

TRANSCONTINENTAL REALTY INVESTORS INC
Form 10-Q
August 14, 2006
Table of Contents

FORM 10-Q

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

**x QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934
FOR THE QUARTER ENDED JUNE 30, 2006**

Or

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

Commission File Number 001-09240

TRANSCONTINENTAL REALTY INVESTORS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada
(State or Other Jurisdiction of
Incorporation or Organization)

1800 Valley View Lane, Suite 300

Dallas, Texas 75234

95-6565852
(I.R.S. Employer

Identification No.)

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

(Address of principal executive offices) (Zip Code)

(469) 522-4200

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE

PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Common Stock, \$.01 par value
(Class)

7,900,869
(Outstanding at June 30, 2006)

Table of Contents

TRANSCONTINENTAL REALTY INVESTORS, INC.

FORM 10-Q

TABLE OF CONTENTS

	PAGE
<u>PART I: FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Balance Sheets at June 30, 2006 (Unaudited) and December 31, 2005</u>	3
<u>Consolidated Statements of Operations for the three and six months ended June 30, 2006 and 2005 (Unaudited)</u>	4
<u>Consolidated Statement of Stockholders' Equity for the six months ended June 30, 2006 (Unaudited)</u>	6
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2006 and 2005 (Unaudited)</u>	7
<u>Notes to Consolidated Financial Statements</u>	9
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	28
Item 4. <u>Controls and Procedures</u>	28
<u>PART II. OTHER INFORMATION</u>	
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	29
Item 6. <u>Exhibits</u>	30
<u>SIGNATURE PAGES</u>	31

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

(dollars in thousands, except share data)

	June 30, 2006 (Unaudited)	December 31, 2005
Assets		
Real estate held for investment	\$ 986,793	\$ 911,981
Less accumulated depreciation	(87,921)	(78,096)
	898,872	833,885
Real estate held-for-sale	35,347	40,446
Real estate subject to sales contract	66,827	68,738
Notes and interest receivable		
Performing (including \$21,991 in 2006 and \$34,370 in 2005 from affiliates and related parties)	37,793	59,922
Non-performing, non-accruing	4,893	4,896
	42,686	64,818
Investment in real estate entities	24,591	24,659
Marketable equity securities, at market value	8,309	7,446
Cash and cash equivalents	11,811	5,462
Other assets (including \$1,010 in 2006 and \$1,103 in 2005 from affiliates and related parties)	40,247	43,625
	\$ 1,128,690	\$ 1,089,079
Liabilities and Stockholders Equity		
Liabilities:		
Notes payable (including \$6,769 in 2006 and \$6,787 in 2005 to affiliates and related parties)	\$ 694,549	\$ 654,882
Interest payable (including \$550 in 2006 and \$218 in 2005 to affiliates and related parties)	2,624	3,510
Liabilities related to assets held-for-sale	53,084	53,084
Liabilities related to assets subject to sales contract	58,347	58,685
Other liabilities (including \$16,867 in 2006 and \$12,272 in 2005 to affiliates and related parties)	56,011	66,500
	864,615	836,661
Commitments and contingencies		
Minority interest	16,174	1,239
Stockholders equity:		
Preferred Stock		
Series C Cumulative Convertible; \$.01 par value; authorized, issued and outstanding 30,000 shares; (liquidation preference \$3,000)		
Common Stock, \$.01 par value; authorized, 10,000,000 shares; issued and outstanding 7,900,869 shares at June 30, 2006 and December 31, 2005	81	81

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

Additional paid-in capital	256,389	256,494
Treasury stock, at cost	(3,086)	(3,086)
Accumulated deficit	(5,688)	(1,846)
Accumulated other comprehensive income (loss)	205	(464)
	247,901	251,179
	\$ 1,128,690	\$ 1,089,079

The accompanying notes are an integral part of these Consolidated Financial Statements.

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

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2006	2005	June 30, 2006	2005
	(dollars in thousands, except per share)			
Property revenue:				
Rents and other property revenues	\$ 30,822	\$ 24,834	\$ 61,125	\$ 47,431
Expenses:				
Property operations (including \$3,039 in 2006 and \$5,408 in 2005 to affiliates and related parties)	18,473	15,573	36,824	30,028
Depreciation and amortization	5,620	3,889	10,650	7,701
General and administrative (including \$1,538 in 2006 and \$2,359 in 2005 to affiliates and related parties)	1,669	1,907	3,041	3,373
Advisory fees	2,161	1,785	4,187	3,538
Total operating expenses	27,923	23,154	54,702	44,640
Operating income	2,899	1,680	6,423	2,791
Other income (expense):				
Interest income (including \$424 in 2006 and \$2,336 in 2005 from affiliates and related parties)	794	1,051	1,668	1,897
Gain on foreign currency transaction	2	228	4	228
Mortgage and loan interest	(13,195)	(9,560)	(25,918)	(17,971)
Litigation settlement	1,804		1,804	
Net income fee		325		
Other income	50	234	307	234
Total other income (expense)	(10,545)	(7,722)	(22,135)	(15,612)
Loss before gain on land sales, equity in earnings of investees and minority interest	(7,646)	(6,042)	(15,712)	(12,821)
Gain on land sales	8,690	2,394	9,021	2,404
Equity in earnings (losses) of investees	(173)	(45)	(69)	1,146
Minority interest	361	(181)	189	(26)
Income (loss) from continuing operations	1,232	(3,874)	(6,571)	(9,297)
Add: income tax benefit	1,196	73	955	3,492
Net income (loss) from continuing operations	2,428	(3,801)	(5,616)	(5,805)
Income from discontinued operations (See NOTE 9)	3,418	210	2,729	9,977
Less: income tax expense	(1,196)	(73)	(955)	(3,492)
Net income from discontinued operations	2,222	137	1,774	6,485
Net income (loss)	4,650	(3,664)	(3,842)	680
Preferred dividend requirement	(53)	(53)	(105)	(105)

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

Net income (loss) applicable to common shares	\$ 4,597	\$ (3,717)	\$ (3,947)	\$ 575
---	----------	------------	------------	--------

The accompanying notes are an integral part of these Consolidated Financial Statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2005	2006	2005
(dollars in thousands, except per share)				
Basic earnings per share:				
Income (loss) from continuing operations	\$ 0.30	\$ (0.49)	\$ (0.72)	\$ (0.75)
Discontinued operations	0.28	0.02	0.22	0.82
Net income (loss) applicable to common shares	\$ 0.58	\$ (0.47)	\$ (0.50)	\$ 0.07
Diluted earnings per share:				
Net income (loss) from continuing operations	\$ 0.29	\$ (0.49)	\$ (0.72)	\$ (0.75)
Income from discontinued operations	0.27	0.02	0.22	0.82
Net income (loss) applicable to common shares	\$ 0.56	\$ (0.47)	\$ (0.50)	\$ 0.07
Weighted average common shares used in computing earnings per share:				
Basic	7,900,869	7,900,869	7,900,869	7,900,869
Diluted	8,190,519	8,094,267	8,190,519	8,094,267

Series C Cumulative Convertible Preferred stock (convertible after September 30, 2006 into common stock estimated to be approximately 249,650 shares) and options to purchase 40,000 shares of TCI's common stock were excluded from the computation of diluted earnings per share for the three months ended June 30, 2005 and the six months ended June 30, 2006 and 2005, because the effect of their inclusion would be antidilutive.

The accompanying notes are an integral part of these Consolidated Financial Statements.

Table of Contents

TRANSCONTINENTAL REALTY INVESTORS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

For the Six Months Ended June 30, 2006

(dollars in thousands)

(Unaudited)

	Preferred Stock		Common Stock		Paid-in Capital	Treasury Stock	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Stockholders Equity
	Shares	Amount	Shares	Amount					
Balance, January 1, 2006	30,000	\$	7,900,869	\$	81				