browning Place (Park West I)	Farmers Branch, TX	625,264	60.50%
Senlac (VHP)	Farmers Branch, TX	2,812	100.00%
Stanford Center	Dallas, TX	333,381	48.57%
	Total Office Buildings	1,474,293	

Retail Centers	Location	SqFt	Occupancy
Bridgeview Plaza	LaCrosse, WI	122,205	94.37%
Fruitland Park	Fruitland Park, FL	6,722	0.00%
	Total Retail Centers	128,927	

Industrial Warehouses Subject to Sales Contract	Location	SqFt	Occupancy
Thermalloy	Farmers Branch, TX	177,805	100.00%
	Total Industrial Warehouses Subject to Sales Contract	177,805	
	Total Commercial Buildings	1,781,025	

Golf Course	Location	SqFt
Mahogany Run Golf Course	St. Thomas, US Virgin Islands	5,929,304
	Total Golf Course	5,929,304
	Total Commercial and Golf Course	7,710,329

Lease Expirations

The table below shows the lease expirations of the commercial properties over a nine-year period and thereafter:

Year of Lease Expiration	Rentable Square Feet Subject to Expiring Leases	Current Annualized (1) Contractual Rent Under Expiring Leases	Current Annualized(1) Contractual Rent Under Expiring Leases (P.S.F.)	Percentage of Total Square Feet	Percentage of Gross Rentals
2015	3,352	\$ 44,223	\$ 13.19	0.2 %	0.3 %
2016	404,889	4,290,182	\$ 10.60	22.7 %	24.9 %
2017	54,165	877,020	\$ 16.19	3.0 %	5.1 %
2018	117,131	2,278,815	\$ 19.46	6.6 %	13.2 %
2019	232,349	3,762,918	\$ 16.20	13.0 %	21.9 %

Edgar Filing: TRANSCONTINENTAL REALTY INVESTORS INC - Form 10-K

2020	72,580	1,489,083	\$ 20.52	4.1	%	8.7	%
2021	30,394	672,754	\$ 22.13	1.7	%	3.9	%
2022	50,271	1,051,173	\$ 20.91	2.8	%	6.1	%
2023	154,106	1,909,772	\$ 12.39	8.7	%	11.1	%
Thereafter	63,708	833,810	\$ 13.09	3.6	%	4.8	%
Total	1,182,945	\$ 17,209,750		66.4	%	100	%

(1) Represents the monthly contractual base rent and recoveries from tenants under existing leases as of December 31, 2014, multiplied by twelve. This amount reflects total rent before any rent abatements and includes expense reimbursements, which may be estimates as of such date.

Edgar Filing: TRANSCONTINENTAL REALTY INVESTORS INC - Form 10-K

Land	Location	Acres
2427 Valley View Ln	Farmers Branch, TX	0.31
Audubon	Adams County, MS	48.20
Bonneau Land	Farmers Branch, TX	8.39
Cooks Lane	Fort Worth, TX	23.24
Dedeaux	Gulfport, MS	10.00
Denham Springs	Denham Springs, LA	4.38
Gautier	Gautier, MS	3.46
Hollywood Casino Tract II	Farmers Branch, TX	13.85
Lacy Longhorn	Farmers Branch, TX	5.08
LaDue	Farmers Branch, TX	8.01
Lake Shore Villas	Humble, TX	19.51
Lubbock	Lubbock, TX	2.86
Luna Ventures	Farmers Branch, TX	26.71
Mahogany Run Golf Course	St. Thomas, US Virgin Islands	87.09
Manhattan	Farmers Branch, TX	32.02
McKinney 36	Collin County, TX	34.05
McKinney Ranch	McKinney, TX	71.39
Minivest	Dallas, TX	0.23
Nashville	Nashville, TN	11.87
Nicholson Croslin	Dallas, TX	0.80
Nicholson Mendoza	Dallas, TX	0.35
Ocean Estates	Gulfport, MS	12.00
Seminary West	Fort Worth, TX	3.02
Senlac	Farmers Branch, TX	11.94
Sugar Mill Land	Baton Rouge, LA	2.90
Texas Plaza	Irving, TX	10.33
Three Hickory	Farmers Branch, TX	6.60
Travelers	Farmers Branch, TX	193.17
Travis Ranch	Kaufman County, TX	16.80
Travis Ranch Retail	Kaufman County, TX	8.13
Union Pacific Railroad	Dallas, TX	0.04
US Virgin Islands	US Virgin Islands	96.60
Valley View 34 (Mercer Crossing)	Farmers Branch, TX	2.19
Valley View/Senlac	Farmers Branch, TX	3.45
Waco 151	Waco, TX	151.40
Waco Swanson	Waco, TX	21.58
Walker	Dallas County, TX	82.59
Willowick	Pensacola, FL	39.78
Windmills Farm	Kaufman County, TX	2,900.00
	Total Land/Development	3,974.32

Land Subject to Sales Contract	Location	Acres
Hunter Equities	Dallas, TX	2.56
Dominion Tract	Dallas, TX	10.59

Edgar Filing: TRANSCONTINENTAL REALTY INVESTORS INC - Form 10-K

Hollywood Casino Tract I	Farmers Branch, TX	19.71
Whorton	Bentonville, AR	79.70
	Total Land Subject to Sales Contract	112.56
	Total Land	4,086.88

ITEM 3. LEGAL PROCEEDINGS

Dynex Capital, Inc.

On February 13, 2013, the Court of Appeals, Fifth District of Texas at Dallas (the “Fifth Court of Appeals”) rendered an opinion involving TCI in Case No. 05-04-01358-CV styled Basic Capital Management, Inc., American Realty Trust, Inc., Transcontinental Realty Investors, Inc., Continental Poydras Corp., Continental Common, Inc. and Continental Baronne, Inc. v. Dynex Commercial, Inc. and Dynex Capital, Inc. The case was on appeal from the 68th Judicial District Court of Dallas County, Texas, had previously been appealed to the Fifth Court of Appeals and further appealed to the Supreme Court of the State of Texas which had remanded the instant case back to the Fifth Court of Appeals to address certain issues. The case had its origin with Dynex Commercial making loans to Continental Poydras Corp., Continental Common, Inc. and Continental Baronne, Inc. (subsidiaries of Continental Mortgage & Equity Trust (“CMET”), an entity which merged into TCI in 1999 after the original suit was filed). Under the original loan commitment, \$160,000,000 in loans were to be made to the entities. The loans were conditioned on the execution of a commitment between Dynex Commercial and Basic Capital Management, Inc. (“Basic”).

An original trial to a jury resulted in the jury awarding significant damages to Basic for “lost opportunity,” awarding damages in “increased costs” and “lost opportunity” damages to American Realty Trust, Inc. (“ART”) and damages of \$960,646 in “increased costs” and \$11,161,520 for “lost opportunity” damages in favor of TCI and its subsidiaries (a total of \$12,122,166). The original Trial Court ignored the jury’s findings and entered a “Judgment Notwithstanding the Verdict” (“JNOV”) in Dynex’s favor; the Fifth Court of Appeals has now ruled that the JNOV was improper because there was sufficient evidence to support the jury’s findings. As a result, the Fifth Court of Appeals ordered the Trial Court to enter a new judgment consistent with the jury’s original findings.

The Fifth Court of Appeals also determined that TCI was entitled to damages for “lost opportunities” relating to tenant improvements and awarded TCI an additional \$252,577. Issues relating to attorneys fees were also addressed with the Fifth Court of Appeals ordering the Trial Court to “re-try” the issue of attorney’s fees to determine the amount of fees to which TCI would be entitled on a “breach of commitment” claim. In addition, as a result of the changes in amounts awarded and passage of time, the Fifth Court of Appeals also ordered the Trial Court to recalculate the correct amounts of pre and post-judgment interest owed to Appellants.

While the fifteen year old controversy is not yet fully resolved, the Fifth Court of Appeals opinion is favorable to TCI, but TCI expects continued challenges by Dynex to the Fifth Court of Appeals opinion and any ultimate award of damages by the Trial Court.

ART and ART Midwest, Inc.

In August 2014, David M. Clapper and two entities related to Mr. Clapper (all, collectively, the “Clapper Parties”) filed a complaint in the U. S. District Court against the Company, its directors and certain of its officers alleging purported transactions to the detriment of the Clapper Parties and others by transferring assets, cash and diverting property. Management of the Company believes that there is no basis for this action against the Company and its officers and directors and intends to vigorously defend itself. The August 2014 complaint does not allege any facts relating to the Company, except that the named directors and officers are directors and officers of the Company and that the Company is a Nevada corporation, with its headquarters/principal place of business in Dallas, Texas.

The case arises over other litigation, commenced in 1999, among the Clapper Parties and American Realty Trust, Inc. (“ART”) and its former subsidiary, Art Midwest, Inc., originally arising out of a transaction in 1998, in which ART and the Clapper Parties were to form a partnership to own eight residential apartment complexes. Over the ensuing years, a number of rulings, both for and against ART and ART Midwest, Inc., were issued, resulting in a ruling in October

2011, under which the Clapper Parties were awarded an initial judgment for approximately \$74 million, including \$26 million in actual damages and \$48 million in interest. The 2011 ruling was only against ART and Art Midwest, Inc., but no other entity. During February 2014, the Court of Appeals affirmed a portion of the judgment in favor of the Clapper Parties but also ruled that a double counting of a significant portion of the damages had occurred and remanded the case back to the trial court to recalculate the damage award, as well as pre- and post-judgment interest thereon. ART was also a significant owner of a partnership interest in the partnership that was awarded the initial damages in the matter. ART and ART Midwest, Inc. are not and have never been a subsidiaries of the Company.

The ownership of property and provision of services to the public as tenants entails an inherent risk of liability. Although the Company and its subsidiaries are involved in various items of litigation incidental to and in the ordinary course of its business, in the opinion of Management, the outcome of such litigation will not have a material adverse impact upon the Company's financial condition, results of operation or liquidity, unless noted otherwise above.

The Company is involved in and vigorously defending against other deficiency claims with respect to assets that have been foreclosed by various lenders. Such claims are generally against a consolidated subsidiary as the borrower or the Company as a guarantor of indebtedness or performance. Some of these proceedings may ultimately result in an unfavorable determination for the Company and/or one of its consolidated subsidiaries. While we cannot predict the final result of such proceedings, Management believes that the maximum exposure to the Company and its consolidated subsidiaries, if any, will not exceed approximately \$20.0 million in the aggregate and will occur, if at all, in future years.

During the fourth quarter of the fiscal year covered by this Report, no proceeding previously reported was terminated.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

TCI's Common stock is listed and traded on the NYSE under the symbol "TCI". The following table sets forth the high and low sales prices as reported in the consolidated reporting system of the NYSE for the quarters ended:

	2014		2013	
	High	Low	High	Low
First Quarter	\$ 17.50	\$ 8.80	\$ 6.50	\$ 4.10
Second Quarter	\$ 17.28	\$ 11.70	\$ 10.21	\$ 5.25
Third Quarter	\$ 14.76	\$ 9.44	\$ 9.26	\$ 6.86
Fourth Quarter	\$ 13.90	\$ 9.00	\$ 9.46	\$ 8.11

On March 12, 2015, the closing price of TCI's common stock as reported on the NYSE was \$10.76 per share, and was held by approximately 3,226 holders of record.

TCI's Board of Directors established a policy that dividend declarations on common stock would be determined on an annual basis following the end of each year. In accordance with that policy, the board determined not to pay any dividends on common stock in 2014, 2013 or 2012. Future distributions to common stockholders will be determined by the Board of Directors in light of conditions then existing, including the Company's financial condition and requirements, future prospects, restrictions in financing agreements, business conditions and other factors deemed relevant by the Board.

In December 1989, the Board of Directors approved a share repurchase program, authorizing the repurchase of a total of 687,000 shares of TCI's Common stock. In June 2000, the Board increased this authorization to 1,387,000 shares. On August 10, 2010, the 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. The following table represents shares repurchased during each of the three months of the last quarter ended December 31, 2014:

Period	Total Number of Shares Purchased	Average Price Paid per share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet be Purchased Under the Program
Balance at September 30, 2014			1,230,535	406,465
October 31, 2014	-	\$ -	1,230,535	406,465
November 30, 2014	-	\$ -	1,230,535	406,465
December 31, 2014	-	\$ -	1,230,535	406,465
Total	-			

ITEM 6. SELECTED FINANCIAL DATA

TRANSCONTINENTAL REALTY INVESTORS, INC.

	For the Years Ended December 31,				
	2014	2013	2012	2011	2010
	(dollars in thousands, except share and per share amounts)				
EARNINGS DATA					
Total operating revenues	\$75,858	\$77,351	\$78,378	\$70,888	\$67,727
Total operating expenses	75,087	82,722	69,157	103,972	92,662
Operating income (loss)	771	(5,371)	9,221	(33,084)	(24,935)
Other expenses	(17,613)	(36,626)	(20,661)	(29,009)	(25,917)
Loss before gain on land sales, non-controlling interest, and taxes	(16,842)	(41,997)	(11,440)	(62,093)	(50,852)
Gain (loss) on land sales	561	(1,073)	6,935	16,970	(15,155)
Income tax benefit (expense)	20,390	40,949	(1,260)	(518)	(351)
Net income (loss) from continuing operations	4,109	(2,121)	(5,765)	(45,641)	(66,358)
Net income (loss) from discontinuing operations	37,868	61,630	(2,339)	(962)	(740)
Net income (loss)	41,977	59,509	(8,104)	(46,603)	(67,098)
Net (income) loss attributable to non-controlling interest	(399)	(979)	(220)	282	(98)
Net income (loss) attributable to Transcontinental Realty Investors, Inc.	41,578	58,530	(8,324)	(46,321)	(67,196)
Preferred dividend requirement	(1,005)	(1,110)	(1,112)	(1,110)	(1,073)
Net income (loss) applicable to common shares	\$40,573	\$57,420	\$ (9,436)	\$ (47,431)	\$ (68,269)
PER SHARE DATA					
Earnings per share - basic					
Income (loss) from continuing operations	\$0.32	\$ (0.50)	\$ (0.84)	\$ (5.55)	\$ (8.32)
Income (loss) from discontinued operations	4.42	7.33	(0.28)	(0.11)	(0.09)
Net income (loss) applicable to common shares	\$4.74	\$6.83	\$ (1.12)	\$ (5.66)	\$ (8.41)
Weighted average common share used in computing earnings per share	8,559,370	8,413,469	8,413,469	8,370,729	8,113,575
Earnings per share - diluted					
Income (loss) from continuing operations	\$0.32	\$ (0.50)	\$ (0.84)	\$ (5.55)	\$ (8.32)
Income (loss) from discontinued operations	4.42	7.33	(0.28)	(0.11)	(0.09)
Net income (loss) applicable to common shares	\$4.74	\$6.83	\$ (1.12)	\$ (5.66)	\$ (8.41)
Weighted average common share used in computing diluted earnings per share	8,559,370	8,413,469	8,413,469	8,370,729	8,113,575
BALANCE SHEET DATA					
Real estate, net	\$689,121	\$695,802	\$896,950	\$988,339	\$1,213,114

Edgar Filing: TRANSCONTINENTAL REALTY INVESTORS INC - Form 10-K

Notes and interest receivable, net	83,457	67,907	59,098	77,371	67,025
Total assets	930,405	897,671	1,045,344	1,160,324	1,384,761
Notes and interest payables	608,917	602,845	808,043	884,305	1,022,015
Stockholders' equity	233,448	191,570	133,129	141,284	183,448
Book value per share	27.27	22.77	15.82	16.88	22.61

ITEM 7. 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.

The Annual Report on Form 10-K 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 relate solely to historical matters are intended to identify forward-looking statements. These statements are subject to risks, uncertainties and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. We caution you that, while forward-looking statements reflect our good faith beliefs when we make them, they are not guarantees of future performance and are impacted by actual events when they occur after we make such statements. We expressly disclaim any responsibility to update our forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

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

- general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew leases, dependence on tenants' financial condition, and competition from other developers, owners and operators of real estate);
- risks associated with the availability and terms of financing and the use of debt to fund acquisitions and developments;
- failure to manage effectively our growth and expansion into new markets or to integrate acquisitions successfully;
 - risks and uncertainties affecting property development and construction (including, without limitation, construction delays, cost overruns, inability to obtain necessary permits and public opposition to such activities);
- risks associated with downturns in the national and local economies, increases in interest rates, and volatility in the securities markets;
 - costs of compliance with the Americans with Disabilities Act and other similar laws and regulations;
 - potential liability for uninsured losses and environmental contamination;
 - risks associated with our dependence on key personnel whose continued service is not guaranteed; and
- the other risk factors identified in this Form 10-K, including those described under the caption "Risk Factors."

The risks included here are not exhaustive. Other sections of this report, including Part I Item 1A. “Risk Factors,” include additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Investors should also refer to our quarterly reports on Form 10-Q for future periods and current reports on Form 8-K as we file them with the SEC, and to other materials we may furnish to the public from time to time through Forms 8-K or otherwise.

Overview

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. The Company’s 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 in-fill locations or high-growth suburban markets. We are an active buyer and seller of real estate and during 2014 we acquired \$45.4 million and sold \$142.5 million of land and income-producing properties. As of December 31, 2014, we owned 6,024 units in 37 residential apartment communities, eight commercial properties comprising approximately 1.8 million rentable square feet. In addition, we own 4,087 acres of land held for development. The Company currently owns income-producing properties and land in nine states as well as in the U.S. Virgin Islands.

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. The Company will, from time to time, also enter into partnerships with various investors to acquire income-producing properties or land and to sell interests in certain of its wholly-owned properties. When the Company sells assets, it may carry a portion of the sales price generally in the form of a short-term, interest bearing seller-financed note receivable. The Company generates operating revenues primarily by leasing apartment units to residents and leasing office, retail and industrial space to commercial tenants.

The Company has historically engaged in and may continue to engage in certain business transactions with related parties, including but not limited to asset acquisition and dispositions. Transactions involving related parties cannot be presumed to be carried out on an arm's length basis due to the absence of free market forces that naturally exist in business dealings between two or more unrelated entities. Related party transactions may not always be favorable to our business and may include terms, conditions and agreements that are not necessarily beneficial to or in our best interest.

Effective since April 30, 2011, Pillar is the Company's external Advisor and Cash Manager under a contractual arrangement that is reviewed annually by our Board of Directors. Pillar's duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities. Pillar also arranges, for TCI's benefit, debt and equity financing with third party lenders and investors. Pillar also serves as an Advisor and Cash Manager to ARL and IOT. As the contractual Advisor, Pillar is compensated by TCI under an Advisory Agreement that is more fully described in Part III, Item 10. "Directors, Executive Officers and Corporate Governance – The Advisor". TCI has no employees. Employees of Pillar render services to TCI in accordance with the terms of the Advisory Agreement.

Effective since January 1, 2011, Regis manages our commercial properties and provides brokerage services. Regis is entitled to receive a fee for its property management and brokerage services. See Part III, Item 10. "Directors, Executive Officers and Corporate Governance – Property Management and Real Estate Brokerage". The Company contracts with third-party companies to lease and 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 its accounting methodologies under the previous accounting standards hierarchy. Instead, we refer to the ASC Codification as the sole source of authoritative literature.

The accompanying Consolidated Financial Statements include our accounts, our subsidiaries, generally all of which are wholly-owned, and all entities in which we have a controlling interest. Arrangements that are not controlled through voting or similar rights are accounted for as a Variable Interest Entity (VIE), in accordance with the provisions and guidance of ASC Topic 810 "Consolidation", whereby we have determined that we are a primary beneficiary of the VIE and meet certain criteria of a sole general partner or managing member as identified in accordance with Emerging Issues Task Force ("EITF") Issue 04-5, Investor's Accounting for an Investment in a Limited

Partnership when the Investor is the Sole General Partner and the Limited Partners have Certain Rights (“EITF 04-5”). VIEs are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders as a group lack adequate decision making ability, the obligation to absorb expected losses or residual returns of the entity, or have voting rights that are not proportional to their economic interests. The primary beneficiary generally is the entity that provides financial support and bears a majority of the financial risks, authorizes certain capital transactions, or makes operating decisions that materially affect the entity’s financial results. All significant intercompany balances and transactions have been eliminated in consolidation.

In determining whether we are the primary beneficiary of a VIE, we consider qualitative and quantitative factors, including, but not limited to: the amount and characteristics of our investment; the obligation or likelihood for us or other investors to provide financial support; our and the other investors’ ability to control or significantly influence key decisions for the VIE; and the similarity with and significance to the business activities of us and the other investors. Significant 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. TCI’s investment in ARL is accounted for under the equity method.

The Company in accordance with the VIE guidance in ASC 810 “Consolidations” consolidates 35 and 33 multifamily residential properties located throughout the United States at December 31, 2014 and December 31, 2013, respectively, ranging from 32 units to 290 units. Assets totaling \$362.3 million and \$343.9 million at December 31, 2014 and 2013, respectively, are consolidated and included in “Real estate, at cost” on the balance sheet and are all collateral for their respective mortgage notes payable, none of which are recourse to the partnership in which they are in or to the Company. Assets totaling \$0.0 and \$16.4 million at December 31, 2014 and 2013, respectively, are consolidated and included in “Real estate held for sale at cost” on the balance sheet and are all collateral for their respective mortgage notes payable, none of which are recourse to the partnership in which they are in or to the Company.

Real Estate

Upon acquisitions of real estate, we assess the fair value of acquired tangible and intangible assets, including land, buildings, tenant improvements, “above-” 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-” 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.

Acquisitions from our parent, ARL, have previously been reflected at the fair value purchase price. Upon discussion with the SEC and in review of the guidance pursuant to ASC 250-10-45-22 to 24, we have adjusted those assets, in the prior year, to reflect a basis equal to ARL’s cost basis in the asset at the time of the sale. The related party payables to ARL were reduced for the lower asset price.

Depreciation and Impairment

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 direct project costs incurred during the period of development.

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 consider a construction project as substantially completed and held available for occupancy upon the receipt of certificates of occupancy, but no later than one year from cessation of major construction activity. We cease capitalization on the portion (1) substantially completed and (2) occupied or held available for occupancy, and we capitalize only those costs associated with the portion under construction.

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. Fair value is determined by a recent appraisal, comparables based upon prices for similar assets, executed sales contract, a present value and/or a valuation technique based upon a multiple of earnings or revenue. If such impairment is present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. If we determine that impairment has occurred, the affected assets must be reduced to their face value.

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 the Company will not have significant continuing involvement following the sale. The components of the property’s net income that is reflected as discontinued operations include the net gain (or loss) upon the disposition of the property “held for sale”, operating results, depreciation and interest expense (if the property is subject to a secured loan). We generally consider assets to be “held for sale” when the transaction has been approved by our Board of Directors, or a committee thereof, and there are no known significant contingencies relating to the sale, such that the property sale within one year is considered probable. Following the classification of a property as “held for sale,” no further depreciation is recorded on the assets.

Any properties that are treated as “subject to sales contract” on the Consolidated Balance Sheets and are listed in detail in Schedule III, “Real Estate and Accumulated Depreciation” are those in which we have not recognized the legal sale according to the guidance in ASC 360-20 due to various factors, disclosed in each sale transaction under Item 1 Significant Real Estate Acquisitions/Dispositions and Financing. Any sale transaction where the guidance reflects that a sale had not occurred, the asset involved in the transaction, including the debt and property operations, remained on the books of the Company. We continue to charge depreciation to expense as a period costs for the property until such time as the property has been classified as held for sale in accordance with guidance reflected in ASC 360-10-45 “Impairment or Disposal of Long-Lived Assets”.

Investment 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 the Company exercises significant influence over, but does not control, these entities. These investments are recorded initially at cost, as investments in unconsolidated real estate ventures, and subsequently adjusted for equity in earnings and cash contributions and distributions. Any difference between the carrying amount of these investments on the Company’s balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in earnings of unconsolidated real estate ventures over the life of the related asset. Under the equity method of accounting, 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, the Company consolidates those in which we are the primary beneficiary.

Recognition of Rental Income

Rental income for commercial property leases is recognized on a straight-line basis over the respective lease terms. In accordance with ASC Topic 805, we recognize rental revenue of acquired in-place “above-”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; we 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 assets 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

We record interest income as earned in accordance with the terms of the related loan agreements.

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 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.

Fair Value of Financial Instruments

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.

Related parties

We apply ASC Topic 805, "Business Combinations", to evaluate business relationships. Related parties are persons or entities who have one or more of the following characteristics, which include entities for which investments in their equity securities would be required, trust for the benefit of persons including principal owners of the entities and members of their immediate families, management personnel of the entity and members of their immediate families and other parties with which the entity may deal if one party controls or can significantly influence the decision making of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own

separate interests, or affiliates of the entity.

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 (80% or more) and is held the entire period for both years 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 discontinued operations for all periods presented. The other segment consists of revenue and operating expenses related to the notes receivable and corporate entities.

The following discussion is based on our Consolidated Statements of Operations for the twelve months ended December 31, 2014, 2013, and 2012 as included in Item 8. "Financial Statements and Supplementary Data". The prior year's property portfolios have been adjusted for subsequent sales. Continuing operations relates to income-producing properties that were held during those years as adjusted for sales in the subsequent years.

At December 31, 2014, 2013 and 2012, we owned or had interests in a portfolio of 45, 45 and 60 income-producing properties, respectively. The total property portfolio represents all income-producing properties held as of December 31 for the year presented. Sales subsequent to year end represent properties that were held as of year end for the years presented, but sold in subsequent years. Continued operations represents all properties that have not been reclassified to discontinued operations as of December 31, 2014 for the year presented. The table below shows the number of income-producing properties held by year:

	2014	2013	2012
Continued operations	45	41	41
Sales subsequent to year end	-	4	19
Total property portfolio	45	45	60

Comparison of the year ended December 31, 2014 to the same year ended 2013:

For the twelve months ended December 31, 2014, we reported net income applicable to common shares of \$40.6 million or \$4.74 per diluted earnings per share, as compared to a net income applicable to common shares of \$57.4 million or \$6.83 per diluted earnings per share for the same year ended 2013. The current year net income applicable to common shares of \$40.6 million includes gain on land sales of \$0.6 million and net income from discontinued operations of \$37.9 million, as compared to the prior year net income applicable to common shares of \$57.4 million, which includes loss on land sales of \$1.1 million, provisions on the impairment of notes receivable and real estate assets of \$11.3 million, and net income from discontinued operations of \$61.6 million.

Revenues

Rental and other property revenues were \$75.9 million for the twelve months ended December 31, 2014. This represents a decrease of \$1.5 million, as compared to the prior year revenues of \$77.4 million. This change, by segment, is an increase in the apartment portfolio of \$2.4 million, offset by a decrease in the commercial portfolio of \$3.8 million and a decrease in the other portfolio of \$0.1 million. Our apartment portfolio continues to excel in the current economic conditions with occupancies averaging over 94% and increasing rental rates. We have been able to surpass expectations due to the high-quality product offered, strength of our management team and our commitment to our tenants. The decrease in the commercial segment is due to a lease termination fee received in the prior year. Our commercial portfolio expects to improve as the Company has been diligent in our actions to re-lease vacant space and has been successful in attracting high-quality tenants and expects to see the benefits of those new leases over the next twelve months. We continue to work aggressively to attract new tenants and strive for continuous improvement of our properties in order to maintain our existing tenants.

Expense

Property operating expenses were \$39.5 million for the twelve months ended December 31, 2014. This represents an increase of \$2.8 million, as compared to the prior year operating expenses of \$36.7 million. This change, by segment, is an increase in the apartment portfolio of \$1.2 million, an increase in the commercial portfolio of \$1.4 million and an increase of \$0.2 million in our land portfolio. Within the apartment portfolio, the majority of the increase was due to tax refunds received for several properties in the prior year, an increase in the current year real estate taxes, as well as some non-recurring repair projects completed in the current year. In the commercial segment, the increase is due to an increase in occupancy as well as tax refunds received in the prior year. Within the land portfolio, the increase was mainly due to an increase in real estate taxes and professional services.

Depreciation and amortization expenses were \$17.4 million for the twelve months ended December 31, 2014. This represents an increase of \$1.6 million as compared to prior year depreciation of \$15.8 million. The majority of this change is in the commercial portfolio related to an increase in tenant improvements.

General and administrative expenses were \$7.2 million dollars for the twelve months ended December 31, 2014. This represents an increase of \$0.9 million, as compared to the prior year general and administrative expenses of \$6.3 million. This change, by segment, is a decrease in the land portfolio of \$0.6 million and an increase in the other portfolio of \$1.5 million. Within the land portfolio, the decrease is due to a reduction in professional fees. Within the other portfolio, the increase of was mainly due to professional fees and franchise taxes.

There was no provision for impairment of notes receivable, investment in real estate partnerships, and real estate assets for the year ended December 31, 2014. This was a decrease of \$11.3 million as compared to the prior year expense of \$11.3 million. In the prior year, impairment was recorded as an additional loss in the commercial and land portfolios. In our commercial portfolio, an impairment reserve of \$9.6 million was taken to adjust for the appraised value of the building. In our land portfolio, an impairment reserve of \$1.5 million was taken based on a potential sale of land at a value lower than book basis. The remaining \$0.2 million in impairment reserves were related to provisions for losses taken to our notes receivable.

Net income fee was \$3.7 million for the twelve months ended December 31, 2014. This represents a decrease of \$0.4 million, as compared to the prior year net income fee of \$4.1 million. The net income fee paid to Pillar is calculated at 7.5% of net income.

Advisory fees were \$7.4 million for the twelve months ended December 31, 2014. This represents a decrease of \$1.1 million, as compared to the prior year advisory fees of \$8.5 million. Advisory fees are computed based on a gross asset fee of 0.0625% per month (0.75% per annum) of the average of the gross asset value.

Other income (expense)

Interest income was \$12.2 million for the twelve months ending December 31, 2014. This represents a decrease of \$1.6 million, as compared to the prior year interest income of \$13.8 million dollars. This decrease is due to the recognition of uncollectable interest in the prior year on two of the UHF notes receivable, offset by an increase in interest received from our Advisor.

Other income was \$0.4 million for the twelve months ending December 31, 2014. This represents a decrease of \$7.4 million as compared to the prior year other income of \$7.8 million. The decrease is primarily due to the December 30, 2013 Mercer/Travelers land mortgage note buyout, which was paid off at a discounted rate.

Mortgage and loan interest expense was \$28.4 million for the twelve months ended December 31, 2014. This represents a decrease of \$1.3 million, as compared to the prior year expense of \$29.7 million. This change by segment, is a decrease in the apartment portfolio of \$0.9 million and a decrease in the land portfolio of \$1.6 million, offset by an increase in the other portfolio of \$1.1 million and an increase in the commercial portfolio of \$0.1 million. Within the apartment portfolio, the majority of the decrease is due to the refinances closed with long-term, low interest rates. The decrease in the land portfolio relates to principal payments made during the prior years, thereby requiring less future interest to be paid on debt obligations. Within the other portfolio, the majority of the increase is due to the securing of a new loan in the current year, offset by a decrease in the interest owed to our Advisor.

Loan charges and prepayment penalties were \$2.8 million for the twelve months ended December 31, 2014. This represents a decrease of \$2.4 million, as compared to the prior year expense of \$5.2 million. There were fewer refinances completed in the current year than in the prior year.

Litigation settlement expenses were a credit of \$3.6 million for the twelve months ended December 31, 2014. This represents a decrease of \$23.9 million, as compared to the prior year expense of \$20.3 million. The majority of the credit to the current year litigation expense is due to the settlement with the lender relating to the Amoco Building in which the balance in the amount of \$3.5 million was forgiven. Matters were settled in the prior year in order to avoid future litigation and legal expenses.

Gain on land sales was \$0.6 million for the twelve months ended December 31, 2014. In the current year we sold 76.3 acres of land in six transactions for an aggregate sales price of \$8.1 million and recorded a gain of \$0.6 million.

Discontinued Operations

Discontinued operations relates to properties that were either sold or held for sale as of the respective year end. Included in discontinued operations are a total of 5 and 19 income-producing properties as of 2014 and 2013, respectively. The prior periods' discontinued operations have been adjusted to reflect properties held during those years that were subsequently sold or held for sale as of December 31, 2014. In 2014 we sold three apartment complexes (Blue Ridge, Pecan Pointe and Sunset Lodge) and two commercial buildings (1010 Common and Sesame Square). In 2013 we sold 11 apartment complexes (Dorado Ranch, Huntington Ridge, Laguna Vista, Legends of El

Paso, Mariposa Villas, Paramount Terrace, River Oaks, Savoy of Garland, Stonebridge at City Park, Verandas at City View and Vistas of Pinnacle Park) and four commercial properties (225 Baronne, Amoco, Ergon and Eton Square). The operations related to these properties sold are reclassified to prior years discontinued operations. The gains on sale of the properties sold are also included in the discontinued operations for those years as shown in the table below (dollars in thousands):

	For the Years Ended December 31,	
	2014	2013
Revenues:		
Rental and other property revenues	\$5,612	\$34,922
	5,612	34,922
Expenses:		
Property operating expenses	2,350	16,480
Depreciation	751	5,563
General and administrative	515	950
Total operating expenses	3,616	22,993
Other income (expense):		
Other income (expense)	(508)	44
Mortgage and loan interest	(1,743)	(8,082)
Deferred borrowing costs amortization	(1,461)	(3,015)
Loan charges and prepayment penalties	(1,656)	(3,245)
Earnings from unconsolidated subsidiaries and investees	1	30
Litigation settlement	(250)	(250)
Total other expenses	(5,617)	(14,518)
Loss from discontinued operations before gain on sale of real estate and taxes	(3,621)	(2,589)
Gain on sale of real estate from discontinued operations	61,879	97,405
Income tax expense	(20,390)	(33,186)
Income from discontinued operations	\$37,868	\$61,630

Comparison of the year ended December 31, 2013 to the same year ended 2012:

For the twelve months ended December 31, 2013, we reported net income applicable to common shares of \$57.4 million or \$6.83 per diluted earnings per share, as compared to a net loss applicable to common shares of \$9.4 million or \$1.12 per diluted earnings per share for the same year ended 2012. The 2013 net income applicable to common shares of \$57.4 million includes loss on land sales of \$1.1 million, provisions on the impairment of notes receivable and real estate assets of \$11.3 million, and net income from discontinued operations of \$61.6 million, as compared to the prior year net loss applicable to common shares of \$9.4 million, which includes gain on land sales of \$6.9 million, provisions on the impairment of notes receivable and real estate assets of \$2.3 million, and net loss from discontinued operations of \$2.3 million.

Revenues

Rental and other property revenues were \$77.4 million for the twelve months ended December 31, 2013. This represents a decrease of \$1.0 million, as compared to the prior year revenues of \$78.4 million. This change, by segment, is an increase in the apartment portfolio of \$2.9 million, offset by a decrease in the commercial portfolio of \$3.9 million. Within the apartment portfolio, the increase is due primarily to increased rental rates and occupancy. Our apartment portfolio continues to thrive in the current economic conditions. Within the commercial portfolio, the same properties decreased by \$3.9 million related to some larger square-foot tenants down-sizing or moving out. We continue to market our properties aggressively to attract new tenants and strive for continuous improvement of our properties in order to maintain our existing tenants.

Expense

Property operating expenses were \$36.7 million for the twelve months ended December 31, 2013. This represents a decrease of \$1.1 million, as compared to the prior year operating expenses of \$37.8 million. This change, by segment, is an increase in the apartment portfolio of \$1.5 million, offset by a decrease in the commercial portfolio of \$2.6 million. Within the apartment portfolio, the increase is due to an increase in real estate taxes for several properties in 2013. Within the commercial portfolio, the decrease was due to real estate tax refunds from protests and litigations for several properties and lease commissions that were expensed in the prior year and adjusted to capitalize according to the lease terms in the current year.

Depreciation expense was \$15.8 million for the twelve months ended December 31, 2013. This represents an increase of \$1.0 million, as compared to the prior year expense of \$14.8 million. This change, by segment, is an increase in the commercial portfolio of \$0.9 million, and an increase in the apartment portfolio of \$0.1 million. Within the commercial portfolio the increase is related to an increase in tenant improvements and lease commission amortization.

General and administrative expenses were \$6.3 million for the twelve months ended December 31, 2013. This represents an increase of \$1.2 million, as compared to the prior year expenses of \$5.1 million. This increase, within the other portfolio, is related to professional services and an increase in costs reimbursements to our Advisor.

The provision for impairment of notes receivable, investment in real estate partnerships, and real estate assets was \$11.3 million for the year ended December 31, 2013. This was an increase of \$9.0 million, as compared to the prior year expense of \$2.3 million. In 2013, impairment was recorded as an additional loss in the commercial portfolio of \$9.6 million, the land portfolio of \$1.5 million and the remaining \$0.2 million was related to provisions for losses taken on our notes receivable. A recent appraisal done during the refinance of an office building in Dallas, Texas resulted in a fair value lower than book basis and a potential sale of land at a value lower than book basis resulted in the impairment in the current year. In the prior year, the \$2.3 million in impairment reserves was related to our land holdings. A prior year sale of adjacent land determined the fair value on a Waco, Texas land holding that resulted in an impairment reserve of \$1.2 million, a comparable sale determined the fair value of a Florida land holding that resulted in an impairment reserve of \$0.5 million and an appraisal determined the fair value of an Arkansas land holding that resulted in an impairment reserve of \$0.6 million.

Net income fee was \$4.1 million for the twelve months ended December 31, 2013. This represents an increase of \$3.9 million, as compared to the prior year net income fee of \$0.2 million. The net income fee paid to Pillar is calculated at 7.5% of net income.

Advisory fees were \$8.5 million for the twelve months ended December 31, 2013. This represents a decrease of \$0.4 million, as compared to the prior year advisory fees of \$8.9 million. Advisory fees are computed based on a gross asset fee of 0.0625% per month (0.75% per annum) of the average of the gross asset value.

Other income (expense)

Interest income was \$13.8 million for the twelve months ended December 31, 2013. This represents an increase of \$2.1 million, as compared to the prior year income of \$11.7 million. This increase was due to an agreement made on January 1, 2013, whereby the Company extended the maturity of the surplus cash flow notes receivable from UHF for an additional term of five years in exchange for an early termination of the preferred interest rate. The original notes gave a five-year period of preferred interest rate at 5.25%, before returning to the original note rate of 12%.

Other income was \$7.8 million for the twelve months ended December 31, 2013. This represents an increase of \$1.5 million, as compared to the prior year income of \$6.3 million. The increase primarily relates to the Mercer/Travelers Land note payoff. Per the terms of the agreement, the note was paid off at a discounted rate and \$7.5 million was recognized as a gain. In the prior year, the Company recorded the fee per the development agreement between UHF and TCI for consulting services related to the development of apartment projects.

Mortgage and loan interest expense was \$29.7 million for the twelve months ended December 31, 2013. This represents a decrease of \$4.7 million, as compared to the prior year expense of \$34.4 million. This change, by segment, is a decrease in the apartment portfolio of \$2.7 million, a decrease in the land portfolio of \$0.6 million, and a decrease in the other portfolio of \$1.5 million, offset by an increase in the commercial portfolio of \$0.1 million. Within the apartment portfolio, the majority of the decrease relates to the refinances closed with long-term, low interest rates. The majority of the decrease in the other portfolio is due to a decrease in the interest paid to our Advisor. The decrease in the land portfolio was due to land sales.

Deferred borrowing costs amortization was \$2.6 million for the twelve months ended December 31, 2013. This represents an increase of \$2.0 million as compared to the prior year expense of \$0.6 million. This increase is mainly due to the higher loan deferred borrowing costs in the same store properties of the apartment portfolio that were

written off in 2013 upon the refinance into a new mortgage note.

Loan charges and prepayment penalties were \$5.2 million for the twelve months ended December 31, 2013. This represents an increase of \$1.6 million, as compared to the prior year expense of \$3.6 million. This change, by segment, is an increase in the commercial portfolio of \$0.2 million, an increase in the apartment portfolio of \$0.4 million, and an increase in the land portfolio of \$1.0 million. The majority of the land increase is due to the extension fees paid relating to the Mercer/Travelers Land note payoff. The apartment portfolio increased as well due to the prepayment penalties from the refinancing of several existing mortgage notes. There were more refinances completed in 2013 than in the prior year.

Litigation settlement expense was \$20.3 million for the twelve months ended December 31, 2013. This represents an increase of \$20.1 million as compared to the prior year expense of \$0.2 million. The majority of this increase relates to guarantor settlements on various real estate assets that were foreclosed upon in prior years. In order to avoid future litigation and legal expenses, we settled and are making payment plans on the agreed upon deficiencies.

Gain on land sales decreased in the current year. In the current year, we sold 36.37 acres of land in three separate transactions for an aggregate sales price of \$13.1 million and recorded a loss of \$1.1 million.

Discontinued Operations

Discontinued operations relates to properties that were either sold or held for sale as of the respective year end. Included in discontinued operations are a total of 19 and 24 income-producing properties as of 2013 and 2012, respectively. The prior periods' discontinued operations have been adjusted to reflect properties held during those years that were subsequently sold or held for sale as of December 31, 2014. In 2013 we sold 11 apartment complexes (Dorado Ranch, Huntington Ridge, Laguna Vista, Legends of El Paso, Mariposa Villas, Paramount Terrace, River Oaks, Savoy of Garland, Stonebridge at City Park, Verandas at City View and Vistas of Pinnacle Park) and four commercial properties (225 Baronne, Amoco, Ergon and Eton Square). In 2012, we sold two apartment complexes (Portofino and Wildflower Villas) and three commercial properties (305 Baronne, Clarke Garage and Dunes Plaza). The operations related to these properties sold are reclassified to prior years discontinued operations. The gains on sale of the properties sold are also included in the discontinued operations for those years as shown in the table below (dollars in thousands):

	For the Years Ended December 31,	
	2013	2012
Revenues:		
Rental and other property revenues	\$34,922	\$43,010
	34,922	43,010
Expenses:		
Property operating expenses	16,480	22,645
Depreciation	5,563	7,676
General and administrative	950	975
Provision on impairment of notes receivable and real estate assets	-	2,400
Total operating expenses	22,993	33,696
Other income (expense):		
Other income	44	7
Mortgage and loan interest	(8,082)	(12,677)
Deferred borrowing costs amortization	(3,015)	(1,794)
Loan charges and prepayment penalties	(3,245)	(3,471)
Earnings from unconsolidated subsidiaries and investees	30	55
Litigation settlement	(250)	(250)
Total other expenses	(14,518)	(18,130)
Loss from discontinued operations before gain on sale of real estate and taxes	(2,589)	(8,816)
Gain on sale of real estate from discontinued operations	97,405	5,217
Income tax benefit (expense)	(33,186)	1,260
Income (loss) from discontinued operations	\$61,630	\$(2,339)

Liquidity and Capital Resources

General

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.

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;

- collections of receivables from related companies;
- refinancing of existing mortgage notes payable; and
- additional borrowings, including mortgage notes payable, and lines of credit.

It is important to realize that the current status of the banking industry has had a significant effect on our industry. The banks' willingness and/or ability to originate loans affects our ability to buy and sell property, and refinance existing debt. We are unable to foresee the extent and length of this down-turn. A continued and extended decline could materially impact our cash flows. We draw on multiple financing sources to fund our long-term capital needs. We generally fund our development projects with construction loans, which are converted to traditional mortgages upon completion of the project.

We may also issue additional equity securities, including common stock and preferred stock. Management anticipates that our cash as of December 31, 2014, along with cash that will be generated in 2015 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 borrowings secured by real estate to meet its liquidity requirements. Although history cannot predict the future, historically, we have been successful at refinancing and extending a portion of the Company's current maturity obligations.

Management reviews the carrying values of TCI's properties and mortgage notes receivable at least annually and whenever events or a change in circumstances indicate that impairment may exist. Impairment is considered to exist if, in the case of a property, the future cash flow from the property (undiscounted and without interest) is less than the carrying amount of the property. The property review generally includes: (1) selective property inspections; (2) a review of the property's current rents compared to market rents; (3) a review of the property's expenses; (4) a review of maintenance requirements; (5) a review of the property's cash flow; (6) discussions with the manager of the property; and (7) a review of properties in the surrounding area. For notes receivable, impairment is considered to exist if it is probable that all amounts due under the terms of the note will not be collected. If impairment is found to exist, a provision for loss is recorded by a charge against earnings. The note receivable review includes an evaluation of the collateral property securing such note.

Cash Flow Summary

The following summary discussion of our cash flows is based on the Consolidated Statements of Cash Flows in Part II, Item 8. "Consolidated Financial Statements and Supplementary Data" and is not meant to be an all-inclusive discussion of the changes in our cash flows for the periods presented below (dollars in thousands):

	2014	2013	Variance
Net cash used in operating activities	\$ (29,382)	\$ (66,695)	\$ 37,313
Net cash provided by investing activities	\$ 28,904	\$ 269,049	\$ (240,145)
Net cash used in financing activities	\$ (3,407)	\$ (199,269)	\$ 195,862

The 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 a related account in which excess cash is transferred to or from. We used significantly more cash in the prior period to pay down related party payables than in the current period.

Our primary cash outlays for investing activities are for construction and development, acquisition of land and income-producing properties, and capital improvements to existing properties. Our primary sources of cash from investing activities are from the proceeds on the sale of land and income-producing properties. We received more proceeds from sales of properties and land in the prior period than in the current period. In addition, we spent \$81 million on three residential properties and a combined 15.0 acres of land in the current period.

Our primary sources of cash from financing activities are from proceeds on notes payables. Our primary cash outlays are for recurring debt payments and payments on maturing notes payable. We used \$21.4 million to make recurring note payments and \$153.6 million for maturing notes including payoffs required on sold properties as compared to \$15.8 million and \$386.7 million in the prior period, respectively.

Equity Investments

TCI has from time to time purchased shares of IOT and ARL. The Company may purchase additional equity securities of IOT and ARL through open market and negotiated transactions to the extent TCI's liquidity permits.

Equity securities of ARL and IOT held by TCI may be deemed “restricted securities” under Rule 144 of the Securities Act of 1933 (“Securities Act”). Accordingly, TCI may be unable to sell such equity securities other than in a registered public offering or pursuant to an exemption under the Securities Act for a one-year period after they are acquired. Such restrictions may reduce TCI’s ability to realize the full fair value of such investments if TCI attempted to dispose of such securities in a short period of time.

Contractual Obligations

We have contractual obligations and commitments primarily with regards to the payment of mortgages. The following table aggregates our expected contractual obligations and commitments and includes items not accrued, per GAAP, through the term of the obligation such as interest expense and operating leases. Our aggregate obligations subsequent to December 31, 2014, are shown in the table below (dollars in thousands):

	Total	2015	2016	2017-2019	Thereafter
Long-term debt obligation (1)	\$945,647	\$129,957	\$67,737	\$147,822	\$600,131
Capital lease obligation	-	-	-	-	-
Operating lease obligation	18,630	277	283	883	17,187
Purchase obligation	-	-	-	-	-
Other long-term debt liabilities reflected on the Registrant's Balance Sheet under GAAP	-	-	-	-	-
Total	\$964,277	\$130,234	\$68,020	\$148,705	\$617,318

(1) TCI's long-term debt may contain financial covenants that, if certain thresholds are not met, could allow the lender to accelerate principal payments or cause the note to become due immediately.

Environmental Matters

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

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

Inflation

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

TCI's primary market risk exposure consists of changes in interest rates on borrowings under our debt instruments that bear interest at variable rates that fluctuate with market interest rates and maturing debt that has to be refinanced. TCI's future operations, cash flow and fair values of financial instruments are also partially dependent on the then existing market interest rates and market equity prices.

As of December 31, 2014, our \$605.6 million debt portfolio consisted of approximately \$542.6 million of fixed-rate debt and approximately \$63.0 million of variable-rate debt with interest rates ranging from 1.0% to 12.5%. Our overall weighted average interest rate at December 31, 2014 and 2013 was 4.72% and 5.65%, respectively.

TCI's interest rate sensitivity position is managed by the capital markets department. Interest rate sensitivity is the relationship between changes in market interest rates and the fair value of market rate sensitive assets and liabilities. TCI's earnings are affected as changes in short-term interest rates affect its cost of variable-rate debt and maturing fixed-rate debt.

If market interest rates for variable-rate debt average 100 basis points more in 2015 than they did during 2014, TCI's interest expense would increase and net income would decrease by \$0.6 million. This amount is determined by considering the impact of hypothetical interest rates on TCI's borrowing cost. The analysis does not consider the effects of the reduced level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, management would likely take actions to further mitigate its exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no change in TCI's financial structure.

Edgar Filing: TRANSCONTINENTAL REALTY INVESTORS INC - Form 10-K

The following table contains only those exposures that existed at December 31, 2014. Anticipation of exposures or risk on positions that could possibly arise was not considered. TCI's ultimate interest rate risk and its effect on operations will depend on future capital market exposures, which cannot be anticipated with a probable assurance level (dollars in thousands):

	2015	2016	2017	2018	2019	Thereafter	Total
Assets							
Market securities at fair value							\$-
Note Receivable Variable interest rate - fair value							\$-
Instruments' maturities	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Instruments' amortization	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Average Rate	0.00	% 0.00	% 0.00	% 0.00	% 0.00	% 0.00	%
Fixed interest rate - fair value							
Instruments' maturities	\$1,319	\$-	\$11,662	\$-	\$19,530	\$47,793	\$80,304
Instruments' amortization	-	-	-	-	-	-	-
Interest	9,512	9,431	9,032	8,032	7,045	73,718	116,770
Average Rate	11.84	% 11.94	% 11.44	% 11.93	% 10.46	% 11.02	%
Liabilities							
Notes Payable							
Variable interest rate - fair value							\$63,001
Instruments' maturities	\$17,253	\$8,837	\$32,353	\$-	\$-	\$-	\$58,443
Instruments' amortization	2,449	1,951	158	-	-	-	4,558
Interest	2,497	1,918	197	-	-	-	4,612
Average Rate	5.69	% 5.97	% 5.79	% 0.00	% 0.00	% 0.00	%
Fixed interest rate - fair value							
Instruments' maturities	\$74,069	\$26,292	\$1,518	\$-	\$36,540	\$48,236	\$186,655
Instruments' amortization	10,034	8,689	8,478	8,448	6,817	313,490	355,956
Interest	23,655	20,050	19,163	18,647	15,503	238,405	335,423
Average Rate	3.42	% 3.25	% 3.20	% 3.38	% 4.88	% 3.89	%

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

	Page
Financial Statements	
Report of Independent Registered Public Accounting Firm	36
Consolidated Balance Sheets—December 31, 2014 and 2013	37
Consolidated Statements of Operations—Years Ended December 31, 2014, 2013 and 2012	38
Consolidated Statements of Shareholders' Equity—Years Ended December 31, 2014, 2013 and 2012	39
Consolidated Statements of Cash Flows—Years Ended December 31, 2014, 2013 and 2012	40
Statements of Consolidated Comprehensive Income (Loss) – Years Ended December 31, 2014, 2013 and 2012	41
Notes to Consolidated Financial Statements	42
Financial Statement Schedules	
Schedule III—Real Estate and Accumulated Depreciation	66
Schedule IV—Mortgage Loans on Real Estate	69

All other schedules are omitted because they are not required, are not applicable or the information required is included in the Financial Statements or the notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of and
Stockholders of Transcontinental Realty Investors, Inc.
Dallas, Texas

We have audited the accompanying consolidated balance sheets of Transcontinental Realty Investors, Inc. and Subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2014. Transcontinental Realty Investors, Inc.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 16, Transcontinental Realty Investors, Inc.'s management intends to sell land and income-producing properties and refinance or extend debt secured by real estate to meet the Company's liquidity needs.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Transcontinental Realty Investors, Inc. as of December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. Schedules III and IV are presented for the purpose of complying with the Securities and Exchange Commission's rules and are not a required part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

FARMER , FUQUA & HUFF, PC

Richardson, Texas
March 30, 2015

TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2014	December 31, 2013
	(dollars in thousands, except share and par value amounts)	
Assets		
Real estate, at cost	\$781,794	\$777,974
Real estate held for sale at cost, net of depreciation (\$0 in 2014 and \$2,390 in 2013)	-	16,427
Real estate subject to sales contracts at cost, net of depreciation (\$2,300 in 2014 and \$1,949 in 2013)	20,395	29,353
Less accumulated depreciation	(113,068)	(127,952)
Total real estate	689,121	695,802
Notes and interest receivable		
Performing (including \$77,853 in 2014 and \$66,431 in 2013 from related parties)	84,863	69,626
Non-Performing	584	543
Less allowance for estimated losses (including \$1,825 in 2014 and \$2,097 in 2013 from related parties)	(1,990)	(2,262)
Total notes and interest receivable	83,457	67,907
Cash and cash equivalents	12,201	16,086
Restricted cash	48,238	31,799
Investments in unconsolidated subsidiaries and investees	1,543	1,697
Receivable from related party	58,404	52,380
Other assets	37,441	32,000
Total assets	\$930,405	\$897,671
Liabilities and Shareholders' Equity		
Liabilities:		
Notes and interest payable	\$588,749	\$562,734
Notes related to assets held for sale	1,552	17,100
Notes related to subject to sales contracts	18,616	23,011
Deferred revenue (from sales to related parties)	51,356	53,096
Accounts payable and other liabilities (including \$4,909 in 2014 and \$4,697 in 2013 from related parties)	36,684	50,160
	696,957	706,101
Shareholders' equity:		
Preferred stock, Series C: \$0.01 par value, authorized 10,000,000 shares, issued and outstanding zero shares in 2014 and 30,000 shares in 2013 (liquidation preference \$100 per share). Series D: \$0.01 par value, authorized, issued and outstanding 100,000 shares in 2014 and 2013 (liquidation preference \$100 per share)	1	1
Common Stock, \$0.01 par value, authorized 10,000,000 shares, issued 8,717,967 and 8,413,669 shares in 2014	87	84

and 2013, respectively and outstanding 8,717,767 and 8,413,469 shares in 2014 and 2013, respectively

Treasury stock at cost, 200 shares in 2014 and 2013	(2)	(2)
Paid-in capital	271,649		271,720	
Retained earnings	(56,451)	(98,029)
Total Transcontinental Realty Investors, Inc. shareholders' equity	215,284		173,774	
Non-controlling interest	18,164		17,796	
Total shareholders' equity	233,448		191,570	
Total liabilities and shareholders' equity	\$930,405		\$897,671	

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

TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31,		
	2014	2013	2012
	(dollars in thousands, except per share amounts)		
Revenues:			
Rental and other property revenues (including \$701, \$670 and \$587 for the year ended 2014, 2013 and 2012, respectively, from related parties)	\$75,858	\$77,351	\$78,378
Expenses:			
Property operating expenses (including \$606, \$661 and \$851 for the year ended 2014, 2013 and 2012, respectively, from related parties)	39,484	36,669	37,845
Depreciation and amortization	17,398	15,842	14,813
General and administrative (including \$2,802, \$2,765 and \$2,427 for the year ended 2014, 2013 and 2012, respectively, from related parties)	7,163	6,308	5,074
Provision on impairment of notes receivable and real estate assets	-	11,320	2,330
Net income fee to related party	3,669	4,089	180
Advisory fee to related party	7,373	8,494	8,915
Total operating expenses	75,087	82,722	69,157
Net operating income (loss)	771	(5,371)	9,221
Other income (expense):			
Interest income (including \$11,469, \$13,823 and \$11,677 for the year ended 2014, 2013 and 2012, respectively, from related parties)	12,194	13,790	11,725
Other income (including \$0, \$0 and \$6,000 for the year ended 2014, 2013 and 2012, respectively, from related parties)	403	7,847	6,310
Mortgage and loan interest (including \$31, \$1,761 and \$3,153 for the year ended 2014, 2013 and 2012, respectively, from related parties)	(28,368)	(29,694)	(34,372)
Deferred borrowing costs amortization	(2,509)	(2,582)	(634)
Loan charges and prepayment penalties	(2,804)	(5,219)	(3,574)
Gain (loss) on the sale of investments	(92)	(283)	125
Losses from unconsolidated joint ventures and investees	(28)	(172)	(66)
Litigation settlement	3,591	(20,313)	(175)
Total other expenses	(17,613)	(36,626)	(20,661)
Loss before gain (loss) on land sales, non-controlling interest, and taxes	(16,842)	(41,997)	(11,440)
Gain (loss) on land sales	561	(1,073)	6,935
Net loss from continuing operations before taxes	(16,281)	(43,070)	(4,505)
Income tax benefit (expense)	20,390	40,949	(1,260)
Net income (loss) from continuing operations	4,109	(2,121)	(5,765)
Discontinued operations:			
Net loss from discontinued operations	(3,621)	(2,589)	(8,816)

Edgar Filing: TRANSCONTINENTAL REALTY INVESTORS INC - Form 10-K

Gain on sale of real estate from discontinued operations	61,879	97,405	5,217
Income tax benefit (expense) from discontinued operations	(20,390)	(33,186)	1,260
Net income (loss) from discontinued operations	37,868	61,630	(2,339)
Net income (loss)	41,977	59,509	(8,104)
Net loss attributable to non-controlling interest	(399)	(979)	(220)
Net income (loss) attributable to Transcontinental Realty Investors, Inc.	41,578	58,530	(8,324)
Preferred dividend requirement	(1,005)	(1,110)	(1,112)
Net income (loss) applicable to common shares	\$40,573	\$57,420	\$(9,436)
Earnings per share - basic			
Net income (loss) from continuing operations	\$0.32	\$(0.50)	\$(0.84)
Net income (loss) from discontinued operations	4.42	7.33	(0.28)
Net income (loss) applicable to common shares	\$4.74	\$6.83	\$(1.12)
Earnings per share - diluted			
Net income (loss) from continuing operations	\$0.32	\$(0.50)	\$(0.84)
Net income (loss) from discontinued operations	4.42	7.33	(0.28)
Net income (loss) applicable to common shares	\$4.74	\$6.83	\$(1.12)
Weighted average common shares used in computing earnings per share	8,559,370	8,413,469	8,413,469
Weighted average common shares used in computing diluted earnings per share	8,559,370	8,413,469	8,413,469
Amounts attributable to Transcontinental Realty Investors, Inc.			
Net income (loss) from continuing operations	\$3,710	\$(3,100)	\$(5,985)
Net income (loss) from discontinued operations	37,868	61,630	(2,339)
Net income (loss)	\$41,578	\$58,530	\$(8,324)

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

TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Three Years Ended December 31, 2014
(dollars in thousands)

	Total	Comprehensive Income (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, 2011	\$141,284	\$ (151,052)	\$ 1	8,413,669	\$ 84	\$ (2)	\$273,886	\$ (148,235)	\$ -	\$ 15,550
Series C preferred stock dividends (7.0% per year)	(210)	-	-	-	-	-	(210)	-	-	-
Series D preferred stock dividends (9.0% per year)	(902)	-	-	-	-	-	(902)	-	-	-
Net income (loss)	(8,104)	(8,104)	-	-	-	-	-	(8,324)	-	220
Sale of controlling interest	1,138	-	-	-	-	-	-	-	-	1,138
Acquisition of controlling interest	(69)	-	-	-	-	-	-	-	-	(69)
Distributions to non-controlling interests	(8)	-	-	-	-	-	-	-	-	(8)
Balance, December 31, 2012	\$133,129	\$ (159,156)	\$ 1	8,413,669	\$ 84	\$ (2)	\$272,774	\$ (156,559)	\$ -	\$ 16,831
Series C preferred stock dividends (7.0% per year)	(210)	-	-	-	-	-	(210)	-	-	-
Series D preferred stock dividends (9.0% per year)	(900)	-	-	-	-	-	(900)	-	-	-
Net income	59,509	59,509	-	-	-	-	-	58,530	-	979
Sale of controlling interest	56	-	-	-	-	-	56	-	-	-
Distributions to non-controlling	(14)	-	-	-	-	-	-	-	-	(14)

interests										
Balance, December 31, 2013	\$191,570	\$ (99,647)	\$ 1	8,413,669	\$ 84	\$(2)	\$271,720	\$(98,029)	\$ -	\$ 17,796
Series C preferred stock dividends (7.0% per year)	(106)	-	-	-	-	-	(106)	-	-	-
Series D preferred stock dividends (9.0% per year)	(899)	-	-	-	-	-	(899)	-	-	-
Net income	41,977	41,977	-	-	-	-	-	41,578	-	399
Issuance of common stock	937	-	-	304,298	3	-	934	-	-	-
Distributions to non-controlling interests	(31)	-	-	-	-	-	-	-	-	(31)
Balance, December 31, 2014	\$233,448	\$ (57,670)	\$ 1	8,717,967	\$ 87	\$(2)	\$271,649	\$(56,451)	\$ -	\$ 18,164

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

TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2014	2013	2012
	(dollars in thousands)		
Cash Flow From Operating Activities:			
Net income (loss)	\$41,977	\$59,509	\$(8,104)
Adjustments to reconcile net income (loss) applicable to common shares to net cash used in operating activities:			
(Gain) loss on sale of land	(561)	1,073	(6,935)
Gain on sale of income producing properties	(61,879)	(97,405)	(5,217)
Depreciation and amortization	18,150	21,404	22,488
Provision on impairment of notes receivable and real estate assets	-	11,320	4,730
Amortization of deferred borrowing costs	3,970	1,349	2,428
Earnings from unconsolidated subsidiaries and investees	298	142	11
(Increase) decrease in assets:			
Accrued interest receivable	7,648	(8,432)	(5,517)
Other assets	2,784	(1,443)	(3,462)
Prepaid expense	(1,995)	(1,722)	(236)
Escrow	(16,733)	3,625	1,157
Earnest money	(420)	(310)	235
Rent receivables	(1,486)	2,445	(1,094)
Increase (decrease) in liabilities:			
Accrued interest payable	104	(5,262)	(7,498)
Related party payables	(6,024)	(62,437)	(7,408)
Other liabilities	(15,215)	9,449	(10,316)
Net cash used in operating activities	(29,382)	(66,695)	(24,738)
Cash Flow From Investing Activities:			
Proceeds from notes receivables	12,504	-	11,993
Originations of notes receivables	(35,430)	(458)	13,477
Acquisition of land held for development	(2,604)	(83)	(18,948)
Acquisition of income producing properties	(78,557)	-	-
Proceeds from sales of income producing properties	135,074	261,495	31,751
Proceeds from sale of land	8,777	13,671	36,648
Proceeds from sale of investments	-	-	132
Investment in unconsolidated real estate entities	(144)	3,600	780
Improvement of land held for development	(3,137)	(399)	(184)
Improvement of income producing properties	(4,563)	(7,681)	(2,201)
Acquisition of non-controlling interest	-	-	(69)
Sale of controlling interest	-	56	113
Construction and development of new properties	(3,016)	(1,152)	(5,683)
Net cash provided by investing activities	28,904	269,049	67,809
Cash Flow From Financing Activities:			
Proceeds from notes payable	178,514	202,535	139,459

Edgar Filing: TRANSCONTINENTAL REALTY INVESTORS INC - Form 10-K

Recurring amortization of principal on notes payable	(21,352)	(15,761)	(21,541)
Payments on maturing notes payable	(153,595)	(386,710)	(163,553)
Deferred financing costs	(6,875)	1,791	(3,305)
Distributions to non-controlling interests	(31)	(14)	(8)
Common stock issuance	937	-	-
Preferred stock dividends - Series C	(106)	(210)	(212)
Preferred stock dividends - Series D	(899)	(900)	(901)
Net cash used in financing activities	(3,407)	(199,269)	(50,061)
Net increase (decrease) in cash and cash equivalents	(3,885)	3,085	(6,990)
Cash and cash equivalents, beginning of period	16,086	13,001	19,991
Cash and cash equivalents, end of period	\$12,201	\$16,086	\$13,001
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$30,110	\$37,776	\$44,737
Schedule of noncash investing and financing activities:			
Affiliate payable/receivable for ARL cost basis sales adjustment	\$-	\$-	\$10,445
Acquisition of land for ARL cost basis sales adjustment	\$-	\$-	\$(10,445)
Notes receivable received from affiliate	\$-	\$-	\$6,000
Sale of notes receivable to affiliate	\$-	\$-	\$(20,387)

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

TRANSCONTINENTAL REALTY INVESTORS, INC.
 STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)
 For the Three Years Ended December 31,

	2014	2013	2012
	(dollars in thousands)		
Net income (loss)	\$41,977	\$59,509	\$(8,104)
Other comprehensive loss			
Unrealized gain on investment securities	-	-	-
Total other comprehensive loss	-	-	-
Comprehensive income (loss)	41,977	59,509	(8,104)
Comprehensive income attributable to non-controlling interest	(399)	(979)	