

TRANSCONTINENTAL REALTY INVESTORS INC  
Form 10-Q  
August 14, 2009  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2009

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-09240

**TRANSCONTINENTAL REALTY INVESTORS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

Nevada  
(State or Other Jurisdiction of

Incorporation or Organization)

1800 Valley View Lane, Suite 300, Dallas, Texas 75234

94-6565852  
(I.R.S. Employer

Identification No.)

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(Address of principal executive offices)

(Zip Code)

(469) 522-4200

(Registrant's telephone number, including area code)

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

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

Yes No

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

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

Large accelerated filer  Accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange

Act). Yes No.

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

Common Stock, \$.01 par value	8,113,669
(Class)	(Outstanding at August 5, 2009)

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**FORM 10-Q**

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

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
	<b>(dollars in thousands, except share and par value amounts)</b>	
<b>Assets</b>		
Real estate, at cost	\$ 1,521,141	\$ 1,526,016
Real estate held for sale at cost, net of depreciation (\$0 for 2009 and 2008)	-	8,018
Real estate subject to sales contracts at cost, net of depreciation (\$13,105 for 2009 and \$12,226 for 2008)	54,220	60,807
Less accumulated depreciation	(127,604)	(114,050)
Total real estate	1,447,757	1,480,791
Notes and interest receivable		
Performing (including \$14,831 in 2009 and \$17,323 in 2008 from affiliates and related parties)	35,087	42,413
Less allowance for estimated losses	(1,012)	(3,293)
Total notes and interest receivable	34,075	39,120
Cash and cash equivalents	740	5,983
Investments in securities	-	2,775
Investments in unconsolidated subsidiaries and investees	23,158	23,365
Other assets (including \$5,765 in 2009 and \$1,077 in 2008 from affiliates and related parties)	84,966	88,033
Total assets	\$ 1,590,696	\$ 1,640,067

**Liabilities and Shareholders Equity****Liabilities:**

Notes and interest payable (including \$9,386 in 2009 and \$9,103 in 2008 to affiliates and related parties)	\$ 1,113,014	\$ 1,100,852
Notes related to assets held-for-sale	-	4,191
Notes related to subject to sales contracts	62,155	62,972
Accounts payable and other liabilities (including \$62,212 in 2009 and \$62,367 in 2008 to affiliates and related parties)	136,652	147,356

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	1,311,821	1,315,371
Commitments and contingencies:		
Shareholders' equity:		
Preferred Stock, Series C: \$.01 par value, authorized 10,000,000 shares, issued and outstanding 30,000 shares in 2009 and 2008 respectively (liquidation preference \$100 per share). Series D: \$.01 par value, authorized, issued and outstanding 100,000 shares in 2009 and 2008 respectively		
	1	1
Common Stock, \$.01 par value, authorized 10,000,000 shares; issued and outstanding 8,113,669 for 2009 and 2008		
	81	81
Paid-in capital	262,950	263,290
Retained earnings	2,272	44,980
Accumulated other comprehensive income	-	2,575
Total Transcontinental Realty Investors, Inc. shareholders' equity	265,304	310,927
Non-controlling interest	13,571	13,769
Total equity	278,875	324,696
Total liabilities and equity	\$ 1,590,696	\$ 1,640,067

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

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

	<b>For the Three Months Ended June 30,</b>		<b>For the Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
<b>(dollars in thousands, except share and per share amounts)</b>				
<b>Revenues:</b>				
Rental and other property revenues (including \$772 and \$369 for three months and \$1,611 and \$972 for six months for 2009 and 2008 respectively from affiliates and related parties)	\$ 38,473	\$ 35,713	\$ 75,846	\$ 68,361
<b>Expenses:</b>				
Property operating expenses (including \$1,878 and \$1,722 for three months and \$3,680 and \$3,463 for six months for 2009 and 2008 respectively from affiliates and related parties)	18,763	21,144	42,835	43,083
Depreciation and amortization	7,494	6,027	14,802	11,959
General and administrative (including \$815 and \$893 for three months and \$1,695 and \$1,929 for six months for 2009 and 2008 respectively from affiliates and related parties)	1,933	2,278	3,497	4,681
Advisory fee to affiliate	2,944	2,965	5,801	5,962
Total operating expenses	31,134	32,414	66,935	65,685
Operating income	7,339	3,299	8,911	2,676
<b>Other income (expense):</b>				
Interest income (including \$278 and \$153 for three months and \$431 and \$448 for six months for 2009 and 2008 respectively from affiliates and related parties)	731	541	1,367	1,303
Other income	(564)	494	3,342	797
Mortgage and loan interest (including \$750 and \$137 for three months and \$1,401 and \$422 for six months for 2009 and 2008 respectively from affiliates and related parties)	(18,487)	(17,315)	(35,116)	(35,049)
Earnings (loss) from unconsolidated subsidiaries and investees	(300)	(568)	(300)	4,544
Litigation Settlement	745	-	745	-
Provision on impairment of notes receivable and real estate assets	(28,196)	-	(28,575)	(7,000)
Total other expenses	(46,071)	(16,848)	(58,537)	(35,405)
Loss before gain on land sales, non-controlling interest, and tax	(38,732)	(13,549)	(49,626)	(32,729)
Gain on land sales	6,548	2,580	6,296	3,855

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Loss from continuing operations before tax	(32,184)	(10,969)	(43,330)	(28,874)
Income tax benefit (expense)	51	(1,153)	(59)	28,683

Net loss from continuing operations	(32,133)	(12,122)	(43,389)	(191)
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Discontinued operations:

Income (loss) from discontinued operations	146	(5,209)	211	(18,022)
Gain on sale of real estate from discontinued operations	-	1,915	532	99,974
Income tax benefit (expense) from discontinued operations	(51)	1,153	(260)	(28,683)

Net income (loss)	(32,038)	(14,263)	(42,906)	53,078
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Less: net income attributable to non-controlling interest	89	-	198	-
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Net income (loss) attributable to Transcontinental Realty Investors, Inc.	(31,949)	(14,263)	(42,708)	53,078
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Preferred dividend requirement	(252)	(239)	(502)	(479)
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Net income (loss) applicable to common shares

	\$ (32,201)	\$ (14,502)	\$ (43,210)	\$ 52,599
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**Earnings per share - basic**

Loss from continuing operations	\$ (3.99)	\$ (1.53)	\$ (5.41)	\$ (0.09)
Discontinued operations	0.01	(0.27)	0.06	6.60

Net income (loss) applicable to common shares	\$ (3.98)	\$ (1.80)	\$ (5.35)	\$ 6.51
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**Earnings per share - diluted**

Loss from continuing operations	\$ (3.99)	\$ (1.53)	\$ (5.41)	\$ (0.09)
Discontinued operations	0.01	(0.27)	0.06	6.60

Net income (loss) applicable to common shares	\$ (3.98)	\$ (1.80)	\$ (5.35)	\$ 6.51
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Weighted average common share used in computing earnings per share	8,113,669	8,073,659	8,113,669	8,074,571
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Weighted average common share used in computing diluted earnings per share	8,113,669	8,073,659	8,113,669	8,074,571
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**Amounts attributable to Transcontinental Realty Investors, Inc.**

Loss from continuing operations	\$ (32,044)	\$ (12,122)	\$ (43,191)	\$ (191)
Income from discontinued operations	95	(2,141)	483	53,269

Net income (loss)	\$ (31,949)	\$ (14,263)	\$ (42,708)	\$ 53,078
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The accompanying notes are an integral part of these consolidated financial statements.





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## TRANSCONTINENTAL REALTY INVESTORS, INC.

## CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

For the Six Months Ended June 30, 2009

(unaudited)

(dollars in thousands)

	Total	Comprehensive loss	Preferred Stock	Common Stock Shares	Common Stock Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest
<b>Balance, December 31, 2008</b>	\$ 324,696	\$ -	\$ 1	8,113,669	\$ 81	\$ 263,290	\$ 44,980	\$ 2,575	\$ 13,769
Unrealized loss on investment securities	(2,575)	(2,575)	-	-	-	-	-	(2,575)	-
Series D preferred stock dividends (7% per year)	(106)	-	-	-	-	(106)	-	-	-
Series C preferred stock dividends	(396)	-	-	-	-	(396)	-	-	-
Net loss	(42,906)	(42,906)	-	-	-	-	(42,708)	-	(198)
Acquisition of non-controlling interest	162	-	-	-	-	162	-	-	-
Comprehensive loss		\$ (45,481)							
<b>Balance, June 30, 2009</b>	\$ 278,875		\$ 1	8,113,669	\$ 81	\$ 262,950	\$ 2,272	\$ -	\$ 13,571

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

**Table of Contents****TRANSCONTINENTAL REALTY INVESTORS, INC.****STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)****For the Six Months Ended June 30, 2009****(unaudited)**

	<b>2009</b>	<b>2008</b>
Net income (loss)	\$ (42,906)	\$ 53,078
Other comprehensive income (loss)		
Unrealized gain on foreign currency translation	-	9,685
Unrealized loss on investment securities	(2,575)	(6,952)
Total other comprehensive income (loss)	(2,575)	2,733
Comprehensive income (loss)	(45,481)	55,811
Comprehensive loss attributable to non-controlling interest	198	-
Comprehensive income (loss) attributable to Transcontinental Realty Investors, Inc.	\$ (45,283)	\$ 55,811

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

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

**For the Six Months Ended June 30,**  
**2009**                      **2008**  
**(dollars in thousands)**

**Cash Flow From Operating Activities:**

Net (loss) income applicable to common shares	\$ (43,210)	\$ 52,599
Adjustments to reconcile net loss applicable to common shares to net cash used in operating activities:		
Gain on sale of land	(6,296)	(3,855)
Depreciation and amortization	14,780	12,074
Provision on impairment of notes receivable and real estate assets	28,575	7,000
Amortization of deferred borrowing costs	1,897	3,161
Earnings from unconsolidated subsidiaries and investees	147	(4,544)
Gain on sale of income producing properties	(532)	(99,974)
(Increase) decrease in assets:		
Accrued interest receivable	(27)	(591)
Other assets	(4,714)	1,319
Prepaid expense	513	105
Escrow	12,186	(12,022)
Earnest money	(2,614)	(3,967)
Rent receivables	(4,624)	(1,919)
Increase (decrease) in liabilities:		
Accrued interest payable	48	(1,662)
Intercompany change	1,027	58,619
Other liabilities	(11,731)	(9,057)
Net cash used in operating activities	(14,575)	(2,714)

**Cash Flow From Investing Activities:**

Proceeds from notes receivables (\$3,077 in 2009, \$0 in 2008 from affiliates)	5,072	1,671
Acquisition of land held for development	(650)	(15,214)
Proceeds from sales of income producing properties	4,000	139,674
Proceeds from sale of land	12,431	11,592
Investment in unconsolidated real estate entities	207	(810)
Improvement of land held for development	(2,578)	(466)
Improvement of income producing properties	(975)	(4,021)
Acquisition of minority interest	(198)	71
Investment in marketable equity securities	2,775	11,752
Acquisition of income producing properties	-	(63,227)
Construction and development of new properties	(19,646)	(65,413)
Net cash provided by investing activities	438	15,609

**Cash Flow From Financing Activities:**

Proceeds from notes payable	24,526	129,085
Recurring amortization of principal on notes payable	(8,603)	(8,995)
Payments on maturing notes payable	(9,331)	(146,557)
Deferred financing costs	2,302	2,775
Repurchase of common stock	-	(96)

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Net cash provided by (used in) financing activities	8,894	(23,788)
Net decrease in cash and cash equivalents	(5,243)	(10,893)
Cash and cash equivalents, beginning of period	5,983	11,239
Cash and cash equivalents, end of period	\$ 740	\$ 346

**Supplemental disclosures of cash flow information:**

Cash paid for interest	\$ 34,970	\$ 38,721
Cash paid for income taxes, net of refunds	\$ 1,110	\$ -

**Schedule of noncash investing and financing activities:**

Unrealized foreign currency translation gain	\$ -	\$ 9,685
Unrealized loss on marketable securities	\$ (2,575)	\$ (6,952)
Note receivable allowance	\$ -	\$ (1,500)
Notes receivable received from affiliate	\$ 2,341	\$ -

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION**

Transcontinental Realty Investors, Inc. ( TCI , We , The Company , Our or Us ) is a Nevada corporation and invests in real estate through direct ownership, leases and partnerships.

The Company is headquartered in Dallas, Texas and its Common Stock trades on the New York Stock Exchange under the symbol TCI . Subsidiaries of American Realty Investors, Inc. own approximately 83% of the Company s Common Stock (NYSE: ARL). Prime Income Asset Management, LLC ( Prime ) is the Company s external advisor. Regis Realty I, LLC, an affiliate of Prime, manages the Company s commercial properties. Regis Hotel I, LLC, another Prime affiliate, manages the Company s hotel investments. TCI engages four third-party companies to lease and manage its apartment properties. TCI is a C Corporation for U.S. federal income tax purposes and files an annual consolidated income tax return with ARL. TCI does not qualify as a Real Estate Investment Trust ( REIT ) for federal income tax purposes primarily due to ARL s majority ownership of the Company.

**Properties**

The Company owned or had interests in a total property portfolio of 85 income producing properties as of June 30, 2009. The properties consisted of:

29 commercial buildings totaling 5.1 million leasable square feet, which consists of 18 office buildings, eight commercial warehouses, and three retail centers;

56 apartment communities totaling 11,282 units; inclusive of one development property in the lease up phase, excluding apartments being developed; and

7,273 acres of developed and undeveloped land.

The Company is involved in the construction of two apartment development projects as of June 30, 2009. In addition, the Company invests in several tracts of land and is at several stages of predevelopment on many of these properties. The Company partners with various third-party developers to construct residential projects. The third-party developer typically takes a general partner interest in the development partnership while the Company takes a limited partner (and majority) interest. The Company is required to fund the equity contributions. The third-party developer is responsible for obtaining financing, hiring a general contractor and for the overall management and delivery of the project, and is compensated with a fee equal to a certain percentage of the construction costs.

The accompanying interim financial statements are unaudited; however, the financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments necessary for a fair presentation of the financial statements for these periods have been included. The results of operations for the interim periods are not necessarily indicative of the results to be obtained for other interim periods or for the full fiscal year. The year end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the Company s financial statement and notes thereto contained in the Company s Annual Report on Form 10-K for its fiscal year ended December 31, 2008.

**Newly issued accounting standards**

On January 1, 2009, we adopted SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51, (SFAS No. 160). SFAS No. 160 amends Accounting Research Bulletin No. 51, Consolidated Financial Statements, to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. This standard defines a non-controlling interest, previously called a minority interest, as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. SFAS No.160 requires, among other items, that a non-controlling interest be included in the consolidated statement of financial position

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within equity separate from the parent's equity; consolidated net income to be reported at amounts inclusive of both the parent's and non-controlling interest's shares and, separately, the amounts of consolidated net income attributable to the parent and non-controlling interest all on the consolidated statement of operations; and if a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary be measured at fair value and a gain or loss be recognized in net income based on such fair value. The presentation and disclosure requirements of SFAS No. 160 were applied retrospectively. Other than the change in presentation of non-controlling interests, the adoption of SFAS No. 160 had no impact on the Financial Statements.

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In April 2009, the FASB issued FSP FAS No. 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies* (FSP FAS No. 141(R)-1). This pronouncement amends SFAS No. 141-R to clarify the initial and subsequent recognition, subsequent accounting, and disclosure of assets and liabilities arising from contingencies in a business combination. FSP SFAS No. 141(R)-1 requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value, as determined in accordance with SFAS No. 157, if the acquisition-date fair value can be reasonably estimated. If the acquisition-date fair value of an asset or liability cannot be reasonably estimated, the asset or liability would be measured at the amount that would be recognized in accordance with FASB Statement No. 5, *Accounting for Contingencies* (SFAS No. 5), and FASB Interpretation No. 14, *Reasonable Estimation of the Amount of a Loss*. FSP SFAS No. 141(R)-1 became effective for the Company as of January 1, 2009. As the provisions of FSP FAS No. 141(R)-1 are applied prospectively to business combinations with an acquisition date on or after the guidance became effective, the impact on our financials cannot be determined until the transactions occur.

In April 2009, the FASB issued FSP FAS No. 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS No. 157-4), which provides additional guidance for applying the provisions of SFAS No. 157. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions. This FSP requires an evaluation of whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. If there has, transactions or quoted prices may not be indicative of fair value and a significant adjustment may need to be made to those prices to estimate fair value. Additionally, an entity must consider whether the observed transaction was orderly (that is, not distressed or forced). If the transaction was orderly, the obtained price can be considered a relevant observable input for determining fair value. If the transaction is not orderly, other valuation techniques must be used when estimating fair value. FSP FAS No. 157-4 must be applied prospectively for interim periods ending after June 15, 2009. We are currently assessing the impact that FSP FAS No. 157-4 may have on our financial statements.

In April 2009, the FASB issued FSP FAS No. 107-1 and Accounting Principles Board (APB) No. 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, which amends SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, (SFAS No. 107) and APB Opinion No. 28, *Interim Financial Reporting*, respectively, to require disclosures about fair value of financial instruments in interim financial statements, in addition to the annual financial statements as already required by SFAS No. 107. FSP FAS No. 107-1 and APB No. 28-1 will be required for interim periods ending after June 15, 2009. As FSP FAS No. 107-1 and APB No. 28-1 provides only disclosure requirements; the application of this standard will not have a material impact on our financial statements.

In April 2009, the FASB issued FSP FAS No. 115-2 and FAS No. 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* (FSP FAS No. 115-2 and FAS No. 124-2), which amends SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* and SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. This standard establishes a different other-than-temporary impairment indicator for debt securities than previously prescribed. If it is more likely than not that an impaired security will be sold before the recovery of its cost basis, either due to the investor's intent to sell or because it will be required to sell the security, the entire impairment is recognized in earnings. Otherwise, only the portion of the impaired debt security related to estimated credit losses is recognized in earnings, while the remainder of the impairment is recorded in other comprehensive income and recognized over the remaining life of the debt security. In addition, the standard expands the presentation and disclosure requirements for other-than-temporary-impairments for both debt and equity securities. FSP FAS No. 115-2 and FAS No. 124-2 must be applied prospectively for interim periods ending after June 15, 2009. We are currently assessing the impact that FSP FAS No. 115-2 and FAS No. 124-2 may have on our financial statements.

**NOTE 2. REAL ESTATE ACTIVITY**

The highlights of our significant real estate transactions for the six months ended June 30, 2009 are listed below:

In January 2009, we sold 9.3 acres of land known as Woodmont Schiff-Park Forest land for a sales price of \$7.7 million. We received \$3.9 million in cash after paying off the existing note of \$3.2 million, closing costs and commissions. In addition, we booked a \$2.1 million receivable. There was no gain or loss on the sale of the property.

In April 2009, we sold the Cullman Shopping Center, a 92,500 square foot facility located in Cullman, Alabama for a sales price of \$4.0 million. We recorded a deferred gain on sale of \$1.9 million after paying off the existing debt of \$0.9 million and closing costs.

In April 2009, we sold 3.02 acres of land known as West End land, for a sales price of \$8.5 million. We recorded a gain on sale of \$4.9 million after paying off the existing debt of \$3.4 million and closing costs.

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In April 2009, we sold 3.13 acres of land known as Verandas at City View land, for a sales price of \$1.3 million. We recorded a gain of \$0.7 million after paying off the existing debt of \$1.3 million and closing costs.



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In June 2009, we sold 3.96 acres of land known as Teleport land, for a sales price of \$1.1 million. We recorded a gain of \$0.4 million after paying off the existing debt of \$0.14 million and closing costs.

We continued to invest in the development of apartment projects. For the six months ended June 30, 2009, we have expended \$16.4 million on the construction of various apartment projects and capitalized \$3.2 million of interest costs.

**NOTE 3. NOTES AND INTEREST RECEIVABLE**

Our receivables as of June 30, 2009 are listed below (dollars in thousands):

Borrower	Maturity Date	Interest Rate	Amount	Security
<b>Performing loans:</b>				
3334Z APTS, LP	04/12	6.50%	\$ 1,875	100% Interest in 3334Z Apartments
Basic Capital Management <sup>(1)</sup>	10/11	Prime + 2%	1,252	Industrial building, Arlington, TX
Basic Capital Management <sup>(1)</sup>	10/11	Prime + 2%	1,523	Retail building, Cary, NC
CTMGT Travis Ranch, LLC	08/14	6.00%	5,488	Unsecured
Dallas Fund XVII LP	10/09	9.00%	6,000	Assignment of partnership interests
Garden Centura LP <sup>(1)</sup>	N/A	7.00%	3,518	Excess cash flow from partnership
Miscellaneous related party notes <sup>(1)</sup>	Various	Various	1,455	Various secured interest
Miscellaneous non-related party notes	Various	Various	405	Various secured interest
Pioneer Austin Development	10/08 <sup>(2)</sup>	18.00%	2,407	33 acres undeveloped land, Austin, TX
Syntek Acquisition Corp <sup>(1)</sup>	08/10	Prime + 1%	3,354	Unsecured
Ocean Beach Partners <sup>(1)</sup>				Folsom Land (36 acres in Farmers Branch, TX)
Thornwood Wrap Note, ICC Surfwood	12/09	7.00%	3,279	
Accrued interest	07/09	Prime + 1.5%	1,638	Unsecured
Allowance for estimated losses			2,893	
			(1,012)	
Total			\$ 34,075	

<sup>(1)</sup> Related Party

<sup>(2)</sup> Renegotiating note

**NOTE 4. INVESTMENT IN UNCONSOLIDATED SUBSIDIARIES AND INVESTEEES**

Investments in unconsolidated subsidiaries, jointly owned companies and other investees in which we have a 20% to 50% interest or otherwise exercise significant influence are carried at cost, adjusted for the Company's proportionate share of their undistributed earnings or losses, via the equity method of accounting. American Realty Investors, Inc. ( ARL ) is our parent company. Income Opportunity Investors, Inc. ( IOT ) is a related entity. Both ARL and IOT are considered unconsolidated subsidiaries.

Investments accounted for via the equity method consists of the following:

		Percentage ownership	
		at June 30, 2009	at June 30, 2008
American Realty Investors, Inc.	<sup>(1)</sup>	3%	7%
Income Opportunity Investors, Inc.	<sup>(1)</sup>	25%	25%
Garden Centura, LP.	<sup>(2)</sup>	5%	5%

(1) Unconsolidated subsidiary

(2) Other investees

Our interest in the Common Stock of ARL and our partnership interest in Garden Centura, LP in the amount of 3% and 5%, respectively are 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 companies' proportionate share of earnings or losses.

The market values, other than unconsolidated subsidiaries, as of the quarter ended June 30, 2009 and 2008 were not determinable as there were no readily traded markets for these entities.

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The following is a summary of the financial position and results of operations from our unconsolidated subsidiaries and investees for the six months ended June 30, 2009 and 2008 (dollars in thousands):

<b>For the six months ended June 30, 2009</b>	<b>Unconsolidated Subsidiaries</b>	<b>Other Investees</b>	<b>Total</b>
Real estate, net of accumulated depreciation	\$ 269,534	\$ 78,385	\$ 347,919
Notes receivable	79,264	-	79,264
Other assets	222,185	6,212	228,397
Notes payable	(270,094)	(49,685)	(319,779)
Other liabilities	(116,531)	(2,015)	(118,546)
Shareholders equity/partners capital	\$ (184,358)	\$ (32,897)	\$ (217,255)
Rents and interest and other income	\$ 21,445	\$ 4,994	\$ 26,439
Depreciation	(1,322)	(1,557)	(2,879)
Operating expenses	(15,816)	(1,961)	(17,777)
Gain on land sales	1,912	-	1,912
Interest expense	(10,156)	(1,666)	(11,822)
Income from continuing operations	(3,937)	(190)	(4,127)
Income from discontinued operations	3,817	-	3,817
Net income (loss)	\$ (120)	\$ (190)	\$ (310)
Company's proportionate share of earnings	\$ (172)	\$ (10)	\$ (182)

<b>For the six months ended June 30, 2008</b>	<b>Unconsolidated Subsidiaries</b>	<b>Other Investees</b>	<b>Total</b>
Real estate, net of accumulated depreciation	\$ 248,252	\$ 80,203	\$ 328,455
Notes receivable	65,245	-	65,245
Other assets	263,442	6,386	269,828
Notes payable	(265,693)	(51,584)	(317,277)
Other liabilities	(120,202)	(1,980)	(122,182)
Shareholders equity/partners capital	\$ (191,044)	\$ (33,025)	\$ (224,069)
Rents and interest and other income	\$ 25,431	\$ 5,621	\$ 31,052
Depreciation	(1,703)	(1,470)	(3,173)
Operating expenses	(23,804)	(2,120)	(25,924)
Gain on land sales	5,902	-	5,902
Interest expense	(12,195)	(1,613)	(13,808)
Income from continuing operations	(6,369)	418	(5,951)
Income from discontinued operations	21,586	-	21,586
Net income	\$ 15,217	\$ 418	\$ 15,635

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Company's proportionate share of earnings	\$	4,116	\$	21	\$	4,137
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Our investments in securities which consisted of our investment in Realty Korea CR-REIT, Ltd. were completely disposed of in the current year.

**NOTE 6. RELATED PARTY TRANSACTIONS**

The following table reconciles the beginning and ending balances of accounts receivable from and (accounts payable) to affiliates as of June 30, 2009 (dollars in thousands).

Balance, December 31, 2008	\$ (62,367)
Cash transfers	35,315
Cash repayments	(25,392)
Fees and commissions payable to affiliate	(10,020)
Advances due to financing proceeds	407
Payables through Prime	717
 Balance, June 30, 2009	 \$ (61,340)

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

**NOTE 7. NOTES PAYABLE**

In conjunction with the development of various apartment projects and other developments, we drew down \$15.2 million in construction loans during the six months ended June 30, 2009.

**NOTE 8. IMPAIRMENT INVESTMENTS AND REAL ESTATE ASSETS**

During the course of the Company's review of the carrying value of its investment and ownership of real estate assets, it was determined that an impairment charge of \$28.6 million was required during the six months ended June 30, 2009.

In June 2009, eight partnerships in which the company had ownership interests filed for Chapter Eleven bankruptcy protection. TCI investment in the real estate partnerships was approximately \$40.0 million. Based upon the company's estimates of the fair market value of the investments, impairments were recorded resulting in a loss of \$18.0 million in the investment portfolio. Based upon TCI's estimates of fair market value of its real estate assets, impairments were recorded of \$7.3 million in land we currently hold. Further, the Company incurred a \$3.3 million loss for land that was sold in the third quarter. As of June 30, 2009, the land that was sold was impaired to reflect the reduced value.

**NOTE 9. OPERATING SEGMENTS**

Our segments are based on management's method of internal reporting which classifies its operations by property type. The segments are commercial, apartments, hotels and land. Significant differences between and among the accounting policies of the operating segments as compared to the Consolidated Financial Statements principally involve the calculation and allocation of administrative expenses. The Company evaluates the performance of each of the operating segments and allocates resources to them based on their operating income and cash flow.

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Presented below is the Company's reportable segments' operating income for the three and six months ended June 30, 2009 and 2008, including segment assets and expenditures: (dollars in thousands)

<b>For the Three Months ended June 30, 2009</b>	<b>Commercial Properties</b>	<b>Apartments</b>	<b>Hotels</b>	<b>Land</b>	<b>Other</b>	<b>Total</b>
Operating revenue	\$ 14,920	\$ 23,540	\$ -	\$ 13	\$ -	\$ 38,473
Operating expenses	7,678	10,874	-	211	-	18,763
Depreciation and amortization	3,056	4,438	-	-	-	7,494
Mortgage and loan interest	3,916	10,260	-	3,657	654	18,487
Interest income	-	-	-	-	731	731
Gain on land sales	-	-	-	6,548	-	6,548
<b>Segment operating gain (loss)</b>	<b>\$ 270</b>	<b>\$ (2,032)</b>	<b>\$ -</b>	<b>\$ 2,693</b>	<b>\$ 77</b>	<b>\$ 1,008</b>
Capital expenditures	796	(142)	-	-	-	654
Assets	330,169	677,636	-	385,733	-	1,393,538
<b>Property Sales</b>						
Sales price	\$ -	\$ -	\$ -	\$ 11,921	\$ -	\$ 11,921
Cost of sale	-	-	-	5,373	-	5,373
Deferred current gain	-	-	-	-	-	-
Recognized prior deferred gain	-	-	-	-	-	-
<b>Gain on sale</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,548</b>	<b>\$ -</b>	<b>\$ 6,548</b>

<b>For the Three Months ended June 30, 2008</b>	<b>Commercial Properties</b>	<b>Apartments</b>	<b>Hotels</b>	<b>Land</b>	<b>Other</b>	<b>Total</b>
Operating revenue	\$ 14,640	\$ 20,154	\$ -	\$ 525	\$ 394	\$ 35,713
Operating expenses	8,152	12,615	-	377	-	21,144
Depreciation and amortization	2,633	3,393	-	1	-	6,027
Mortgage and loan interest	4,133	8,905	-	2,995	1,282	17,315
Interest income	-	-	-	-	541	541
Gain on land sales	-	-	-	2,580	-	2,580
<b>Segment operating loss</b>	<b>\$ (278)</b>	<b>\$ (4,759)</b>	<b>\$ -</b>	<b>\$ (268)</b>	<b>\$ (347)</b>	<b>\$ (5,652)</b>
Capital expenditures	3,191	4,030	-	3,948	-	11,169
Assets	338,462	604,430	-	323,985	42,315	1,309,192
<b>Property Sales</b>						
Sales price	\$ -	\$ 3,650	\$ -	\$ 9,598	\$ -	\$ 13,248
Cost of sale	-	1,735	-	6,868	-	8,603
Deferred current gain	-	-	-	150	-	150
Recognized prior deferred gain	-	-	-	-	-	-
<b>Gain on sale</b>	<b>\$ -</b>	<b>\$ 1,915</b>	<b>\$ -</b>	<b>\$ 2,580</b>	<b>\$ -</b>	<b>\$ 4,495</b>

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

Operations:

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	For Three Months Ended	
	June 30,	
	2009	2008
Segment operating income (loss)	\$ 1,008	\$ (5,652)
Other non-segment items of income (expense)		
General and administrative	(1,933)	(2,278)
Advisory fees	(2,944)	(2,965)
Provision on impairment of note receivables and real estate assets	(28,196)	-
Litigation Settlement	745	-
Other income	(564)	494
Equity in earnings of investees	(300)	(568)
Deferred tax benefit (expense)	51	(1,153)
Loss from continuing operations	\$ (32,133)	\$ (12,122)

SEGMENT ASSET RECONCILIATION TO TOTAL ASSETS

	For Three Months Ended	
	June 30,	
	2009	2008
Segment assets	\$ 1,393,538	\$ 1,309,192
Investments in real estate partnerships	23,158	35,379
Other assets	119,780	124,797
Assets held for sale	54,220	100,392
Total assets	\$ 1,590,696	\$ 1,569,760

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<b>For the Six Months ended June 30, 2009</b>	<b>Commercial</b>					<b>Total</b>
	<b>Properties</b>	<b>Apartments</b>	<b>Hotels</b>	<b>Land</b>	<b>Other</b>	
Operating revenue	\$ 30,269	\$ 45,526	\$ -	\$ 51	\$ -	\$ 75,846
Operating expenses	15,728	26,334	-	773	-	42,835
Depreciation and amortization	6,066	8,736	-	-	-	14,802
Mortgage and loan interest	7,898	19,172	-	6,685	1,361	35,116
Interest income	-	-	-	-	1,367	1,367
Gain on land sales	-	-	-	6,296	-	6,296
<b>Segment operating gain (loss)</b>	<b>\$ 577</b>	<b>\$ (8,716)</b>	<b>\$ -</b>	<b>\$ (1,111)</b>	<b>\$ 6</b>	<b>\$ (9,244)</b>
Capital expenditures	796	(142)	-	-	-	654
Assets	330,169	677,636	-	385,733	-	1,393,538
<b>Property Sales</b>						
Sales price	\$ -	\$ -	\$ -	\$ 19,505	\$ -	\$ 19,505
Cost of sale	-	-	-	13,209	-	13,209
Deferred current gain	-	-	-	-	-	-
Recognized prior deferred gain	-	-	-	-	532	532
<b>Gain on sale</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 6,296</b>	<b>\$ 532</b>	<b>\$ 6,828</b>

<b>For the Six Months ended June 30, 2008</b>	<b>Commercial</b>					<b>Total</b>
	<b>Properties</b>	<b>Apartments</b>	<b>Hotels</b>	<b>Land</b>	<b>Other</b>	
Operating revenue	\$ 27,496	\$ 39,791	\$ -	\$ 1,044	\$ 30	\$ 68,361
Operating expenses	17,021	24,237	-	1,825	-	43,083
Depreciation and amortization	5,245	6,712	-	2	-	11,959
Mortgage and loan interest	8,512	18,246	-	6,012	2,279	35,049
Interest income	-	-	-	-	1,303	1,303
Gain on land sales	-	-	-	3,855	-	3,855
<b>Segment operating loss</b>	<b>\$ (3,282)</b>	<b>\$ (9,404)</b>	<b>\$ -</b>	<b>\$ (2,940)</b>	<b>\$ (946)</b>	<b>\$ (16,572)</b>
Capital expenditures	3,191	4,030	-	3,948	-	11,169
Assets	338,462	604,430	-	323,985	42,315	1,309,192
<b>Property Sales</b>						
Sales price	\$ 35,797	\$ 103,877	\$ 11,749	\$ 12,471	\$ -	\$ 163,894
Cost of sale	16,949	30,477	4,023	8,466	-	59,915
Deferred current gain	-	-	-	150	-	150
Recognized prior deferred gain	-	-	-	-	-	-
<b>Gain on sale</b>	<b>\$ 18,848</b>	<b>\$ 73,400</b>	<b>\$ 7,726</b>	<b>\$ 3,855</b>	<b>\$ -</b>	<b>\$ 103,829</b>

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

	<b>For Six Months Ended</b>	
	<b>2009</b>	<b>2008</b>
Segment operating loss	\$ (9,244)	\$ (16,572)
Other non-segment items of income (expense)		



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General and administrative	( 3,497 )	( 4,681 )
Advisory fees	( 5,801 )	( 5,962 )
Provision on impairment of note receivables and real estate assets	( 28,575 )	( 7,000 )
Litigation Settlement	745	-
Other income	3,342	797
Equity in earnings of investees	( 300 )	4,544
Deferred tax benefit (expense)	( 59 )	28,683
Loss from continuing operations	\$ (43,389)	\$ (191)

**SEGMENT ASSET RECONCILIATION TO TOTAL ASSETS**

	For Six Months Ended	
	June 30,	
	2009	2008
Segment assets	\$ 1,393,538	\$ 1,309,192
Investments in real estate partnerships	23,158	35,379
Other assets	119,780	124,797
Assets held for sale	54,220	100,392
Total assets	\$ 1,590,696	\$ 1,569,760

**NOTE 10. DISCONTINUED OPERATIONS**

The Company applies the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 requires that long-lived assets that are to be disposed of by sale be measured at the lesser of (1) book value or (2) fair value less cost to sell. In addition, it requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions.

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Income from discontinued operations for 2009 relates to the sale of the Cullman Shopping Center which was sold during the quarter ended June 30, 2009. In addition, we recognized the deferred gain on the sale of the Hartford building sold in 2002 in accordance with the requirements per SFAS No. 66. Discontinued operations for 2008 relates to 26 income producing properties consisting of 18 apartments, three commercial buildings and four hotels that were sold in 2008, and one commercial property sold during the quarter ended June 30, 2009. (dollars in thousands)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
<b>Revenue</b>				
Rental	\$ 9	\$ 580	\$ 98	\$ 4,239
Property operations	6	375	24	2,023
	3	205	74	2,216
<b>Expenses</b>				
Interest	(4)	(225)	(15)	(5,431)
General and administrative	(6)	(541)	(23)	(590)
Depreciation	-	(62)	22	(294)
	(10)	(828)	(16)	(6,315)
Net income (loss) from discontinued operations before gains on sale of				
real estate	(7)	(623)	58	(4,099)
Gain on sale of discontinued operations	-	1,915	532	99,974
Equity in investee gain on sale of real estate	153	-	153	-
Net income fee to affiliate	-	(4,586)	-	(13,923)
Income (loss) from discontinued operations	146	(3,294)	743	81,952
Tax benefit (expense)	(51)	1,153	(260)	(28,683)
Net income (loss) from discontinued operations	\$ 95	\$ (2,141)	\$ 483	\$ 53,269

The Company's application of SFAS No. 144 results in the presentation of the net operating results of these qualifying properties sold or held for sale during 2009 as income from discontinued operations. The application of SFAS No. 144 does not have an impact on net income available to common shareholders. SFAS No. 144 only impacts the presentation of these properties within the Consolidated Statements of Operations.

**NOTE 11. COMMITMENTS AND CONTINGENCIES**

**Partnership Obligations.** TCI is the limited partner in partnerships that are currently constructing 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 nonaffiliated partners are limited to development fees earned by the non-affiliated partners, and are set forth in the respective partnership agreements.

**Guarantees.** We are a joint guarantor with Income Opportunity Realty Investors, Inc., an affiliated entity, on a loan with an outstanding balance of \$36.5 million as of June 30, 2009. We have \$8.5 million of this amount included in the notes and interest payable section on our balance sheet. As a joint guarantor of the loan, we have joint and several liability of the obligations and liabilities of the loan in its entirety, which include but are not limited to payment of all unpaid and accrued interest and principal for the entire outstanding loan balance.

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

**Litigation.** TCI is 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.

**NOTE 12. EARNINGS PER SHARE**

Earnings per share (EPS) have been computed pursuant to the provisions of SFAS No. 128 Earnings Per Share. The computation of basic EPS is calculated by dividing income available to common shareholders 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. We have issued and outstanding 10,000 shares of stock options. These are considered in the computation of diluted earnings per share if the effect of applying the treasury stock method is dilutive. We have 30,000 shares of Series C Cumulative Convertible Preferred Stock issued and outstanding. The stock has a liquidation preference of \$100.00 per share. After September 30,

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2006, the stock may be converted into Common Stock at 90% of the daily average closing price of the Common Stock for the prior five trading days. The effects of the Series C Cumulative Convertible Preferred Stock are included in the dilutive earnings per share if applying the if-converted method is dilutive. For the six months ended June 30, 2009, the preferred stock and the stock options were anti-dilutive and thus not included in the EPS calculation. The net income used for calculating the basic and diluted shares did not change. The reconciliation of the weighted average shares outstanding from the basic to the diluted shares is shown below:

	<b>June 30,</b>	
	<b>2009</b>	<b>2008</b>
Weighted average shares outstanding	8,113,669	8,074,571
Dilutive shares:		
Options	-	-
Convertible preferred stock	-	-
<b>Diluted weighted average shares outstanding</b>	<b>8,113,669</b>	<b>8,074,571</b>

**NOTE 13. SUBSEQUENT EVENTS**

On July 2, 2009, TCI sold 29.53 acres of Hines Meridian land and 807.90 acres of Travis Ranch land into a joint venture where TCI retains 50% of future cash flow. At June 30, 2009, TCI recorded a \$4.8 million loss due to impairment value and will carry TCI's investment in this unconsolidated joint venture at \$4.0 million.

In second quarter 2009, TCI impaired land with a carrying value of \$21.4 million by \$2.9 million. On July 31, 2009, the land was sold for the revised carrying value.

On July 17, 2009, the Company acquired from Syntek West, Inc., ( SWI ), 2,518,934 shares of Common Stock, par value \$0.01 per share of Income Opportunity Realty Investors, Inc. ( IOT ) at an aggregate price of \$17,884,431 (approximately \$7.10 per share), the full amount of which was paid by the Company through an assumption of an aggregate amount of indebtedness of \$17,884,431 on the outstanding balance owed by SWI to IOT. The 2,518,934 shares of IOT Common Stock acquired by the Company constituted approximately 60.4% of the issued and outstanding Common Stock of IOT. The Company has owned for several years an aggregate of 1,037,184 shares of Common Stock of IOT (approximately 25% of the issued and outstanding). After giving effect to the transaction on July 17, 2009, the Company owns an aggregate of 3,556,118 shares of IOT Common Stock which constitutes approximately 85.3% of the shares of Common Stock of IOT outstanding (which is a total of 4,168,214 shares). Shares of IOT are traded on the American Stock Exchange.

With the Company's acquisition of the additional shares on July 17, 2009, which increased the aggregate ownership to in excess of 80%, beginning in July 2009, IOT's results of operations will now be consolidated with those of the Company for tax and financial reporting purposes.

On July 17, 2009, the Advisory Agreement dated as of July 1, 2003 between IOT and SWI was terminated by mutual agreement. SWI had served as IOT's advisor since July 1, 2003. On July 17, 2009, IOT entered into an Advisory Agreement with Prime Income Asset Management, LLC ( Prime ). Prime also serves as a contractual advisor to the Company and ARL.

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At July 17, 2009, IOT owned the following real estate assets:

<b>Commercial</b>	<b>Location</b>	<b>Square feet</b>
2010 Valley View (office building)	Farmers Branch, TX	40,666
Parkway Center (shopping center)	Dallas, TX	28,374
<b>Total</b>		<b>69,040</b>

<b>Land</b>	<b>Location</b>	<b>Acres</b>
Eagle Crest (industrial warehouse) <sup>1</sup>	Farmers Branch, TX	23
Three Hickory Centre	Farmers Branch, TX	9
Travelers Land	Farmers Branch, TX	202
<b>Total</b>		<b>234</b>

<sup>1</sup> Includes a 133,000 square foot warehouse

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

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report.

This Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws, principally, but not only, under the captions Business, Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations. We caution investors that any forward-looking statements in this report, or which management may make orally or in writing from time to time, are based on management's beliefs and on assumptions made by, and information currently available to, management. When used, the words anticipate, believe, expect, intend, may, might, plan, estimate, project, should, will, result and similar expressions which refer to historical matters are intended to identify forward-looking statements. These statements are subject to risks, uncertainties, and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties, and factors, that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. We caution you that, while forward-looking statements reflect our good faith beliefs when we make them, they are not guarantees of future performance and are impacted by actual events when they occur after we make such statements. We expressly disclaim any responsibility to update our forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

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

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

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

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

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

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

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

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

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

costs of compliance with the Americans with Disabilities Act and other similar laws and regulations;

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potential liability for uninsured losses and environmental contamination;

risks associated with our dependence on key personnel whose continued service is not guaranteed; and

the other risk factors identified in this Form 10-Q, including those described under the caption Risk Factors.

The risks included here are not exhaustive. Some of the risks and uncertainties that may cause our actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements, include among others, the factors listed and described at Item 1A Risk Factors in the Company's Annual Report on Form 10-K, which investors should review. There have been no changes from the risk factors previously described in the Company's Form 10-K for the fiscal year ended December 31, 2008 (the Form 10-K).

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

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### **Overview**

We are an externally advised and managed real estate investment company that owns a diverse portfolio of income producing properties and land held for development. Our portfolio of income-producing properties includes residential apartment communities, office buildings, and other commercial properties. Our portfolio of land held for development consists of land primarily located in central Texas. In addition, we have land in Louisiana, Arkansas, Florida, and Mississippi. 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 generate revenues from rents and lease income on apartments and commercial properties. We receive mineral royalties on certain land holdings. In addition, we receive interest income from affiliated receivables and certain mortgages that we have financed or obtained. In addition, we generate cash flows through the sale of our assets. We are an active buyer and seller of income producing properties and land. During the six months ended June 30, 2009, we acquired \$0.7 million and sold for a sales price of \$12.4 million of land and \$4.0 million in income producing properties.

The current state of the economy, including rising unemployment, constrained capital and the dramatic deleveraging of the financial system, has had a significant impact on the fundamentals of our business, including but not limited to: overall market occupancy, leasing rates, leasing renewals, purchases and dispositions of assets. The continuing loss of market liquidity is affecting all classes of debt securities, and has translated into a decline of funding availability and increased borrowing costs. Historically, we have been well positioned to reduce our exposure to down turns in the economy. Although historical results cannot be relied upon to project future results, we anticipate the diversity within our asset portfolio, the continued development of our apartment projects, and continued efforts to obtain non-traditional financing will allow us to proactively manage our assets.

As of June 30, 2009, the Company owned approximately 11,282 units in 56 residential apartment communities inclusive of one developed property in the lease up phase and 29 commercial properties of approximately 5.1 million rentable square feet. In addition, we own 7,273 acres of land held for development and two projects under construction.

We finance our acquisitions primarily through 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 financed our development projects principally with short-term, variable interest rate construction loans that are converted to long-term, fixed rate amortizing mortgages when the development project is completed and occupancy has been stabilized. The Company will, from time to time, also enter into partnerships with various investors to acquire income-producing properties or land and to sell interests in certain of its wholly owned properties. When the Company sells assets, it may carry a portion of the sales price generally in the form of a short-term, interest bearing seller-financed note receivable. The Company generates operating revenues primarily by leasing apartment units to residents; leasing office, retail and industrial space to commercial tenants.

### **Critical Accounting Policies**

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

### **Real Estate**

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

We assess and consider fair value based on estimated cash flow projections that utilize appropriate discount and/or capitalization rates, as well as available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known



and anticipated trends, and market and economic conditions. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant. We also consider an allocation of purchase price of other acquired intangibles, including acquired in-place leases that may have a customer relationship intangible value, including (but not

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limited to) the nature and extent of the existing relationship with the tenants, the tenants' credit quality and expectations of lease renewals. Based on our acquisitions to date, our allocation to customer relationship intangible assets has been immaterial.

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

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

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

SFAS No. 144 requires that qualifying assets and liabilities and the results of operations that have been sold, or otherwise qualify as held for sale, be presented as discontinued operations in all periods presented if the property operations are expected to be eliminated and the Company will not have significant continuing involvement following the sale. The components of the property's net income that is reflected as discontinued operations include the net gain (or loss) upon the disposition of the property held for sale, operating results, depreciation and interest expense (if the property is subject to a secured loan). We generally consider assets to be held for sale when the transaction has been approved by our Board of Directors, or a committee thereof, and there are no known significant contingencies relating to the sale, such that the property sale within one year is considered probable. Following the classification of a property as held for sale, no further depreciation is recorded on the assets.

A variety of costs are incurred in the acquisition, development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. Our capitalization policy on development properties is guided by SFAS No. 34

Capitalization of Interest Cost, and SFAS No. 67 Accounting for Costs and the Initial Rental Operations of Real Estate Properties. The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We consider a construction project as substantially completed and held available for occupancy upon the receipt of certificates of occupancy, but no later than one year from cessation of major construction activity. We cease capitalization on the portion (1) substantially completed and (2) occupied or held available for occupancy, and we capitalize only those costs associated with the portion under construction.

### **Impairment of Notes Receivable and Real Estate Assets**

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

### **Investments in Unconsolidated Real Estate Ventures**

Except for ownership interests in variable interest entities, TCI accounts for our investments in unconsolidated real estate ventures under the equity method of accounting because the Company exercises significant influence over, but does not control, these entities. These investments are recorded initially at cost, as investments in unconsolidated real estate ventures, and subsequently adjusted for equity in earnings and cash

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contributions and distributions. Any difference between the carrying amount of these investments on the Company's balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in earnings of unconsolidated real estate ventures over the life of the related asset. Under the equity method of accounting, TCI's net equity is reflected within the

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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, TCI's recognition of joint venture income or loss generally follows the joint venture's distribution priorities, which may change upon the achievement of certain investment return thresholds. For ownership interests in variable interest entities, the Company consolidates those in which we are the primary beneficiary.

### **Recognition of Rental Income**

Rental income for commercial property leases is recognized on a straight-line basis over the respective lease terms. In accordance with SFAS No. 141, we recognize rental revenue of acquired in-place above-market and below-market leases at their fair values over the terms of the respective leases. On our Consolidated Balance Sheets, we include as a receivable the excess of rental income recognized over rental payments actually received pursuant to the terms of the individual commercial lease agreements.

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

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

Revenues for hotel properties for room sales and guest services are recognized as rooms are occupied and services are rendered.

An allowance for doubtful accounts is recorded for all past due rents and operating expense reimbursements considered to be uncollectible.

### **Revenue Recognition on the Sale of Real Estate**

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

### **Interest Recognition on Notes Receivable**

Interest income is accrued when due, except for cash flow notes. On cash flow notes accrued but unpaid interest income is only recognized to the extent that cash is received.

### **Related Party Transactions**

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

### **Allowance for Estimated Losses**

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

### **Fair Value of Financial Instruments**

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

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### **Liquidity and Capital Resources**

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

property operations;

proceeds from land and income-producing property sales;

collection of mortgage notes receivable;

collection of receivables from affiliated companies;

refinancing of existing mortgage notes payable; and

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

Our principal liquidity needs over the next twelve months include:

funding of normal recurring expenses and obligations;

funding current development costs not covered by construction loans;

meeting debt service requirements including loan maturities;

funding capital expenditures; and

funding acquisition costs for land and income-producing properties not covered by acquisition financing.

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. Historically, management has been successful at extending a portion of the Company's current maturity obligations. Management also anticipates funding ongoing real estate development projects and the acquisition of new real estate from cash generated by sales of land and income-producing properties, debt refinancings or extensions and additional borrowings.

### **Cash flow summary**

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

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	<b>June 30,</b>		
	<b>2009</b>	<b>2008</b>	<b>Variance</b>
Net cash used in operating activities	\$ (14,575)	\$ (2,714)	\$ (11,861)
Net cash provided by investing activities	\$ 438	\$ 15,609	\$ (15,171)
Net cash provided by (used in) financing activities	\$ 8,894	\$ (23,788)	\$ 32,682

Our cash used in operating activities increased \$11.9 million as compared to the prior period. The primary use of cash for operations is daily operating costs, general and administrative expenses, advisory fees, and land holding costs. Our primary source of cash from operating activities is from rental income on properties. In addition, we have an affiliated account in which excess cash is transferred to or from. The overall use of operating cash during the current period is due to our receivables increasing while paying down our liabilities.

Our cash from investing activities decreased \$15.2 million as compared to the prior period. The decrease in proceeds is primarily attributable to the decrease in sales of income producing properties. There was a sale of an income producing property in the current period. In the prior year period, we sold 17 apartment complexes, two commercial buildings, and four hotels. In the current period, we also used less cash on investing activities. We expended \$45.8 million less on construction and development, and \$14.6 million less on acquisitions of land as compared to the prior period.

Our cash provided by or used in financing activities for the period ended 2009 consists of proceeds from construction draws for apartments and other developments in progress. In addition, we received proceeds from new debt. This was offset by payments on recurring debt obligations and maturing notes payable. For the same period ended 2008, the primary use of cash was to pay off the debt on the mortgages for the properties sold, and the primary source of cash was from proceeds on notes payable to acquire properties and proceeds on construction draws.

**Table of Contents****Commitments and Contingencies**

TCI has contractual obligations and commitments primarily concerning payment of mortgages.

**Results of Operations**

The following discussion is based on our Consolidated Statements of Operations for the six months ended June 30, 2009 and 2008 as included in Part 1, Item 1 Financial Statements of this report. The total property portfolio represents all income producing properties held as of June 30 for the period presented. Sales subsequent to quarter ended represent properties in the total property portfolio that have been repositioned to discontinued operations. Continuing operations consists of the total property portfolio less any sales subsequent to the quarter end. We had a total property portfolio of 85 and 75 as of the six months ended June 30, 2009, and 2008, respectively as shown below:

	2009	2008
Continued operations	85	72
Subsequent sales	-	3
<b>Total property portfolio</b>	<b>85</b>	<b>75</b>

The discussion of our results of operations is based on management's review of operations, which is based on our segments. Our segments consist of apartments, commercial buildings, hotels, land and other. For discussion purposes, we break these segments down into the following sub-categories; same property portfolio, newly 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 newly acquired property portfolio consists of properties that we acquired but have not held for the entire period for both periods being compared. Developed properties in the lease up phase are properties that are in the being developed. As we complete each phase of the project, we lease up that phase and include those operations in our income. Once a developed property becomes leased up and is held the entire period for both periods under comparison, it is reclassified to the same property portfolio. Income producing properties that we have sold or are held for sale get reclassified to discontinuing operations.

**Results of operations for the three months ended June 30, 2009 as compared to the same period ended 2008**

For the three months ended June 30, 2009, we reported a net loss applicable to common shares of (\$32.2) million or (\$3.98) per diluted earnings per share, as compared to a net income of (\$14.5) million or (\$1.80) per diluted earnings per share for the same period ended 2008.

**Revenues**

Rental and other property revenues increased by \$2.8 million as compared to the prior year period which by segment is an increase in the apartment portfolio of \$3.4 million, the commercial portfolio of \$0.3 million, offset by a decrease in the land and other portfolio of \$0.9 million. Within the apartment portfolio, a \$3.8 million increase was due to the developed properties being leased up which was offset by a slight decrease in the same property portfolio. There appears to be a continued demand for newly developed properties. Within the commercial portfolio, the same property portfolio decreased by \$0.7 million and the acquired properties increased by \$1.0 million, primarily due to our purchase of Stanford Center in July of 2008.

**Expenses**

Property operating expenses decreased by \$2.4 million as compared to the prior year period which by segment is a decrease in the apartment portfolio of \$1.7 million, the commercial portfolio of \$0.6 million and land portfolio of \$0.1 million. Within the apartment portfolio, decreases came from the same properties which decreased by \$2.8 million and the developed properties which increased by \$1.1 million. Within the commercial portfolio, the same properties decreased by \$0.5 million and the acquired properties decreased by \$0.1 million.

Depreciation and amortization increased by \$1.5 million as compared to the prior year period which by segment is an increase in the apartment portfolio of \$1.1 million, and an increase in the commercial portfolio of \$0.4 million. Within the apartment portfolio the developed properties increased by \$1.1 million. Within the commercial properties, the same properties increased by \$0.1 million and the acquired properties increased



by \$0.3 million.

**Other Income (Expense)**

Other income decreased by \$1.1 million as compared to the prior year period. The decrease is due to disposition of our investment in the Korean REIT. In addition, we received \$0.4 million in other non-recurring income.

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Mortgage and loan interest expense increased by \$1.2 million as compared to the prior year period which by segment is an increase in the apartment portfolio of \$1.4 million and a decrease in the commercial portfolio of \$0.2 million. Within the apartment portfolio the same properties decreased by \$0.4 million, which was offset by an increase in the developed properties of \$1.8 million. Within the commercial portfolio, the same properties decreased by \$0.1 million and the acquired properties decreased by \$0.1 million.

Earnings from unconsolidated subsidiaries and investees increased by \$0.3 million. There were no material amounts of equity pickup from investees in the current period.

Provision on impairment of notes receivable, investment in real estate partnerships, and real estate assets increased by \$28.2 million as compared to the prior year period. Impairment was recorded as an additional loss in the investment portfolio of \$18.0 million, impairment of \$7.3 million in land we currently hold and \$2.9 million in land that was sold in the third quarter for a loss. As of June 30, 2009, properties were impaired to reflect reduced value. There was no impairment booked in the prior year quarter.

Gain on land sales increased by \$4.0 million as compared to the prior year period. The increase was due to recording a gain of \$4.9 million on the sale of 3.02 acres of land known as West End land in the current period. In addition, we sold 3.13 acres of Verandas at City View land for a gain of \$0.7 million, sold 3.96 acres of land known as Teleport land for a gain of \$0.4 million and booked sale of interest in Southwood land for a gain of \$0.5 million. There were no other land sales during the quarter. In the prior year quarter, we sold 65.55 acres of land for a gain of \$2.6 million.

The 2009 discontinued operations consist of the Cullman Shopping Center that was sold during the quarter ended June 30, 2009. Discontinued operations for 2008 relates to 26 income producing properties of which 25 were sold in 2008 consisting of 18 apartments, three commercial buildings, four hotels and one commercial property sold during the quarter ended June 30, 2009. The gain on sale, taxes and net income fee to affiliates that are associated with the properties sold during the period presented are also included in discontinued operations as shown below (dollars in thousands).

	<b>For the Three Months Ended</b>	
	<b>June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Revenue</b>		
Rental	\$ 9	\$ 580
Property operations	6	375
	3	205
<b>Expenses</b>		
Interest	(4)	(225)
General and administrative	(6)	(541)
Depreciation	-	(62)
	(10)	(828)
Net income (loss) from discontinued operations before gains on sale of real estate	(7)	(623)
Gain on sale of discontinued operations	-	1,915
Equity in investee gain on sale of real estate	153	-
Net income fee to affiliate	-	(4,586)
Income (loss) from discontinued operations	146	(3,294)
Tax benefit (expense)	(51)	1,153
Net income (loss) from discontinued operations	\$ 95	\$ (2,141)

*Results of operations for the six months ended June 30, 2009 as compared to the same period ended 2008*

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For the six months ended June 30, 2009, we reported a net loss applicable to common shares of (\$43.2) million or (\$5.35) per diluted earnings per share, as compared to a net income of \$52.6 million or \$6.51 per diluted earnings per share for the same period ended 2008.

### **Revenues**

Rental and other property revenues increased by \$7.5 million as compared to the prior year period which by segment is an increase in the apartment portfolio of \$5.7 million, the commercial portfolio of \$2.8 million, offset by a decrease in the land and other portfolio of \$1.0 million. Within the apartment portfolio, a \$7.7 million increase was due to the developed properties being leased up which was offset by a \$2.0 million decrease in the same property portfolio. There appears to be a continued demand for newly developed properties. Within the commercial portfolio, the acquired properties increased by \$2.8 million, primarily due to our purchase of Stanford Center in July of 2008.

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### **Expenses**

Property operating expenses decreased by \$0.2 million as compared to the prior year period which by segment is a increase in the apartment portfolio of \$2.3 million and an increase in the other portfolio of \$0.2 million offset by decreases in the commercial and land portfolio of \$1.3 million and \$1.4 million, respectively. Within the apartment portfolio, increases came from the same properties which increased by \$0.2 million and the developed properties which increased by \$2.1 million. Within the commercial portfolio, the same properties decreased by \$1.1 million and the acquired properties decreased by \$0.2 million.

Depreciation and amortization increased by \$2.8 million as compared to the prior year period which by segment is an increase in the apartment portfolio of \$2.0 million, and an increase in the commercial portfolio of \$0.8 million. Within the apartment portfolio, same properties increased by \$0.1 and the developed properties increased by \$1.9 million. Within the commercial properties, the same properties increased by \$0.1 million and the acquired properties increased by \$0.7 million.

### **Other Income (Expense)**

Other income increased by \$2.5 million as compared to the prior year period. The increase is due to \$2.3 million for gains on the disposition of our investment in the Korean REIT. In addition, we received \$1.0 million in other non-recurring income.

Mortgage and loan interest expense increased by \$0.1 million as compared to the prior year period which by segment is an increase in the apartment portfolio of \$0.9 million, a decrease in the commercial portfolio of \$0.5 million, and a decrease in the land and other portfolio of \$0.3 million. Within the apartment portfolio the same properties increased by \$2.3 million, which was offset by a decrease in the developed properties of \$1.4 million. Within the commercial portfolio, the same properties decreased by \$0.2 million and the acquired properties decreased by \$0.3 million.

Earnings from unconsolidated subsidiaries and investees decreased by \$4.8 million. There were no material amounts of equity pickup from investees in the current period.

Provision on impairment of notes receivable, investment in real estate partnerships, and real estate assets increased by \$21.6 million as compared to the prior year period. Impairment was recorded as an additional loss in the investment portfolio of \$18.0 million, impairment of \$7.3 million in land we currently hold and \$3.3 million in land that was sold in the third quarter for a loss. As of June 30, 2009, properties were impaired to reflect reduced value. In the prior year period, we posted a \$7.0 million reserve for certain investments within our portfolio.

Gain on land sales increased by \$2.4 million as compared to the prior year period. The increase was due to recording a gain of \$4.7 million on the sale of 3 acres of land known as West End land. In addition, we sold 9.2 acres of land known as Woodmont Schiff-Park Forest land at break even. We sold 3.13 acres of Verandas at City View land for a gain of \$0.7 million, sold 3.96 acres of land known as Teleport land for a gain of \$0.4 million and booked sale of interest in Southwood land for a gain of \$0.5 million. There were no other land sales during the year. In the prior year period, we sold 79.44 acres of land for a gain of \$3.9 million.

The 2009 discontinued operations consist of the Cullman Shopping Center that was sold during the quarter ended June 30, 2009. In addition, we recognized the deferred gain on the sale of the Hartford building sold in 2002 in accordance with the requirements per SFAS No. 66. Discontinued operations for 2008 relates to 26 income producing properties of which 25 were sold in 2008 consisting of 18 apartments, three commercial buildings, four hotels and one commercial property sold during the quarter ended June 30, 2009. The gain on sale, taxes and net income fee to affiliates that are associated with the properties sold during the period presented are also included in discontinued operations as shown below (dollars in thousands).

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	For the Six Months Ended	
	2009	June 30, 2008
<b>Revenue</b>		
Rental	\$ 98	\$ 4,239
Property operations	24	2,023
	74	2,216
<b>Expenses</b>		
Interest	(15)	(5,431)
General and administrative	(23)	(590)
Depreciation	22	(294)
	(16)	(6,315)
Net income (loss) from discontinued operations before gains on sale of		
real estate	58	(4,099)
Gain on sale of discontinued operations	532	99,974
Equity in investee gain on sale of real estate	153	-
Net income fee to affiliate	-	(13,923)
Income from discontinued operations	743	81,952
Tax expense	(260)	(28,683)
Net income from discontinued operations	\$ 483	\$ 53,269

**Tax Matters**

Financial statement income varies from taxable income principally due to the accounting for income and losses of investees, gains and losses from asset sales, depreciation on owned properties, amortization of discounts on notes receivable and payable and the difference in the allowance for estimated losses. TCI had a loss for federal income tax purposes in the first six months of 2009, and a loss, after the use of net operating loss carryforwards, in 2008; therefore, it recorded no provision for income taxes.

At June 30, 2009, TCI had a net deferred tax asset of \$43.9 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.

**Inflation**

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

**Environmental Matters**

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

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



**Table of Contents****ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

At June 30, 2009, TCI's exposure to a change in interest rates on its debt is as follows (dollars in thousands except per share):

	Balance	Weighted Average Interest Rate	Effect of 1% Increase In Base Rates
Notes payable:			
Variable rate	\$ 320,234	5.73%	\$ 3,202
Total decrease in TCI's annual net income			3,202
Per share			\$ 0.40

**ITEM 4T. CONTROLS AND PROCEDURES**

- (a) As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Principal Executive Officer and Chief Financial Officer per the Company's disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based upon that evaluation, the Company's Principal Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.
- (b) There have been no changes in the Company's internal controls over financial reporting during the quarter ended June 30, 2009 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

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

During the period of time covered by this report, no equity securities of Transcontinental Realty Investors, Inc.'s stock were repurchased. The following table sets forth a summary by month for the quarter ended June 30, 2009 of repurchases made and the specified numbers of shares that may be repurchased under the stock repurchase program as specified below:

Period	Total Number of Shares Purchased	Average Price Paid per share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet be Purchased Under the Program <sup>(a)</sup>
Balance at March 31, 2009			1,286,212	122,788
April 30, 2009	-	-	1,286,212	122,788
May 31, 2009	-	-	1,286,212	122,788
June 30, 2009	-	-	1,286,212	122,788
Total	-			

- (a) On June 23, 2000, the TCI Board of Directors approved a share repurchase program for up to 1,409,000 shares of our Common Stock. This repurchase program has no termination date.



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**ITEM 6. EXHIBITS**

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

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

\* Filed herewith.

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**SIGNATURE PAGE**

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

TRANSCONTINENTAL REALTY INVESTORS, INC.

Date: August 14, 2009

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

(Principal Executive Officer)

Date: August 14, 2009

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

(Principal Financial Officer)

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**TRANSCONTINENTAL REALTY INVESTORS, INC.**

**EXHIBITS TO QUARTERLY REPORT ON FORM 10-Q**

**For the Period Ended June 30, 2009**

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

\* Filed herewith