

Edgar Filing: SAIC, Inc. - Form ARS

SAIC, Inc.
Form ARS
May 10, 2010

This document was generated as part of a paper submission.

Please reference the Document Control Number 10012674 for access to the original document.

"Times New Roman" SIZE="2">

Liabilities subject to sales contract

58,099 58,816

Stock-secured notes payable

22,452 22,452

Accounts payable and other liabilities (\$10,752 in 2007 and \$10,542 in 2006 to affiliates)

105,865 107,771 1,402,239 1,254,988

Commitments and contingencies

Minority interest

77,036 78,194

Stockholders equity:

Preferred Stock, \$2.00 par value, authorized 50,000,000 shares, issued and outstanding Series A

3,389,560 shares in 2007 and 3,391,000 shares in 2006

4,979 4,979

Common Stock, \$.01 par value, authorized 100,000,000 shares; issued 11,592,272 shares in 2007

and 2006

114 114

Treasury stock, at cost, 1,446,872 and 1,443,272 shares in 2007 and 2006, respectively

(15,177) (15,146)

Paid-in capital

93,378 93,378

Retained earnings

66,300 75,380

Edgar Filing: SAIC, Inc. - Form ARS

Accumulated other comprehensive income

1,408	1,784	151,002	160,489	\$1,630,277	\$1,493,671
-------	-------	---------	---------	-------------	-------------

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

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

	For the Three Months Ended March 31, 2007 2006 (dollars in thousands)	
Property revenue:		
Rental and other property revenues (\$350 in 2007 and \$259 in 2006 from affiliates)	\$ 51,107	\$ 44,224
Expenses:		
Property operating expenses (\$2,120 in 2007 and \$1,923 in 2006 to affiliates)	32,503	27,960
Depreciation and amortization	6,798	6,211
General and administrative (\$2,181 in 2007 and \$567 in 2006 to affiliates)	4,740	3,316
Advisory fee to affiliate	3,299	3,081
Total operating expenses	47,340	40,568
Operating income	3,767	3,656
Other income (expense):		
Interest income from notes receivable (\$714 in 2007 and \$657 in 2006 from affiliates)	1,554	1,146
Gain on foreign currency transaction	131	2
Other income (\$1,168 in 2007 and \$953 in 2006 from affiliate)	2,544	1,608
Mortgage and loan interest (\$59 in 2007 and \$669 in 2006 to affiliates)	(25,393)	(18,034)
Net income fee to affiliate	704	
Litigation settlement	24	
Total other income (expense)	(20,436)	(15,278)
Loss before gain on land sales, minority interest, and equity in earnings of investees	(16,669)	(11,622)
Gain on land sales	4,898	2,740
Minority interest	(224)	830
Equity in income of investees		175
Loss from continuing operations	(11,995)	(7,877)
Income (loss) from discontinued operations	3,537	(198)
Net loss	(8,458)	(8,075)
Preferred dividend requirement	(622)	(614)
Net loss applicable to common shares	\$ (9,080)	\$ (8,689)

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

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

	For the Three Months Ended March 31,	
	2007	2006
	(dollars in thousands)	
Basic earnings per share:		
Loss from continuing operations	\$ (1.24)	\$ (0.84)
Income from discontinued operations	0.35	(0.02)
Net loss applicable to common shares	\$ (0.89)	\$ (0.86)
Diluted earnings per share:		
Income (loss) from continuing operations	\$ (1.24)	\$ (0.84)
Income from discontinued operations	0.35	(0.02)
Net income (loss) applicable to common shares	\$ (0.89)	\$ (0.86)
Weighted average common shares used in computing earnings per share:		
Basic	10,147,848	10,149,000
Diluted	13,106,924	13,106,924

Series A Cumulative Convertible Preferred Stock (3,389,560 and 3,391,000 shares of Preferred Stock convertible into common stock estimated to be 4,025,606 and 4,027,316 common shares for the period ended March 31, 2007 and 2006, respectively) and options to purchase 70,750 shares of ARI's common stock were excluded from the computation of diluted earnings per share for the three months ended March 31, 2007 and 2006, because the effect of their inclusion would be antidilutive.

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

Table of Contents

AMERICAN REALTY INVESTORS, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

For the Three Months Ended March 31, 2007

(dollars in thousands)

(unaudited)

	Preferred Stock		Common Stock		Treasury Stock	Paid-in Capital	Accumulated Other Retained Earnings	Comprehensive Income/(Loss)	Stockholders Equity
	Stock	Capital	Stock	Capital					
Balance, January 1, 2007	3,389,560	\$ 4,979	11,592,272	\$ 114	\$ (15,146)	\$ 93,378	\$ 75,380	\$ 1,784	\$ 160,489
Comprehensive income									
Unrealized gain on foreign currency translation								(879)	(879)
Unrealized gain on marketable Securities								503	503
Net loss							(8,458)		(8,458)
Repurchase of common stock					(31)				(31)
Series A preferred stock cash dividend (\$1.00 per share)							(622)		(622)
Balance, March 31, 2007	3,389,560	\$ 4,979	11,592,272	\$ 114	\$ (15,177)	\$ 93,378	\$ 66,300	\$ 1,408	\$ 151,002

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

Table of Contents**AMERICAN REALTY INVESTORS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)**

	For the Three Months Ended March 31,	
	2007	2006
	(dollars in thousands)	
Cash Flows From Operating Activities:		
Income (loss) from continuing operations	\$ (11,995)	\$ (7,877)
Adjustments to reconcile net income to net cash used in operating activities:		
Gain on sale of land and real estate	(4,898)	(2,740)
Depreciation and amortization	6,798	6,211
Amortization of deferred borrowing costs	1,332	1,209
Equity in (income) loss of investees		(175)
Gain on foreign currency transaction	(131)	(2)
Changes in assets and liabilities:		
Accrued interest receivable	(646)	(427)
Other assets	(6,654)	(6,587)
Accrued interest payable	3,116	(70)
Minority interest	(205)	(36)
Other liabilities	(5,108)	5,261
Net cash used in operating activities	(18,391)	(5,233)
Cash Flows From Investing Activities:		
Collections on notes receivable	1,205	8,716
Funding of notes receivable	(1,447)	(2,670)
Acquisition of real estate	(109,911)	(49,239)
Investment in real estate entities		(1,568)
Real estate improvement	(9,298)	(4,655)
Real estate construction and development	(38,349)	
Proceeds from sale of land	9,609	6,747
Distributions to equity investees	(3,544)	
Deposits on pending purchases and financings	4,728	(660)
Net cash provided by (used in) investing activities	(147,007)	(43,329)
Cash Flows From Financing Activities:		
Proceeds from notes payable	176,579	55,842
Principal amortization of notes payable	(3,018)	(12,686)
Payments on maturing notes payable	(1,609)	
Payments on notes payable related to asset sales and refinancing	(33,837)	
Proceeds from construction loans	36,756	
Deferred borrowing costs	(6,352)	(2,568)
Net advances from (payments to) affiliates	(9,554)	3,482
Restricted cash	1,222	
Purchase of treasury stock	(31)	
Preferred dividends paid	(622)	(483)
Net cash (used in) provided by financing activities	159,534	43,587

Discontinued Operations:

Cash used in operating activities	(855)	(198)
Cash used in financing activities pay off note	(18,116)	
Cash provided by investing activities sale of income producing properties	22,754	
Net cash provided (used) by discontinued operations	3,783	(198)
Net increase (decrease) in cash and cash equivalents	(2,081)	(5,173)
Cash and cash equivalents, beginning of period	7,035	13,904
Cash and cash equivalents, end of period	\$ 4,954	\$ 8,731

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

Table of Contents

AMERICAN REALTY INVESTORS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS Continued

(unaudited)

	For the Three Months Ended March 31, 2007 2006 (dollars in thousands)	
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	\$ 16,695	\$ 18,301
Schedule of Non-Cash Investing and Financing Activities:		
Increase in minority interest related to acquisition of real estate		14,835

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

Table of Contents**AMERICAN REALTY INVESTORS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 1. BASIS OF PRESENTATION**

The accompanying condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission and accordingly, do not include all of the information and footnotes required by generally accepted accounting principles in the United States of America for complete financial statements. In the opinion of management of American Realty Investors, Inc. (ARI), all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of ARI's consolidated financial position, consolidated results of operations and consolidated cash flows have been included. Operating results for the three month period ended March 31, 2007, are not necessarily indicative of the results that may be expected for the year ended December 31, 2007.

The consolidated balance sheet at December 31, 2006 was derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles in the United States of America for complete financial statements.

You should read these consolidated financial statements in conjunction with the consolidated financial statements and footnotes thereto in our annual report on Form 10-K for the year ended December 31, 2006. Certain balances for 2006 have been reclassified to conform to the 2007 presentation. Hereafter in this document, American Realty Investors, Inc. is referred to as ARI or The Company.

NOTE 2. REAL ESTATE

In 2007, ARI purchased the following properties:

Property	Location	Acres/Sq. Ft.	Purchase Price	Net Cash Paid	Debt Incurred	Interest Rate	Maturity Date
Land							
Audubon Terrace	Natchez, MS	48.2 Acres	\$ 285	\$ 504	\$	%	
Keller Springs	Addison, TX	5.6 Acres	2,526	369	2,021	Prime+1	2/08
			2,811	873	2,021		
Buildings							
Parkwest I	Farmers Branch, TX	383,114 Sq. Ft.	39,350		35,000	6.06	1/09
Parkwest II	Farmers Branch, TX	707,559 Sq. Ft.	67,750	3,375	62,000	9.32	1/13
			107,100	3,375	97,000		
			\$ 109,911	\$ 4,248	\$ 99,021		

In 2006, ARI purchased the following properties:

Property	Location	Acres/Units	Purchase Price	Net Cash Paid	Debt Incurred	Interest Rate	Maturity Date
Land							
Circle C Ranch	Austin, TX	1,092.0 Acres	\$ 21,000	\$	\$ 21,000	8.75% ⁽¹⁾	3/08

Edgar Filing: SAIC, Inc. - Form ARS

Pioneer Crossing	Austin, TX	38.5 Acres	614 ⁽²⁾	614	1,515	8.75 ⁽¹⁾	6/08
Southwood 1394	Tallahassee, FL	14.5 Acres	1,150	477	748	8.50 ⁽¹⁾	2/08
Valley Ranch 20	Farmers Branch, TX	20.0 Acres	4,673	1,892	3,038	8.50 ⁽¹⁾	2/08
Woodmont Fairway Office	Dallas, TX	5.9 Acres	3,833	1,014	3,000	8.25 ⁽¹⁾	1/07
Woodmont Merit Drive	Dallas, TX	9.3 Acres	4,560	1,868	2,964	8.00	3/07
			35,830	5,865	32,265		

Apartments

Anderson Estates	Oxford, MS	48 Units	1,144 ⁽³⁾	148	996	9.50 ⁽¹⁾	12/20
David Jordan Phase II	Greenwood, MS	32 Units	743 ⁽³⁾	98	645	8.50 ⁽¹⁾	4/19
David Jordan Phase III	Greenwood, MS	40 Units	812 ⁽³⁾	122	690	8.75 ⁽¹⁾	7/22
Leflore Estates	Greenwood, MS	104 Units	2,114 ⁽³⁾	337	1,777	7.00	2/22
Monticello III Estates	Monticello, AR	32 Units	644 ⁽³⁾	96	548	7.00	1/22

Table of Contents**AMERICAN REALTY INVESTORS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

Riverwalk Phase I	Greenwood, MS	32 Units	455 ⁽³⁾	99	356	8.50	2/19
Riverwalk Phase II	Greenwood, MS	72 Units	1,584 ⁽³⁾	226	1,358	8.25 ⁽¹⁾	2/19
			7,496	1,126	6,370		
			\$ 43,326	\$ 6,991	\$ 38,635		

- (1) Variable interest rate.
(2) Purchased from ARI; purchase price is equal to ARI's cost.
(3) Net of minority interest and other liabilities assumed.

In January 2007, the Company acquired four office buildings containing approximately 1,072,000 rentable square feet and a 4.7 acre tract of undeveloped land located in Farmers Branch, TX, known as Park West. The properties were acquired for a total purchase price of \$107.1 million plus closing costs. The acquisition was financed with a two year, \$62 million loan from a commercial bank and a six-year, \$35 million loan from a life insurance company. The combined weighted average interest rate at closing was approximately 8.15%. The loans are collateralized by the properties and guaranteed by ARI.

In 2007, ARI sold the following properties:

Property	Location	Acres/Units	Sales Price	Net Cash Received/ (Paid)	Debt Discharged	Gain on Sale
Land						
Grapevine Yards	Grapevine, TX	4.6 Acres	\$2,928	\$1,015	\$1,758	\$1,040
McKinney Ranch Land	McKinney, TX	15.1 Acres	2,785	793	1,850	1,122
Metro Center Land	Nashville, TN	22.4 Acres	3,896	706	2,985	2,728
			9,609	2,514	6,593	4,890
Apartments						
Bluffs at Vista Ridge	Lewisville, TX	272 Units	24,650	3,126	15,518	3,648
Mediterranean Villa	San Antonio, TX	140 Units	4,110	1,039	2,598	744
			28,760	4,165	18,116	4,392
			\$38,369	\$6,679	\$24,709	\$9,282

In 2006, ARI sold the following properties:

Property	Location	Acres	Sales Price	Net Cash Received/ (Paid)	Debt Discharged	Gain on Sale
Land						
Hollywood Casino	Farmers Branch, TX	10.5 Acres	\$3,225	\$1,207	\$	\$1,831
Vineyards II	Grapevine, TX	1.5 Acres	1,272	429	745	578

Edgar Filing: SAIC, Inc. - Form ARS

4,497 1,636 745 2,409

Land							
Elm Fork	Carrollton, TX	27.6 Acres	3,500	(827)	2,800	1,596	
Nashville	Nashville, TN	16.4 Acres	2,512		2,416	1,700	
Nashville	Nashville, TN	2.4 Acres	462		429	323	
			6,474	(827)	5,645	3,619	
			\$10,971	\$809	\$6,390	\$6,028	

(1) Debt assumed by purchaser.

Table of Contents**AMERICAN REALTY INVESTORS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

At March 31, 2007, ARI had the following apartment properties under construction:

Property	Location	Units	Amount Expended	Additional Amount to Expend	Construction Loan Funding
Apartments					
Bolivar Homes	Cleveland, MS	65 Units	\$ 1,218	\$ 7,390	\$ 1,300
Broadway Estates	Greenville, MS	104 Units	788	7,569	850
Lago Vista	Farmers Branch, TX	212 Units	8,104	18,346	2,924
Laguna Vista	Farmers Branch, TX	206 Units	9,950	12,250	14,719
Legends of El Paso	El Paso, TX	240 Units	13,972	7,919	14,988
Longfellow Arms	Longview, TX	216 Units	397	7,914	126
Mason Park	Houston, TX	312 Units	1,991	17,409	4,407
Mission Oaks	San Antonio, TX	228 Units	15,921		11,376
Parc at Clarksville	Clarksville, TN	206 Units	7,880	6,011	6,992
Parc at Maumelle	Maumelle, AR	240 Units	19,011		13,105
Parc at Metro Center	Nashville, TN	144 Units	12,375		8,340
Parc at Rogers	Rogers, AR	152 Units	7,560	13,265	7,011
Pecan Pointe	Temple, TX	232 Units	4,174	12,663	2,852
Sunflower Estates	Indianola, MS	65 Units	755	7,674	810
Yazoo Estates	Yazoo City, MS	96 Units	789	7,556	835

NOTE 3. NOTES AND INTEREST RECEIVABLE

Borrower	Interest		Amount	Security
	Maturity Date	Rate		
Performing loans:				
400 St. Paul	10/08	8.00%	\$ 3,612	Office building, Dallas, TX
Basic Capital Management ⁽¹⁾	4/08	Prime+2.00	1,252	Industrial building, Arlington, TX
Basic Capital Management ⁽¹⁾	4/08	Prime+2.00	1,523	Retail building, Cary, NC
Carrollton TH, LP	3/09	15.00	1,500	27.5 acres Elm Fork Ranch, Carrollton, TX
Countryside LP ⁽²⁾	1/07	7.25	2,300	Class A LP Units
Dallas Fund XVII LP	10/06	9.00	3,162	Partnership interests and lawsuit proceeds
Garden Centura LP	N/A	7.00	6,392	Excess cash flow from partnership
Miscellaneous related party notes	Various	Various	5,712	Various security interests
One Realco ⁽²⁾	2/07	Prime+3.00	9,949	Subordinate pledge of One Realco Stock
Park Plaza Associates LP	9/17	10.00	3,297	Assignment of partnership interests
Pioneer Austin Development	10/08	10.00	3,178	33 acres undeveloped land, Austin, TX
Realty Advisors	11/08	Prime+12.00	5,633	850 shares of 10ARI stock owned by BCM
Unified Housing of Harvest Hill	10/13	12.00	7,034	Surplus cash note
Accrued interest			4,618	
Total			\$ 59,162	

- (1) Related party.
- (2) Note is being extended.

Table of Contents**AMERICAN REALTY INVESTORS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued****NOTE 4. INVESTMENTS IN UNCONSOLIDATED ENTITIES**

ARI's investment in real estate entities at March 31, 2007 was as follows:

Investee	Percentage of Ownership at March 31, 2007	Carrying Value of Investment at March 31, 2007	Market Value ^(a) of Investment at March 31, 2007
IORI	24.9%	\$ 6,370	\$ 6,057
Garden Centura, LP ⁽¹⁾	5.0	1,989	
Gruppa Florentina, LLC (Gruppa ⁽¹⁾)	20.0	4,627	
Other ⁽¹⁾	Various	12,481	
		\$ 25,467	

(1) The entity is not publicly traded and no readily determinable market value exists.

Set forth below are summarized results of operations of investments in unconsolidated entities for the three months ended March 31, 2007 and 2006:

	2007	2006
Restaurant sales	\$ 9,418	\$ 5,775
Revenues	2,089	5,775
	11,507	5,775
Restaurant cost of sales	7,119	
Property operating expenses	1,659	3,078
	8,778	3,078
Income from operations	2,729	2,697
Other income (expense):		
General and administrative	(1,437)	
Equity in loss of partnership	(38)	
Interest expense	(1,693)	(1,506)
Interest income	1,099	
Other	243	
Income before taxes	903	1,191
Income tax	(280)	
Net income	\$ 623	\$ 1,191

NOTE 5. MARKETABLE EQUITY SECURITIES

ARI owns equity securities of Realty Korea CR-REIT Co., Ltd. No. 1 representing approximately a 9.2% ownership interest. This investment is considered an available-for-sale security. ARI recognized an unrealized gain of \$2.2 million for the three month period ending March 31, 2007 due to an increase in market price.

NOTE 6. NOTES PAYABLE

On February 23, 2007, ARI received \$4.9 million in proceeds from a \$5.0 million loan with a commercial bank. The note accrues interest at Prime plus 1% which is payable monthly, commencing April 1, 2007, until maturity on February 23, 2008. At maturity all accrued and unpaid interest and outstanding principal are due. The loan is secured by 235.0 acres in Farmers Branch, Texas and 97.3 acres in Austin, Texas known as Pioneer Crossing.

Table of Contents**AMERICAN REALTY INVESTORS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

On March 16, 2007, ARI refinanced the note secured by the Piccadilly Shaw Hotel through a commercial bank. The Company received \$6.5 million in proceeds, paid down a \$5.2 million note and acquired new debt of \$12.8 million. The note accrues interest at 8%. The note is payable in monthly principal payments of \$16,234 plus accrued interest. The payments commence April 1, 2007, and are payable through maturity, February 29, 2012. At maturity, all accrued and unpaid interest and outstanding principal are due.

On March 16, 2007, ARI refinanced the note secured by the Piccadilly Airport Hotel through a commercial bank. The Company received \$6.8 million in proceeds, paid down a \$4.5 million note and acquired new debt of \$12.2 million. The note accrues interest at 8%. The note is payable in monthly principal payments of \$16,994 plus accrued interest. The payments commence April 1, 2007, and are payable through maturity, February 29, 2012. At maturity, all accrued and unpaid interest and outstanding principal are due.

On March 22, 2007, ARI entered into a promissory note with an unrelated individual lender. The Company received \$6.5 million in proceeds and acquired \$6.5 million in debt. The note accrues interest at 12.5%, and matures April 26, 2007, at which time all accrued and unpaid interest and outstanding principal are due.

In 2007, ARI financed/refinanced or obtained second mortgage financing on the following:

	Location	Acres/Rooms	Debt Incurred	Debt Discharged	Net Cash Received/ Paid	Interest Rate	Maturity Date
Land							
Crowley & Wilmer Land	Crowley & Wilmer, TX	142.6 Acres	\$ 3,390	\$	\$ 2,633	10.00%	7/07
Grapevine Vineyard	Grapevine, TX	6.2 Acres	1,758	265	1,385	9.75	7/07
Payne I Land	Irving, TX	109.8 Acres	6,500		6,500	12.00	
Manhattan Land	Farmers Branch, TX	108.8 Acres	7,000		6,620	10.00	1/08
Pioneer Crossing	Austin, TX	97.3 Acres	5,000		4,916 ⁽¹⁾	Prime+1	2/08
			23,648	265	22,054		
Hotels							
City Suites Hotel	Chicago, IL	45 Rooms	7,300	3,551	307		
Piccadilly Airport Hotel	Fresno, CA	185 Rooms	12,200	4,478	6,778	8.00	2/12
Piccadilly Chateau Hotel	Fresno, CA	78 Rooms	3,700	1,884	1,436	8.00	2/12
Piccadilly Shaw Hotel	Fresno, CA	194 Rooms	12,800	5,200	6,451	8.00	2/12
The Majestic Hotel	Chicago, IL	55 Rooms	6,000		2,866		
Willows Surf Hotel	Chicago, IL	52 Rooms	5,160		1,529		
			47,160	15,113	19,367		
Debt							
ART Loan from Bank Midwest			5,000		4,916 ⁽¹⁾		2/07
RMR Investments, Inc.			1,758		1,385	9.75	7/07
			6,758		6,301		
			\$ 77,566		\$ 47,722		

Edgar Filing: SAIC, Inc. - Form ARS

In 2006, ARI financed/refinanced or obtained second mortgage financing on the following:

	Location	Acres/Units	Debt Incurred	Debt Discharged	Net Cash Received/ Paid	Interest Rate	Maturity Date
Apartments							
Hunters Glen	Midland, TX	212 Units	\$ 2,475	\$ 1,804	\$ 421	7.23% ⁽¹⁾	2/09
Land							
Nashville	Nashville, TN	100.9 Acres	2,500		2,500 ⁽²⁾	12.50	5/06
Palmer Lane	Austin, TX	367.4 Acres	14,000	14,300	(893)	8.50 ⁽¹⁾	8/07
Pioneer Crossing	Austin, TX	235.0 Acres	11,750 ⁽³⁾	4,000		12.50	4/07
West End	Dallas, TX	5.3 Acres	9,000	2,000	6,079	8.00 ⁽¹⁾	3/07
			37,250	20,300	7,686		
			\$ 39,725	\$ 22,104	\$ 8,107		

Table of Contents**AMERICAN REALTY INVESTORS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

- (1) Variable rate.
 (2) Cash received by affiliate, increasing ARI's affiliate receivable.
 (3) Various affiliate notes extended and collateralized by ARI, increasing ARI affiliate receivable.

NOTE 7. STOCK-SECURED NOTES PAYABLE

ARI has margin arrangements with various financial institutions and brokerage firms, which provide for borrowings of up to 50.0% of the market value of marketable equity securities. ARI also has other notes payable secured by stock. The borrowings under such margin arrangements and notes are secured by the equity securities of IORI and TCI, and ARI's trading portfolio securities and bear interest rates ranging from 9.5% to 24.0% per annum. Stock-secured notes payable and margin borrowings totaled \$22.5 million at March 31, 2007 and December 31, 2006.

NOTE 8. RELATED PARTY TRANSACTIONS

The following table reconciles the beginning and ending balances of accounts receivable from and (accounts payable) to affiliates as of March 31, 2007.

	PRIME
Balance, January 1, 2007	\$ 44,739
Cash transfers to affiliates	38,477
Cash transfers from affiliates	(27,015)
Advances through receipt of financing proceeds	(117)
Payables clearing through affiliates	(3,752)
Balance, March 31, 2007	\$ 52,332

At March 31, 2007, ARI's other assets include \$318,875 due from affiliates for rent and interest. Also at March 31, 2007, ARI owed \$1.1 million to Regis Property Management for management fees and sales commissions.

NOTE 9. OPERATING SEGMENTS

Significant differences among the accounting policies of the operating segments as compared to the Consolidated Financial Statements principally involve the calculation and allocation of administrative and other expenses. Management evaluates the performance of each of the operating segments and allocates resources to them based on their net operating income and cash flow. Excluded from operating segment assets are assets of \$100.0 million in 2007 and \$200.6 million in 2006, which are not identifiable with an operating segment. There are no intersegment revenues and expenses, and ARI conducted all of its business within the United States, with the exception of Hotel Akademia (Poland), which began operations in 2002.

Presented below are ARI's reportable segments' operating income for the three months ended March 31, 2007 and 2006, and segment assets at March 31, 2007 and 2006.

	For the Three Months Ended					
	March 31, 2007	Commercial Properties	Apartments	Hotels	Land	Receivables/ Other
Operating revenue	\$ 20,508	\$ 23,389	\$ 7,023	\$ 151	\$ 36	\$ 51,107
Operating expenses	11,412	13,776	5,695	1,597	23	32,503

Edgar Filing: SAIC, Inc. - Form ARS

Depreciation	2,896	3,246	645	6	5	6,798
Mortgage and loan interest	5,700	8,621	2,919	6,076	2,077	25,393
Interest income		5		62	1,487	1,554
Gain on land sales*				4,898		4,898
Segment operating income (loss)	\$ 500	\$ (2,249)	\$ (2,236)	\$ (2,568)	\$ (582)	\$ (7,135)
Capital expenditures	\$ 2,895	\$ 266	\$ 38	\$ 1,311	\$	\$ 4,510
Assets	405,251	591,822	78,191	402,518	283	1,478,065

Table of Contents**AMERICAN REALTY INVESTORS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued****Property Sales:**

Sales price	\$	\$ 28,760	\$	\$ 9,701	\$	\$ 38,461
Cost of sale		24,368		4,803		29,171
Recognized prior deferred gain						
Gain on sale**	\$	\$ 4,392	\$	\$ 4,898	\$	\$ 9,290

For the Three Months Ended

March 31, 2006	Commercial Properties	Apartments	Hotels	Land	Receivables/ Other	Total
Operating revenue	\$ 15,810	\$ 20,202	\$ 7,792	\$ 165	\$ 255	\$ 44,224
Operating expenses	8,880	11,786	6,588	832	(126)	27,960
Depreciation	3,013	2,337	851	7	3	6,211
Mortgage and loan interest	3,825	7,651	1,248	4,227	1,083	18,034
Interest income					1,146	1,146
Gain on land sales*				2,740		2,740
Segment operating income (loss)	\$ 92	\$ (1,572)	\$ (895)	\$ (2,161)	\$ 441	\$ (4,095)
Capital expenditures	\$ 2,153	\$ 1,746	\$ 250	\$ 345	\$	\$ 4,494
Assets	222,597	536,707	76,364	333,481		1,169,149

Property Sales:

Sales price	\$	\$	\$	\$ 5,111	\$	\$ 5,111
Cost of sale				4,202		4,202
Recognized prior deferred gain				1,831		1,831
Gain on sale**	\$	\$	\$	\$ 2,740	\$	\$ 2,740

* Does not include gains from sale of income producing properties.

** Includes gains from sale of income producing properties.

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

	For the Three Months Ended March 31, 2007		2006
Segment operating (loss)	\$	(7,135)	\$ (4,095)
Other non-segment items of income (expense):			
General and administrative		(4,740)	(3,316)
Advisory fee		(3,299)	(3,081)
Gain on foreign currency transaction		131	2
Other income		2,544	1,608
Net income fee		704	
Litigation settlement			24

Equity in income of investees		175
Minority interest	(224)	830
Loss from continuing operations	\$ (11,995)	\$ (7,877)

NOTE 10. DISCONTINUED OPERATIONS

For the three months ended March 31, 2007 and 2006, income from discontinued operations relates to Milanos Restaurants and 6 properties ARI sold during 2006 and 2 properties ARI sold or held-for-sale in 2007. The following table summarizes revenue and expense information for these properties sold and held-for-sale.

Table of Contents**AMERICAN REALTY INVESTORS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

	For the Three Months Ended March 31,	
	2007	2006
Revenue:		
Rental	\$ 1,938	\$ 4,188
Restaurant operations		9,349
	1,938	13,537
Expenses:		
Property Operations	1,358	3,700
Restaurant cost of sales		6,915
	1,358	10,615
	580	2,922
Other (expenses):		
Interest	(1,286)	(2,413)
Depreciation	(149)	(707)
Loss from discontinued operations	(855)	(198)
Gain on sale of real estate	4,392	
Income (loss) from discontinued operations	\$ 3,537	\$ (198)

NOTE 11. COMMITMENTS AND CONTINGENCIES

Liquidity. ARI's principal liquidity needs are funding normal recurring expenses, meeting debt service requirements, funding capital expenditures, funding development costs not otherwise covered by construction loans and funding new property acquisitions not otherwise covered by acquisition financing. In 2007, ARI will rely on aggressive land sales, selected income producing property sales and, to the extent necessary, additional borrowings to meet its cash requirement.

Partnership Obligations. ARI is the limited partner in 10 partnerships that are currently constructing residential properties. As permitted in the respective partnership agreements, ARI presently intends to purchase the interests of the general and any other limited partners in these partnerships subsequent to the final completion of these construction projects. The amounts paid to buyout the non-affiliated partners are limited to development fees earned by the non-affiliated partners, and are set forth in the respective partnership agreements. The total amount of the expected buyouts as of March 31, 2007 is approximately \$3.0 million.

Litigation. ARI is involved in various lawsuits arising in the ordinary course of business. In the opinion of management, the outcome of these lawsuits will not have a material impact on ARI's financial condition, results of operations, or liquidity.

NOTE 12. SUBSEQUENT EVENTS

Events occurring after the date of these financial statements are included within each note, as appropriate.

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

Edgar Filing: SAIC, Inc. - Form ARS

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

Table of Contents

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-Q, including those described under the caption "Risk Factors."

The risks included here are not exhaustive. Some of the risks and uncertainties that may cause our actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements, include among others, the factors listed and described at Item 1A "Risk Factors" in the Company's Annual Report on Form 10-K, which investors should review. There have been no changes from the risk factors previously described in the Company's Form 10-K for the fiscal year ended December 31, 2006 (the Form 10-K).

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

Overview

ARI was organized in 1999. In August 2000, ARI acquired American Realty Trust, Inc. (ART) and National Realty, L.P. (NRLP). ART was the successor to a business trust organized in 1961 to provide investors with a professionally managed, diversified portfolio of real estate and mortgage loan investments selected to provide opportunities for capital appreciation as well as current income. The business trust merged into ART in 1987. ART owns a portfolio of real estate and mortgage loan investments. NRLP was organized in 1987, and subsequently acquired all of the assets and assumed all of the liabilities of 35 public and private limited partnerships. NRLP also owned a portfolio of real estate and mortgage loan investments.

Edgar Filing: SAIC, Inc. - Form ARS

At March 31, 2007, ARI subsidiaries owned approximately 82% of the outstanding shares of common stock of Transcontinental Realty Investors, Inc., a Nevada corporation (TCI), which has its common stock listed and traded on the New York Stock Exchange, Inc. (NYSE). The ownership of the TCI shares was achieved through a series of transactions, including a cash tender offer completed March 19, 2003, an exchange by certain ARI subsidiaries of securities with Basic Capital Management, Inc. (BCM) and a sale of a participating interest in a line of credit receivable from One Realco Corporation (One Realco) to BCM, as well as certain open market purchases of TCI shares in December 2003. ARI has consolidated TCI s accounts and operations since March 31, 2003. At March 31, 2007, TCI owned approximately 25% of the outstanding common stock of Income Opportunity Realty Investors, Inc., (IORI), a public company whose shares are listed and traded on the American Stock Exchange.

ARI is 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, hotels, a trade mart located in Denver, Colorado and other commercial properties. ARI s 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. ARI acquires land primarily in in-fill locations or high-growth suburban markets. ARI is an active buyer and seller and during 2007 acquired over \$109 million and sold over \$38 million of land and income-producing properties. As of March 31, 2007, the Company owned 13,552 units in 73 residential apartment communities, 36 commercial properties comprising almost 6.4 million rentable square feet and ten hotels containing a total of 1,235 rooms. In addition, at March 31, 2007, ARI owned 10,844 acres of land held for development and had 2,718 apartment units in 15 projects under construction. The Company currently owns income-producing properties and land in 21 states as well as in the U.S. Virgin Islands and Wroclaw, Poland. ARI finances its 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

Table of Contents

banks and institutional lenders. ARI finances its 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; leasing office, retail and industrial space to commercial tenants; and renting hotel rooms to guests. ARI is advised by Prime under a contractual arrangement that is reviewed annually by ARI's Board of Directors. ARI's commercial properties are managed by Regis Commercial while the Company's hotels are managed by Regis Hotel. ARI currently contracts with five third-party companies to manage the Company's apartment communities. Approximately 62% of ARI's common stock is owned by BCM; an additional 13% is owned by Prime and TCI owns approximately seven percent of the outstanding common shares of ARI. Other affiliated companies own approximately two percent of ARI's outstanding common shares. ARI is a C Corporation for U.S. federal income tax purposes and files an annual consolidated income tax return with TCI. ARI does not qualify as a Real Estate Investment Trust (REIT) for federal income tax purposes primarily due to ARI's majority ownership of the Company.

The highlights of the three months ended March 31, 2007 included the following:

On January 1, 2007, we obtained a \$7.0 million loan secured by 109 acres and 3 acres of land located in Farmers Branch, Texas. The note accrues interest at 10% and matures in January 2008.

On January 17, 2007 we refinanced the existing \$3.6 million mortgage on City Suites Hotel in Chicago, IL. for a new note of \$7.3 million and receiving \$3.7 million in cash. The note accrues interest at 8.25% and matures February 2012.

On January 19, 2007, we acquired a 383,114 and a 707,599 square foot office building in Farmers Branch, Texas known as Parkwest I and Parkwest II, respectively and a 4.7 acre tract of undeveloped land at an aggregate purchase price of \$107.1 million. The acquisition was financed with \$10.1 million in cash and \$97.0 million in new debt. Two separate notes were obtained on this acquisition; a \$35.0 million note which accrues interest at 6.06% maturing January 2009 and a \$62.0 million note which accrues interest at a variable rate (currently 9.32%) maturing January 2013.

On February 16, 2007, we sold the Bluffs at Vista Ridge a 272 unit apartment complex in Lewisville, Texas for \$24.6 million. The proceeds were used to pay down the existing mortgage of \$15.5 million receiving \$9.1 million in cash. A gain of \$3.6 million was recorded on this sale.

On February 23, 2007, we obtained a \$5.0 million loan secured by 97 acres of Pioneer Crossing land located in Austin, Texas. The note accrues interest at prime plus 1% and matures February 23, 2008.

On March 5, 2007, we refinanced the existing \$3.1 million mortgage on the Majestic Hotel in Chicago, IL, a 55 room hotel with a new note for \$6.0 million receiving \$2.9 million in cash. The note accrues interest at 7.76% and matures March 2010.

On March 16, 2007, we refinanced the existing \$5.2 million mortgage on the Piccadilly Shaw, a 194 room hotel, located in Fresno, California with a \$12.8 million note, receiving \$7.6 million in cash. The new note accrues interest at 8.00% and matures on February 2012.

On March 16, 2007, we refinanced the existing \$4.5 million mortgage on the Piccadilly Airport, a 185 room hotel, located in Fresno, California with a \$12.2 million note, receiving \$7.7 million in cash. The new note accrues interest at 8.00% and matures on February 2012.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, requires management to use judgment in the application of accounting policies, including making estimates and assumptions. We base our estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied resulting in a different presentation of our financial statements. From time to time, we evaluate our estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current information. Below is a discussion of accounting policies that we consider critical in that they may require complex judgment in their application or require estimates about matters that are inherently uncertain.

Table of Contents

Real Estate

Upon acquisitions of real estate, ARI assesses the fair value of acquired tangible and intangible assets, including land, buildings, tenant improvements, above-market and below-market leases, origination costs, acquired in-place leases, other identified intangible assets and assumed liabilities in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations and allocates the purchase price to the acquired assets and assumed liabilities, including land at appraised value and buildings at replacement cost.

We assess and consider fair value based on estimated cash flow projections that utilize appropriate discount and/or capitalization rates, as well as available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known and anticipated trends, and market and economic conditions. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant. We also consider an allocation of purchase price of other acquired intangibles, including acquired in-place leases that may have a customer relationship intangible value, including (but not limited to) the nature and extent of the existing relationship with the tenants, the tenants' credit quality and expectations of lease renewals. Based on our acquisitions to date, our allocation to customer relationship intangible assets has been immaterial.

We record acquired above-market and below-market leases at their fair values (using a discount rate which reflects the risks associated with the leases acquired) equal to the difference between (1) the contractual amounts to be paid pursuant to each in-place lease and (2) management's estimate of fair market lease rates for each corresponding in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market fixed rate renewal options for below-market leases.

Real estate is stated at depreciated cost. The cost of buildings and improvements includes the purchase price of property, legal fees and other acquisition costs. Costs directly related to the development of properties are capitalized. Capitalized development costs include interest, property taxes, insurance, and other project costs incurred during the period of development.

Management reviews its long-lived assets used in operations for impairment when there is an event or change in circumstances that indicates an impairment in value. An impairment loss is recognized if the carrying amount of its assets is not recoverable and exceeds its fair value. If such impairment is present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods.

SFAS No. 144 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.

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 SFAS No. 34

Capitalization of Interest Cost and SFAS No. 67 Accounting for Costs and the Initial Rental Operations of Real Estate Properties. 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.

Investment in Unconsolidated Real Estate Ventures

Except for ownership interests in variable interest entities, ARI accounts 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

Edgar Filing: SAIC, Inc. - Form ARS

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, ARI's 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

Table of Contents

and losses, however, ARI's 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 SFAS 141, we recognize rental revenue of acquired in-place above-market and below-market leases at their fair values over the terms of the respective leases. On our Consolidated Balance Sheets we include as a receivable the excess of rental income recognized over rental payments actually received pursuant to the terms of the individual commercial lease agreements.

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

Rental income for residential property leases is recorded when due from residents and is recognized monthly as earned, which is not materially different than on a straight-line basis as lease terms are generally for periods of one year or less.

For hotel properties, revenues for room sales and guest services are recognized as rooms are occupied and services are rendered.

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 of real estate are recognized when and to the extent permitted by Statement of Financial Accounting Standards No. 66, Accounting for Sales of Real Estate (SFAS No. 66), as amended by SFAS No. 144. Until the requirements of SFAS No. 66 for full profit recognition have been met, transactions are accounted for using the deposit, installment, cost recovery or financing method, whichever is appropriate. When ARI provides seller financing, gain is not recognized at the time of sale unless the buyer's initial investment and continuing investment are deemed to be adequate as determined by SFAS 66 guidelines.

Non-performing Notes Receivable

ARI considers a note receivable to be non-performing when the maturity date has passed without principal repayment and the borrower is not making interest payments. Any new note receivable that results from a modification or extension of a note considered non-performing will also be considered non-performing, without regard to the borrower's adherence to payment terms.

Interest Recognition on Notes Receivable

Interest income is not recognized on notes receivable that have been delinquent for 60 days or more. In addition, accrued but unpaid interest income is only recognized to the extent that the net realizable value of the underlying collateral exceeds the carrying value of the receivable.

Allowance for Estimated Losses

A valuation allowance is provided for estimated losses on notes receivable considered to be impaired. Impairment is considered to exist when it is probable that all amounts due under the terms of the note will not be collected. Valuation allowances are provided for estimated losses on notes receivable to the extent that the investment in the note exceeds management's estimate of fair value of the collateral securing such note.

Fair Value of Financial Instruments

The following assumptions were used in estimating the fair value of ARI's notes receivable, marketable equity securities and notes payable. For performing notes receivable, the fair value was estimated by discounting future cash flows using current interest rates for similar loans. For non-performing notes receivable, the estimated fair value of ARI's interest in the collateral property was used. For marketable equity securities, fair value was based on the year-end closing market price of each security. For notes payable, the fair value was estimated using current rates for mortgages with similar terms and maturities.

Results of Operations

The following discussion is based on our Consolidated Financial Statements for the three months ended March 31, 2007 and 2006.

Table of Contents

ARI had a net loss of \$8.5 million, including gains on land sales of \$4.9 million and income from discontinued operations of \$3.5 million, for the three months ended March 31, 2007 as compared to a net loss of \$8.1 million, including gains on land sales of \$2.7 million and a net loss from discontinued operations of \$198,000, for the same period ended March 31, 2006.

ARI defines its same-store universe for each income-producing asset type (apartments, commercial properties and hotels) as properties with stabilized occupancy owned and operated for the entire three month period from January 1 to March 31 for the years 2007 and 2006, respectively. For this time period, ARI had 57 apartments, 26 commercial properties and ten hotels in its same store universe.

Rents and other property revenues increased \$6.8 million (\$51.1 million in 2007 as compared to \$44.2 million in 2006 for the same period.) A majority of this increase, \$5.5 million, came from the acquisition of new properties. Of this amount, \$4.3 came from the acquisition of two new commercial properties, Parkwest I and Parkwest II, and \$1.2 came from the acquisition or development of new apartments. Revenues from same store rental revenues increased by \$1.3 million. This increase was due to an increase in apartment revenues of \$700,000, an increase in revenues from commercial properties of \$300,000 and increase in hotel revenues of \$300,000.

Property operations expenses increased \$4.6 million (\$32.5 million in 2007 as compared to \$27.9 million in 2006 for the same period.) Hotel and land operating expenses increased by \$800,000 and \$600,000, respectively. The acquisition of various commercial properties and hotels attributed \$2.3 million and \$900,000, respectively.

Depreciation expense increased approximately \$600,000. The increase would be due to properties depreciated for the three month period ended 2007 that were not owned in the same period of 2006.

General and administrative expenses increased \$1.4 million. The increase was due to higher legal fees incurred and higher cost reimbursements paid to the advisor.

Mortgage loan interest expense increased by \$7.3 million. The new loans associated with this increase were from the acquisition of Windmill Farms \$1.0 million, the acquisition of the Parkwest buildings \$2.0 million and an additional increase of \$1.2 million in interest expense associated with various refinancing and new loans secured by land properties. The refinancing of various hotels and apartments accounted for an increase of \$1.6 million. In addition, \$1.5 million of prepayment penalties are included in interest expense for the refinancing of three hotel properties known as the Piccadilly Hotels.

Gain on land sales increased \$2.1 million. ARI sold 42 acres of land in 2007 for a net gain of \$4.8 million as compared to 14.4 acres of land for a net gain of \$2.7 million for the same three month period ended 2006.

Income (loss) from discontinued operations for the three month period ended March 31, 2007 and March 31, 2006 was \$3.5 million and \$(198,000), respectively. Discontinued operations relates to 5 properties sold in 2007 and 10 properties sold in 2006. Operating results for the Pizza World restaurants are also included in discontinued operations for the three months ended March 31, 2006.

	For the Three Months Ended March 31,	
	2007	2006
Revenue:		
Rental	\$ 1,938	\$ 4,188
Restaurant operations		9,349
	1,938	13,537
Expenses:		
Property Operations	1,358	3,700
Restaurant cost of sales		6,915
	1,358	10,615
	580	2,922
Other (expenses):		

Edgar Filing: SAIC, Inc. - Form ARS

Interest	(1,286)	(2,413)
Depreciation	(149)	(707)
Loss from discontinued operations	(855)	(198)
Gain on sale of real estate	4,392	
Income (loss) from discontinued operations	\$ 3,537	\$ (198)

Table of Contents

Liquidity and Capital Resources

General. Cash and cash equivalents at March 31, 2007 totaled \$4.9 million, compared with \$8.7 million at March 31, 2006. ARI's principal sources of cash have been and will continue to be from property operations, proceeds from property sales, and the collection of mortgage notes receivable, borrowings and, to a lesser extent, distributions from partnerships. Management anticipates that ARI's cash at March 31, 2007, along with cash that will be generated in 2007 from property operations, may not be sufficient to meet all of ARI's cash requirements. Management intends to selectively sell land and income producing assets, refinance or extend real estate debt and seek additional borrowings secured primarily by real estate to meet its liquidity requirements. Historically, management has been successful at extending its current maturity obligations. Management also anticipates funding ongoing real estate construction projects and the acquisition of new real estate from cash generated by property sales, debt refinancings or extensions, and additional borrowings.

ARI reported a net loss from continuing operations of \$11.9 million for the three month period ended March 31, 2007, which included, among other items, the following non-cash charges and credits: gain on sale of real estate of \$4.9 million, depreciation and amortization of real estate held for investment of \$6.7 million and amortization of deferred borrowing costs of \$1.3 million. Other 2007 changes in working capital decreased cash used in operating activities by \$9.5 million. Net cash used in operating activities for the three month period ended March 31, 2007 was \$18.3 million compared to \$5.2 million for the same period ended March 31, 2006.

Net cash used in 2007 investing activities of \$147.0 million was primarily due to real estate acquisitions of \$109.9 million, real estate construction and development of \$38.3 million, real estate improvements of \$9.3 million, funding of notes receivable of \$1.4 million, distributions to equity investees of \$3.5 million. These outflows were offset by proceeds from the sale of land of \$9.6 million, collection of notes receivable of \$1.2 million and deposits of pending purchases and financings of \$4.7 million.

Net cash provided by 2007 financing activities of \$159.5 million was primarily due to proceeds from the funding or refinancing of notes payable of \$176.5 million, \$1.2 million from restricted cash to pay interest expense, and proceeds from construction loans of \$36.7 million, offset by \$33.8 million to pay down existing notes payable, \$6.4 million for financing costs, \$9.6 million for cash advances to affiliates, \$622,000 in dividends paid, and \$31,000 to purchase treasury stock, principal amortization of notes payable of \$3.0 million and payment on maturing notes of \$1.6 million.

Discontinued operations provided \$3.8 million primarily from the sale of buildings of \$22.7 million, offset by loss from operations of \$855,000, and pay off of existing notes of 18.1 million.

ARI expects that funds from existing cash resources, aggressive sales of land and selected income producing property sales, refinancing of real estate, and borrowings against its real estate will be sufficient to meet the cash requirements associated with ARI's current and anticipated level of operations, maturing debt obligations and existing commitments. To the extent that ARI's liquidity permits or financing sources are available, ARI will make investments in real estate, primarily in improved and unimproved land, will continue making investments in real estate entities and marketable equity securities, and will develop and construct income-producing properties.

Equity Investments. Since 1988, ARI has from time to time purchased shares of IORI and TCI, both of which had the same advisor as ARI until June 2003. The Company may purchase additional equity securities of IORI and TCI through open market and negotiated transactions to the extent ARI's liquidity permits.

Equity securities of TCI held by ARI (and of IORI held by TCI) may be deemed restricted securities under Rule 144 of the Securities Act of 1933 (Securities Act). Accordingly, ARI 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 ARI's ability to realize the full fair market value of such investments if ARI attempted to dispose of such securities in a short period of time.

Management reviews the carrying values of ARI'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. 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 to the extent that the investment in the note exceeds management's estimate of the fair value of the collateral securing such note. The mortgage note receivable review includes an evaluation of the collateral property securing each note. 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.

Environmental Matters

Under various federal, state and local environmental laws, ordinances and regulations, ARI 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.

Table of Contents

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

Inflation

The effects of inflation on ARI'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 the sales values of properties and the ultimate gains to be realized from property sales. To the extent that inflation affects interest rates, earnings from short-term investments and the cost of new financings as well as the cost of variable interest rate debt will be affected.

Tax Matters

Financial statement income varies from taxable income principally due to the accounting for income and losses of investees, gains and losses from asset sales, depreciation on owned properties, amortization of discounts on notes receivable and payable and the difference in the allowance for estimated losses. ARI had a loss for federal income tax purposes in the first three months of 2007 and a loss in the first three months of 2006; therefore, it recorded no provision for income taxes.

At March 31, 2007, ARI had a net deferred tax asset of \$101.6 million due to tax deductions available to it in future years. However, as management cannot determine that it is more likely than not that ARI will realize the benefit of the deferred tax assets, a 100% valuation allowance has been established.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

At March 31, 2007, ARI's exposure to a change in interest rates on its debt is as follows (dollars in thousands except per share):

	Balance	Weighted Average Interest Rate	Effect of 1% Increase In Base Rates
Notes payable:			
Variable rate	\$ 380,549	8.50%	\$ 3,805
Total decrease in ARI's annual net income			3,805
Per share			\$.38

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, ARI carried out an evaluation, under the supervision and with the participation of ARI's Acting Principal Executive Officer and Principal Accounting Officer, of ARI's disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based upon that evaluation, ARI's Acting Principal Executive Officer and Principal Accounting Officer concluded that ARI's disclosure controls and procedures are effective.

There have been no changes in ARI's internal controls over financial reporting during the quarter ending March 31, 2007, that have materially affected, or are reasonably likely to materially affect, ARI's internal control over financial reporting.

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

During the period of time covered by this report, American Realty Investors, Inc. purchased 3,600 shares of its equity securities. The following table sets forth a summary by month for the quarter indicating purchases made, and the specified number of shares that may yet be purchased under the program as specified below:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet be Purchased Under the Program⁽¹⁾
January 2007		\$		129,493
February 2007	1,900	8.41	1,900	127,593
March 2007	1,700	8.15	1,700	125,893
Total	3,600	\$ 8.28	3,600	

- (1) The repurchase program was announced in September, 2000. A total of 1,000,000 shares may be repurchased through the program. The program has no expiration date.

Table of Contents

ITEM 6. EXHIBITS

The following exhibits are filed herewith or incorporated by reference as indicated below:

Exhibit Number	Description of Exhibit
3.0	Certificate of Restatement of Articles of Incorporation of American Realty Investors, Inc. dated August 3, 2000 (incorporated by reference to Exhibit 3.0 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
3.1	Certificate of Correction of Restated Articles of Incorporation of American Realty Investors, Inc. dated August 29, 2000 (incorporated by reference to Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q dated September 30, 2000).
3.2	Articles of Amendment to the Restated Articles of Incorporation of American Realty Investors, Inc. decreasing the number of authorized shares of and eliminating Series B Cumulative Convertible Preferred Stock dated August 23, 2003 (incorporated by reference to Exhibit 3.3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
3.3	Articles of Amendment to the Restated Articles of Incorporation of American Realty Investors, Inc., decreasing the number of authorized shares of and eliminating Series I Cumulative Preferred Stock dated October 1, 2003 (incorporated by reference to Exhibit 3.4 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
3.4	Bylaws of American Realty Investors, Inc. (incorporated by reference to Exhibit 3.2 to Registrant's Registration Statement on Form S-4 filed December 30, 1999).
4.1	Certificate of Designations, Preferences and Relative Participating or Optional or Other Special Rights, and Qualifications, Limitations or Restrictions Thereof of Series F Redeemable Preferred Stock of American Realty Investors, Inc., dated June 11, 2001 (incorporated by reference to Exhibit 4.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001).
4.2	Certificate of Withdrawal of Preferred Stock, Decreasing the Number of Authorized Shares of and Eliminating Series F Redeemable Preferred Stock, dated June 18, 2002 (incorporated by reference to Exhibit 3.0 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
4.3	Certificate of Designation, Preferences and Rights of the Series I Cumulative Preferred Stock of American Realty Investors, Inc., dated February 3, 2003 (incorporated by reference to Exhibit 4.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).
4.4	Certificate of Designation for Nevada Profit Corporations designating the Series J 8% Cumulative Convertible Preferred Stock as filed with the Secretary of State of Nevada on March 16, 2006 (incorporated by reference to Registrant current report on Form 8-K for event of March 16, 2006).
10.1	Advisory Agreement between American Realty Investors, Inc. and Prime Income Asset Management, LLC, dated October 1, 2003 (incorporated by reference to Exhibit 10.0 to the Registrant's Current Report on Form 8-K, dated October 1, 2003).
10.2	Second Amendment to Modification of Stipulation of Settlement dated October 17, 2001 (incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-4, dated February 24, 2002).
31.1*	Certification pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
31.2*	Certification pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
32.1*	Certification pursuant to 18 U.S.C. 1350.

*Filed herewith

Table of Contents

SIGNATURE PAGE

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

AMERICAN REALTY INVESTORS, INC.

Date: May 15, 2007

By: /s/ Daniel J. Moos
Daniel J. Moos
President and Chief Operating Officer
(Principal Executive Officer)

Date: May 15, 2007

By: /s/ Steven A. Abney
Steven A. Abney
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Table of Contents

AMERICAN REALTY INVESTORS, INC.

EXHIBITS TO

QUARTERLY REPORT ON FORM 10-Q

For the Quarter Ended March 31, 2007

Exhibit

Number	Description of Exhibits
31.1*	Certification pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
31.2*	Certification pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
32.1*	Certification pursuant to 18 U.S.C. 1350.

*Filed herewith