

TRANSCONTINENTAL REALTY INVESTORS INC
Form 10-Q
August 13, 2015

United States

Securities and Exchange Commission

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2015

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 94-6565852
(State or Other Jurisdiction of (I.R.S. Employer

Incorporation or Organization) Identification No.)

1603
Lyndon B.
Johnson
Freeway,
Suite 800,
Dallas,
Texas
75234
(Address of
principal
executive
offices)
(Zip Code)

(469)
522-4200
(Registrant's
telephone
number,
including
area code)

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

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

Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer

(do not check if a
smaller reporting
company) Smaller reporting company

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

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

Common Stock, \$.01 par value	8,717,767
(Class)	(Outstanding at August 5, 2015)

TRANSCONTINENTAL REALTY INVESTORS, INC.

FORM 10-Q

TABLE OF CONTENTS

	PAGE
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets at June 30, 2015 (unaudited) and December 31, 2014</u>	K
<u>Consolidated Statements of Operations for the three and six months ended June 30, 2015 and 2014 (unaudited)</u>	L
<u>Consolidated Statement of Shareholders' Equity for the six months ended June 30, 2015 (unaudited)</u>	M
<u>Consolidated Statements of Comprehensive Income for the six months ended June 30, 2015 and 2014 (unaudited)</u>	N
<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014 (unaudited)</u>	O
<u>Notes to Consolidated Financial Statements</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	J2
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risks</u>	K2
<u>Item 4. Controls and Procedures</u>	K2
<u>PART II. OTHER INFORMATION</u>	
<u>Item 5. Unregistered Sales of Equity Securities and Use of Proceeds</u>	K3
<u>Item 6. Exhibits</u>	K4
<u>SIGNATURES</u>	K5

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

	June 30, 2015	December 31, 2014
	(dollars in thousands, except share and par value amounts)	
Assets		
Real estate, at cost	\$899,769	\$781,794
Real estate subject to sales contracts at cost, net of depreciation (\$2,475 for 2015 and \$2,300 for 2014)	20,402	20,395
Less accumulated depreciation	(127,760)	(113,068)
Total real estate	792,411	689,121
Notes and interest receivable:		
Performing (including \$69,050 in 2015 and \$77,853 in 2014 from related parties)	76,253	84,863
Non-performing	604	584
Less allowance for doubtful accounts (including \$1,825 in 2015 and \$1,825 in 2014 from related parties)	(1,990)	(1,990)
Total notes and interest receivable	74,867	83,457
Cash and cash equivalents	19,128	12,201
Restricted cash	52,066	48,238
Investments in unconsolidated joint ventures and investees	2,155	1,543
Receivable from related party	94,080	58,404
Other assets	33,287	37,441
Total assets	\$1,067,994	\$930,405
Liabilities and Shareholders' Equity		
Liabilities:		
Notes and interest payable	\$727,222	\$588,749
Notes related to real estate held for sale	910	1,552
Notes related to real estate subject to sales contracts	18,252	18,616
Deferred gain (from sales to related parties)	51,356	51,356
Accounts payable and other liabilities (including \$2,652 in 2015 and \$4,909 in 2014 to related parties)	37,010	36,684

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

Total liabilities	834,750	696,957
Shareholders' equity:		
Preferred stock, Series C: \$0.01 par value, authorized 10,000,000 shares; issued and outstanding zero shares in 2015 and 2014 (liquidation preference \$100 per share). Series D: \$0.01 par value, authorized, issued and outstanding 100,000 shares in 2015 and 2014 (liquidation preference \$100 per share)	1	1
Common stock, \$0.01 par value, authorized 10,000,000 shares; issued 8,717,967 shares in 2015 and 2014; outstanding 8,717,767 shares in 2015 and 2014	87	87
Treasury stock at cost, 200 shares in 2015 and 2014	(2	) (2)
Paid-in capital	271,203	271,649
Retained earnings	(56,208	) (56,451)
Total Transcontinental Realty Investors, Inc. shareholders' equity	215,081	215,284
Non-controlling interest	18,163	18,164
Total shareholders' equity	233,244	233,448
Total liabilities and shareholders' equity	\$1,067,994	\$930,405

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

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

**For the Three Months Ended
June 30,
2015 2014 For the Six Months Ended
June 30,
2015 2014**
(dollars in thousands, except per share amounts)

Revenues:

Rental and other property revenues (including \$173 and \$175 for the three months and \$343 and \$350 for the six months ended 2015 and 2014, respectively, from related parties)	\$23,756	\$ 18,511	\$46,060	\$36,814
------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------	-----------	----------	----------

Expenses:

Property operating expenses (including \$178 and \$148 for the three months and \$331 and \$293 for the six months ended 2015 and 2014, respectively, from related parties)	10,929	9,359	21,793	18,562
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------	-------	--------	--------

Depreciation and amortization	5,107	4,271	9,751	8,552
-------------------------------	-------	-------	-------	-------

General and administrative (including \$727 and \$656 for the three months and \$1,547 and \$1,400 for the six months ended 2015 and 2014, respectively, from related parties)	1,278	2,738	3,045	4,287
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-------	-------	-------	-------

Net income fee to related party	45	210	90	700
---------------------------------	----	-----	----	-----

Advisory fee to related party	1,951	1,811	3,894	3,664
-------------------------------	-------	-------	-------	-------

Total operating expenses	19,310	18,389	38,573	35,765
--------------------------	--------	--------	--------	--------

Net operating income	4,446	122	7,487	1,049
----------------------	-------	-----	-------	-------

Other income (expenses):

Interest income (including \$2,748 and \$4,004 for the three months and \$6,167 and \$6,117 for the six months ended 2015 and 2014, respectively, from related parties)	2,994	4,005	6,755	6,118
-------------------------------------------------------------------------------------------------------------------------------------------------------------------------	-------	-------	-------	-------

Other income	14	244	81	396
--------------	----	-----	----	-----

Mortgage and loan interest (including \$0 and \$0 for the three months and \$31 and \$31 for the six months ended 2015 and 2014, respectively, from related parties)	(8,216)	(7,869)	(18,401)	(16,868)
----------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------	----------	-----------	-----------

Earnings (losses) from unconsolidated joint ventures and investees	10	(11)	43	(16)
--------------------------------------------------------------------	----	-------	----	-------

Litigation settlement (expense)	(45)	(86)	(118)	3,753
---------------------------------	-------	-------	--------	-------

Total other expenses	(5,243)	(3,717)	(11,640)	(6,617)
----------------------	----------	----------	-----------	----------

Loss before gain on land sales, non-controlling interest, and taxes	(797)	(3,595)	(4,153)	(5,568)
---------------------------------------------------------------------	--------	----------	----------	----------

Gain (loss) on land sales	1,250	(159)	4,126	594
---------------------------	-------	--------	-------	-----

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

Net income (loss) from continuing operations before taxes	453	(3,754	) (27	) (4,974)
Income tax benefit (expense)	(12	) 2,195	90	4,244	
Net income (loss) from continuing operations	441	(1,559	) 63	(730)
Discontinued operations:					
Net income (loss) from discontinued operations	(34	) (732	) 258	(931)
Gain on sale of real estate from discontinued operations	—	7,003	—	13,057	
Income tax benefit (expense) from discontinued operations	12	(2,195	) (90	) (4,244)
Net income (loss) from discontinued operations	(22	) 4,076	168	7,882	
Net income	419	2,517	231	7,152	
Net income (loss) attributable to non-controlling interest	(281	) (127	) 12	(211)
Net income attributable to Transcontinental Realty Investors, Inc.	138	2,390	243	6,941	
Preferred dividend requirement	(224	) (277	) (446	) (551)
Net income (loss) applicable to common shares	\$(86	) \$2,113	\$(203	) \$6,390	
Earnings per share - basic					
Net loss from continuing operations	\$(0.01	) \$(0.23	) \$(0.04	) \$(0.18)
Net income from discontinued operations	—	0.48	0.02	0.93	
Net income (loss) applicable to common shares	\$(0.01	) \$0.25	\$(0.02	) \$0.75	
Earnings per share - diluted					
Net loss from continuing operations	\$(0.01	) \$(0.23	) \$(0.04	) \$(0.18)
Net income from discontinued operations	—	0.48	0.02	0.93	
Net income (loss) applicable to common shares	\$(0.01	) \$0.25	\$(0.02	) \$0.75	
Weighted average common shares used in computing earnings per share					
Weighted average common shares used in computing earnings per share	8,717,767	8,413,469	8,717,767	8,413,469	
Weighted average common shares used in computing diluted earnings per share	8,717,767	8,413,469	8,717,767	8,413,469	
Amounts attributable to Transcontinental Realty Investors, Inc.					
Net income (loss) from continuing operations	\$160	\$(1,686	) \$75	\$(941)
Net income (loss) from discontinued operations	(22	) 4,076	168	7,882	
Net income	\$138	\$2,390	\$243	\$6,941	

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

TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the Six Months Ended June 30, 2015
(unaudited, dollars in thousands)

	Total Equity	Comprehensive Loss	Preferred Stock	Common Shares	Common Stock Amount	Treasury Stock	Paid-in Capital	Retained Earnings	Non-controlling Interest
Balance, December 31, 2014	\$233,448	\$ (57,670)	\$ 1	8,717,967	\$ 87	\$ (2)	\$271,649	\$(56,451)	\$ 18,164
Series D preferred stock dividends (9.0% per year)	(446)	—	—	—	—	—	(446)	—	—
Net income (loss)	231	231	—	—	—	—	—	243	(12)
Contributions from non-controlling interests	11	—	—	—	—	—	—	—	11
Balance, June 30, 2015	\$233,244	\$ (57,439)	\$ 1	8,717,967	\$ 87	\$ (2)	\$271,203	\$(56,208)	\$ 18,163

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

TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	For the Six Months Ended June 30, 2015 2014 (dollars in thousands)	
Net income	\$231	\$7,152
Other comprehensive income	—	—
Total comprehensive income	231	7,152
Comprehensive (income) loss attributable to non-controlling interest	12	(211)
Comprehensive income attributable to Transcontinental Realty Investors, Inc.	\$243	\$6,941

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

TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the Six Months Ended June 30,	
	2015	2014
	(dollars in thousands)	
Cash Flow From Operating Activities:		
Net income	\$231	\$7,152
Adjustments to reconcile net income applicable to common shares to net cash flows from operating activities:		
Gain on sale of land	(4,126)	(594)
Gain on sale of income-producing properties	—	(13,057)
Depreciation and amortization	9,751	9,061
Amortization of deferred borrowing costs	949	1,544
Losses (earnings) from unconsolidated joint ventures and investees	(43)	286
Decrease (increase) in assets:		
Accrued interest receivable	185	7,281
Other assets	2,385	574
Prepaid expense	(8,687)	(1,182)
Escrow	(4,746)	8,910
Earnest money	(1,395)	(265)
Rent receivables	(883)	(397)
Related party receivables	(35,676)	(22,026)
Increase (decrease) in liabilities:		
Accrued interest payable	327	104
Other liabilities	(3,358)	(13,082)
Net cash used in operating activities	(45,086)	(15,691)
Cash Flow From Investing Activities:		
Proceeds from notes receivable	16,060	—
Originations or advances on notes receivable	(7,655)	(8,449)
Acquisition of land held for development	—	(93)
Acquisition of income-producing properties	(105,729)	—
Proceeds from sale of income-producing properties	—	41,428
Proceeds from sale of land	8,618	2,221
Investment in unconsolidated real estate entities	3,176	(98)
Improvement of land held for development	(1,469)	(181)
Improvement of income-producing properties	(6,539)	(3,134)
Construction and development of new properties	(3,176)	(620)
Net cash provided by (used in) investing activities	(96,714)	31,074
Cash Flow From Financing Activities:		
Proceeds from notes payable	198,770	59,487

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

Recurring amortization of principal on notes payable	(7,802)	(10,133)
Payments on maturing notes payable	(33,865)	(61,740)
Deferred financing costs	(7,941)	(5,135)
Contributions (distributions) non-controlling interests	11	(15)
Preferred stock dividends - Series C	—	(106)
Preferred stock dividends - Series D	(446)	(445)
Net cash provided by (used in) financing activities	148,727	(18,087)
Net increase (decrease) in cash and cash equivalents	6,927	(2,704)
Cash and cash equivalents, beginning of period	12,201	16,086
Cash and cash equivalents, end of period	\$19,128	\$13,382
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$16,748	\$15,153

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

As used herein, the terms “TCI”, “the Company”, “we”, “our” or “us” refer to Transcontinental Realty Investors, Inc., a Nevada corporation. TCI is the successor to a California business trust which was organized on September 6, 1983, and commenced operations on January 31, 1984. Effective March 31, 2003, TCI’s financial results were consolidated in American Realty Investors, Inc. (“ARL”) Form 10-K and related Consolidated Financial Statements.

The Company is headquartered in Dallas, Texas and its common stock trades on the New York Stock Exchange (“NYSE”) under the symbol (“TCI”). Subsidiaries of ARL own approximately 80.9% of the Company’s common stock. ARL’s common stock trades on the New York Stock Exchange under the symbol (“ARL”). We have no employees.

TCI is a “C” corporation for U.S. federal income tax purposes and files an annual consolidated tax return with ARL and its ultimate parent, May Realty Holdings, Inc. (“MRHI”).

TCI owns approximately 81.1% of the common stock of Income Opportunity Realty Investors, Inc. (“IOT”). Effective July 17, 2009, IOT’s financial results were consolidated with those of ARL and TCI and their subsidiaries. Shares of IOT are traded on the New York Stock Exchange Euronext (“NYSE MKT”) under the symbol (“IOT”).

TCI invests in real estate through direct ownership, leases and partnerships and also invests in mortgage loans on real estate. Pillar Income Asset Management, Inc. (“Pillar”) is the Company’s external Advisor and Cash Manager. Although the Board of Directors is directly responsible for managing the affairs of TCI, and for setting the policies which guide it, the day-to-day operations of TCI are performed by Pillar, as the contractual Advisor, under the supervision of the Board. Pillar’s duties include, but are not limited to: locating, evaluating and recommending real estate and real estate-related investment opportunities, and arranging debt and equity financing for the Company with third party lenders and investors. Additionally, Pillar serves as a consultant to the Board with regard to their decisions in connection with TCI’s business plan and investment policy. Pillar also serves as an Advisor and Cash Manager to ARL and IOT.

Regis Realty Prime, LLC (“Regis”) manages our commercial properties and provides brokerage services for our real estate portfolio. TCI engages third-party companies to lease and manage its apartment properties.

Properties

We own or had interests in a total property portfolio of 52 income-producing properties as of June 30, 2015. The properties consisted of:

• Nine commercial properties consisting of five office buildings, two retail centers, one industrial warehouse and a golf course, comprising in aggregate approximately 1.9 million rentable square feet;

- 43 apartment communities totaling 7,085 units; excluding apartments being developed; and
 - 4,044 acres of developed and undeveloped land.

We join with various third-party development companies to construct residential apartment communities. We are in the predevelopment process on several residential apartment communities that have not yet begun construction. At June 30, 2015, we had two apartment projects in development. The third-party developer typically holds a general partner, as well as a majority limited partner interest in a limited partnership formed for the purpose of building a single property, while we generally take a minority 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 necessary 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.

Basis of Presentation

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted in accordance with such rules and regulations, although management believes the disclosures are adequate to prevent the information presented from being misleading. In the opinion of management, all adjustments (consisting of normal recurring matters) considered necessary for a fair presentation have been included. The results of operations for the six months ended June 30, 2015, are not necessarily indicative of the results that may be expected for other interim periods or for the full fiscal year.

The year-end Consolidated Balance Sheet at December 31, 2014, was derived from the audited Consolidated Financial Statements at that date, but does not include all of the information and disclosures required by U.S. GAAP for complete financial statements. For further information, refer to the Consolidated Financial Statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. Certain 2014 Consolidated Financial Statement amounts have been reclassified to conform to the 2015 presentation.

Principles of Consolidation

The accompanying Consolidated Financial Statements include the accounts of the Company, its subsidiaries, generally all of which are wholly-owned, and all entities in which we have a controlling interest. Arrangements that are not controlled through voting or similar rights are accounted for as a Variable Interest Entity (VIE), in accordance with the provisions and guidance of ASC Topic 810 “Consolidation”, whereby we have determined that we are a primary beneficiary of the VIE and meet certain criteria of a sole general partner or managing member as identified in accordance with Emerging Issues Task Force (“EITF”) Issue 04-5, Investor’s Accounting for an Investment in a Limited Partnership when the Investor is the Sole General Partner and the Limited Partners have Certain Rights (“EITF 04-5”). VIEs are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders as a group lack adequate decision making ability, the obligation to absorb expected losses or residual returns of the entity, or have voting rights that are not proportional to their economic interests. The primary beneficiary generally is the entity that provides financial support and bears a majority of the financial risks, authorizes certain capital transactions, or makes operating decisions that materially affect the entity’s financial results. All significant intercompany balances and transactions have been eliminated in consolidation.

In determining whether we are the primary beneficiary of a VIE, we consider qualitative and quantitative factors, including, but not limited to: the amount and characteristics of our investment; the obligation or likelihood for us or other investors to provide financial support; our and the other investors’ ability to control or significantly influence key decisions for the VIE; and the similarity with and significance to the business activities of us and the other investors. Significant judgments related to these determinations include estimates about the current future fair values and

performance of real estate held by these VIEs and general market conditions.

For entities in which we have less than a controlling financial interest or entities where we are not deemed to be the primary beneficiary, the entities are accounted for using the equity method of accounting. Accordingly, our share of the net earnings or losses of these entities is included in consolidated net income. Our investment in ARL is accounted for under the equity method.

Real Estate, Depreciation and Impairment

Real estate assets are stated at the lower of depreciated cost or fair value, if deemed impaired. Major replacements and betterments are capitalized and depreciated over their estimated useful lives. Depreciation is computed on a straight-line basis over the useful lives of the properties (buildings and improvements – 10-40 years; furniture, fixtures and equipment – 5-10 years). The Company continually evaluates the recoverability of the carrying value of its real estate assets using the methodology prescribed in ASC Topic 360 (“ASC 360”), “Property, Plant and Equipment”. Factors considered by management in evaluating impairment of its existing real estate assets held for investment include significant declines in property operating profits, annually recurring property operating losses and other significant adverse changes in general market conditions that are considered permanent in nature. Under ASC 360, a real estate asset held for investment is not considered impaired if the undiscounted, estimated future cash flows of an asset (both the annual estimated cash flow from future operations and the estimated cash flow from the theoretical sale of the asset) over its estimated holding period are in excess of the asset’s net book value at the balance sheet date. If any real estate asset held for investment is considered impaired, a loss is provided to reduce the carrying value of the asset to its estimated fair value.

Real Estate Held for Sale

We periodically classify real estate assets as “held for sale”. An asset is classified as held for sale after the approval of our Board of Directors, after an active program to sell the asset has commenced and if the sale is probable. One of the deciding factors in determining whether a sale is probable is whether the firm purchase commitment is obtained and whether the sale is probable within the year. Upon the classification of a real estate asset as held for sale, the carrying value of the asset is reduced to the lower of its net book value or its estimated fair value, less costs to sell the asset. Subsequent to the classification of assets as held for sale, no further depreciation expense is recorded. Real estate assets held for sale are stated separately on the accompanying Consolidated Balance Sheets. Upon a decision that the sale is no longer probable, the asset is classified as an operating asset and depreciation expense is reinstated.

Prior to January 1, 2015, the operating results of real estate assets held for sale and sold are reported as discontinued operations in the accompanying Consolidated Statements of Operations. Income from discontinued operations includes the revenues and expenses, including depreciation and interest expense, associated with the assets. Subsequent to January 1, 2015, Accounting Standards Update 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" ("ASU 2014-08") substantially changed the criteria for determining whether a disposition qualifies for discontinued operations presentation. Adoption of this standard will result in substantially fewer of the Company's dispositions meeting the discontinued operations criteria.

Cost Capitalization

Costs related to planning, developing, leasing and constructing a property are capitalized and classified as Real Estate in the Consolidated Balance Sheets. We capitalize interest to qualifying assets under development based on average accumulated expenditures outstanding during the period. In capitalizing interest to qualifying assets, we first use the interest incurred on specific project debt, if any, and next use the weighted average interest rate of non-project specific debt. We capitalize interest, real estate taxes and certain operating expenses until building construction is substantially complete and the building is ready for its intended use, but no later than one year from the cessation of major construction activity.

We capitalize leasing costs, which include commissions paid to outside brokers, legal costs incurred to negotiate and document a lease agreement and any internal costs that may be applicable. We allocate these costs to individual tenant leases and amortize them over the related lease term.

Fair Value Measurement

We apply the guidance in ASC Topic 820, "Fair Value Measurements and Disclosures", to the valuation of real estate assets. These provisions define fair value as the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at the measurement date, establish a hierarchy that prioritizes the information used in developing fair value estimates and require disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable data (Level 3 measurements), such as the reporting entity's own data.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date and includes three levels defined as follows:

Level 1 Unadjusted quoted prices for identical and unrestricted assets or liabilities in active markets.

Level 2 Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 Unobservable inputs that are significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Deferred Costs

Costs relating to the financing of properties are deferred and amortized over the life of the related financing agreement. Amortization is reflected as interest expense in the Consolidated Statements of Operations, with remaining terms ranging from 6 months to 40 years. Unamortized financing costs are written off when the financing agreement is extinguished before the maturity date.

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.

Newly Issued Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-08, “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity”, which changes the criteria for determining which disposals qualify to be accounted for as discontinued operations and modifies related reporting and disclosure requirements.

Disposals representing a strategic shift in operations, such as change in a major line of business, a major geographical area or major equity investment, that have a major effect on a company’s operations and financial results will be presented as discontinued operations. If the disposal does qualify as a discontinued operation under ASU 2014-08, the company will be required to expand their disclosures about discontinued operations to provide more information on the assets, liabilities, income and expenses of the disposed of component. The classification of operating results as discontinued operations are applied retroactively for all periods presented. The new standard was effective January 1, 2015. We adopted ASU 2014-08 as of January 1, 2015 and believe future sales of our individual operating properties will no longer qualify as discontinued operations. Adoption of this standard has resulted in substantially fewer of the Company’s dispositions meeting the discontinued operations criteria. See Note 8 below.

In May 2014, Accounting Standards Update (“ASU”) No. 2014-09 (“ASU 2014-09”), “Revenue from Contracts with Customers,” was issued. This new guidance established a new single comprehensive revenue recognition model and provides for enhanced disclosures. Under the new guidance, the nature, timing and amount of revenue recognized for certain transactions could differ from those recognized under existing accounting guidance. This new guidance does not affect revenue recognized under lease contracts. ASU 2014-09 is effective for reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact the adoption of this guidance, if any, on its financial position and results of operations.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). ASU 2015-03 requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. Prior to the issuance of the standard, debt issuance costs were required to be presented in the balance sheet as an asset. The Company has adopted this standard effective June 30, 2015. The accompanying financials have been reclassified to reflect the adoption.

NOTE 2. REAL ESTATE ACTIVITY

Below is a summary of the real estate owned as of June 30, 2015 (dollars in thousands):

Apartments	\$546,904
Apartments under construction	3,261
Commercial properties	202,912
Land held for development	146,692
Real estate subject to sales contract	22,877
Total real estate	\$922,646
Less accumulated depreciation	(130,235)
Total real estate, net of depreciation	\$792,411

The highlights of our significant real estate transactions for the six months ended June 30, 2015, are listed below:

Purchases

For the six months ended June 30, 2015, the Company acquired three income-producing apartment complexes from third parties in the states of Texas (1) and Florida (2), increasing the total number of units by 349, for a combined purchase price of \$31.5 million. In addition, the Company acquired three income-producing apartment complexes from related parties in the states of Texas (2) and Kansas (1), increasing the total number of units by 698, for a combined purchase price of \$11.6 million. The Company also purchased a commercial office building in Texas, comprised of 92,723 square feet, for \$16.8 million.

Sales

For the six months ended June 30, 2015, the Company sold approximately 43 acres of land located in Texas to independent third parties, for a total sales price of \$9.1 million. We recorded a total gain of \$4.1 million from the sales.

As of June 30, 2015, there is 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. During the six months ended June 30, 2015, we have expended \$3.2 million related to the construction or predevelopment of various apartment complexes and capitalized \$25,109 of interest costs.

NOTE 3. NOTES AND INTEREST RECEIVABLE

A portion of our assets are invested in mortgage notes receivable, principally secured by real estate. We may originate mortgage loans in conjunction with providing purchase money financing of property sales. Notes receivable are generally collateralized by real estate or interests in real estate and personal guarantees of the borrower and, unless noted otherwise, are so secured. Management intends to service and hold for investment the mortgage notes in our portfolio. A majority of the notes receivable provide for principal to be paid at maturity. Below is a summary of our notes receivable (dollars in thousands):

Borrower	Maturity Date	Interest Rate	Amount	Security
Performing loans:				
Foundation for Better Housing, Inc. (Overlook at Allensville) ⁽¹⁾	11/19	12.00 %	2,472	Secured
Foundation for Better Housing, Inc. (Overlook at Allensville) ⁽¹⁾	12/17	12.00 %	1,408	Secured
Foundation for Better Housing, Inc. (Vista Ridge) ⁽¹⁾	04/19	12.00 %	3,923	Secured
Foundation for Better Housing, Inc. (Vista Ridge) ⁽¹⁾	06/17	12.00 %	1,492	Secured
H198, LLC (Las Vegas Land)	01/20	12.00 %	5,907	Secured
Unified Housing Foundation, Inc. (Echo Station) ⁽¹⁾	09/17	12.00 %	1,481	100% Interest in Unified Housing of Temple, LLC
Unified Housing Foundation, Inc. (Lakeshore Villas) ⁽¹⁾	12/32	12.00 %	2,000	Unsecured
Unified Housing Foundation, Inc. (Lakeshore Villas) ⁽¹⁾	12/32	12.00 %	6,363	Membership interest in Housing for Seniors of Humble, LLC
Unified Housing Foundation, Inc. (Limestone Canyon) ⁽¹⁾	12/32	12.00 %	4,663	100% Interest in Unified Housing of Austin, LLC
Unified Housing Foundation, Inc. (Limestone Canyon) ⁽¹⁾	12/32	12.00 %	3,057	100% Interest in Unified Housing of Austin, LLC
Unified Housing Foundation, Inc. (Limestone Ranch) ⁽¹⁾	12/32	12.00 %	6,000	100% Interest in Unified Housing of Vista Ridge, LLC
Unified Housing Foundation, Inc. (Limestone Ranch) ⁽¹⁾	12/32	12.00 %	2,250	100% Interest in Unified Housing of Vista Ridge, LLC
Unified Housing Foundation, Inc. (Parkside Crossing) ⁽¹⁾	12/32	12.00 %	1,936	100% Interest in Unified Housing of Parkside Crossing, LLC
Unified Housing Foundation, Inc. (Sendero Ridge) ⁽¹⁾	12/32	12.00 %	4,812	100% Interest in Unified Housing of Sendero Ridge, LLC
Unified Housing Foundation, Inc. (Sendero Ridge) ⁽¹⁾	12/32	12.00 %	5,174	100% Interest in Unified Housing of Sendero Ridge, LLC
Unified Housing Foundation, Inc. (Timbers of Terrell) ⁽¹⁾	12/32	12.00 %	1,323	100% Interest in Unified Housing of Terrell, LLC

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

Unified Housing Foundation, Inc. (Tivoli) (1)	12/32	12.00	%	7,966	100% Interest in Unified Housing of Tivoli, LLC
Unified Housing Foundation, Inc. (1)	06/17	12.00	%	1,261	Unsecured
Unified Housing Foundation, Inc. (1)	12/17	12.00	%	1,207	Unsecured
Other related party notes (1)	Various	Various		768	Various secured interests
Other related party notes (1)	Various	Various		4,929	Various unsecured interests
Other non-related party notes	Various	Various		496	Various secured interests
Other non-related party notes	Various	Various		503	Various unsecured interests
Accrued interest				4,862	
Total Performing				\$76,253	
Non-Performing loans:					
Other non-related party notes	Various	Various		507	Secured
Accrued interest				97	
Total Non-Performing				\$604	
Allowance for doubtful accounts				(1,990)	
Total				\$74,867	

(1) Related party notes

Junior Mortgage Loans. We invest in junior mortgage loans, secured by mortgages that are subordinate to one or more prior liens either on the fee or a leasehold interest in real estate. Recourse on such loans ordinarily includes the real estate on which the loan is made, other collateral and guarantees.

At June 30, 2015, we had junior mortgage loans and accrued interest receivable from related parties, net of allowances, totaling \$67.2 million. We recognized interest income of \$4.9 million related to these notes receivables.

The Company has various notes receivable from Unified Housing Foundation, Inc. (“UHF”) and Foundation for Better Housing, Inc. (“FBH”). UHF and FBH are determined to be related parties due to our reliance upon the performance of the collateral secured under the notes receivable. Payments are due from surplus cash flow of operations of the properties. A sale or refinance of any of the properties underlying these notes will be used to repay outstanding interest and principal for the remaining notes for the specific borrower. These notes are cross-collateralized for the specific borrower, but to the extent cash is received from a specific UHF or FBH property, it is applied first against any outstanding interest for the related-property note. The allowance on the UHF notes was a purchase allowance that was netted against the notes when acquired.

NOTE 4. INVESTMENT IN UNCONSOLIDATED JOINT VENTURES AND INVESTEEES

Investments in unconsolidated joint ventures and other investees in which we have a 20% to 50% interest or otherwise exercise significant influence, are carried at cost and adjusted for the Company's proportionate share of their undistributed earnings or losses under the equity method of accounting. ARL is our parent company and is considered as an unconsolidated joint venture.

Investments in unconsolidated joint ventures and investees consist of the following:

	Percentage ownership as of	
	June	June
	30,	30,
	2015	2014
American Realty Investors, Inc. ⁽¹⁾	1.00%	1.99%

⁽¹⁾ Unconsolidated investment in parent company owning 140,000 shares of ARL Common Stock

Our interest in the common stock of ARL in the amount of 1.00% is accounted for under the equity method because we exercise significant influence over the operations and financial activities. Accordingly, the investments are carried at cost, adjusted for the Company's proportionate share of earnings or losses.

The following is a summary of the financial position and results of operations from our unconsolidated parent (dollars in thousands):

As of June 30,	2015	2014
Real estate, net of accumulated depreciation	\$14,285	\$15,149
Notes receivable	50,519	68,940
Other assets	127,217	128,581
Notes payable	(28,193)	(52,369)
Other liabilities	(94,201)	(100,149)
Shareholders' equity	(69,627)	(60,152)

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

For the Six Months Ended June 30,	2015	2014
Rents and interest and other income	\$6,359	\$5,894
Depreciation	(78)	(138)
Operating expenses	(1,810)	(3,093)
Interest expense	(1,448)	(3,447)
Income (loss) from continuing operations	3,023	(784)
Income (loss) from discontinued operations	—	—
Net income (loss)	\$3,023	\$(784)
Company's proportionate share of income (loss)	\$30	\$(16)

NOTE 5. NOTES PAYABLE

Below is a summary of our notes and interest payable as of June 30, 2015 (dollars in thousands):

	Notes Payable	Accrued Interest	Total Debt
Apartments	\$443,429	\$ 1,316	\$444,745
Commercial	117,392	494	117,886
Land	56,917	116	57,033
Real estate subject to sales contract	16,547	1,705	18,252
Mezzanine financing	123,900	—	123,900
Other	4,530	—	4,530
Total	\$762,715	\$3,631	\$766,346
Unamortized deferred borrowing costs	(19,962)	—	(19,962)
Total	\$742,753	\$3,631	\$746,384

The segment labeled as “Other” consists of unsecured or stock-secured notes payable.

With respect to the additional notes payable due to the acquisition of properties or refinancing of existing mortgages, a summary of some of the more significant transactions is discussed below:

On January 28, 2015, the Company modified the existing mortgage on a 200-unit complex located in Texas, to reduce the interest rate. The modified note accrues interest at 3.24% and payments of interest and principal are due monthly, maturing August 1, 2050.

On January 28, 2015, the Company modified the existing mortgage on a 240-unit complex located in Mississippi, to reduce the interest rate. The modified note accrues interest at 3.24% and payments of interest and principal are due monthly, maturing December 1, 2051.

On April 23, 2015, the Company refinanced the existing mortgage on a 250-unit complex located in Arkansas, for a new mortgage of \$21.0 million. We paid off the existing mortgage of \$15.7 million and \$0.6 million in closing costs. The note accrues interest at 2.74% and payments of interest and principal are due monthly, maturing May 1, 2050.

On April 29, 2015, the Company refinanced the existing mortgage on a 240-unit complex located in Texas, for a new mortgage of \$15.4 million. We paid \$0.7 million in closing costs. The note accrues interest at 3.28% and payments of interest and principal are due monthly, maturing March 31, 2051.

On May 28, 2015, the Company secured additional financing of \$120.0 million from an independent third party. At closing \$84.4 million was advanced to the Company. The financing can be used for general corporate purposes, acquisition of multi-family apartment complexes and to reduce debt. The note has a term of five years at an interest rate of 30 day Libor plus 10.75%. The note is interest only, payable monthly, with the principal due at the end of the five years. The loan is secured by various equity interests in certain residential apartments. The note contains customary restrictions, representations, covenants, corporate and officer guarantees, events of default and require the Company to meet certain financial covenants. The Company believes it is in compliance with these financial covenants at June 30, 2015.

Simultaneous with the closing of the above financing, the Company amended its existing 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 \$0.5 million starting April 1, 2015. As of June 30, 2015, the outstanding balance on the loan was \$39.5 million. 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. The note contains customary restrictions, representations, covenants, corporate and officer guarantees, events of default and require the Company to meet certain financial covenants. The Company believes it is in compliance with these financial covenants at June 30, 2015.

There are various land mortgages, secured by the property, that are in the process of a modification or extension to the original note due to expiration of the loan. We are in constant contact with these lenders, working together in order to modify the terms of these loans and we anticipate a timely resolution that is similar to the existing agreement or subsequent modification.

In conjunction with the development of various apartment projects and other developments, we drew down \$1.7 million in construction loans during the six months ended June 30, 2015.

The properties that we have sold to a related party and have deferred the recognition of the sale 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.

NOTE 6. RELATED PARTY TRANSACTIONS

The following table reconciles the beginning and ending balances of accounts receivable from and (accounts payable) to related parties as of June 30, 2015 (dollars in thousands):

	Pillar	ARL	Total
Related party receivable, December 31, 2014	\$—	\$58,404	\$58,404
Cash transfers	38,073	—	38,073
Advisory fees	(3,893)	—	(3,893)
Net income fee	(90)	—	(90)
Fees and commissions	(2,391)	—	(2,391)
Cost reimbursements	(1,457)	—	(1,457)
Interest income	—	1,297	1,297
Expenses paid by advisor	(4,993)	—	(4,993)
Financing (mortgage payments)	3,381	—	3,381
Sales/purchases transactions	5,749	—	5,749
Purchase of obligations	(34,379)	34,379	—
Related party receivable, June 30, 2015	\$—	\$94,080	\$94,080

During the ordinary course of business, we have related party transactions that include, but are not limited to, rental income, interest income, interest expense, general and administrative costs, commissions, management fees, and property expenses. In addition, we have assets and liabilities that include related party amounts. The related party amounts included in assets and liabilities, and the related party revenues and expenses received/paid are shown on the face of the Consolidated Financial Statements.

NOTE 7. OPERATING SEGMENTS

Our segments are based on our method of internal reporting, which classifies our operations by property type. Our property types are grouped into commercial properties, apartments, land and other operating segments. Significant differences between and among the accounting policies of the operating segments as compared to the Consolidated Financial Statements principally involve the calculation and allocation of administrative 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.

Items of income that are not reflected in the segments are interest, other income, gain on debt extinguishment, gain on condemnation award, equity in partnerships, and gains on sale of real estate. Expenses that are not reflected in the segments are provision for losses, advisory fees, net income and incentive fees, general and administrative, non-controlling interests and net loss from discontinued operations before gains on sale of real estate.

The segment labeled as "Other" consists of revenue and operating expenses related to the notes receivable and corporate debt.

Presented below is our reportable segments' operating income for the three and six months ended June 30, 2015 and 2014, including segment assets and expenditures (dollars in thousands):

For the Three Months Ended June 30, 2015	Commercial Properties	Apartments	Land	Other	Total
Rental and other property revenues	\$ 6,678	\$ 17,070	\$—	\$ 8	\$ 23,756
Property operating expenses	(3,134)	(7,693)	(129)	27	(10,929)
Depreciation	(2,197)	(2,910)	—	—	(5,107)
Mortgage and loan interest	(1,639)	(3,293)	(1,193)	(2,091)	(8,216)
Interest income	—	—	—	2,994	2,994
Gain on land sales	—	—	1,250	—	1,250
Segment operating income (loss)	\$(292)	\$ 3,174	\$(72)	\$ 938	\$ 3,748
Capital expenditures	2,940	1,498	485	—	4,923
Real estate assets	160,403	476,391	155,617	—	792,411
Property Sales					
Sales price	\$—	\$—	\$ 1,878	\$—	\$ 1,878
Cost of sale	—	—	(628)	—	(628)
Gain on sale	\$—	\$—	\$ 1,250	\$—	\$ 1,250
For the Three Months Ended June 30, 2014	Commercial Properties	Apartments	Land	Other	Total
Rental and other property revenues	\$ 4,425	\$ 14,072	\$—	\$ 14	\$ 18,511
Property operating expenses	(2,968)	(6,187)	(204)	—	(9,359)
Depreciation	(1,733)	(2,538)	—	—	(4,271)
Mortgage and loan interest	(1,546)	(3,754)	(1,348)	(1,221)	(7,869)
Interest income	—	—	—	4,005	4,005
Loss on land sales	—	—	(159)	—	(159)
Segment operating income (loss)	\$(1,822)	\$ 1,593	\$(1,711)	\$ 2,798	\$ 858
Capital expenditures	1,859	99	66	—	2,024
Real estate assets	129,607	374,022	157,623	—	661,252
Property Sales					
Sales price	\$ 16,600	\$—	\$ 717	\$—	\$ 17,317
Cost of sale	(9,597)	—	(876)	—	(10,473)
Gain (loss) on sale	\$ 7,003	\$—	\$(159)	\$—	\$ 6,844

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

	For the Three Months Ended June 30,	
	2015	2014
Segment operating income	\$3,748	\$858
Other non-segment items of income (expense)		
General and administrative	(1,278)	(2,738)
Net income fee to related party	(45)	(210)
Advisory fee to related party	(1,951)	(1,811)
Other income	14	244
Earnings (loss) from unconsolidated joint ventures and investees	10	(11)
Litigation settlement	(45)	(86)
Income tax benefit (expense)	(12)	2,195
Net income (loss) from continuing operations	\$441	\$(1,559)

The table below reconciles the segment information to the corresponding amounts in the Consolidated Balance Sheets (dollars in thousands):

	As of June 30,	
	2015	2014
Segment assets	\$792,411	\$661,252
Investments in real estate partnerships	2,155	1,509
Notes and interest receivable	74,867	69,074
Other assets	198,561	135,730
Total assets	\$1,067,994	\$867,565

For the Six Months Ended June 30, 2015	Commercial Properties	Apartments	Land	Other	Total
Rental and other property revenues	\$ 13,464	\$ 32,543	\$—	\$53	\$46,060
Property operating expenses	(7,147)	(14,353)	(310)	17	(21,793)
Depreciation	(4,092)	(5,659)	—	—	(9,751)
Mortgage and loan interest	(3,245)	(9,364)	(2,197)	(3,595)	(18,401)
Interest income	—	—	—	6,755	6,755
Gain on land sales	—	—	4,126	—	4,126
Segment operating income (loss)	\$ (1,020)	\$ 3,167	\$ 1,619	\$ 3,230	\$ 6,996
Capital expenditures	6,132	1,755	1,311	—	9,198
Real estate assets	160,403	476,391	155,617	—	792,411
Property Sales					
Sales price	\$—	\$—	\$9,135	\$—	\$9,135
Cost of sale	—	—	(5,009)	—	(5,009)
Gain on sale	\$—	\$—	\$4,126	\$—	\$4,126
For the Six Months Ended June 30, 2014	Commercial Properties	Apartments	Land	Other	Total
Rental and other property revenues	\$ 8,875	\$ 27,917	\$—	\$22	\$36,814
Property operating expenses	(5,845)	(12,319)	(393)	(5)	(18,562)
Depreciation	(3,524)	(5,028)	—	—	(8,552)
Mortgage and loan interest	(2,975)	(9,949)	(2,488)	(1,456)	(16,868)
Interest income	—	—	—	6,118	6,118
Gain on land sales	—	—	594	—	594
Segment operating income (loss)	\$ (3,469)	\$ 621	\$ (2,287)	\$ 4,679	\$ (456)
Capital expenditures	2,989	99	151	# —	3,239
Real estate assets	129,607	374,022	157,623	—	661,252
Property Sales					
Sales price	\$ 16,600	\$ 23,131	\$ 2,367	\$—	\$42,098
Cost of sale	(9,597)	(17,077)	(1,773)	—	(28,447)
Gain on sale	\$ 7,003	\$ 6,054	\$ 594	\$—	\$ 13,651

The tables below reconcile the segment information to the corresponding amounts in the Consolidated Statements of Operations:

	For the Six Months Ended June 30,	
	2015	2014
Segment operating income (loss)	\$6,996	\$(456)
Other non-segment items of income (expense)		

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

General and administrative	(3,045)	(4,287)
Net income fee to related party	(90)	(700)
Advisory fee to related party	(3,894)	(3,664)
Other income	81	396
Earnings (loss) from unconsolidated joint ventures and investees	43	(16)
Litigation settlement	(118)	3,753
Income tax benefit	90	4,244
Net income (loss) from continuing operations	\$63	\$(730)

The tables below reconcile the segment information to the corresponding amounts in the Consolidated Balance Sheets:

	As of June 30,	
	2015	2014
Segment assets	\$792,411	\$661,252
Investments in real estate partnerships	2,155	1,509
Notes and interest receivable	74,867	69,074
Other assets	198,561	135,730
Total assets	\$1,067,994	\$867,565

NOTE 8. DISCONTINUED OPERATIONS

Prior to January 1, 2015, we applied the provisions of ASC 360, “Property, Plant and Equipment”, which required that long-lived assets that are to be disposed of by sale be measured at the lesser of (1) book value or (2) fair value less cost to sell. In addition, it requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions.

Effective January 1, 2015, the Company adopted the provisions of ASU 2014-08, “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity”, which changes the criteria of ASC 360 related to determining which disposals qualify to be accounted for as discontinued operations and modifies related reporting and disclosure requirements.

Disposals representing a strategic shift in operations that have a major effect on a company’s operations and financial results will be presented as discontinued operations. Companies will be required to expand their disclosures about discontinued operations to provide more information on the assets, liabilities, income and expenses of the discontinued operations. The new standard was effective January 1, 2015. Adoption of this standard will result in substantially fewer of the Company’s dispositions meeting the discontinued operations criteria.

There were no sales of income-producing properties in the first six months of 2015. In 2014, we sold two apartment complexes (both in Texas), and two commercial properties (one in Louisiana and one in Alaska). The gain on sale of the properties is also included in discontinued operations for those years. The following table summarizes revenue and expense information for the properties sold and held for sale (dollars in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Revenues:				
Rental and other property revenues	\$—	\$1,341	\$15	\$3,912
	—	1,341	15	3,912
Expenses:				
Property operating expenses	26	557	(348)	1,875
Depreciation	—	179	—	509
General and administrative	7	140	104	313
Total operating expenses	33	876	(244)	2,697
Other income (expense):				
Other income	—	(528)	—	(486)
Mortgage and loan interest	(1)	(464)	(1)	(1,410)
Litigation settlement	—	(205)	—	(250)
Total other expenses	(1)	(1,197)	(1)	(2,146)
Gain (loss) from discontinued operations before gain on sale of real estate and tax	(34)	(732)	258	(931)
Gain on sale of real estate from discontinued operations	—	7,003	—	13,057
Income tax benefit (expense)	12	(2,195)	(90)	(4,244)
Income (loss) from discontinued operations	\$(22)	\$4,076	\$168	\$7,882

Our application of ASC 360 results in the presentation of the net operating results of these qualifying properties sold or held for sale during 2015 as income from discontinued operations. This does not have an impact on net income available to common shareholders and only impacts the presentation of these properties within the Consolidated Statements of Operations.

NOTE 9. COMMITMENTS AND CONTINGENCIES AND LIQUIDITY

Dynex Capital, Inc.

On July 20, 2015, the 68th Judicial District Court in Dallas County, Texas issued its Final Judgment in Cause No. DC-03-00675, 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. The case, which was litigated for more than a decade, 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 million 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 in 2004, which also included Dynex Capital, Inc. as a defendant, resulted in a jury awarding damages in favor of Basic for “lost opportunity,” as well as damages in favor of ART and in favor of TCI and its subsidiaries for “increased costs” and “lost opportunity.” The original Trial Court judge ignored the jury’s findings, however, and entered a “Judgment Notwithstanding the Verdict” (“JNOV”) in favor of the Dynex entities (the judge held the Plaintiffs were not entitled to any damages from the Dynex entities). After numerous appeals by all parties, Dynex Capital, Inc. was ultimately dismissed from the case and the remaining claims against Dynex Commercial were remanded to the Trial Court for a new judgment consistent with the jury’s findings. The Court entered the new Final Judgment against Dynex Commercial, Inc. on July 20, 2015.

The Final Judgment entered against Dynex Commercial, Inc. on July 20, 2015 awarded Basic \$.256 million in damages, plus pre-judgment interest of \$.192 million for a total amount of \$.448 million. The Judgment awarded ART \$14.2 million in damages, plus pre-judgment interest of \$10.6 million for a total amount of \$24.9 million. The Judgment awarded TCI \$11.1 million, plus pre-judgment interest of \$8.4 million for a total amount of \$19.5 million. The Judgment also awarded Basic, ART, and TCI post-judgment interest at the rate of 5% per annum from April 25, 2014 until the date their respective damages are paid. Lastly, the Judgement awarded Basic, ART, and TCI \$1.6 million collectively in attorneys’ fees from Dynex Commercial, Inc.

The Company is reviewing the Final Judgment with counsel to determine the appropriate steps moving forward now that they have obtained this Final Judgment against Dynex Commercial, Inc.

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 subsidiaries of the Company. Management believes that the Company has no liability for any ultimate judgment in the proceeding involving the Clapper Parties.

TCI is also involved in various other lawsuits arising in the ordinary course of business. Management is of the opinion that the outcome of these lawsuits will have no material impact on TCI’s financial condition, results of operations or liquidity.

Liquidity. Management believes that TCI will generate excess cash from property operations in 2015; such excess, however, will not be sufficient to discharge all of TCI's obligations as they become due. Management intends to sell land and income-producing real estate, refinance real estate and obtain additional borrowings primarily secured by real estate to meet its liquidity requirements.

Partnership Buyouts. TCI is the limited partner in various partnerships related to the construction of residential properties. As permitted in the respective partnership agreements, TCI intends to purchase the interests of the general and any other limited partners in these partnerships subsequent to the completion of these projects. The amounts paid to buy out the non-affiliated partners are limited to development fees earned by the non-affiliated partners and are set forth in the respective partnership agreements.

Litigation. 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.

The Company is involved in and vigorously defending against, a number of 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.

NOTE 10. EARNINGS PER SHARE

Earnings per share ("EPS") have been computed pursuant to the provisions of ASC Topic 260 "Earnings Per Share". The computation of basic EPS is calculated by dividing income available to common shareholders from continuing operations, adjusted for preferred dividends, by the weighted-average number of common shares outstanding during the period. Shares issued during the period shall be weighted for the portion of the period that they were outstanding.

Prior to July 9, 2014, we had 30,000 shares of Series C cumulative convertible preferred stock issued and outstanding. These 30,000 shares were owned by RAI, a related party, and had accrued dividends unpaid of \$0.9 million. The stock had a liquidation preference of \$100 per share and could be converted into common stock at 90% of the daily average closing price of the common stock for the prior five trading days. On July 9, 2014, RAI converted all 30,000 shares

into the requisite number of shares of common stock. The conversion resulted in the issuance of 304,298 new shares of common stock. The effects of the Series C Cumulative Convertible Preferred Stock are no longer included in the dilutive earnings per share calculation for the current period, but are considered in the calculation for the prior period if applying the if-converted method is dilutive.

Prior to January 1, 2015, the Company had 5,000 shares of stock options outstanding. These options expired unexercised January 1, 2015. The options are no longer included in the dilutive earnings per share calculation for the current period, but are considered in the computation for the prior periods if applying the "treasury stock" method is dilutive.

In the prior period, the preferred stock and stock options were dilutive and thus included in the EPS calculation.

NOTE 11. SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2015, the date of the most recent balance sheet, have been evaluated for possible adjustment to the Consolidated Financial Statements or disclosure is August 13, 2015, which is the date on which the Consolidated Financial Statements were available to be issued.

The Company has determined that there are no subsequent events to be reported.

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

The following discussion should be read in conjunction with the Consolidated 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 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 construction and mortgage financing and the use of debt to fund acquisitions and developments;

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

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

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

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

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

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

- costs of compliance with the Americans with Disabilities Act and other similar laws and regulations;
- potential liability for uninsured losses and environmental contamination;
- risks associated with our dependence on key personnel whose continued service is not guaranteed; and
- the other risk factors identified in this Form 10-Q, including those described under the caption "Risk Factors."

The risks included here are not exhaustive. Some of the risks and uncertainties that may cause our actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements, include among others, the factors listed and described at Part I, Item 1A. "Risk Factors" in the Company's Annual Report on Form 10-K, which investors should review. There have been no changes from the risk factors previously described in the Company's Form 10-K for the fiscal year ended December 31, 2014.

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 matters 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 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

We are an externally advised and managed real estate investment company that owns a diverse portfolio of income-producing properties and land held for development. Our portfolio of income-producing properties includes residential apartment communities, office buildings and other commercial properties. Our investment strategy includes acquiring existing income-producing properties, as well as developing new properties on land already owned or acquired for a specific development project. We acquire land primarily in urban in-fill locations or high-growth suburban markets. We are an active buyer and seller of real estate and during the six months ended June 30, 2015, we sold \$9.1 million of land. As of June 30, 2015, we owned 7,085 units in 43 residential apartment communities and nine commercial properties comprising approximately 1.9 million rentable square feet. In addition, we owned 4,044 acres of land held for development.

We finance our acquisitions primarily through operating cash flow, proceeds from the sale of land and income-producing properties and debt financing primarily in the form of property-specific first-lien mortgage loans from commercial banks and institutional lenders. We finance our development projects principally with variable interest rate construction loans that are converted to long-term, fixed rate amortizing mortgages when the development project is completed and occupancy has been stabilized. We will, from time to time, also enter into partnerships with various investors to acquire income-producing properties or land and to sell interests in certain of our wholly-owned properties. When we sell assets, we may carry a portion of the sales price generally in the form of a short-term, interest bearing seller-financed note receivable. We generate operating revenues primarily by leasing apartment units to residents and leasing office, retail and industrial space to commercial tenants. We have no employees.

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

Pillar Income Asset Management, Inc. ("Pillar") is the Company's external Advisor and Cash Manager. Although the Board of Directors is directly responsible for managing the affairs of TCI, and for setting the policies which guide it, the day-to-day operations of TCI are performed by Pillar, as the contractual Advisor, under the supervision of the Board. Pillar's duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities and arranging debt and equity financing for the Company with third party lenders and investors. Additionally, Pillar serves as a consultant to the Board with regard to their decisions in connection with TCI's business plan and investment policy. Pillar also serves as an Advisor and Cash Manager to ARL and IOT.

Regis Realty Prime, LLC (“Regis”) manages our commercial properties and provides brokerage services for our real estate portfolio. TCI engages third-party companies to lease and manage its apartment properties.

Critical Accounting Policies

We present our Consolidated Financial Statements in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”). The FASB Accounting Standards Codification (“ASC”) 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 U.S. GAAP.

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. Our investment in ARL is accounted for under the equity method.

Real Estate

Upon acquisitions of real estate, we assess the fair value of acquired tangible and intangible assets, including land, buildings, tenant improvements, "above-market" and "below-market" leases, origination costs, acquired in-place leases, other identified intangible assets and assumed liabilities in accordance with ASC Topic 805 "Business Combinations", and allocate the purchase price to the acquired assets and assumed liabilities, including land at appraised value and buildings at replacement cost.

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

A variety of costs are incurred in the acquisition, development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. Our capitalization policy on development properties is guided by ASC Topic 835-20 "Interest – Capitalization of Interest" and ASC Topic 970 "Real Estate - General". The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We cease capitalization when a building is considered substantially

complete and ready for its intended use, but no later than one year from the cessation of major construction activity.

Prior to January 1, 2015, the operating results of real estate assets held for sale and sold are reported as discontinued operations in the accompanying Consolidated Statements of Operations. Income from discontinued operations includes the revenues and expenses, including depreciation and interest expense, associated with the assets. Subsequent to January 1, 2015, Accounting Standards Update 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" ("ASU 2014-08") substantially changed the criteria for determining whether a disposition qualifies for discontinued operations presentation. Adoption of this standard will result in substantially fewer of the Company's dispositions meeting the discontinued operations criteria. Acquisitions from our parent, ARL, are recorded at net book value (cost basis).

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 project costs incurred during the period of development.

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

Investments in Unconsolidated Real Estate Ventures

Except for ownership interests in variable interest entities, we account for our investments in unconsolidated real estate ventures under the equity method of accounting because we exercise significant influence over, but do not control, these entities. These investments are recorded initially at cost, as investments in unconsolidated real estate ventures, and subsequently adjusted for equity in earnings and cash contributions and distributions. Any difference between the carrying amount of these investments on our balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in earnings of unconsolidated real estate ventures over the life of the related asset. Under the equity method of accounting, our net equity is reflected within the Consolidated Balance Sheets, and our share of net income or loss from the joint ventures is included within the Consolidated Statements of Operations. The joint venture agreements may designate different percentage allocations among investors for profits and losses; however, our recognition of joint venture income or loss generally follows the joint venture's distribution priorities, which may change upon the achievement of certain investment return thresholds. For ownership interests in variable interest entities, we consolidate those in which we are the primary beneficiary.

Recognition of Rental Income

Rental income for commercial property leases is recognized on a straight-line basis over the respective lease terms. On our Consolidated Balance Sheets, we include as a receivable the excess of rental income recognized over rental payments actually received pursuant to the terms of the individual commercial lease agreements.

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

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

Revenue Recognition on the Sale of Real Estate

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

Non-Performing Notes Receivable

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

Interest Recognition on Notes Receivable

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 properties, 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 been held for the entire period for both periods being compared. Developed properties in the lease-up phase consist of completed projects that are being leased-up. As we complete each phase of the project, we lease-up that phase and include those revenues in our continued operations. Once a developed property becomes leased-up and is held the entire period for both periods under comparison, it is considered to be included in the same property portfolio.

Prior to January 1, 2015, the operating results of real estate assets held for sale and sold are reported as discontinued operations in the accompanying Consolidated Statements of Operations. Income from discontinued operations includes the revenues and expenses, including depreciation and interest expense, associated with the assets. Subsequent to January 1, 2015, Accounting Standards Update 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity" ("ASU 2014-08") substantially changed the criteria for determining whether a disposition qualifies for discontinued operations presentation. Adoption of this standard will result in substantially fewer of the Company's dispositions meeting the discontinued operations criteria.

The following discussion is based on our Consolidated Statements of Operations for the six months ended June 30, 2015 and 2014, as included in Part I, Item 1. "Financial Statements" of this report. 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 June 30, 2015 and 2014, we owned or had interests in a portfolio of 52 and 43 income-producing properties, respectively. The total property portfolio represents all income-producing properties held as of June 30 for the period presented. Sales subsequent to the period ended represent properties that were held as of the period end for the periods presented, but sold in a subsequent quarter. Continuing operations represents all properties that have not been reclassified to discontinued operations for the periods presented. The table below shows the number of income-producing properties held at the quarter ended:

	June 30,	
	2015	2014
Continuing operations	52	41
Held for sale/subsequent sales	—	2
Total property portfolio	52	43

Comparison of the three months ended June 30, 2015 to the same period ended 2014:

For the three months ended June 30, 2015, we reported a net loss applicable to common shares of (\$0.09) million or (\$0.01) per diluted earnings per share, as compared to a net income applicable to common shares of \$2.1 million or \$0.25 per diluted earnings per share for the same period ended 2014.

Revenues

Rental and other property revenues were \$23.8 million for the three months ended June 30, 2015. This represents an increase of \$5.3 million, as compared to the prior period revenues of \$18.5 million. This change, by segment, is an increase in the apartment portfolio of \$3.0 million, and an increase in the commercial portfolio of \$2.3 million. Within the apartment portfolio there was an increase of \$2.3 million in the acquired property portfolio and an increase of \$0.7 million in the same property portfolio. Our apartment portfolio continues to thrive in the current economic conditions with occupancies averaging approximately 95%. 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. This increase in apartment portfolio is also due to the acquisition of new properties. Within the commercial portfolio there was an increase of \$0.3 million in the acquired property portfolio and increase of \$2.0 million in the same store properties. We are continuing to market our properties aggressively to attract new tenants and strive for continuous improvement of our properties in order to maintain our existing tenants.

Expense

Property operating expenses were \$10.9 million for the three months ended June 30, 2015. This represents an increase of \$1.5 million, as compared to the prior period operating expenses of \$9.4 million. This change, by segment, is an increase in the apartment portfolio of \$1.4 million, and an increase in the commercial portfolio of \$0.1 million. Within the apartment portfolio there was an increase of \$0.8 million in the acquired properties portfolio and an increase of \$0.6 million in the same property portfolio. Within the commercial portfolio there was an increase of \$0.1 million in the same store properties.

Depreciation and amortization expense was \$5.1 million for the three months ended June 30, 2015. This represents an increase of \$0.8 million, as compared to the prior period expense of \$4.3 million. This change is attributable to the depreciation on acquired apartments and commercial properties.

General and administrative expenses were \$1.3 million dollars for the three months ended June 30, 2015. This represents a decrease of \$1.4 million, as compared to the prior period general and administrative expenses of \$2.7 million. This change, by segment, is a decrease in the other portfolio of \$1.4 million. Within the other portfolio, the decrease of \$1.4 million was mainly due to professional fees and franchise taxes.

Other income (expense)

Mortgage and loan interest expense, including deferred borrowing costs amortization, was \$8.2 million for the three months ended June 30, 2015. This represents an increase of \$0.3 million, as compared to the prior period expense of \$7.9 million. This change by segment, is an increase in the other portfolio of \$0.8 million, and a decrease in the apartment portfolio of \$0.5 million. Within the other portfolio, the majority of this increase is due to the securing of a new loan in the current period. The decrease in the apartment portfolio is the result of mortgage refinances to lower interest rates.

Interest income was \$3.0 million for the three months ended June 30, 2015. This represents a decrease of \$1.0 million, as compared to the prior year income of \$4.0 million.

Gain on land sales increased for the three months ended June 30, 2015, as compared to the prior period. In the current period we sold approximately 10 acres of land in two transactions for a sales price of \$1.9 million and recorded a gain of \$1.3 million.

There were no sales of income-producing properties in the first six months of 2015. In 2014, we sold two apartment complexes (both in Texas), and two commercial properties (one in Louisiana and one in Alaska). The gain on sale of the properties is also included in discontinued operations for those years. The following table summarizes revenue and expense information for the properties sold and held for sale (dollars in thousands):

**For the Three
Months Ended
June 30,**

	2015	2014
Revenues:		
Rental and other property revenues	\$—	\$1,341
	—	1,341
Expenses:		
Property operating expenses	26	557
Depreciation	—	179
General and administrative	7	140
Total operating expenses	33	876
Other income (expense):		
Other income	—	(528)
Mortgage and loan interest	(1)	(464)
Deferred borrowing costs amortization	—	—
Litigation settlement	—	(205)
Total other expenses	(1)	(1,197)
Gain (loss) from discontinued operations before gain on sale of real estate and tax	(34)	(732)
Gain on sale of real estate from discontinued operations	—	7,003
Income tax benefit (expense)	12	(2,195)
Income (loss) from discontinued operations	\$(22)	\$4,076

Comparison of the six months ended June 30, 2015 to the same period ended 2014:

For the six months ended June 30, 2015, we reported a net loss applicable to common shares of (\$0.2) million or (\$0.02) per diluted earnings per share, as compared to a net income applicable to common shares of \$6.4 million or \$0.76 per diluted earnings per share for the same period ended 2014.

Revenues

Rental and other property revenues were \$46.0 million for the six months ended June 30, 2015. This represents an increase of \$9.2 million, as compared to the prior period revenues of \$36.8 million. This change, by segment, is an increase in the apartment portfolio of \$4.6 million, and an increase in the commercial portfolio of \$4.6 million. Within the apartment portfolio there was an increase of \$3.5 million in the acquired property portfolio and an increase of \$1.1 million in the same property portfolio. Our apartment portfolio continues to thrive in the current economic conditions with occupancies averaging over 95%. 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. This increase in apartment portfolio is also due to the acquisition of new properties. Within the commercial portfolio there was an increase of \$2.5 million in the acquired property portfolio and increase of \$2.1 million in the same store properties. We are continuing to market our properties aggressively to attract new tenants and strive for continuous improvement of our properties in order to maintain our existing tenants.

Expense

Property operating expenses were \$21.8 million for the six months ended June 30, 2015. This represents an increase of \$3.2 million, as compared to the prior period operating expenses of \$18.6 million. This change, by segment, is an increase in the apartment portfolio of \$2.0 million, and an increase in the commercial portfolio of \$1.3 million, and a decrease in the land portfolio of \$0.08 million. Within the apartment portfolio there was an increase of \$1.4 million in the acquired properties portfolio and an increase of \$0.6 million in the same property portfolio. Within the commercial portfolio there was an increase of \$1.3 million in the acquired properties portfolio.

Depreciation and amortization expense was \$9.7 million for the six months ended June 30, 2015. This represents an increase of \$1.2 million, as compared to the prior period expense of \$8.5 million. This change is attributable to the depreciation on acquired apartments and commercial properties.

General and administrative expenses were \$3.0 million dollars for the six months ended June 30, 2015. This represents a decrease of \$1.3 million, as compared to the prior period general and administrative expenses of \$4.3 million. This change, by segment, is a decrease in the other portfolio of \$1.3 million. Within the other portfolio, the decrease of \$1.3 million was mainly due to professional fees and franchise taxes.

Other income (expense)

Mortgage and loan interest expense, including deferred borrowing costs amortization, was \$18.4 million for the six months ended June 30, 2015. This represents an increase of \$1.5 million, as compared to the prior period expense of \$16.9 million. This change by segment, is an increase in the other portfolio of \$2.1 million, and a decrease in the apartment portfolio of \$0.6 million. Within the other portfolio, the majority of this increase is due to the securing of a new loan in the current period. The decrease in the apartment portfolio is the result of mortgage refinances to lower interest rates.

Interest income was \$6.8 million for the six months ended June 30, 2015. This represents an increase of \$0.7 million, as compared to the prior year income of \$6.1 million.

Litigation settlement expenses were \$0.1 million for the six months ended June 30, 2015. This represents a decrease of \$3.8 million from prior period settlements of \$3.7 million.

Gain on land sales increased for the six months ended June 30, 2015, as compared to the prior period. In the current period we sold approximately 43 acres of land in four transactions for a sales price of \$9.1 million, and recorded a gain of \$4.1 million.

There were no sales of income-producing properties in the first six months of 2015. In 2014, we sold two apartment complexes (both in Texas), and two commercial properties (one in Louisiana and one in Alaska). The gain on sale of the properties is also included in discontinued operations for those years. The following table summarizes revenue and expense information for the properties sold and held for sale (dollars in thousands):

	For the Six Months Ended June 30, 2015 2014	
Revenues:		
Rental and other property revenues	\$ 15	\$3,912
	15	3,912
Expenses:		
Property operating expenses	(348)	1,875
Depreciation	—	509
General and administrative	104	313
Total operating expenses	(244)	2,697
Other income (expense):		
Other income	—	(486)
Mortgage and loan interest	(1)	(1,410)
Deferred borrowing costs amortization	—	—
Litigation settlement	—	(250)
Total other expenses	(1)	(2,146)
Gain (loss) from discontinued operations before gain on sale of real estate and tax	258	(931)
Gain on sale of real estate from discontinued operations	—	13,057
Income tax expense	(90)	(4,244)
Income from discontinued operations	\$ 168	\$7,882

Liquidity and Capital Resources

Our principal liquidity needs are:

- fund normal recurring expenses;
- meet debt service and principal repayment obligations including balloon payments on maturing debt;
- fund capital expenditures, including tenant improvements and leasing costs;

- fund development costs not covered under construction loans; and
 - fund possible property acquisitions.

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

- property operations;
- proceeds from land and income-producing property sales;
- collection of mortgage notes receivable;
- collection of receivables from related party companies;
- refinancing of existing debt; and
- additional borrowing, including mortgage notes, mezzanine financing and lines of credit.

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

Cash Flow Summary

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

	June 30,		
	2015	2014	Variance
Net cash used in operating activities	\$(45,086)	\$(15,691)	\$(29,395)
Net cash provided by (used in) investing activities	\$(96,714)	\$31,074	\$(127,788)
Net cash provided by (used in) financing activities	\$148,727	\$(18,087)	\$166,814

Our primary use of cash for operations is daily operating costs, general and administrative expenses, advisory fees, and land holding costs. Our primary source of cash from operating activities is from rental income on properties. In addition, we have a related party account in which excess cash is transferred to or from. The majority of the variance is due to gains on sale of income-producing properties in the prior period and related party receivables.

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. The majority of the variance is due to the acquisition of income producing properties in the current period.

Our primary sources of cash from financing activities are from proceeds on notes payables either through refinancing our existing loans or by obtaining new financing. Our primary cash outlays are for recurring debt payments and payments on maturing notes payable. The increase is due to proceeds received in the current period from new loans and refinancing.

Environmental Matters

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

injury associated with such materials.

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

Inflation

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

Tax Matters

In 2012, the predecessor of May Realty Holdings, Inc., (“MRHI”) acquired stock of ARL such that more than 80% of ARL was owned by the MRHI group. As a result, TCI is part of the tax sharing agreement for the MRHI consolidated group for federal income tax reporting.

Financial statement income varies from taxable income principally due to the accounting for income and losses of investees, gains and losses from asset sales, depreciation on owned properties, amortization of discounts on notes receivable and payable and the difference in the allowance for estimated losses. TCI had a loss for federal income tax purposes after the use of net operating loss carryforwards in the first six months of 2015, and a loss in 2014 and 2013; therefore, it recorded no provision for income taxes.

At June 30, 2015, TCI had a net deferred tax asset of \$63.3 million due to tax deductions available to it in future years. However, as management cannot determine that it is more likely than not that TCI will realize the benefit of the deferred tax assets, a 100% valuation allowance has been established.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

At June 30, 2015, our exposure to a change in interest rates on our debt is as follows (dollars in thousands, except per share):

	Balance	Weighted Average Interest Rate		Effect of 1% Increase In Base Rates
Notes payable:				
Variable rate	\$ 139,407	8.75	%	\$ 1,394
Total decrease in TCI's annual net income				1,394
Per share				\$ 0.16

Our variable rate exposure is mitigated through the ability to secure long-term fixed rate HUD financing with a weighted average borrowing rate of 3.78% at June 30, 2015.

ITEM 4. CONTROLS AND PROCEDURES

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

information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, to allow timely decisions regarding required disclosures.

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

PART II. OTHER INFORMATION**ITEM 5. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

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 on a monthly basis during the second quarter of 2015:

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 March 31, 2015			1,230,535	406,465
April 30, 2015	—	\$—	1,230,535	406,465
May 31, 2015	—	\$—	1,230,535	406,465
June 30, 2015	—	\$—	1,230,535	406,465
Total	—			

ITEM 6. EXHIBITS

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

Exhibit Number	Description
3.0	Articles of Incorporation of Transcontinental Realty Investors, Inc., (incorporated by reference to Exhibit No. 3.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991).
3.1	Certificate of Amendment to the Articles of Incorporation of Transcontinental Realty Investors, Inc., (incorporated by reference to the Registrant's Current Report on Form 8-K, dated June 3, 1996).
3.2	Certificate of Amendment of Articles of Incorporation of Transcontinental Realty Investors, Inc., dated October 10, 2000 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
3.3	Articles of Amendment to the Articles of Incorporation of Transcontinental Realty Investors, Inc., setting forth the Certificate of Designations, Preferences and Rights of Series A Cumulative Convertible Preferred Stock, dated October 20, 1998 (incorporated by reference to Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998).
3.4	Certificate of Designation of Transcontinental Realty Investors, Inc., setting forth the Voting Powers, Designations, References, Limitations, Restriction and Relative Rights of Series B Cumulative Convertible Preferred Stock, dated October 23, 2000 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
3.5	Certificate of Designation of Transcontinental Realty Investors, Inc., setting forth the Voting Powers, Designating, Preferences, Limitations, Restrictions and Relative Rights of Series C Cumulative Convertible Preferred Stock, dated September 28, 2001 (incorporated by reference to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).
3.6	Articles of Amendment to the Articles of Incorporation of Transcontinental Realty Investors, Inc., Decreasing the Number of Authorized Shares of and Eliminating Series B Preferred Stock dated December 14, 2001 (incorporated by reference to Exhibit 3.7 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001).
3.7	By-Laws of Transcontinental Realty Investors, Inc. (incorporated by reference to Exhibit No. 3.2 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991).
3.8	Certificate of Designation of Transcontinental Realty Investors, Inc., setting forth the Voting Powers, Designations, Preferences, Limitations, Restrictions and Relative Rights of Series D Cumulative Preferred Stock filed August 14, 2006 with the Secretary of State of Nevada (incorporated by reference to Registrant's Current Report on Form 8-K for event dated November 21, 2006 at Exhibit 3.8 thereof).

10.1 Advisory Agreement dated as of April 30, 2011, between Transcontinental Realty Investors, Inc., and Pillar Income Asset Management, Inc. (incorporated by reference to Exhibit 10.1 to the registrant's current report on Form 8-K for event occurring May 2, 2011).

31.1* Certification of the Principal Executive Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.

31.2* Certification by the Principal Financial Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.

32.1* Certification pursuant to 18 U.S.C. 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document

101.SCH XBRL Taxonomy Extension Schema Document

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

*

Filed herewith.

SIGNATURE PAGE

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

TRANSCONTINENTAL REALTY INVESTORS, INC.

Date: August 13, 2015 By: /s/ Daniel J. Moos
Daniel J. Moos
President and Chief Executive Officer
(Principal Executive Officer)

Date: August 13, 2015 By: /s/ Gene S. Bertcher
Gene S. Bertcher
Executive Vice President and Chief Financial Officer (Principal Financial Officer)