

TRANSCONTINENTAL REALTY INVESTORS INC
Form 10-K
March 31, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013

OR

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

Commission File Number 001-09240

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

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

94-6565852
(IRS Employer
Identification Number)

75234
(Zip Code)

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

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

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

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

NONE

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

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

Accelerated filer
Smaller Reporting Company

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

The aggregate market value of the shares of voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the closing price at which the common equity was last sold which was the sales price of the Common stock on the New York Stock Exchange as of June 30, 2013 (the last business day of the Registrant's most recently completed second fiscal quarter) was \$12,113,336 based upon a total of 1,361,049 shares held as of June 30, 2013 by persons believed to be non-affiliates of the Registrant. The basis of the calculation does not constitute a determination by the Registrant as defined in Rule 405 of the Securities Act of 1933, as amended, such calculation, if made as of a date within sixty days of this filing, would yield a different value.

As of March 31, 2014, there were 8,413,469 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

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

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

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FORWARD-LOOKING STATEMENTS

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

PART I

ITEM 1. BUSINESS

General

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

TCI is a “C” corporation for U.S. federal income tax purposes and files an annual consolidated income tax return with ARL, whose common stock is traded on the New York Stock Exchange under the symbol (“ARL”). Subsidiaries of ARL own approximately 83.8% of the Company’s common stock.

On July 17, 2009, the Company acquired an additional 2,518,934 shares of Common stock of Income Opportunity Realty Investors, Inc. (“IOT”), and in doing so, increased its ownership from approximately 25% to over 80% of the shares of common stock of IOT outstanding. Upon acquisition of the additional shares in 2009, IOT’s results of operations began consolidating with those of the Company for tax and financial reporting purposes. As of December 31, 2013, TCI owned 81.1% of the outstanding IOT common shares. Shares of IOT are traded on the New York Stock Exchange Euronext (“NYSE MKT”) under the symbol (“IOT”).

At the time of the acquisition, the historical accounting value of IOT’s assets was \$112 million and liabilities were \$43 million. In that the shares of IOT acquired by TCI were from a related party, the values recorded by TCI are IOT’s historical accounting values at the date of transfer. The Company’s fair valuation of IOT’s assets and liabilities at the acquisition date approximated IOT’s book value. The net difference between the purchase price and historical accounting basis of the assets and liabilities acquired was \$26.9 million and has been reflected by TCI as deferred income. The deferred income will be recognized upon the sale of the land that IOT held on its books as of the date of sale, to an independent third party.

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

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

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

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

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

At December 31, 2013, our income-producing properties consisted of:

- 9 commercial properties consisting of six office buildings, one industrial warehouse, and two retail properties, comprising in aggregate approximately 2.3 million square feet;
- 36 residential apartment communities comprising 6,078 units, excluding apartments being developed.

The following table sets forth the location of our real estate held for investment (income-producing properties only) by asset type as of December 31, 2013:

Location	Apartments		Commercial	
	No.	Units	No.	SF
Alaska	-	-	1	20,715
Arkansas	4	678	-	-
Florida	-	-	1	6,722
Louisiana-New Orleans	-	-	1	512,593
Louisiana-Other	2	384	-	-
Mississippi	7	568	-	-
Ohio	1	200	-	-
Tennessee	2	312	-	-
Texas-Greater Dallas-Ft Worth	12	2,122	5	1,651,660
Texas-Greater Houston	2	416	-	-
Texas-San Antonio	2	468	-	-
Texas -Temple	1	232	-	-
Texas-Other	3	698	-	-
Wisconsin	-	-	1	122,205
Total	36	6,078	9	2,313,895

We finance our acquisitions primarily through operating cash flow, proceeds from the sale of land and income-producing properties, and debt financing primarily in the form of property-specific, first-lien mortgage loans from commercial banks and institutional lenders. We finance our development projects principally with short-term, variable-rate construction loans that are refinanced with the proceeds of long-term, fixed-rate amortizing mortgages when the development has been completed and occupancy has been stabilized. When we sell properties, we may carry a portion of the sales price generally in the form of a short-term, interest bearing seller-financed note receivable, secured by the property being sold. We may also from time to time enter into partnerships or joint ventures with various investors to acquire land or income-producing properties or to sell interests in certain of our properties.

We join with various third-party development companies to construct residential apartment communities. We are in the predevelopment process on several residential apartment communities but have not yet begun construction. At December 31, 2013, we had no apartment projects in development. The third-party developer typically holds a general partner, as well as a limited partner interest in a limited partnership formed for the purpose of building a single property while we generally take a limited partner interest in the limited partnership. We may contribute land to the partnership as part of our equity contribution or we may contribute the necessary funds to the partnership to acquire the land. We are required to fund all required equity contributions while the third-party developer is responsible for obtaining construction financing, hiring a general contractor and for the overall management, successful completion and delivery of the project. We generally bear all the economic risks and rewards of ownership in these partnerships and therefore include these partnerships in our consolidated financial statements. The third-party developer is paid a developer fee typically equal to a percentage of the construction costs. When the project reaches stabilized occupancy, we acquire the third-party developer's partnership interests in exchange for any remaining unpaid developer fees.

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

At December 31, 2013, our investments in undeveloped and partially developed land consisted of the following (dollars in thousands):

Property	Location	Date(s) Acquired	Acres	Cost	Primary Intended Use
McKinney Multi-Tracts	McKinney, TX	1997-2008	112	\$ 14,110	Mixed use
Mercer Crossing	Dallas, TX	1996-2013	411	63,931	Mixed use
Travis Ranch	Kaufman County, TX	2008	25	2,547	Multi-family residential
US Virgin Islands Multi-Tracts	St. Thomas, USVI	2005-2008	97	16,661	Single-family residential
Waco Multi-Tracts	Waco, TX	2005-2006	173	1,072	Single-family residential
Windmill Farms(1)	Kaufman County, TX	2011	2,900	43,162	Single-family residential
Other Land Holdings	Various	1990-2008	382	16,877	Various
Total Land Holdings			4,100	\$ 158,360	

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

Significant Real Estate Acquisitions/Dispositions and Financings

A summary of some of the significant transactions for the year ended December 31, 2013, are discussed below:

On January 8, 2013, the Company sold 14.52 acres of land known as Southwood located in Tallahassee, Florida, at a foreclosure auction to an independent third party for \$0.5 million. This land parcel was previously sold on December 31, 2012, to One Realco Corporation, a related party, for a sales price of \$0.6 million. The Company did not recognize or record the sale in accordance with ASC 360-20 due to TCI's continuing involvement, which included the potential payment of cash shortfalls, future obligations under the existing mortgage and guaranty, the buyer's inadequate initial investment and the Company's questionable recovery of investment cost. The Company determined that no sale had occurred for financial reporting purposes and therefore the asset remained on the books and continued to record operating expenses and depreciation as a period cost until a sale occurred that met the requirements of ASC 360-20. A sale to an independent third party, that met the requirements of ASC 360-20, took place on January 8,

2013, when the property was sold to a third party and sales proceeds were credited against the outstanding debt. There was no gain or loss on the land parcel sale.

On January 24, 2013, the Company refinanced the existing mortgage on Breakwater Bay apartments, a 176-unit complex located in Beaumont, Texas, for a new mortgage of \$9.8 million. We paid off the existing mortgage of \$9.1 million and \$0.3 million in closing costs and escrows. The note accrues interest at 2.50% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on February 1, 2053.

On January 25, 2013, the Company refinanced the existing mortgage on Northside on Travis apartments, a 200-unit complex located in Sherman, Texas, for a new mortgage of \$13.9 million. We paid off the existing mortgage of \$13.5 million and \$1.3 million in closing costs and escrows. The note accrues interest at 2.50% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on February 1, 2053.

On January 28, 2013, the Company refinanced the existing mortgage on Capitol Hill apartments, a 156-unit complex located in Little Rock, Arkansas, for a new mortgage of \$9.4 million. We paid off the existing mortgage of \$8.8 million and \$0.3 million in closing costs and escrows. The note accrues interest at 2.50% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on February 1, 2053.

On January 28, 2013, the Company sold a 314-unit apartment complex known as Verandas at City View located in Fort Worth, Texas, for a sales price of \$25.3 million to an independent third party. The buyer assumed the existing debt of \$18.2 million secured by the property. We recorded a gain of \$6.2 million on the sale.

On February 12, 2013, the construction loan in the amount of \$17.0 million that was taken out on May 13, 2010, to fund the development of Toulon apartments, a 240-unit complex located in Gautier, Mississippi, closed into permanent financing. The note accrues interest at 5.37% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on December 1, 2051.

On February 25, 2013, the Company refinanced the existing mortgage on Mansions of Mansfield apartments, a 208-unit complex located in Mansfield, Texas, for a new mortgage of \$16.3 million. We paid off the existing mortgage of \$15.8 million and \$1.2 million in closing costs and escrows. The note accrues interest at 2.50% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on March 1, 2053.

On February 25, 2013, the Company refinanced the existing mortgage on Preserve at Pecan Creek apartments, a 192-unit complex located in Denton, Texas, for a new mortgage of \$15.1 million. We paid off the existing mortgage of \$14.6 million and \$1.1 million in closing costs and escrows. The note accrues interest at 2.50% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on March 1, 2053.

On March 14, 2013, the Company sold 13.90 acres of land known as Sheffield located in Grand Prairie, Texas, to an independent third party for a sales price of \$2.3 million. The proceeds from the sale were used to pay off the multi-tract collateral debt, secured by the property. We recorded a nominal loss on the sale of the property.

On March 25, 2013, the Company refinanced the existing mortgage on Parc at Clarksville apartments, a 168-unit complex, located in Clarksville, Tennessee, for a new mortgage of \$13.4 million. We paid off the existing mortgage of \$13.0 million and \$0.7 million in closing costs and escrows. The note accrues interest at 2.50% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on April 1, 2053.

On April 8, 2013, the Company recorded the transfer of ownership of Eton Square, a 225,566 square foot commercial building, located in Tulsa, Oklahoma, to the existing lender for satisfaction of the current mortgage note. There was a negotiated deficiency between the value of the property and the outstanding mortgage, resulting in a promissory note for \$2.0 million provided by the seller. The promissory note is reduced by \$1.0 million if timely payments are made in accordance with the note. The investment in the entity that owns this commercial building was previously sold on May 18, 2010, to TX Highland RS Corp, a related party, for a sales price of \$13.7 million. The Company did not recognize or record the sale in accordance with ASC 360-20 due to TCI's continuing involvement, which included the potential payment of cash shortfalls, future obligations under the existing mortgage and guaranty, the buyer's inadequate initial investment and the Company's questionable recovery of investment cost. The Company determined that no sale had occurred for financial reporting purposes and therefore the asset remained on the books and continued to record operating expenses and depreciation as a period cost until a sale occurred that met the requirements of ASC 360-20. A sale to an independent third party, that met the requirements of ASC 360-20, took place on April 8, 2013, when the property was transferred to the existing lender and sales proceeds were credited against the outstanding debt. We recorded a nominal gain on the sale.

On April 12, 2013, the Company was granted full title to 0.23 acres of land known as Mininvest, located in Dallas, Texas, by an order of judgment. We paid real estate taxes and have been maintaining the property for the years 1993-2007.

On February 2, 2012, the Company and its subsidiary, 1340 Poydras, LLC, executed a Guarantor Settlement and Consent Agreement with the lender for the Amoco building, Petra CRE CDO 2007-1, Ltd (“Petra”) to transfer ownership of the Amoco building to a new entity, 1340 Owner, LLC, which is affiliated with the existing lender, Petra. Petra and its affiliate are independent third parties. TCI deferred the recognition of the sale in accordance with ASC 360-20 due to TCI’s continuing involvement related to the obligations under the note and guaranty agreements and the re-acquisition option. As of May 7, 2013, TCI and Petra settled the obligations set forth under the note and guaranty and terminated the re-acquisition option. TCI recorded the sale to the independent third party and recognized a gain of \$11.9 million. In connection with the settlement of certain litigation which had been pending in the U. S. District Court, Eastern District of Louisiana, among Petra, TCI, and a subsidiary, on May 7, 2013, TCI issued a \$5.0 million promissory note payable to the lender which is secured by an unrecorded confession of judgment and a collateral pledge to such lender of 135,000 shares of Series K convertible preferred stock of ARL issued on the same date to TCI. Such promissory note requires regular monthly payments, is pre-payable, and matures on March 5, 2015. The issuance of the \$5.0 million promissory note and collateral to the lender resolved all claims of the lender against TCI including deficiency claims under a mortgage covering certain real property located in New Orleans, Louisiana. The note has prepayment provisions whereby if it is paid off by March 1, 2014, the balance of \$3.5 million is forgiven and if paid off after March 1, 2014, but before March 1, 2015, \$2.5 million will be forgiven and collateral returned to the Company and the judgment released. On February 12, 2014, the Company exercised the first prepayment option date on the settlement with Petra CRE CDO relating to the Amoco Building. Per the agreement, the Company paid \$1.2 million to settle all obligations and the remaining balance of the note and accrued interest of \$3.5 million was forgiven.

On May 9, 2013, the Company sold 225 Baronne, a 422,037 square foot building, located in New Orleans, Louisiana, for a sales price of \$1.5 million to an independent third party. Proceeds of sale were used to pay down a related party payable. We recorded a nominal gain on the sale.

On June 7, 2013, the Company sold a 206-unit apartment complex known as Laguna Vista, located in Farmers Branch, Texas, for a sale price of \$24.8 million to an independent third party. We recorded a gain on sale of \$6.1 million.

On June 26, 2013, the Company refinanced the existing mortgage on Dorado Ranch apartments, a 224-unit complex located in Dallas, Texas, for a new mortgage of \$16.6 million. We paid off the existing mortgage of \$16.2 million and \$1.4 million in closing cost and escrows. The note accrues interest at 2.50% and payments of interest and principal are due monthly based on a 40-year amortization schedule, maturing on July 1, 2053.

On June 26, 2013, the Company refinanced the existing mortgage on Legends of El Paso apartments, a 240-unit complex located in El Paso, Texas, for a new mortgage of \$16.0 million. We paid off the existing mortgage of \$15.2 million and \$1.2 million in closing cost and escrows. The note accrues interest at 2.50% and payments of interest and principal are due monthly based on a 40-year amortization schedule, maturing on July 1, 2053.

On June 26, 2013, the Company refinanced the existing mortgage on Vistas of Pinnacle Park apartments, a 332-unit complex located in Dallas, Texas, for a new mortgage of \$19.0 million. We paid off the existing mortgage of \$18.6 million and \$2 million in closing cost and escrows. The note accrues interest at 2.50% and payments of interest and principal are due monthly based on a 40-year amortization schedule, maturing on June 26, 2053.

On August 30, 2013, the Company obtained a loan of \$1.9 million, secured by 4.02 acres of land known as Denham Springs, located in Denham Springs, Louisiana, 2.90 acres of land known as Sugar Mill, located in Baton Rouge, Louisiana, and 23.24 acres of land known as Cooks Lane, located in Fort Worth, Texas. The existing loan on Denham Springs land for \$0.1 million was paid with the proceeds from the loan.

On October 11, 2013, the company refinanced the existing mortgage on 600 Las Colinas, a 510,841 square foot commercial building located in Irving, TX, for a new mortgage of \$41 million. We paid off the existing mortgage of \$31.0 million and \$5.3 million in closing costs and escrows. The note accrues interest at 5.31% and payments of principal and interest are due monthly based upon a 30-year amortization schedule, maturing on November 1, 2023.

On October 15, 2013, the Company recorded the transfer of ownership of a 26,000 square foot commercial building known as the Ergon building and 7.95 acres of land known as Jackson Capital City land, located in Jackson, Mississippi, to the existing lender for a settlement price of \$10.4 million. The buyer assumed a \$6.6 million note and the remaining sales proceeds were used to pay down a stock secured loan with Armed Forces Bank.

On December 20, 2013, the Company sold nine residential apartment complexes to an independent third party for the sales price of \$189.6 million. The properties included in the sale were Dorado Ranch, a 224 unit apartment complex located in Odessa, Texas, Huntington Ridge, a 198 unit apartment complex located in Desoto, Texas, Legends of El Paso, a 240 unit apartment complex located in El Paso, Texas, Mariposa Villas, a 216 unit apartment complex located in Dallas, Texas, Paramount Terrace, a 181 unit apartment complex located in Amarillo, Texas, River Oaks, a 180 unit apartment complex located in Wylie, Texas, Savoy of Garland, a 144 unit apartment complex located in Garland, Texas, Stonebridge at City Park, a 240 unit apartment complex located in Houston, Texas and Vistas of Pinnacle Park, a 332 unit apartment complex located in Dallas, Texas. The buyer assumed the combined debt of \$115.1 million secured by the properties. A combined gain of \$73.5 million was recorded on the sale.

On December 30, 2013, TCI and IOT paid off the Mercer/Travelers land and the Lamar land loans according to the Settlement and Release Agreement and a Loan Purchase Agreement executed on June 7, 2013. According to the terms of the agreement, TCI and IOT purchased, at a discount, the Mercer/Travelers land mortgage note due to BDF TCI Mercer III, LLC (“BDF”), the existing lender, for \$29,635,211. The agreement also included the purchase of an obligation, known as the Lamar land loan, by a subsidiary of TCI, from BDF for \$1,864,789, which was not discounted. The total settlement price of the agreement for the two loans was \$31,500,000. The result of this agreement was a jointly recognized gain of \$7.5 million for the discount received. Prior to the loan payoffs, TCI and IOT incurred extension fees of \$1.08 million.

On December 30, 2013, RAI, a related party, obtained a \$20.0 million mortgage to First NBC Bank on the behalf of IOT and TCI, secured by 178.1 acres of land owned by IOT and by 100.05 acres of land owned by TCI. Based off the land valuation, \$12.4 million is allocated to IOT and \$7.6 million of the loan is allocated to TCI. IOT and TCI have executed a promissory note to RAI for the same terms as the First NBC loan with a maturity of December 30, 2016, and a variable interest rate of prime plus 1.5% with an interest rate floor of 6%. Based off the land valuation, \$12.4 million is allocated to IOT and \$7.6 million of the loan is allocated to TCI.

In December 2010, various commercial and land holdings were sold to FRE Real Estate, Inc., a related party. During the first three months of 2011, many of these transactions were rescinded as of the original transaction date and were subsequently sold to related parties under the same ownership as FRE Real Estate, Inc. As of December 31, 2013, one commercial building, Thermalloy, remains in FRE Real Estate, Inc. The Company did not recognize or record the sale in accordance with ASC 360-20 due to TCI's continuing involvement, which included the potential payment of cash shortfalls, future obligations under the existing mortgage and guaranty, the buyer's inadequate initial investment and the Company's questionable recovery of investment cost. The Company determined that no sale had occurred for financial reporting purposes and therefore the asset remained on the books and continued to record operating expenses and depreciation as a period cost until a sale occurred that met the requirements of ASC 360-20.

As of December 31, 2013, there remains one apartment complex, one commercial building and 212 acres of land that we have sold to a related party and have deferred the recognition of the sale. These are treated as "subject to sales contract" on the Consolidated Balance Sheets. These properties were sold to a related party in order to help facilitate an appropriate debt or organizational restructure and may or may not be transferred back to the seller upon resolution. These properties have mortgages that are secured by the property and many have corporate guarantees. According to the loan documents, the maker is currently in default on these mortgages primarily due to lack of payment and is actively involved in discussions with every lender in order to settle or cure the default situation. We have reviewed each asset and taken impairment to the extent we feel the value of the property was less than our current basis. The Company did not recognize or record the sale in accordance with ASC 360-20 due to our continuing involvement, which included the potential payment of cash shortfalls, future obligations under the existing mortgage and guaranty, the buyer's inadequate initial investment and the Company's questionable recovery of investment cost. The Company determined that no sale had occurred for financial reporting purposes and therefore the asset remained on the books and continued to record operating expenses and depreciation as a period cost until a sale occurred that met the requirements of ASC 360-20. The buyers received no compensation for the facilitation of the bankruptcy or debt restructuring process.

We continue to invest in the development of apartment projects. For the twelve months ended December 31, 2013, we have expended \$1.2 million related to the development or predevelopment of various apartment projects.

Business Plan and Investment Policy

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

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

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

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

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

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

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

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

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

Competition

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

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

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

longest period of time, or, if appropriate, the investment may be shared among all three or two of the entities.

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

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

Available Information

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

ITEM 1A. RISK FACTORS

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

Risk Factors Related to our Business

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We face risks associated with property acquisitions.

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

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

- acquired properties may fail to perform as expected;

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

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

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

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

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

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

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

We had total indebtedness at December 31, 2013 of approximately \$602.8 million. Substantially all assets have been pledged to secure debt. These borrowings increase the risk of loss because they represent a prior claim on assets and most require fixed payments regardless of profitability. Our leveraged position makes us vulnerable to declines in the general economy and may limit the Company's ability to pursue other business opportunities in the future.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- downturns in the national, regional and local economic conditions (particularly increases in unemployment);

- competition from other office and commercial buildings;
- local real estate market conditions, such as oversupply or reduction in demand for office or other commercial space;
- changes in interest rates and availability of financing;
 - vacancies, changes in market rental rates and the need to periodically repair, renovate and re-let space;
- increased operating costs, including insurance expense, utilities, real estate taxes, state and local taxes and heightened security costs;
- civil disturbances, earthquakes and other natural disasters, or terrorist acts or acts of war which may result in uninsured or underinsured losses;
- significant expenditures associated with each investment, such as debt service payments, real estate taxes, insurance and maintenance costs which are generally not reduced when circumstances cause a reduction in revenues from a property;
- declines in the financial condition of our tenants and our ability to collect rents from our tenants; and
 - decreases in the underlying value of our real estate.

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

On December 31, 2013, our portfolio consisted of 45 income-producing properties consisting of 36 apartments totaling 6,078 units, nine commercial properties consisting of six office buildings, one industrial warehouse, and two retail centers. In addition, we own or control 4,100 acres of improved and unimproved land for future development or sale. The average annual rental and other property revenue dollar per square foot is \$11.23 for the Company's residential apartment portfolio and \$11.64 for the commercial portfolio. The table below shows information relating to those properties in which we own or have an ownership interest:

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Residential Apartments	Location	Units	Occupancy
Anderson Estates	Oxford, MS	48	95.80%
Blue Lake Villas I	Waxahachie, TX	186	94.10%
Blue Lake Villas II	Waxahachie, TX	70	94.30%
Blue Ridge	Midland, TX	290	99.00%
Breakwater Bay	Beaumont, TX	176	93.80%
Bridgewood Ranch	Kaufman, TX	106	97.20%
Capitol Hill	Little Rock, AR	156	94.90%
Curtis Moore Estates	Greenwood, MS	104	93.30%
Dakota Arms	Lubbock, TX	208	94.70%
David Jordan Phase II	Greenwood, MS	32	96.90%
David Jordan Phase III	Greenwood, MS	40	97.50%
Desoto Ranch	DeSoto, TX	248	94.40%
Falcon Lakes	Arlington, TX	248	96.00%
Heather Creek	Mesquite, TX	200	98.50%
Lake Forest	Houston, TX	240	95.00%
Lodge at Pecan Creek	Denton, TX	192	95.30%
Mansions of Mansfield	Mansfield, TX	208	96.60%
Mission Oaks	San Antonio, TX	228	91.70%
Monticello Estate	Monticello, AR	32	96.90%
Northside on Travis	Sherman, TX	200	96.00%
Parc at Clarksville	Clarksville, TN	168	97.00%
Parc at Denham Springs	Denham Springs, LA	224	94.20%
Parc at Maumelle	Little Rock, AR	240	92.10%
Parc at Metro Center	Nashville, TN	144	98.60%
Parc at Rogers	Rogers, AR	250	97.20%
Preserve at Pecan Creek	Denton, TX	192	96.40%
Riverwalk Phase I	Greenville, MS	32	96.90%
Riverwalk Phase II	Greenville, MS	72	95.80%
Sonoma Court	Rockwall, TX	124	96.80%
Sugar Mill	Baton Rouge, LA	160	96.90%
Toulon	Gautier, MS	240	95.80%
Treehouse	Irving, TX	160	95.00%
Vistas of Vance Jackson	San Antonio, TX	240	96.30%
Windsong	Fort Worth, TX	188	95.70%
	Total Apartment Units	5,646	

Apartments Subject to Sales Contract	Location	Units	Occupancy
Quail Hollow	Holland, OH	200	94.50%
	Total Apartments Subject to Sale	200	

Apartments Held for Sale	Location	Units	Occupancy
Pecan Pointe	Temple, TX	232	94.40%
		232	
		6,078	95.71%

Total Apartments
/Average Occupancy rate

Office Buildings	Location	SqFt	Occupancy
600 Las Colinas	Las Colinas, TX	511,755	69.09%
1010 Common	New Orleans, LA	512,593	47.01%
Browning Place (Park West I)	Farmers Branch, TX	625,264	56.10%
Senlac (VHP)	Farmers Branch, TX	2,812	100.00%
Sesame Square	Anchorage, AK	20,715	88.89%
Stanford Center	Dallas, TX	334,024	66.67%
	Total Office Buildings	2,007,163	

Retail Centers	Location	SqFt	Occupancy
Bridgeview Plaza	LaCrosse, WI	122,205	71.43%
Fruitland Park	Fruitland Park, FL	6,722	0.00%
	Total Retail Centers	128,927	

Industrial Warehouses Subject to Sales Contract	Location	SqFt	Occupancy
Thermalloy	Farmers Branch, TX	177,805	100.00%
	Total Industrial Warehouses Subject to Sales Contract	177,805	
	Total Commercial	2,313,895	

Lease Expirations

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

Year of Lease Expiration	Rentable Square Feet Subject to Expiring Leases	Current Annualized (1) Contractual Rent Under Expiring Leases	Current Annualized(1) Contractual Rent Under Expiring Leases (P.S.F.)	Percentage of Total Square Feet	Percentage of Gross Rentals
2014	156,863	\$ 2,714,801	\$ 17.31	6.8 %	14.0 %
2015	50,889	660,306	\$ 12.98	2.2 %	3.4 %
2016	423,398	3,603,611	\$ 8.51	18.3 %	18.6 %
2017	72,186	2,061,696	\$ 28.56	3.1 %	10.7 %
2018	135,254	2,277,597	\$ 16.84	5.8 %	11.8 %
2019	206,903	3,461,685	\$ 16.73	8.9 %	17.9 %
2020	61,413	1,254,043	\$ 20.42	2.7 %	6.5 %
2021	6,444	121,904	\$ 18.92	0.3 %	0.6 %
2022	32,586	749,478	\$ 23.00	1.4 %	3.9 %
Thereafter	177,492	2,430,264	\$ 13.69	7.7 %	12.6 %
Total	1,323,428	\$ 19,335,385		57.2 %	100 %

- (1) Represents the monthly contractual base rent and recoveries from tenants under existing leases as of December 31, 2013, multiplied by twelve. This amount reflects total rent before any rent abatements and includes expense reimbursements, which may be estimates as of such date.

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Land	Location	Acres
2427 Valley View Ln	Farmers Branch, TX	0.31
Audubon	Adams County, MS	48.20
Cooks Lane	Fort Worth, TX	23.24
Dedeaux	Gulfport, MS	10.00
Denham Springs	Denham Springs, LA	4.38
Gautier	Gautier, MS	40.06
Hollywood Casino Tract II	Farmers Branch, TX	13.85
Hunter Equities	Dallas, TX	2.56
Kelly Lot	Farmers Branch, TX	0.75
Lacy Longhorn	Farmers Branch, TX	5.08
LaDue	Farmers Branch, TX	8.01
Lake Shore Villas	Humble, TX	19.51
Lubbock	Lubbock, TX	2.86
Luna (Carr)	Farmers Branch, TX	2.60
Manhattan	Farmers Branch, TX	32.02
McKinney 36	Collin County, TX	34.05
McKinney Ranch	McKinney, TX	77.70
Minivest	Dallas, TX	0.23
Nashville	Nashville, TN	11.87
Nicholson Croslin	Dallas, TX	0.80
Nicholson Mendoza	Dallas, TX	0.35
Ocean Estates	Gulfport, MS	12.00
Seminary West	Fort Worth, TX	3.02
Sugar Mill Land	Baton Rouge, LA	2.90
Summer Breeze	Odessa, TX	5.98
Texas Plaza	Irving, TX	10.33
Travelers	Farmers Branch, TX	193.17
Travis Ranch	Kaufman County, TX	16.80
Travis Ranch Retail	Kaufman County, TX	8.13
Union Pacific Railroad	Dallas, TX	0.04
US Virgin Islands	US Virgin Islands	96.60
Valley View 34 (Mercer Crossing)	Farmers Branch, TX	2.19
Valley View/Senlac	Farmers Branch, TX	3.45
Waco 151	Waco, TX	151.40
Waco Swanson	Waco, TX	21.58
Walker	Dallas County, TX	82.59
Willowick	Pensacola, FL	39.78
Windmills Farm	Kaufman County, TX	2,900.00
	Total Land/Development	3,888.39

Land Subject to Sales Contract	Location	Acres
Dominion Tract	Dallas, TX	10.59
Hollywood Casino Tract I	Farmers Branch, TX	19.71
Luna Ventures	Farmers Branch, TX	26.74
Mansfield	Mansfield, TX	21.89

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Pioneer Crossing	Austin, TX	17.28
Senlac	Farmers Branch, TX	11.94
Stanley Tools	Farmers Branch, TX	23.76
Whorton	Bentonville, AR	79.70
	Total Land Subject to Sales Contract	211.61
	Total Land	4,100.00

ITEM 3. LEGAL PROCEEDINGS

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

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

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

An original trial to a jury resulted in the jury awarding significant damages to Basic for "lost opportunity," awarding damages in "increased costs" and "lost opportunity" damages to American Realty Trust, Inc. ("ART") and damages of \$960,646.28 in "increased costs" and \$11,161,520 for "lost opportunity" damages in favor of TCI and its subsidiaries (a total of \$12,122,166.28). The original Trial Court ignored the jury's findings and entered a "Judgment Notwithstanding the Verdict" ("JNOV") in Dynex's favor; the Fifth Court of Appeals has now ruled that the JNOV was improper because there was sufficient evidence to support the jury's findings. As a result, the Fifth Court of Appeals ordered the Trial Court to enter a new judgment consistent with the jury's original findings.

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

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

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

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

	2013		2012	
	High	Low	High	Low
First Quarter	\$ 6.50	\$ 4.10	\$ 3.13	\$ 1.65
Second Quarter	\$ 10.21	\$ 5.25	\$ 3.45	\$ 2.35
Third Quarter	\$ 9.26	\$ 6.86	\$ 6.01	\$ 2.79
Fourth Quarter	\$ 9.46	\$ 8.11	\$ 5.95	\$ 3.46

On March 15, 2014, the closing price of TCI's common stock as reported on the NYSE was \$15.80 per share, and was held by approximately 3,490 holders of record.

TCI's Board of Directors established a policy that dividend declarations on common stock would be determined on an annual basis following the end of each year. In accordance with that policy, the board determined not to pay any dividends on common stock in 2013, 2012 or 2011. Future distributions to common stockholders will be determined by the Board of Directors in light of conditions then existing, including the Company's financial condition and requirements, future prospects, restrictions in financing agreements, business conditions and other factors deemed relevant by the Board.

In December 1989, the Board of Directors approved a share repurchase program, authorizing the repurchase of a total of 687,000 shares of TCI's Common stock. In June 2000, the Board increased this authorization to 1,387,000 shares. On August 10, 2010, the Board of Directors approved an increase in the share repurchase program for up to an additional 250,000 shares of common stock which results in a total authorization under the repurchase program for up to 1,637,000 shares of our common stock. This repurchase program has no termination date. The following table represents shares repurchased during each of the three months of the last quarter ended December 31, 2013:

Period	Total Number of Shares Purchased	Average Price Paid per share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet be Purchased Under the Program
Balance at September 30, 2013			1,230,535	406,465
October 31, 2013	-	\$-	1,230,535	406,465
November 30, 2013	-	\$-	1,230,535	406,465
December 31, 2013	-	\$-	1,230,535	406,465
Total	-			

ITEM 6. SELECTED FINANCIAL DATA

TRANSCONTINENTAL REALTY INVESTORS, INC.

	For the Years Ended December 31,				
	2013	2012	2011	2010	2009
	(dollars in thousands, except share and per share amounts)				
EARNINGS DATA					
Total operating revenues	\$86,237	\$86,615	\$77,935	\$73,841	\$71,145
Total operating expenses	88,348	74,985	109,973	98,542	117,180
Operating income (loss)	(2,111)	11,630	(32,038)	(24,701)	(46,035)
Other expenses	(38,560)	(22,540)	(30,556)	(26,606)	(31,416)
Loss before gain on land sales, non-controlling interest, and taxes	(40,671)	(10,910)	(62,594)	(51,307)	(77,451)
Gain (loss) on land sales	(1,073)	6,935	17,011	(15,155)	6,296
Income tax benefit (expense)	40,485	(1,445)	(357)	(191)	(3,060)
Net loss from continuing operations	(1,259)	(5,420)	(45,940)	(66,653)	(74,215)
Net income (loss) from discontinuing operations	60,768	(2,684)	(663)	(445)	(5,358)
Net income (loss)	59,509	(8,104)	(46,603)	(67,098)	(79,573)
Net (income) loss attributable to non-controlling interest	(979)	(220)	282	(98)	(125)
Net income (loss) attributable to Transcontinental Realty Investors, Inc.	58,530	(8,324)	(46,321)	(67,196)	(79,698)
Preferred dividend requirement	(1,110)	(1,112)	(1,110)	(1,073)	(1,023)
Net income (loss) applicable to common shares	\$57,420	\$(9,436)	\$(47,431)	\$(68,269)	\$(80,721)
PER SHARE DATA					
Earnings per share - basic					
Loss from continuing operations	\$(0.40)	\$(0.80)	\$(5.59)	\$(8.36)	\$(9.29)
Income (loss) from discontinued operations	7.22	(0.32)	(0.08)	(0.05)	(0.66)
Net income (loss) applicable to common shares	\$6.82	\$(1.12)	\$(5.67)	\$(8.41)	\$(9.95)
Weighted average common share used in computing earnings per share	8,413,469	8,413,469	8,370,729	8,113,575	8,113,669
Earnings per share - diluted					
Loss from continuing operations	\$(0.40)	\$(0.80)	\$(5.59)	\$(8.36)	\$(9.29)
Income (loss) from discontinued operations	7.22	(0.32)	(0.08)	(0.05)	(0.66)
Net income (loss) applicable to common shares	\$6.82	\$(1.12)	\$(5.67)	\$(8.41)	\$(9.95)
Weighted average common share used in computing diluted earnings per share	8,413,469	8,413,469	8,370,729	8,113,575	8,113,669
BALANCE SHEET DATA					
Real estate, net	\$695,802	\$896,950	\$988,339	\$1,213,114	\$1,447,184

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Notes and interest receivable, net	67,907	59,098	77,371	67,025	45,247
Total assets	897,671	1,045,344	1,160,324	1,384,761	1,608,287
Notes and interest payables	602,845	808,043	884,305	1,022,015	1,188,625
Stockholders' equity	191,570	133,129	141,284	183,448	245,416
Book value per share	\$22.77	\$15.82	\$16.88	\$22.61	\$30.25

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

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

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

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

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

Overview

We are an externally advised and managed real estate investment company that owns a diverse portfolio of income-producing properties and land held for development. The Company's portfolio of income-producing properties includes residential apartment communities, office buildings and other commercial properties. Our investment strategy includes acquiring existing income-producing properties as well as developing new properties on land already owned or acquired for a specific development project. We acquire land primarily in in-fill locations or high-growth suburban markets. We are an active buyer and seller of real estate and during 2013 sold \$279.8 million of land and income-producing properties. As of December 31, 2013, we owned 6,078 units in 36 residential apartment communities, nine commercial properties comprising approximately 2.3 million rentable square feet. In addition, we own 4,100 acres of land held for development. The Company currently owns income-producing properties and land in eleven states as well as in the U.S. Virgin Islands.

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

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

Effective since January 1, 2011, Regis manages our commercial properties and provides brokerage services. Regis is entitled to receive a fee for its property management and brokerage services. See Part III, Item 10. "Directors, Executive Officers and Corporate Governance – Property Management and Real Estate Brokerage". The Company contracts with third-party companies to lease and manage our apartment communities.

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

Critical Accounting Policies

We present our financial statements in accordance with generally accepted accounting principles in the United States ("GAAP"). In June 2009, the Financial Accounting Standards Board ("FASB") completed its accounting guidance codification project. The FASB Accounting Standards Codification ("ASC") became effective for our financial statements issued subsequent to June 30, 2009 and is the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. As of the effective date, we no longer refer to the authoritative guidance dictating its accounting methodologies under the previous accounting standards hierarchy. Instead, we refer to the ASC Codification as the sole source of authoritative literature.

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

VIEs are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders as a group lack adequate decision making ability, the obligation to absorb expected losses or residual returns of the entity, or have voting rights that are not proportional to their economic interests. The primary beneficiary generally is the entity that provides financial support and bears a majority of the financial risks, authorizes certain capital transactions, or makes operating decisions that materially affect the entity's financial results. All significant intercompany balances and transactions have been eliminated in consolidation.

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

For entities in which we have less than a controlling financial interest or entities where we are not deemed to be the primary beneficiary, the entities are accounted for using the equity method of accounting. Accordingly, our share of the net earnings or losses of these entities are included in consolidated net income. TCI's investment in ARL is accounted for under the equity method. Our investment in Garden Centura, L.P. was accounted for under the equity method until December 28, 2011, when it was sold to a third party.

The Company in accordance with the VIE guidance in ASC 810 “Consolidations” consolidates 33 and 44 multifamily residential properties located throughout the United States at December 31, 2013 and December 31, 2012, respectively, ranging from 32 units to 332 units. Assets totaling \$343,889,000 and \$503,580,000 at December 31, 2013 and 2012, respectively, are consolidated and included in “Real estate, at cost” on the balance sheet and are all collateral for their respective mortgage notes payable, none of which are recourse to the partnership in which they are in or to the Company. Assets totaling \$16,427,000 and \$18,077,000 at December 31, 2013 and 2012, respectively, are consolidated and included in “Real estate held for sale at cost” on the balance sheet and are all collateral for their respective mortgage notes payable, none of which are recourse to the partnership in which they are in or to the Company.

Real Estate

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

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

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

Other intangible assets acquired include amounts for in-place lease values that are based on our evaluation of the specific characteristics of each tenant’s lease. Factors to be considered include estimates of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, we consider leasing commissions, legal and other related expenses.

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

Depreciation and Impairment

Real estate is stated at depreciated cost. The cost of buildings and improvements includes the purchase price of property, legal fees and other acquisition costs. Costs directly related to the development of properties are capitalized.

Capitalized development costs include interest, property taxes, insurance, and other direct project costs incurred during the period of development.

A variety of costs are incurred in the acquisition, development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. Our capitalization policy on development properties is guided by ASC Topic 835-20 "Interest - Capitalization of Interest" and ASC Topic 970 "Real Estate—General". The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We consider a construction project as substantially completed and held available for occupancy upon the receipt of certificates of occupancy, but no later than one year from cessation of major construction activity. We cease capitalization on the portion (1) substantially completed and (2) occupied or held available for occupancy, and we capitalize only those costs associated with the portion under construction.

Management reviews its long-lived assets used in operations for impairment when there is an event or change in circumstances that indicates impairment in value. An impairment loss is recognized if the carrying amount of its assets is not recoverable and exceeds its fair value. Fair value is determined by a recent appraisal, comparables based upon prices for similar assets, executed sales contract, a present value and/or a valuation technique based upon a multiple of earnings or revenue. If such impairment is present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. If we determine that impairment has occurred, the affected assets must be reduced to their face value.

ASC Topic 360 “Property, Plant and Equipment” requires that qualifying assets and liabilities and the results of operations that have been sold, or otherwise qualify as “held for sale,” be presented as discontinued operations in all periods presented if the property operations are expected to be eliminated and the Company will not have significant continuing involvement following the sale. The components of the property’s net income that is reflected as discontinued operations include the net gain (or loss) upon the disposition of the property “held for sale”, operating results, depreciation and interest expense (if the property is subject to a secured loan). We generally consider assets to be “held for sale” when the transaction has been approved by our Board of Directors, or a committee thereof, and there are no known significant contingencies relating to the sale, such that the property sale within one year is considered probable. Following the classification of a property as “held for sale,” no further depreciation is recorded on the assets.

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

Investment in Unconsolidated Real Estate Ventures

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

Recognition of Rental Income

Rental income for commercial property leases is recognized on a straight-line basis over the respective lease terms. In accordance with ASC Topic 805, we recognize rental revenue of acquired in-place “above-”and “below-market” leases at their fair values over the terms of the respective leases. On our Consolidated Balance Sheets, we include as a receivable the excess of rental income recognized over rental payments actually received pursuant to the terms of the individual commercial lease agreements.

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

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

Revenue Recognition on the Sale of Real Estate

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

Non-performing Notes Receivable

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

Interest Recognition on Notes Receivable

We record interest income as earned in accordance with the terms of the related loan agreements. Prior to January 1, 2012, on cash flow notes where payments are based upon surplus cash from operations, accrued but unpaid interest income was only recognized to the extent that cash was received. As of January 1, 2012, due to the consistency of cash received on the surplus cash notes, we are recording interest as earned.

Allowance for Estimated Losses

We assess the collectability of notes receivable on a periodic basis, of which the assessment consists primarily of an evaluation of cash flow projections of the borrower to determine whether estimated cash flows are sufficient to repay principal and interest in accordance with the contractual terms of the note. We recognize impairments on notes receivable when it is probable that principal and interest will not be received in accordance with the contractual terms of the loan. The amount of the impairment to be recognized generally is based on the fair value of the partnership's real estate that represents the primary source of loan repayment. See Note 3 "Notes and Interest Receivable" for details on our notes receivable.

Fair Value of Financial Instruments

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

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

- Level 1 — Unadjusted quoted prices for identical and unrestricted assets or liabilities in active markets.
- Level 2 — Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 — Unobservable inputs that are significant to the fair value measurement.

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

Related parties

We apply ASC Topic 805, "Business Combinations", to evaluate business relationships. Related parties are persons or entities who have one or more of the following characteristics, which include entities for which investments in their equity securities would be required, trust for the benefit of persons including principal owners of the entities and members of their immediate families, management personnel of the entity and members of their immediate families

and other parties with which the entity may deal if one party controls or can significantly influence the decision making of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests, or affiliates of the entity.

Results of Operations

The discussion of our results of operations is based on management's review of operations, which is based on our segments. Our segments consist of apartments, commercial buildings, land and other. For discussion purposes, we break these segments down into the following sub-categories; same property portfolio, acquired properties, and developed properties in the lease-up phase. The same property portfolio consists of properties that were held by us for the entire period for both years being compared. The acquired property portfolio consists of properties that we acquired but have not held for the entire period for both periods being compared. Developed properties in the lease-up phase consist of completed projects that are being leased-up. As we complete each phase of the project, we lease-up that phase and include those revenues in our continued operations. Once a developed property becomes leased-up and is held the entire period for both years under comparison, it is considered to be included in the same property portfolio. Income-producing properties that we have sold during the year are reclassified to discontinued operations for all periods presented. The other segment consists of revenue and operating expenses related to the notes receivable and corporate entities .

The following discussion is based on our Consolidated Statements of Operations for the twelve months ended December 31, 2013, 2012, and 2011 as included in Item 8. "Financial Statements and Supplementary Data". The prior year's property portfolios have been adjusted for subsequent sales. Continuing operations relates to income-producing properties that were held during those years as adjusted for sales in the subsequent years.

At December 31, 2013, 2012 and 2011, we owned or had interests in a portfolio of 45, 60 and 66 income-producing properties, respectively. The total property portfolio represents all income-producing properties held as of December 31 for the year presented. Sales subsequent to year end represent properties that were held as of year end for the years presented, but sold in subsequent years. Continuing operations represents all properties that have not been reclassified to discontinued operations as of December 31, 2013 for the year presented. The table below shows the number of income-producing properties held by year:

	2013	2012	2011
Continued operations	44	44	45
Sales subsequent to year end	1	16	21
Total property portfolio	45	60	66

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

For the twelve months ended December 31, 2013, we reported net income applicable to common shares of \$57.4 million or \$6.82 per diluted earnings per share, as compared to a net loss applicable to common shares of \$9.4 million or \$1.12 per diluted earnings per share for the same period ended 2012. The current year net income applicable to common shares of \$57.4 million includes loss on land sales of \$1.1 million, \$11.3 million of provisions on the impairment of notes receivable and real estate assets, and net income from discontinued operations of \$60.8 million, as compared to the prior year net loss applicable to common shares of \$9.4 million, which includes gain on land sales of \$6.9 million, \$2.3 million of provisions on the impairment of notes receivable and real estate assets, and net loss from discontinued operations of \$2.7 million.

Revenues

Rental and other property revenues were \$86.2 million for the twelve months ended December 31, 2013. This represents a decrease of \$0.4 million, as compared to the prior year revenues of \$86.6 million. This change, by segment, is an increase in the apartment portfolio of \$3.5 million, offset by a decrease in the commercial portfolio of

\$3.9 million. Within the apartment portfolio, the increase is due primarily to increased rental rates and occupancy. Our apartment portfolio continues to thrive in the current economic conditions with occupancies averaging over 95%. Within the commercial portfolio, the same properties decreased by \$3.9 million related to some larger square-foot tenants down-sizing or moving out. We continue to market our properties aggressively to attract new tenants and strive for continuous improvement of our properties in order to maintain our existing tenants.

Expense

Property operating expenses were \$40.9 million for the twelve months ended December 31, 2013. This represents a decrease of \$1.4 million, as compared to the prior year operating expenses of \$42.3 million. This change, by segment, is an increase in the apartment portfolio of \$1.4 million, offset by a decrease in the commercial portfolio of \$2.8 million. Within the apartment portfolio, there was an increase of \$1.3 million in the same properties and an increase of \$0.1 million in the development properties due to real estate taxes for several properties in the current period. Within the commercial portfolio, the same properties decreased \$2.8 million due to real estate tax refunds from protests and litigations for several properties and lease commissions that were expensed in the prior period and adjusted to capitalize according to the lease terms in the current period.

Depreciation expense was \$17.2 million for the twelve months ended December 31, 2013. This represents an increase of \$1.1 million, as compared to the prior year expense of \$16.1 million. The majority of this change is in the commercial portfolio related to an increase in tenant improvements.

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

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

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

Other income (expense)

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

Other income was \$7.9 million for the twelve months ended December 31, 2013. This represents an increase of \$1.6 million, as compared to the prior year income of \$6.3 million. The increase primarily relates to the Mercer/Travelers Land note payoff. Per the terms of the agreement, the note was paid off at a discounted rate and \$7.5 million was recognized as a gain. In the prior year, the Company recorded the fee per the development agreement between UHF and TCI for consulting services related to the development of apartment projects.

Mortgage and loan interest expense was \$31.6 million for the twelve months ended December 31, 2013. This represents a decrease of \$4.6 million, as compared to the prior year expense of \$36.2 million. This change, by segment, is a decrease in the apartment portfolio of \$2.7 million, a decrease in the land portfolio of \$0.5 million, a decrease in the other portfolio of \$1.5 million, offset by an increase in the commercial portfolio of \$0.1 million. Within the apartment portfolio, the majority of the decrease relates to the same apartment portfolio due to the refinances closed with long-term, low interest rates. The majority of the decrease in the other portfolio is due to a decrease in the interest paid to our Advisor. The decrease in the land portfolio was due to land sales.

Deferred borrowing costs amortization was \$2.6 million for the twelve months ended December 31, 2013. This represents an increase of \$2.0 million as compared to the prior period expense of \$0.6 million. This increase is mainly

due to the higher loan deferred borrowing costs in the same store properties of the apartment portfolio that were written off in the current period upon the refinance into a new mortgage note.

Loan charges and prepayment penalties were \$5.2 million for the twelve months ended December 31, 2013. This represents an increase of \$1.6 million, as compared to the prior year expense of \$3.6 million. The majority of the increase is due to the \$1.1 million in extension fees paid relating to the Mercer/Travelers Land note payoff. The same store apartment portfolio increased as well due to the prepayment penalties from the refinancing of several existing mortgage notes. There were more refinances completed in the current period than in the prior period. The current year refinances resulted in annual interest rate savings of \$3.7 million and the prior year refinances resulted in annual interest rate savings of \$3.4 million.

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

Gain on land sales decreased in the current year. In the current year, we sold 36.37 acres of land in 3 separate transactions for an aggregate sales price of \$13.1 million and recorded a loss of \$1.1 million. The average sales price was \$360,974 per acre. In the prior year, we sold 639.87 acres of land in 17 separate transactions for an aggregate sales price of \$38.4 million and recorded a gain of \$6.9 million. The average sales price was \$60,034 per acre.

Discontinued Operations

Discontinued operations relates to properties that were either sold or held for sale as of the respective year end. Included in discontinued operations are a total of 16 and 21 income-producing properties as of 2013 and 2012, respectively. In 2013 we sold 11 apartment complexes (Dorado Ranch, Huntington Ridge, Laguna Vista, Legends of El Paso, Mariposa Villas, Paramount Terrace, River Oaks, Savoy of Garland, Stonebridge at City Park, Verandas at City View and Vistas of Pinnacle Park), four commercial properties (225 Baronne, Amoco, Ergon and Eton Square) and had one apartment complex held for sale (Pecan Pointe). In 2012, we sold two apartment complexes (Portofino and Wildflower Villas) and three commercial properties (305 Baronne, Clarke Garage and Dunes Plaza). The operations related to these properties sold are reclassified to prior years discontinued operations. The gains on sale of the properties sold are also included in the discontinued operations for those years as shown in the table below (dollars in thousands):

	For the Years Ended December 31,	
	2013	2012
Revenues:		
Rental and other property revenues	\$26,036	\$34,774
	26,036	34,774
Expenses:		
Property operating expenses	12,201	18,161
Depreciation	4,231	6,349
General and administrative	935	961
Provision on impairment of notes receivable and real estate assets	-	2,400
Total operating expenses	17,367	27,871
Other income (expense):		
Other income	29	14
Mortgage and loan interest	(6,139)	(10,806)
Deferred borrowing costs amortization	(3,009)	(1,790)
Loan charges and prepayment penalties	(3,245)	(3,472)
Earnings from unconsolidated subsidiaries and investees	30	55
Litigation settlement	(250)	(250)
Total other expenses	(12,584)	(16,249)
Loss from discontinued operations before gain on sale of real estate and taxes	(3,915)	(9,346)
Gain on sale of real estate from discontinued operations	97,405	5,217
Income tax benefit (expense)	(32,722)	1,445
Income (loss) from discontinued operations	\$60,768	\$(2,684)

Comparison of the year ended December 31, 2012 to the same period ended 2011:

For the twelve months ended December 31, 2012, we reported a net loss applicable to common shares of \$9.4 million or \$1.12 per diluted earnings per share, as compared to a net loss applicable to common shares of \$47.4 million or

\$5.67 per diluted earnings per share for the same period ended 2011. In 2012, the net loss applicable to common shares of \$9.4 million includes gain on land sales of \$6.9 million, \$2.3 million of provisions on the impairment of notes receivable and real estate assets, and a net loss from discontinued operations of \$2.7 million, as compared to the 2011 net loss applicable to common shares of \$47.4 million, which includes gain on land sales of \$17.0 million, \$35.0 million of provisions on the impairment of notes receivable and real estate assets, and a net loss from discontinued operations of \$0.7 million.

Revenues

Rental and other property revenues were \$86.6 million for the twelve months ended December 31, 2012. This represents an increase of \$8.7 million, as compared to the prior year revenues of \$77.9 million. This change, by segment, is an increase in the apartment portfolio of \$6.2 million, an increase in the commercial portfolio of \$2.8, offset by a decrease in the land and other portfolios of \$0.3 million. Within the apartment portfolio, there was an increase of \$6.2 million in the developed properties as the properties completed lease up and achieved stabilized operations. Our existing commercial portfolio increased by \$2.8 million in the same store properties. This increase is due to a lease termination fee from a settlement agreement with a commercial tenant. We continue to market our properties aggressively to attract new tenants and strive for continuous improvement of our properties in order to maintain our existing tenants.

Expense

Depreciation and amortization expense was \$16.1 million for the twelve months ended December 31, 2012. This represents an increase of \$2.1 million, as compared to the prior year expense of \$14.0 million. This change, by segment, is an increase in the apartment portfolio of \$0.9 million and an increase in the commercial portfolio of \$1.2 million. The developed properties in the apartment portfolio increased by \$0.9 million as the buildings became substantially complete and depreciation began. Within the commercial portfolio, there was an increase of \$1.2 million for the same store properties.

General and administrative expenses were \$5.1 million for the twelve months ended December 31, 2012. This represents a decrease of \$3.9 million as compared to the prior year expenses of \$9.0 million. This change was due to a decrease in administrative expenses and professional services.

The provision for impairment of notes receivable, investment in real estate partnerships, and real estate assets was \$2.3 million for the period ended December 31, 2012. This was a decrease of \$32.7 million as compared to the prior year expense of \$35.0 million. In 2012, the \$2.3 million in impairment reserves was related to our land holdings. A sale of adjacent land determined the fair value on a Waco, Texas land holding that resulted in an impairment reserve of \$1.2 million, a comparable sale determined the fair value of a Florida land holding that resulted in an impairment reserve of \$0.5 million and an appraisal determined the fair value of an Arkansas land holding that resulted in an impairment reserve of \$0.6 million. In the prior period, impairment was recorded as an additional loss in the investment portfolio of \$5.2 million in the apartment properties we currently hold, \$2.4 million in land parcels we currently hold, \$27.0 million in land that was sold subsequent to the prior period and \$0.4 million in impairment on our investments in joint ventures. Of the impairment reserves taken in the prior period, \$22.1 million was related to the land holdings that were part of an overall strategic debt restructuring plan resulting in the disposal of the land for less than the market value, \$7.3 million was related to a third party sales contract that was executed during the prior period for less than the carrying value, \$5.2 million was related to the underperformance of property using a valuation analysis based upon a multiple of earnings and \$0.4 million was related to various investment in joint ventures that were determined to have a questionable recovery of our investment.

Other income (expense)

Interest income was \$11.7 million for the twelve months ended December 31, 2012. This represents an increase of \$6.0 million, as compared to the prior year income of \$5.7 million. The increase is due to the cash received on the cash flow notes from UHF. The residential apartments generated more surplus cash in 2012 than in the prior period, resulting in a larger recognition of previously unrecognized interest income. Prior to January 1, 2012, accrued interest was recognized to the extent cash was received and to the extent the cash received exceeded the interest owed for the current period, prior unrecognized interest was earned.

Other income was \$6.3 million for the twelve months ended December 31, 2012. This represents an increase of \$3.9 million, as compared to the prior year income of \$2.4 million. The increase relates to the development agreement between UHF and TCI for consulting services related to the development of apartment projects, offset by miscellaneous revenue received by TCI in the prior year.

Loan charges and prepayment penalties were \$3.6 million for the twelve months ended December 31, 2012. This represents an increase of \$3.2 million, as compared to the prior year expense of \$0.4 million. The majority of the increase is in the same apartment portfolio due to the prepayment penalties from the refinancing of several existing mortgage notes. There were more refinances completed in the current period than in the prior period. The refinances during 2012 resulted in annual interest rate savings of \$3.4 million and the prior year refinances resulted in annual interest rate savings of \$1.1 million

Gain on land sales decreased in the current year. In the current year, we sold 639.87 acres of land in 17 separate transactions for an aggregate sales price of \$38.4 million and recorded a gain of \$6.9 million. The average sales price was \$60,034 per acre. In the prior year, we sold 3,809.49 acres of land in 34 separate transactions for an aggregate sales price of \$163.1 million and recorded a gain of \$17.0 million. The average sales price was \$42,801 per acre.

Discontinued Operations

Discontinued operations relates to properties that were either sold or held for sale as of the respective year end. Included in discontinued operations are a total of 21 and 34 income-producing properties as of 2012 and 2011, respectively. The prior periods' discontinued operations have been adjusted to reflect properties held during those years that were subsequently sold or held for sale as of December 31, 2013. In 2012, we sold two apartment complexes (Portofino and Wildflower Villas) and three commercial properties (305 Baronne, Clarke Garage and Dunes Plaza). In 2011, we sold 11 commercial properties (Addison Hanger I, Addison Hanger II, Alpenloan, Fenton Center, One Hickory, Parkway North, Signature, Teleport Blvd, Two Hickory, Westgrove Air Plaza and Willowbrook Village), one apartment complex (Spyglass), 13 acres of land with a storage warehouse (Eagle Crest), and one apartment complex held for sale (Wildflower Villas). In addition, in 2011 we recognized the deferred gains on the sales of two apartment complexes (Bridges on Kinsey and Longfellow Arms) and four commercial properties (2010 Valley View, Cullman Shopping Center, Kmart Cary and Parkway Centre) that were sold in prior years in accordance with the requirements per ASC Topic 360-20 "Property, Plant, and Equipment—Real Estate Sales". The operations related to these properties sold are reclassified to prior years discontinued operations. The gains on sale of the properties sold are also included in the discontinued operations for those years as shown in the table below (dollars in thousands):

	For the Years Ended December 31,	
	2012	2011
Revenues:		
Rental and other property revenues	\$34,774	\$46,620
	34,774	46,620
Expenses:		
Property operating expenses	18,161	25,187
Depreciation	6,349	9,067
General and administrative	961	1,269
Provision on impairment of notes receivable and real estate assets	2,400	9,968
Total operating expenses	27,871	45,491
Other income (expense):		
Other income (expense)	14	(24)
Mortgage and loan interest	(10,806)	(18,808)
Deferred borrowing costs amortization	(1,790)	(805)
Loan charges and prepayment penalties	(3,472)	(1,265)
Earnings from unconsolidated subsidiaries and investees	55	453
Litigation settlement	(250)	-
Total other expenses	(16,249)	(20,449)
Loss from discontinued operations before gain on sale of real estate and taxes	(9,346)	(19,320)
Gain on sale of real estate from discontinued operations	5,217	18,300
Income tax benefit (expense)	1,445	357
Loss from discontinued operations	\$(2,684)	\$(663)

Liquidity and Capital Resources

General

Our principal liquidity needs are:

- fund normal recurring expenses;
- meet debt service and principal repayment obligations including balloon payments on maturing debt;
- fund capital expenditures, including tenant improvements and leasing costs;
- fund development costs not covered under construction loans; and
- fund possible property acquisitions.

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

- property operations;
- proceeds from land and income-producing property sales;

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

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

We may also issue additional equity securities, including common stock and preferred stock. Management anticipates that our cash as of December 31, 2013, along with cash that will be generated in 2014 from property operations, may not be sufficient to meet all of our cash requirements. Management intends to selectively sell land and income-producing assets, refinance or extend real estate debt and seek additional borrowings secured by real estate to meet its liquidity requirements. Although history cannot predict the future, historically, we have been successful at refinancing and extending a portion of the Company's current maturity obligations.

Management reviews the carrying values of TCI's properties and mortgage notes receivable at least annually and whenever events or a change in circumstances indicate that impairment may exist. Impairment is considered to exist if, in the case of a property, the future cash flow from the property (undiscounted and without interest) is less than the carrying amount of the property. For notes receivable, impairment is considered to exist if it is probable that all amounts due under the terms of the note will not be collected. If impairment is found to exist, a provision for loss is recorded by a charge against earnings. The note receivable review includes an evaluation of the collateral property securing such note. 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.

Cash Flow Summary

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

	2013	2012	Variance
Net cash used in operating activities	\$(66,695)	\$(24,738)	\$(41,957)
Net cash provided by investing activities	\$269,049	\$67,809	\$201,240
Net cash used in financing activities	\$(199,269)	\$(50,061)	\$(149,208)

The primary use of cash for operations is daily operating costs, general and administrative expenses, advisory fees, and land holding costs. Our primary source of cash from operating activities is from rental income on properties. In addition, we have a related account in which excess cash is transferred to or from. We used significantly more cash in the current period to pay down related party payables than in the prior period.

Our primary cash outlays for investing activities are for construction and development, acquisition of land and income-producing properties, and capital improvements to existing properties. Our primary sources of cash from investing activities are from the proceeds on the sale of land and income-producing properties. In the current period we sold 11 residential apartment buildings and four commercial properties, providing over \$261.5 million of sales proceeds. In addition, we sold 36.37 acres of land which provided over \$13.7 million in sales proceeds. The majority of the sales proceeds were used to cover the loan obligations. We continue to make capital improvements on our

existing properties and primarily tenant improvements on our commercial properties during 2013.

Our primary sources of cash from financing activities are from proceeds on notes payables. Our primary cash outlays are for recurring debt payments and payments on maturing notes payable. Proceeds from notes payable associated with the new loans and refinances provided \$202.5 million. We used \$15.8 million to make recurring note payments and \$386.7 million for maturing notes, including payoffs required on sold properties.

Equity Investments

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

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

Contractual Obligations

We have contractual obligations and commitments primarily with regards to the payment of mortgages. The following table aggregates our expected contractual obligations and commitments and includes items not accrued, per Generally Accepted Accounting Principles, through the term of the obligation such as interest expense and operating leases. Our aggregate obligations subsequent to December 31, 2013, are shown in the table below (dollars in thousands):

	Total	2014	2015	2016-2018	Thereafter
Long-term debt obligation (1)	\$956,188	\$157,199	\$42,074	\$121,831	\$635,084
Capital lease obligation	-	-	-	-	-
Operating lease obligation	29,393	472	477	1,466	26,978
Purchase obligation	-	-	-	-	-
Other long-term debt liabilities reflected on the	-	-	-	-	-
Registrant's Balance Sheet under GAAP					
Total	\$985,581	\$157,671	\$42,551	\$123,297	\$662,062

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

Environmental Matters

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

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

Inflation

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

As of December 31, 2013, our \$599.6 million debt portfolio consisted of approximately \$518.3 million of fixed-rate debt and approximately \$81.4 million of variable-rate debt with interest rates ranging from 1.0% to 12.5%. Our overall weighted average interest rate at December 31, 2013 and 2012 was 5.65% and 5.20%, respectively.

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

If market interest rates for variable-rate debt average 100 basis points more in 2014 than they did during 2013, TCI's interest expense would increase and net income would decrease by \$0.8 million. This amount is determined by considering the impact of hypothetical interest rates on TCI's borrowing cost. The analysis does not consider the effects of the reduced level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, management would likely take actions to further mitigate its exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no change in TCI's financial structure.

The following table contains only those exposures that existed at December 31, 2013. Anticipation of exposures or risk on positions that could possibly arise was not considered. TCI's ultimate interest rate risk and its effect on operations will depend on future capital market exposures, which cannot be anticipated with a probable assurance level (dollars in thousands):

	2014	2015	2016	2017	2018	Thereafter	Total
Assets							
Market securities at fair value							\$-
Note Receivable							
Variable interest rate - fair value							\$-
Instruments' maturities	\$-	\$-	\$-	\$-	\$-	\$-	\$-
Instruments' amortization	-	-	-	-	-	-	-
Interest	-	-	-	-	-	-	-
Average Rate	0.00	% 0.00	% 0.00	% 0.00	% 0.00	% 0.00	%
Fixed interest rate - fair value							\$57,376
Instruments' maturities	\$9,687	\$272	\$-	\$-	\$-	\$47,417	57,376
Instruments' amortization	-	-	-	-	-	-	-
Interest	5,955	5,656	5,643	5,643	5,643	79,000	107,540
Average Rate	10.47	% 11.86	% 11.90	% 11.90	% 11.90	% 11.90	%
Liabilities							
Notes Payable							
Variable interest rate - fair value							\$81,373
Instruments' maturities	\$55,050	\$281	\$17,506	\$-	\$-	\$3,792	\$76,629
Instruments' amortization	796	1,825	1,773	149	159	42	4,744
Interest	1,939	1,497	1,362	275	265	64	5,402
Average Rate	5.87	% 6.14	% 6.11	% 6.75	% 6.75	% 6.75	%
Fixed interest rate - fair value							\$518,271
Instruments' maturities	\$69,546	\$10,868	\$34,794	\$-	\$-	\$44,410	\$159,618
Instruments' amortization	9,132	9,033	7,027	5,864	5,703	321,894	358,653
Interest	20,736	18,571	16,223	15,480	15,251	264,881	351,142
Average Rate	4.46	% 4.34	% 3.98	% 4.52	% 4.52	% 4.39	%

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Transcontinental Realty Investors, Inc. and Subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2013. Transcontinental Realty Investors, Inc.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Transcontinental Realty Investors, Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

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

FARMER , FUQUA & HUFF, PC

Richardson, Texas
March 31, 2014

TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2013	December 31, 2012
	(dollars in thousands, except share and par value amounts)	
Assets		
Real estate, at cost	\$777,974	\$978,781
Real estate held for sale at cost, net of depreciation (\$2,390 in 2013 and \$4,658 in 2012)	16,427	18,077
Real estate subject to sales contracts at cost, net of depreciation (\$1,949 in 2013 and \$16,412 in 2012)	29,353	45,706
Less accumulated depreciation	(127,952)	(145,614)
Total real estate	695,802	896,950
Notes and interest receivable		
Performing (including \$66,431 in 2013 and \$58,007 in 2012 from related parties)	69,626	60,637
Non-Performing	543	723
Less allowance for estimated losses (including \$2,097 in 2013 and 2012, respectively, from related parties)	(2,262)	(2,262)
Total notes and interest receivable	67,907	59,098
Cash and cash equivalents	16,086	13,001
Restricted cash	31,799	33,983
Investments in unconsolidated subsidiaries and investees	1,697	5,439
Receivable from related party	52,380	-
Other assets	32,000	36,873
Total assets	\$897,671	\$1,045,344
Liabilities and Shareholders' Equity		
Liabilities:		
Notes and interest payable	\$562,734	\$733,152
Notes related to assets held for sale	17,100	18,915
Notes related to subject to sales contracts	23,011	55,976
Payable to related party	-	10,057
Deferred revenue (from sales to related parties)	53,096	53,096
Accounts payable and other liabilities (including \$4,697 in 2013 and \$4,282 in 2012 from related parties)	50,160	41,019
	706,101	912,215
Shareholders' equity:		
Preferred Stock, authorized 10,000,000 shares, Series C: \$.01 par value, authorized, issued and outstanding 30,000 shares in 2013 and 2012, respectively, (liquidation preference \$100 per share). Series D: \$.01 par value, authorized, issued and outstanding 100,000 shares in 2013 and 2012, respectively	1	1
Common Stock, \$.01 par value, authorized 10,000,000 shares; issued 8,413,669 in 2013 and 2012, respectively, and outstanding 8,413,469 in 2013 and 2012, respectively	84	84
Treasury stock at cost; 200 shares in 2013 and 2012	(2)	(2)

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Paid-in capital	271,720	272,774
Retained earnings	(98,029)	(156,559)
Total Transcontinental Realty Investors, Inc. shareholders' equity	173,774	116,298
Non-controlling interest	17,796	16,831
Total equity	191,570	133,129
Total liabilities and equity	\$897,671	\$1,045,344

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

TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31,		
	2013	2012	2011
	(dollars in thousands, except per share amounts)		
Revenues:			
Rental and other property revenues (including \$670, \$587 and \$223 for the year ended 2013, 2012 and 2011, respectively, from related parties)	\$86,237	\$86,615	\$77,935
Expenses:			
Property operating expenses (including \$766, \$957 and \$972 for the year ended 2013, 2012 and 2011, respectively, from related parties)	40,948	42,329	41,984
Depreciation	17,174	16,141	13,967
General and administrative (including \$2,765, \$2,427 and \$3,088 for the year ended 2013, 2012 and 2011, respectively, from related parties)	6,323	5,090	8,971
Provision on impairment of notes receivable and real estate assets	11,320	2,330	35,039
Net income fee to related party	4,089	180	54
Advisory fee to related party	8,494	8,915	9,958
Total operating expenses	88,348	74,985	109,973
Operating income (loss)	(2,111)	11,630	(32,038)
Other income (expense):			
Interest income (including \$13,823, \$11,677 and \$5,275 for the year ended 2013, 2012 and 2011, respectively, from related parties)	13,790	11,725	5,720
Other income (including \$0, \$6,000 and \$0 for the year ended 2013, 2012 and 2011, respectively, from related parties)	7,862	6,303	2,441
Mortgage and loan interest (including \$1,761, \$3,153 and \$2,176 for the year ended 2013, 2012 and 2011, respectively, from related parties)	(31,637)	(36,243)	(36,221)
Deferred borrowing costs amortization	(2,588)	(637)	(1,560)
Loan charges and prepayment penalties	(5,219)	(3,574)	(439)
Gain (loss) on the sale of investments	(283)	125	(514)
Earnings from unconsolidated joint ventures and investees	(172)	(66)	242
Litigation settlement	(20,313)	(173)	(225)
Total other expenses	(38,560)	(22,540)	(30,556)
Loss before gain (loss) on land sales, non-controlling interest, and taxes	(40,671)	(10,910)	(62,594)
Gain (loss) on land sales	(1,073)	6,935	17,011
Loss from continuing operations before tax	(41,744)	(3,975)	(45,583)
Income tax benefit (expense)	40,485	(1,445)	(357)
Net loss from continuing operations	(1,259)	(5,420)	(45,940)
Discontinued operations:			
Loss from discontinued operations	(3,915)	(9,346)	(19,320)

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Gain on sale of real estate from discontinued operations	97,405	5,217	18,300
Income tax benefit (expense) from discontinued operations	(32,722)	1,445	357
Net income (loss) from discontinued operations	60,768	(2,684)	(663)
Net income (loss)	59,509	(8,104)	(46,603)
Net (income) loss attributable to non-controlling interest	(979)	(220)	282
Net income (loss) attributable to Transcontinental Realty Investors, Inc.	58,530	(8,324)	(46,321)
Preferred dividend requirement	(1,110)	(1,112)	(1,110)
Net income (loss) applicable to common shares	\$57,420	\$ (9,436)	\$ (47,431)
Earnings per share - basic			
Loss from continuing operations	\$(0.40)	\$(0.80)	\$(5.59)
Income (loss) from discontinued operations	7.22	(0.32)	(0.08)
Net income (loss) applicable to common shares	\$6.82	\$ (1.12)	\$(5.67)
Earnings per share - diluted			
Loss from continuing operations	\$(0.40)	\$(0.80)	\$(5.59)
Income (loss) from discontinued operations	7.22	(0.32)	(0.08)
Net income (loss) applicable to common shares	\$6.82	\$ (1.12)	\$(5.67)
Weighted average common shares used in computing earnings per share	8,413,469	8,413,469	8,370,729
Weighted average common shares used in computing diluted earnings per share	8,413,469	8,413,469	8,370,729
Amounts attributable to Transcontinental Realty Investors, Inc.			
Loss from continuing operations	\$(2,238)	\$(5,640)	\$(45,658)
Income (loss) from discontinued operations	60,768	(2,684)	(663)
Net income (loss)	\$58,530	\$ (8,324)	\$(46,321)

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

TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Three Years Ended December 31, 2013
(dollars in thousands)

	Total	Comprehensive Income (Loss)	Preferred Stock	Common Stock Shares	Treasury Stock Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest	
Balance, December 31, 2010	\$183,448	\$ (105,122)	\$ 1	8,113,669	\$ 81	\$ (2)	\$271,682	\$ (101,914)	\$ -	\$ 13,600
Series D preferred stock dividends (7% per year)	(900)	-	-	-	-	-	(900)	-	-	-
Series C preferred stock dividends (8.5% per year)	(210)	-	-	-	-	-	(210)	-	-	-
Net loss	(46,603)	(45,930)	-	-	-	-	(46,321)	-	(282)	-
Issuance of common stock	1,530	-	-	300,000	3	-	1,527	-	-	-
Sale of controlling interest	4,019	-	-	-	-	-	1,787	-	-	2,232
Balance, December 31, 2011	\$141,284	\$ (151,052)	\$ 1	8,413,669	\$ 84	\$ (2)	\$273,886	\$ (148,235)	\$ -	\$ 15,550
Series D preferred stock dividends (7% per year)	(902)	-	-	-	-	-	(902)	-	-	-
Series C preferred stock dividends (8.5% per year)	(210)	-	-	-	-	-	(210)	-	-	-
Net income (loss)	(8,104)	(8,104)	-	-	-	-	(8,324)	-	220	-
Issuance of common stock	-	-	-	-	-	-	-	-	-	-
Sale of controlling interest	1,138	-	-	-	-	-	-	-	-	1,138
Acquisition of controlling interest	(69)	-	-	-	-	-	-	-	-	(69)
	(8)	-	-	-	-	-	-	-	-	(8)

Distributions to non-controlling interests										
Repurchase/sale of treasury shares, net	-	-	-	-	-	-	-	-	-	-
Balance, December 31, 2012	\$133,129	\$ (159,156)	\$ 1	8,413,669	\$ 84	\$ (2)	\$272,774	\$ (156,559)	\$ -	\$ 16,831
Series D preferred stock dividends (7% per year)	(900)	-	-	-	-	-	(900)	-	-	-
Series C preferred stock dividends (8.5% per year)	(210)	-	-	-	-	-	(210)	-	-	-
Net income	59,509	59,509	-	-	-	-	-	58,530	-	979
Issuance of common stock	-	-	-	-	-	-	-	-	-	-
Sale of controlling interest	56	-	-	-	-	-	56	-	-	-
Acquisition of controlling interest	-	-	-	-	-	-	-	-	-	-
Distributions to non-controlling interests	(14)	-	-	-	-	-	-	-	-	(14)
Repurchase/sale of treasury shares, net	-	-	-	-	-	-	-	-	-	-
Balance, December 31, 2013	\$191,570	\$ (99,647)	\$ 1	8,413,669	\$ 84	\$ (2)	\$271,720	\$ (98,029)	\$ -	\$ 17,796

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

TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2013	2012	2011
	(dollars in thousands)		
Cash Flow From Operating Activities:			
Net income (loss)	\$59,509	\$(8,104)	\$(46,603)
Adjustments to reconcile net income (loss) applicable to common shares to net cash used in operating activities:			
(Gain) loss on sale of land	1,073	(6,935)	(17,011)
Gain on sale of income producing properties	(97,405)	(5,217)	(18,300)
Depreciation and amortization	21,404	22,488	23,034
Provision on impairment of notes receivable and real estate assets	11,320	4,730	52,128
Amortization of deferred borrowing costs	1,349	2,428	2,365
Earnings from unconsolidated subsidiaries and investees	142	11	(695)
(Increase) decrease in assets:			
Accrued interest receivable	(8,432)	(5,517)	(4,050)
Other assets	(1,443)	(3,462)	(799)
Prepaid expense	(1,722)	(236)	2,083
Escrow	3,625	1,157	18,837
Earnest money	(310)	235	1,385
Rent receivables	2,445	(1,094)	(6,158)
Increase (decrease) in liabilities:			
Accrued interest payable	(5,262)	(7,498)	8,743
Related party payables	(62,437)	(7,408)	(29,795)
Other liabilities	9,449	(10,316)	717
Net cash used in operating activities	(66,695)	(24,738)	(14,119)
Cash Flow From Investing Activities:			
Proceeds from notes receivables	-	11,993	16,924
Originations of notes receivables	(458)	13,477	(22,421)
Acquisition of land held for development	(83)	(18,948)	(43,193)
Acquisition of income producing properties	-	-	6,526
Proceeds from sales of income producing properties	261,495	31,751	29,628
Proceeds from sale of land	13,671	36,648	104,093
Proceeds from sale of investments	-	132	586
Investment in unconsolidated real estate entities	3,600	780	(319)
Improvement of land held for development	(399)	(184)	(1,562)
Improvement of income producing properties	(7,681)	(2,201)	(3,657)
Acquisition of non-controlling interest	-	(69)	-
Sale of controlling interest	56	113	4,019
Construction and development of new properties	(1,152)	(5,683)	(46,774)
Net cash provided by investing activities	269,049	67,809	43,850
Cash Flow From Financing Activities:			
Proceeds from notes payable	202,535	139,459	117,441

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Recurring amortization of principal on notes payable	(15,761)	(21,541)	(16,383)
Payments on maturing notes payable	(386,710)	(163,553)	(120,922)
Deferred financing costs	1,791	(3,305)	(1,555)
Distributions to non-controlling interests	(14)	(8)	-
Common stock issuance	-	-	1,530
Preferred stock dividends - Series C	(210)	(212)	(210)
Preferred stock dividends - Series D	(900)	(901)	(900)
Net cash used in financing activities	(199,269)	(50,061)	(20,999)
Net increase (decrease) in cash and cash equivalents	3,085	(6,990)	8,732
Cash and cash equivalents, beginning of period	13,001	19,991	11,259
Cash and cash equivalents, end of period	\$ 16,086	\$ 13,001	\$ 19,991
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$ 37,776	\$ 44,737	\$ 56,641
Cash paid for income taxes, net of refunds	\$-	\$-	\$-
Schedule of noncash investing and financing activities:			
Affiliate payable/receivable for ARL cost basis sales adjustment	\$-	\$ 10,445	\$(34,234)
Acquisition of land for ARL cost basis sales adjustment	\$-	\$(10,445)	\$ 34,234
Note receivable allowance	\$-	\$-	\$-
Notes receivable received from affiliate	\$-	\$ 6,000	\$ 20,387
Sale of notes receivable to affiliate	\$-	\$(20,387)	\$-

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

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

	2013	2012	2011
	(dollars in thousands)		
Net income (loss)	\$59,509	\$(8,104)	\$(46,603)
Other comprehensive loss			
Unrealized gain on investment securities	-	-	-
Total other comprehensive loss	-	-	-
Comprehensive income (loss)	59,509	(8,104)	(46,603)
Comprehensive (income) loss attributable to non-controlling interest	(979)	(220)	282
Comprehensive income (loss) attributable to Transcontinental Realty Investors, Inc.	\$58,530	\$(8,324)	\$(46,321)

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

TRANSCONTINENTAL REALTY INVESTORS, INC.
NOTES TO FINANCIAL STATEMENTS

The accompanying Consolidated Financial Statements of Transcontinental Realty Investors, Inc. and consolidated entities have been prepared in conformity with accounting principles generally accepted in the United States of America, the most significant of which are described in Note 1. "Summary of Significant Accounting Policies." The Notes to Consolidated Financial Statements are an integral part of the Consolidated Financial Statements. The data presented in the Notes to Consolidated Financial Statements are as of December 31 of each year and for the year then ended, unless otherwise indicated. Dollar amounts in tables are in thousands, except per share amounts.

Certain balances for 2011 and 2012 have been reclassified to conform to the 2013 presentation.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FASB Accounting Standards Codification. The Company presents its financial statements in accordance with generally accepted accounting principles in the United States ("GAAP"). In June 2009, the Financial Accounting Standards Board ("FASB") completed its accounting guidance codification project. The FASB Accounting Standards Codification ("ASC") became effective for the Company's financial statements issued subsequent to June 30, 2009 and is the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. As of the effective date, the company refers to the ASC Codification as the sole source of authoritative literature.

Organization and business. Transcontinental Realty Investors, Inc., a Nevada corporation, is headquartered in Dallas, Texas and its common stock trades on the New York Stock Exchange ("NYSE") under the symbol ("TCI"). TCI is the successor to a California business trust that was organized on September 6, 1983 and commenced operations on January 31, 1984. On November 30, 1999, TCI acquired all of the outstanding shares of beneficial interest of Continental Mortgage and Equity Trust ("CMET"), a real estate company, in a tax-free exchange of shares, issuing 1,181 shares of its common stock for each outstanding CMET share. Prior to January 1, 2000, TCI elected to be treated as a Real Estate Investment Trust ("REIT") under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"). During the third quarter of 2000, due to a concentration of ownership TCI no longer met the requirement for tax treatment as a REIT. Effective March 31, 2003, TCI's financial results were consolidated in the American Realty Investors, Inc. ("ARL") Form 10-K and related consolidated financial statements.

TCI is a "C" corporation for U.S. federal income tax purposes and files an annual consolidated income tax return with ARL, whose common stock is traded on the New York Stock Exchange under the symbol ("ARL"). Subsidiaries of ARL own approximately 83.8% of the Company's common stock.

On July 17, 2009, the Company acquired an additional 2,518,934 shares of common stock of Income Opportunity Realty Investors, Inc. ("IOT"), and in doing so, increased its ownership from approximately 25% to over 80% of the shares of common stock of IOT outstanding. Upon acquisition of the additional shares in 2009, IOT's results of operations began consolidating with those of the Company for tax and financial reporting purposes. As of December 31, 2013, TCI owned 81.1% of the outstanding IOT common shares. Shares of IOT are traded on the New York Euronext Exchange ("NYSE MKT") under the symbol ("IOT").

At the time of the acquisition, the historical accounting value of IOT's assets was \$112 million and liabilities were \$43 million. In that the shares of IOT acquired by TCI were from a related party, the values recorded by TCI are IOT's historical accounting values at the date of transfer. The Company's fair valuation of IOT's assets and liabilities at the acquisition date approximated IOT's book value. The net difference between the purchase price and historical accounting basis of the assets and liabilities acquired was \$26.9 million and has been reflected by TCI as deferred

income. The deferred income will be recognized upon the sale of the land that IOT held on its books as of the date of sale, to an independent third party.

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

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

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

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

Our primary business is the acquisition, development and ownership of income-producing residential and commercial real estate properties. In addition, we opportunistically acquire land for future development in in-fill or high-growth suburban markets. From time to time and when we believe it appropriate to do so, we will also sell land and income-producing properties. We generate revenues by leasing apartment units to residents and leasing office, industrial and retail space to various for-profit businesses as well as certain local, state and federal agencies. We also generate revenues from gains on sales of income-producing properties and land. At December 31, 2013, we owned 36 residential apartment communities comprising of 6,078 units, nine commercial properties comprising an aggregate of approximately 2.3 million square feet, and an investment in 4,100 acres of undeveloped and partially developed land.

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

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

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

method until December 28, 2011, when it was sold to a third party.

The Company in accordance with the VIE guidance in ASC 810 “Consolidations” consolidates 33 and 44 multifamily residential properties located throughout the United States at December 31, 2013 and December 31, 2012, respectively, ranging from 32 units to 332 units. Assets totaling \$343,889,000 and \$503,580,000 at December 31, 2013 and 2012, respectively, are consolidated and included in “Real estate, at cost” on the balance sheet and are all collateral for their respective mortgage notes payable, none of which are recourse to the partnership in which they are in or to the Company. Assets totaling \$16,427,000 and \$18,077,000 at December 31, 2013 and 2012, respectively, are consolidated and included in “Real estate held for sale at cost” on the balance sheet and are all collateral for their respective mortgage notes payable, none of which are recourse to the partnership in which they are in or to the Company.

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

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

Real estate held for sale. We periodically classify real estate assets as held for sale. An asset is classified as held for sale after the approval of the Company’s board of directors and after an active program to sell the asset has commenced. Upon the classification of a real estate asset as held for sale, the carrying value of the asset is reduced to the lower of its net book value or its estimated fair value, less costs to sell the asset. Subsequent to the classification of assets as held for sale, no further depreciation expense is recorded. Real estate assets held for sale are stated separately on the accompanying consolidated balance sheets. Upon a decision to no longer market as an asset for sale, the asset is classified as an operating asset and depreciation expense is reinstated. The operating results of real estate assets held for sale and sold are reported as discontinued operations in the accompanying statements of operations. Income from discontinued operations includes the revenues and expenses, including depreciation and interest expense, associated with the assets. This classification of operating results as discontinued operations applies retroactively for all periods presented. Additionally, gains and losses on assets designated as held for sale are classified as part of discontinued operations.

Cost capitalization. The cost of buildings and improvements includes the purchase price of property, legal fees and other acquisition costs. Costs directly related to planning, developing, initial leasing and constructing a property are capitalized and classified as Real Estate in the Consolidated Balance Sheets. Capitalized development costs include interest, property taxes, insurance, and other direct project costs incurred during the period of development.

A variety of costs are incurred in the acquisition, development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. Our capitalization policy on development properties is guided by ASC Topic 835-20 “Interest – Capitalization of Interest” and ASC Topic 970 “Real Estate - General”. The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We consider a construction project as substantially completed and held available for occupancy upon the receipt of certificates of occupancy, but no later than one year from cessation of major construction activity. We cease capitalization on the portion (1) substantially completed and (2) occupied or held available for occupancy, and we capitalize only those costs associated with the portion under construction.

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

Fair value measurement. We apply the guidance in ASC Topic 820, “Fair Value Measurements and Disclosures,” to the valuation of real estate assets. These provisions define fair value as the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at the measurement date, establish a hierarchy that prioritizes the information used in developing fair value estimates and require disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in

active markets (Level 1 measurements) and the lowest priority to unobservable data (Level 3 measurements), such as the reporting entity's own data.

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

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

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

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

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

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

Recognition of revenue. Our revenues, which are composed largely of rental income, include rents reported on a straight-line basis over the lease term. In accordance with ASC 805 “Business Combinations”, we recognize rental revenue of acquired in-place “above-” and “below-market” leases at their fair values over the terms of the respective leases.

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

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

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

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

Interest recognition on notes receivable. We record interest income as earned in accordance with the terms of the related loan agreements. Prior to January 1, 2012, on cash flow notes where payments are based upon surplus cash from operations, accrued but unpaid interest income was only recognized to the extent that cash was received. As of January 1, 2012, due to the consistency of cash received on the surplus cash notes, we recorded interest as earned.

Allowance for estimated losses. We assess the collectability of notes receivable on a periodic basis, of which the assessment consists primarily of an evaluation of cash flow projections of the borrower to determine whether estimated cash flows are sufficient to repay principal and interest in accordance with the contractual terms of the note. We recognize impairments on notes receivable when it is probable that principal and interest will not be received in accordance with the contractual terms of the loan. The amount of the impairment to be recognized generally is based on the fair value of the partnership’s real estate that represents the primary source of loan repayment. See Note 3 “Notes and Interest Receivable” for details on our notes receivable.

Cash equivalents. For purposes of the Consolidated Statements of Cash Flows, all highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents. Restricted cash consists of cash reserved primarily for specific uses such as insurance, property taxes and replacement reserves.

Concentration of credit risk. The Company maintains its cash balances at commercial banks and through investment companies, the deposits of which are insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2013 and 2012, the Company maintained balances in excess of the insured amount.

Earnings per share. Income (loss) per share is presented in accordance with ASC 620 "Earnings per Share". Income (loss) per share is computed based upon the weighted average number of shares of common stock outstanding during each year.

Use of estimates. In the preparation of Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America, it is necessary for management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expense for the year ended. Actual results could differ from those estimates.

Income taxes. The Company is a "C Corporation" for U.S. federal income tax purposes. For tax periods ending before August 31, 2012, the Company filed an annual consolidated income tax return with ARL and IOT and their subsidiaries. ARL was the common parent for the consolidated group. After that date, the Company and the rest of the ARL group joined the RAMI consolidated group for tax purposes. The income tax expense (benefit) for the 2011 tax period in the accompanying financial statement was calculated under a tax sharing and compensating agreement between ARL, TCI and IOT. That agreement continued until August 31, 2012 at which time a new tax sharing and compensating agreement was entered into by ARL, TCI, IOT and RAMI for the remainder of 2012. The agreement specifies the manner in which the group will share the consolidated tax liability and also how certain tax attributes are to be treated among members of the group.

Recent accounting pronouncements. There were no recent accounting pronouncements that our company has not implemented that materially affect our financial statements.

NOTE 2. REAL ESTATE

A summary of our real estate owned as of the end of the year is listed below (dollars in thousands):

	2013	2012
Apartments	\$433,141	\$609,093
Apartments under construction	-	-
Commercial properties	203,823	216,343
Land held for development	141,010	153,345
Real estate held for sale	18,817	22,735
Real estate subject to sales contract	31,302	62,118
Total real estate, at cost, less impairment	828,093	1,063,634
Less accumulated depreciation	(132,291)	(166,684)
Total real estate, net of depreciation	\$695,802	\$896,950

Expenditures for repairs and maintenance are charged to operations as incurred. Significant betterments are capitalized. When assets are sold or retired, their costs and related accumulated depreciation are removed from the accounts with the resulting gains or losses reflected in net income or loss for the period.

Depreciation is computed on a straight line basis over the estimated useful lives of the assets as follows:

Land improvements	25 to 40 years
Buildings and improvements	10 to 40 years
Tenant improvements	Shorter of useful life or terms of related lease
Furniture, fixtures and equipment	3 to 7 years

Provision for Impairment

The provision on impairment of notes receivable, investment in real estate partnerships, and real estate assets was \$11.3 million for the period ended December 31, 2013. This was an increase of \$9.0 million as compared to the prior year expense of \$2.3 million. In the current year, impairment was recorded as an additional loss in the commercial, land, and notes receivable portfolios. In our commercial portfolio, a recent third party appraisal determined the fair value of a building located in Dallas, Texas that resulted in an impairment of \$9.6 million. In our land portfolio, an impairment of \$1.5 million resulted due to a decision made by Management on overall strategy relating to land development which would result in probable deed transfer or foreclosure on a secured portion of debt. In our notes receivable portfolio, an impairment of \$0.2 million resulted from the collectability of certain notes.

In the prior period, impairment was recorded as an additional loss on investment in the land portfolio. A sale of adjacent land determined the fair value on a Waco, Texas land holding that resulted in an impairment reserve of \$1.2 million. A comparable sale determined the fair value of a Florida land holding that resulted in an impairment reserve of \$0.5 million. The remaining impairment of \$0.6 million resulted from an appraisal done by a third party which determined the fair value of an Arkansas land holding.

Fair Value Measurement

The Company applies the guidance in ASC Topic 820, "Fair Value Measurements and Disclosures," to the valuation of real estate assets. The Company is required to assess the fair value of its consolidated real estate assets with indicators of impairment. The value of impaired real estate assets is determined using widely accepted valuation techniques, including discounted cash flow analyses on the expected cash flow of each asset, as well as the income capitalization approach, which considers prevailing market capitalization rates, analyses of recent comparable sales transactions, information from actual sales negotiations and bona fide purchase offers received from third parties. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurements used in these evaluations are considered to be Level 2 and 3 valuations within the fair value hierarchy in the accounting rules, as there are significant observable (Level 2) and unobservable inputs (Level 3). Examples of Level 2 inputs the Company utilizes in its fair value calculations are appraisals and bona fide purchase offers from third parties. Examples of Level 3 inputs the Company utilizes in its fair value calculations are discount rates, market capitalization rates, expected lease rental rates, timing of new leases, an estimate of future sales prices and comparable sales prices of similar assets, if available. All of the impairment charges outlined above were recorded in the statements of operations, either in continuing operations or discontinued operations.

December 31, 2013	Fair Value	Fair Value Measurements Using (dollars in thousands):		
		Level 1	Level 2	Level 3
Land	\$ 849	\$ ---	\$ 849	\$ ---
Commercial	\$ 26,194	\$ ---	\$ 26,194	\$ ---

Land with a carrying amount of \$2,355,768 was written down to its fair value of \$849,468 resulting in an impairment charge of \$1,506,300 in 2013. The method used to determine the fair value was to take the debt balance on the collateralized acres plus the book value of the uncollateralized acres.

A commercial building with a carrying amount of \$35,794,331 was written down to its fair value of \$26,194,331 resulting in an impairment charge of \$9,600,000 in 2013. The Level 2 input used to determine the fair value above was a third party appraisal.

December 31, 2012	Fair Value	Fair Value Measurements Using (dollars in thousands):		
		Level 1	Level 2	Level 3
Land	\$ 2,699	\$ ---	\$ 1,800	\$ 899
Commercial	\$ 9,660	\$ ---	\$ 9,660	\$ ---

Land with a carrying amount of \$5,029,254 was written down to its fair value of \$2,699,175 resulting in an impairment charge of \$2,330,079 in 2012. Level 2 inputs used to determine the fair values above include bona fide purchase offers and third party appraisals. The Level 3 inputs used to determine the fair values above include comparable sales prices of similar assets.

A commercial building with a carrying amount of \$12,060,247 was written down to its fair value of \$9,660,247 resulting in an impairment charge of \$2,400,000 in 2012. The method used to determine the fair value was agreement with lender as to value based on their evaluation of the property.

December 31, 2011	Fair Value	Fair Value Measurements Using (dollars in thousands):		
		Level 1	Level 2	Level 3
Land	\$ 55,806	\$ ---	\$ 55,806	\$ ---
Residential	\$ 30,539	\$ ---	\$ ---	\$ 30,539
Commercial	\$ 11,934	\$ ---	\$ 11,934	\$ ---

Land with a carrying amount of \$86,696,927 was written down to its fair value of \$55,806,297 resulting in an impairment charge of \$30,890,630 in 2011. Level 2 observable inputs used to determine the fair value includes bona fide purchase offers and third party appraisals.

Residential properties with a carrying amount of \$35,717,146 were written down to their fair value of \$30,539,462 resulting in an impairment charge of \$5,177,684 in 2011. Level 3 unobservable inputs were used to determine the fair value includes a valuation technique, the income capitalization approach, which considers prevailing market capitalization rates.

Commercial properties with a carrying amount of \$20,427,936 were written down to their fair value of \$11,933,620 resulting in an impairment charge of \$8,494,316 in 2011. Level 2 observable inputs used to determine the fair value includes bona fide purchase offers.

The following is a brief description of the most significant property acquisitions and sales in 2013:

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On January 8, 2013, the Company sold 14.52 acres of land known as Southwood located in Tallahassee, Florida, at a foreclosure auction to an independent third party for \$0.5 million. This land parcel was previously sold on December 31, 2012, to One Realco Corporation, a related party, for a sales price of \$0.6 million. The Company did not recognize or record the sale in accordance with ASC 360-20 due to TCI's continuing involvement, which included the potential payment of cash shortfalls, future obligations under the existing mortgage and guaranty, the buyer's inadequate initial investment and the Company's questionable recovery of investment cost. The Company determined that no sale had occurred for financial reporting purposes and therefore the asset remained on the books and continued to record operating expenses and depreciation as a period cost until a sale occurred that met the requirements of ASC 360-20. A sale to an independent third party, that met the requirements of ASC 360-20, took place on January 8, 2013, when the property was sold to a third party and sales proceeds were credited against the outstanding debt. There was no gain or loss on the land parcel sale.

On January 28, 2013, the Company sold a 314-unit apartment complex known as Verandas at City View located in Fort Worth, Texas, for a sales price of \$25.3 million to an independent third party. The buyer assumed the existing debt of \$18.2 million secured by the property. We recorded a gain of \$6.2 million on the sale.

On March 14, 2013, the Company sold 13.90 acres of land known as Sheffield located in Grand Prairie, Texas, to an independent third party for a sales price of \$2.3 million. The proceeds from the sale were used to pay off the multi-tract collateral debt, secured by the property. We recorded a nominal loss on the sale of the property.

On April 8, 2013, the Company recorded the transfer of ownership of Eton Square, a 225,566 square foot commercial building, located in Tulsa, Oklahoma, to the existing lender for satisfaction of the current mortgage note. There was a negotiated deficiency between the value of the property and the outstanding mortgage, resulting in a promissory note for \$2.0 million provided by the seller. The promissory note is reduced by \$1.0 million if timely payments are made in accordance with the note. The investment in the entity that owns this commercial building was previously sold on May 18, 2010, to TX Highland RS Corp, a related party, for a sales price of \$13.7 million. The Company did not recognize or record the sale in accordance with ASC 360-20 due to TCI's continuing involvement, which included the potential payment of cash shortfalls, future obligations under the existing mortgage and guaranty, the buyer's inadequate initial investment and the Company's questionable recovery of investment cost. The Company determined that no sale had occurred for financial reporting purposes and therefore the asset remained on the books and continued to record operating expenses and depreciation as a period cost until a sale occurred that met the requirements of ASC 360-20. A sale to an independent third party, that met the requirements of ASC 360-20, took place on April 8, 2013, when the property was transferred to the existing lender and sales proceeds were credited against the outstanding debt. We recorded a nominal gain on the sale.

On April 12, 2013, the Company was granted full title to 0.2341 acres of land known as Mininvest, located in Dallas, Texas, by an order of judgment. We paid real estate taxes and have been maintaining the property for the years 1993-2007.

On February 2, 2012, the Company and its subsidiary, 1340 Poydras, LLC, executed a Guarantor Settlement and Consent Agreement with the lender for the Amoco building, Petra CRE CDO 2007-1, Ltd ("Petra") to transfer ownership of the Amoco building to a new entity, 1340 Owner, LLC, which is affiliated with the existing lender, Petra. Petra and its affiliate are independent third parties. TCI deferred the recognition of the sale in accordance with ASC 360-20 due to TCI's continuing involvement related to the obligations under the note and guaranty agreements and the re-acquisition option. As of May 7, 2013, TCI and Petra settled the obligations set forth under the note and guaranty and terminated the re-acquisition option. TCI recorded the sale to the independent third party and recognized a gain of \$11.9 million. In connection with the settlement of certain litigation which had been pending in the U. S. District Court, Eastern District of Louisiana, among Petra, TCI, and a subsidiary, on May 7, 2013, TCI issued a \$5.0 million promissory note payable to the lender which is secured by an unrecorded confession of judgment

and a collateral pledge to such lender of 135,000 shares of Series K convertible preferred stock of ARL issued on the same date to TCI. Such promissory note requires regular monthly payments, is pre-payable, and matures on March 5, 2015. The issuance of the \$5.0 million promissory note and collateral to the lender resolved all claims of the lender against TCI including deficiency claims under a mortgage covering certain real property located in New Orleans, Louisiana. The note has prepayment provisions whereby if it is paid off by March 1, 2014, the balance of \$3.5 million is forgiven and if paid off after March 1, 2014, but before March 1, 2015, \$2.5 million will be forgiven and collateral returned to the Company and the judgment released. On February 12, 2014, TCI exercised the first prepayment option date on the settlement with Petra CRE CDO relating to the Amoco Building. Per the agreement, TCI paid \$1.2 million to settle all obligations and the remaining balance of the note and accrued interest of \$3.5 million was forgiven.

On May 9, 2013, the Company sold 225 Baronne, a 422,037 square foot building, located in New Orleans, Louisiana, for a sales price of \$1.5 million to an independent third party. Proceeds of sale were used to pay down a related party payable. We recorded a nominal gain on the sale.

On June 7, 2013, the Company sold a 206-unit apartment complex known as Laguna Vista, located in Farmers Branch, Texas, for a sale price of \$24.8 million to an independent third party. We recorded a gain on sale of \$6.1 million.

On October 15, 2013, the Company recorded the transfer of ownership of a 26,000 square foot commercial building known as the Ergon building and 7.95 acres of land known as Jackson Capital City land, located in Jackson, Mississippi, to the existing lender for a settlement price of \$10.4 million. The proceeds of this sale were used to pay down stock secured loans with Armed Forces Bank.

On December 20, 2013, the Company sold nine residential apartment complexes to an independent third party for the sales price of \$189.6 million. The properties included in the sale were Dorado Ranch, a 224 unit apartment complex located in Odessa, Texas, Huntington Ridge, a 198 unit apartment complex located in Desoto, Texas, Legends of El Paso, a 240 unit apartment complex located in El Paso, Texas, Mariposa Villas, a 216 unit apartment complex located in Dallas, Texas, Paramount Terrace, a 181 unit apartment complex located in Amarillo, Texas, River Oaks, a 180 unit apartment complex located in Wylie, Texas, Savoy of Garland, a 144 unit apartment complex located in Garland, Texas, Stonebridge at City Park, a 240 unit apartment complex located in Houston, Texas and Vistas of Pinnacle Park, a 332 unit apartment complex located in Dallas, Texas. The buyer assumed the combined debt of \$115.1 million secured by the properties. TCI recorded a combined gain of \$73.5 million.

In December 2010, various commercial and land holdings were sold to FRE Real Estate, Inc., a related party. During the first three months of 2011, many of these transactions were rescinded as of the original transaction date and were subsequently sold to related parties under the same ownership as FRE Real Estate, Inc. As of December 31, 2013, one commercial building, Thermalloy, remains in FRE Real Estate, Inc. The Company did not recognize or record the sale in accordance with ASC 360-20 due to TCI's continuing involvement, which included the potential payment of cash shortfalls, future obligations under the existing mortgage and guaranty, the buyer's inadequate initial investment and the Company's questionable recovery of investment cost. The Company determined that no sale had occurred for financial reporting purposes and therefore the asset remained on the books and continued to record operating expenses and depreciation as a period cost until a sale occurred that met the requirements of ASC 360-20.

As of December 31, 2013, there remains one apartment complex, one commercial building and 212 acres of land that we have sold to a related party and have deferred the recognition of the sale. These are treated as "subject to sales contract" on the Consolidated Balance Sheets. These properties were sold to a related party in order to help facilitate an appropriate debt or organizational restructure and may or may not be transferred back to the seller upon resolution. These properties have mortgages that are secured by the property and many have corporate guarantees. According to the loan documents, the maker is currently in default on these mortgages primarily due to lack of payment and is actively involved in discussions with every lender in order to settle or cure the default situation. We have reviewed each asset and taken impairment to the extent we feel the value of the property was less than our current basis. The Company did not recognize or record the sale in accordance with ASC 360-20 due to our continuing involvement, which included the potential payment of cash shortfalls, future obligations under the existing mortgage and guaranty, the buyer's inadequate initial investment and the Company's questionable recovery of investment cost. The Company determined that no sale had occurred for financial reporting purposes and therefore the asset remained on the books and continued to record operating expenses and depreciation as a period cost until a sale occurred that met the requirements of ASC 360-20. The buyers received no compensation for the facilitation of the bankruptcy or debt restructuring process.

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

NOTE 3. NOTES AND INTEREST RECEIVABLE

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

Borrower	Maturity Date	Interest Rate	Amount	Security
Performing loans:				
Miscellaneous related party notes (1)	Various	Various	\$ 664	Various secured and unsecured interests
S Breeze I-V, LLC	06/14	5.00%	3,180	6% Class A and 25% Class B Limited Partner Interests
Unified Housing Foundation, Inc. (Echo Station) (1)	12/32	12.00%	1,481	100% Interest in Unified Housing of Temple, LLC
Unified Housing Foundation, Inc. (Lakeshore Villas) (1)	12/32	12.00%	2,000	Unsecured
Unified Housing Foundation, Inc. (Lakeshore Villas) (1)	12/32	12.00%	6,363	Membership interest in Housing for Seniors of Humble, LLC
Unified Housing Foundation, Inc. (Limestone Canyon) (1)	12/32	12.00%	4,663	100% Interest in Unified Housing of Austin, LLC
Unified Housing Foundation, Inc. (Limestone Canyon) (1)	12/32	12.00%	3,057	100% Interest in Unified Housing of Austin, LLC
Unified Housing Foundation, Inc. (Limestone Ranch) (1)	12/32	12.00%	6,000	100% Interest in Unified Housing of Vista Ridge, LLC
Unified Housing Foundation, Inc. (Limestone Ranch) (1)	12/32	12.00%	2,250	100% Interest in Unified Housing of Vista Ridge, LLC
Unified Housing Foundation, Inc. (Parkside Crossing) (1)	12/32	12.00%	1,936	100% Interest in Unified Housing of Parkside Crossing, LLC
Unified Housing Foundation, Inc. (Sendero Ridge) (1)	12/32	12.00%	4,812	100% Interest in Unified Housing of Sendero Ridge, LLC
Unified Housing Foundation, Inc. (Sendero Ridge) (1)	12/32	12.00%	5,174	100% Interest in Unified Housing of Sendero Ridge, LLC
Unified Housing Foundation, Inc. (Timbers of Terrell) (1)	12/32	12.00%	1,323	100% Interest in Unified Housing of Terrell, LLC
Unified Housing Foundation, Inc. (Tivoli) (1)	12/32	12.00%	7,966	100% Interest in Unified Housing of Tivoli, LLC
Unified Housing Foundation, Inc. (1)	12/13	5.00%	6,000	Unsecured
Accrued interest			12,757	
Total Performing			\$ 69,626	
Non-Performing loans:				
Miscellaneous non-related party notes	Various	Various	507	Various secured and unsecured interests
Accrued interest			36	

Total Non-Performing	\$ 543
Allowance for estimated losses	(2,262)
Total	\$ 67,907

(1) Related party notes

Junior Mortgage Loans. We may invest in junior mortgage loans, secured by mortgages that are subordinate to one or more prior liens either on the fee or a leasehold interest in real estate. Recourse on such loans ordinarily includes the real estate on which the loan is made, other collateral and personal guarantees by the borrower. At December 31, 2013, 6.4% of our assets were invested in junior and wraparound mortgage loans.

As of December 31, 2013, the obligors on \$53.7 million or 93.6% of the mortgage notes receivable portfolio were due from related entities. The Company recognized \$12.2 million of interest income from these related party notes receivables. Also at that date, \$0.5 million or 0.9% of the mortgage notes receivable portfolio was non-performing.

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

We record interest income as earned in accordance with the terms of the related loan agreements. Prior to January 1, 2012, on cash flow notes where payments are based upon surplus cash from operations, accrued but unpaid interest income was only recognized to the extent cash was received. As of January 1, 2012, due to the consistency of cash received on the surplus cash notes, we are recording interest as earned.

As of January 1, 2013, the Company agreed to extend the maturity on the surplus cash flow notes receivable from UHF for an additional term of five years in exchange for the early termination of the preferred interest related. The original notes gave a five-year period of preferred interest rate at 5.25%, before returning to the original note rate of 12%.

NOTE 4. ALLOWANCE FOR ESTIMATED LOSSES

The allowance account was reviewed and there were no additional allowances recorded for receivables in 2013. The decrease in 2012 was due to two notes that were written off, both of which were fully reserved. The decrease in 2011 was due to a loan payment that had an allowance. The table below shows our allowance for estimated losses (dollars in thousands):

	2013	2012	2011
Balance January 1,	\$2,262	\$3,942	\$4,741
Decrease in provision	-	(1,680)	(799)
Balance December 31,	\$2,262	\$2,262	\$3,942

NOTE 5. INVESTMENT IN UNCONSOLIDATED JOINT VENTURES 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. ARL is our parent company and is considered as an unconsolidated joint venture.

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

	Percentage ownership as of December 31,		
	2013	2012	2011(2)
American Realty Investors, Inc. (1)	1.99%	1.99%	2.05%

(1) Unconsolidated investment in parent company

(2) Other investee. The Company's 5% investment in Garden Centura, L.P. was sold on December 28, 2011.

Our interest in the common stock of ARL in the amount of 1.99% is accounted for under the equity method because we exercise significant influence over the operations and financial activities. Accordingly, the investments are carried at cost, adjusted for the companies' proportionate share of earnings or losses. On December 28, 2011, we sold our 5% investment in Garden Centura, L.P.

The market values, other than unconsolidated subsidiaries, as of the year ended December 31, 2013, 2012 and 2011 were not determinable as there were no readily traded markets for these entities. The following is a summary of the financial position and results of operations from our unconsolidated subsidiaries and investees (dollars in thousands):

	Unconsolidated	Other	
	Subsidiaries	Investees	Total
2013			
Real estate, net of accumulated depreciation	\$ 11,944	\$-	\$11,944
Notes Receivable	45,179	-	45,179
Other assets	130,535	-	130,535
Notes payable	(56,103)	-	(56,103)
Other liabilities	(62,998)	-	(62,998)
Shareholders' equity/partners' capital	(68,557)	-	(68,557)
Rents and interest and other income	\$ 21,658	\$-	\$21,658
Depreciation	(285)	-	(285)
Operating expenses	(23,487)	-	(23,487)
Gain on land sales	618	-	618
Interest expense	(7,173)	-	(7,173)
Loss from continuing operations	(8,669)	-	(8,669)
Loss from discontinued operations	(15)	-	(15)
Net loss	\$ (8,684)	\$-	\$(8,684)
Company's proportionate share of loss (1)	\$ (172)	\$-	\$(172)

(1) Loss represents continued and discontinued operations

	Unconsolidated	Other	
	Subsidiaries	Investees	Total
2012			
Real estate, net of accumulated depreciation	\$ 45,860	\$-	\$45,860
Notes Receivable	44,371	-	44,371
Other assets	130,420	-	130,420
Notes payable	(61,720)	-	(61,720)
Other liabilities	(85,069)	-	(85,069)
Shareholders' equity/partners' capital	(73,862)	-	(73,862)
Rents and interest and other income	\$ 8,198	\$-	\$8,198
Depreciation	(263)	-	(263)
Operating expenses	(4,062)	-	(4,062)
Loss on land sales	(2,785)	-	(2,785)
Interest expense	(4,234)	-	(4,234)
Loss from continuing operations	(3,146)	-	(3,146)
Income from discontinued operations	2,691	-	2,691
Net loss	\$ (455)	\$-	\$(455)
Company's proportionate share of loss (1)	\$ (9)	\$-	\$(9)

(1) Loss represents continued and discontinued operations

2011	Unconsolidated Subsidiaries	Other Investees	Total
Real estate, net of accumulated depreciation	\$ 60,703	\$71,987	\$132,690
Notes Receivable	27,447	-	27,447
Other assets	138,927	4,441	143,368
Notes payable	(59,744)	(47,091)	(106,835)
Other liabilities	(88,647)	(2,849)	(91,496)
Shareholders' equity/partners' capital	(78,686)	(26,488)	(105,174)
Rents and interest and other income	\$ 8,021	\$7,096	\$15,117
Depreciation	56	(3,133)	(3,077)
Operating expenses	(8,196)	(3,999)	(12,195)
Gain on land sales	23,646	-	23,646
Interest expense	(7,562)	(2,307)	(9,869)
Income (loss) from continuing operations	15,965	(2,343)	13,622
Income from discontinued operations	9,864	-	9,864
Net income (loss)	\$ 25,829	\$(2,343)	\$23,486
Company's proportionate share of earnings (loss) (1)	\$ 530	\$(117)	\$413

(1) Earnings (loss) represent continued and discontinued operations

NOTE 6. NOTES AND INTEREST PAYABLE

Below is a summary of our notes and interest payable as of December 31, 2013 (dollars in thousands):

	Notes Payable	Stock Secured Loans	Accrued Interest	Total Debt
Apartments	\$359,566	\$-	\$1,207	\$360,773
Commercial	108,344	-	285	108,629
Land	76,468	-	117	76,585
Real estate held for sale	17,058	-	42	17,100
Real estate subject to sales contract	21,494	-	1,518	23,012
Other	14,471	2,243	32	16,746
Total	\$597,401	\$2,243	\$3,201	\$602,845

The scheduled principal payments of our notes payable over the next five years and thereafter are due as follows (dollars in thousands):

Year	Amount
2014	\$ 134,524
2015	22,007
2016	61,099
2017	6,013
2018	5,862

Thereafter		370,139
Total	\$	599,644

Interest payable at December 31, 2013 was \$3.2 million. Interest accrues at rates ranging from 1.0% to 12.5% per annum and mature between 2014 and 2053. The mortgages were collateralized by deeds of trust on real estate having a net carrying value of \$682.5 million. Of the total notes payable, the senior debt is \$574.6 million, junior debt is \$17.2 million, and other debt is \$7.8 million. Included in other debt are property tax loans of \$0.3 million.

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

On January 24, 2013, the Company refinanced the existing mortgage on Breakwater Bay apartments, a 176-unit complex located in Beaumont, Texas, for a new mortgage of \$9.8 million. We paid off the existing mortgage of \$9.1 million and \$0.3 million in closing costs and escrows. The note accrues interest at 2.50% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on February 1, 2053.

On January 25, 2013, the Company refinanced the existing mortgage on Northside on Travis apartments, a 200-unit complex located in Sherman, Texas, for a new mortgage of \$13.9 million. We paid off the existing mortgage of \$13.5 million and \$1.3 million in closing costs and escrows. The note accrues interest at 2.50% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on February 1, 2053.

On January 28, 2013, the Company refinanced the existing mortgage on Capitol Hill apartments, a 156-unit complex located in Little Rock, Arkansas, for a new mortgage of \$9.4 million. We paid off the existing mortgage of \$8.8 million and \$0.3 million in closing costs and escrows. The note accrues interest at 2.50% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on February 1, 2053.

On February 12, 2013, the construction loan in the amount of \$17.0 million that was taken out on May 13, 2010 to fund the development of Toulon apartments, a 240-unit complex located in Gautier, Mississippi, closed into permanent financing. The note accrues interest at 5.37% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on December 1, 2051.

On February 25, 2013, the Company refinanced the existing mortgage on Mansions of Mansfield apartments, a 208-unit complex located in Mansfield, Texas, for a new mortgage of \$16.3 million. We paid off the existing mortgage of \$15.8 million and \$1.2 million in closing costs and escrows. The note accrues interest at 2.50% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on March 1, 2053.

On February 25, 2013, the Company refinanced the existing mortgage on Preserve at Pecan Creek apartments, a 192-unit complex located in Denton, Texas, for a new mortgage of \$15.1 million. We paid off the existing mortgage of \$14.6 million and \$1.1 million in closing costs and escrows. The note accrues interest at 2.50% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on March 1, 2053.

On March 25, 2013, the Company refinanced the existing mortgage on Parc at Clarksville apartments, a 168-unit complex, located in Clarksville, Tennessee, for a new mortgage of \$13.4 million. We paid off the existing mortgage of \$13.0 million and \$0.7 million in closing costs and escrows. The note accrues interest at 2.50% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing on April 1, 2053.

On May 7, 2013, the Company signed a \$5.0 million promissory note to Petra CRE CDO relating to the Amoco building settlement agreement. The promissory note is collateralized with the ARL Series K Preferred Stock acquired by the Company.

On June 26, 2013, the Company refinanced the existing mortgage on Dorado Ranch apartments, a 224-unit complex located in Dallas, Texas, for a new mortgage of \$16.6 million. We paid off the existing mortgage of \$16.2 million and \$1.4 million in closing cost and escrows. The note accrues interest at 2.50% and payments of interest and principal are due monthly based on a 40-year amortization schedule, maturing on July 1, 2053.

On June 26, 2013, the Company refinanced the existing mortgage on Legends of El Paso apartments, a 240-unit complex located in El Paso, Texas, for a new mortgage of \$16.0 million. We paid off the existing mortgage of \$15.2 million and \$1.2 million in closing cost and escrows. The note accrues interest at 2.50% and payments of interest and principal are due monthly based on a 40-year amortization schedule, maturing on July 1, 2053.

On June 26, 2013, the Company refinanced the existing mortgage on Vistas of Pinnacle Park apartments, a 332-unit complex located in Dallas, Texas, for a new mortgage of \$19.0 million. We paid off the existing mortgage of \$18.6 million and \$2 million in closing cost and escrows. The note accrues interest at 2.50% and payments of interest and principal are due monthly based on a 40-year amortization schedule, maturing on June 26, 2053.

On August 30, 2013, the Company obtained a loan of \$1.9 million, secured by 4.02 acres of land known as Denham Springs, located in Denham Springs, Louisiana, 2.90 acres of land known as Sugar Mill, located in Baton Rouge, Louisiana, and 23.24 acres of land known as Cooks Lane, located in Fort Worth, Texas. The existing loan on Denham Springs land for \$0.1 million was paid with the proceeds from the loan.

On October 11, 2013, the Company refinanced the existing mortgage on 600 Las Colinas, a 510,841 square foot commercial building located in Irving, Texas, for a new mortgage of \$41 million. We paid off the existing mortgage of \$31 million and \$5.3 million in closing costs and escrows. The note accrues interest at 5.31% and payments of principal and interest are due monthly based upon a 30-year amortization schedule, maturing on November 1, 2023.

On December 30, 2013, TCI and IOT paid off the Mercer/Travelers land and the Lamar land loans according to the Settlement and Release Agreement and a Loan Purchase Agreement executed on June 7, 2013. According to the terms of the agreement, TCI and IOT purchased, at a discount, the Mercer/Travelers land mortgage note due to BDF TCI Mercer III, LLC (“BDF”), the existing lender, for \$29,635,211. The agreement also included the purchase of an obligation, known as the Lamar land loan, by a subsidiary of TCI, from BDF for \$1,864,789, which was not discounted. The total settlement price of the agreement for the two loans was \$31,500,000. The result of this agreement was a jointly recognized gain of \$7.5 million for the discount received. Prior to the loan payoffs, TCI and IOT incurred extension fees of \$1.08 million.

On December 30, 2013, RAI, a related party, obtained a \$20.0 million mortgage to First NBC Bank on the behalf of IOT and TCI, secured by 178.1 acres of land owned by IOT and by 100.05 acres of land owned by TCI. IOT and TCI have executed a promissory note to RAI for the same terms as the First NBC loan with a maturity of December 30, 2016 and a variable interest rate of Prime plus 1.5% with an interest rate floor of 6%. Based off the land valuation, \$12.4 million is allocated to IOT and \$7.6 million of the loan is allocated to TCI.

In conjunction with the development of various apartment projects and other developments, we drew down \$0.3 million in construction loans during the twelve months ended December 31, 2013. This was related to the permanent closing of the construction loan for Toulon apartments.

NOTE 7. RELATED PARTY TRANSACTIONS AND FEES

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

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

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

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

Below is a description of the related party transactions and fees between Pillar, Prime and Regis:

Fees, expenses and revenue paid to and/or received from our advisor:

	2013	2012	2011
	(dollars in thousands)		
Fees:			
Advisory	\$ 8,494	\$ 8,915	\$ 9,958
Construction advisory	-	181	2,429
Mortgage brokerage and equity refinancing	1,878	1,873	812
Net income	4,089	180	54
Property acquisition	-	20	-
	\$ 14,461	\$ 11,169	\$ 13,253
Other Expense:			
Cost reimbursements	\$ 2,585	\$ 2,247	\$ 2,908
Interest paid	157	1,194	1,048
	\$ 2,742	\$ 3,441	\$ 3,956
Revenue:			
Rental	\$ 670	\$ 587	\$ 434

Fees paid to Regis and related parties:

	2013	2012	2011
	(dollars in thousands)		
Fees:			
Property acquisition	\$ -	\$ 71	\$ -
Property management, construction management and leasing commissions	436	2,087	1,759
Real estate brokerage	4,055	2,263	-
	\$ 4,491	\$ 4,421	\$ 1,759

The Company received rental revenue of \$0.7 million in 2013, \$0.6 million in 2012, and \$0.4 million in 2011 from Pillar, Prime and its related parties for properties owned by the Company, including Addison Hanger, Browning Place, and Eagle Crest.

As of December 31, 2013, the Company had notes and interest receivables of \$66.4 million due from related parties. See Part 2, Item 8. Note 3. "Notes and Interest Receivable". During the current period, TCI recognized \$12.2 million of interest income from these related party notes receivables.

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

The Company is part of a tax sharing and compensating agreement with respect to federal income taxes between ARL, TCI and IOT and their subsidiaries that was entered into in July of 2009. That agreement continued until August 31,

2012, at which time a new tax sharing and compensating agreement was entered into by ARL, TCI, IOT and RAMI for the remainder of 2012. The expense (benefit) in each year was calculated based on the amount of losses absorbed by taxable income multiplied by the maximum statutory tax rate of 35%.

The following table reconciles the beginning and ending balances of related party payables as of December 31, 2013 (dollars in thousands):

	Pillar	ARL	Total
Related party payable, December 31, 2012	\$-	\$(10,057)	\$(10,057)
Cash transfers	3,028	-	3,028
Advisory fees	(8,494)	-	(8,494)
Net income fee	(4,089)	-	(4,089)
Fees and commissions	(2,977)	-	(2,977)
Cost reimbursements	(2,585)	-	(2,585)
Interest (to) from advisor	-	(157)	(157)
Expenses paid by advisor	(1,456)	-	(1,456)
Financing (mortgage payments)	(967)	-	(967)
Sales/Purchases transactions	70,261	-	70,261
Series K preferred stock acquisition	-	(270)	(270)
Tax sharing expense	7,763	-	7,763
Purchase of obligations	(60,484)	62,864	2,380
Related party receivable, December 31, 2013	\$-	\$52,380	\$52,380

Below are transactions that involve a related party:

On December 30, 2013, RAI, a related party, obtained a \$20.0 million mortgage to First NBC Bank on the behalf of IOT and TCI, secured by 178.1 acres of land owned by IOT and by 100.05 acres of land owned by TCI. Based off the land valuation, \$12.4 million is allocated to IOT and \$7.6 million of the loan is allocated to TCI. IOT and TCI have executed a promissory note to RAI for the same terms as the First NBC loan with a maturity of December 30, 2016, and a variable interest rate of prime plus 1.5% with an interest rate floor of 6%. Based off the land valuation, \$12.4 million is allocated to IOT and \$7.6 million of the loan is allocated to TCI.

In December 2010, various commercial and land holdings were sold to FRE Real Estate, Inc., a related party. During the first three months of 2011, many of these transactions were rescinded as of the original transaction date and were subsequently sold to related parties under the same ownership as FRE Real Estate, Inc. As of September 30, 2013, one commercial building, Thermalloy, remains in FRE Real Estate, Inc. The Company did not recognize or record the sale in accordance with ASC 360-20 due to TCI's continuing involvement, which included the potential payment of cash shortfalls, future obligations under the existing mortgage and guaranty, the buyer's inadequate initial investment and the Company's questionable recovery of investment cost. The Company determined that no sale had occurred for financial reporting purposes and therefore the asset remained on the books and continued to record operating expenses and depreciation as a period cost until a sale occurred that met the requirements of ASC 360-20.

The properties that we have sold to a related party and have deferred the recognition of the sale are treated as "subject to sales contract" on the Consolidated Balance Sheets. These properties were sold to a related party in order to help facilitate an appropriate debt or organizational restructure and may or may not be transferred back to the seller upon resolution. These properties have mortgages that are secured by the property and many have corporate guarantees. According to the loan documents, the maker is currently in default on these mortgages primarily due to lack of payment and is actively involved in discussions with every lender in order to settle or cure the default situation. We have reviewed each asset and taken impairment to the extent we feel the value of the property was less than our current basis.

As of December 31, 2013, there remains one apartment complex, one commercial building and 212 acres of land that we have sold to a related party and have deferred the recognition of the sale. These are treated as "subject to sales contract" on the Consolidated Balance Sheets. These properties were sold to a related party in order to help facilitate an appropriate debt or organizational restructure and may or may not be transferred back to the seller upon resolution. These properties have mortgages that are secured by the property and many have corporate guarantees. According to

the loan documents, the maker is currently in default on these mortgages primarily due to lack of payment and is actively involved in discussions with every lender in order to settle or cure the default situation. We have reviewed each asset and taken impairment to the extent we feel the value of the property was less than our current basis. The Company did not recognize or record the sale in accordance with ASC 360-20 due to our continuing involvement, which included the potential payment of cash shortfalls, future obligations under the existing mortgage and guaranty, the buyer's inadequate initial investment and the Company's questionable recovery of investment cost. The Company determined that no sale had occurred for financial reporting purposes and therefore the asset remained on the books and continued to record operating expenses and depreciation as a period cost until a sale occurred that met the requirements of ASC 360-20. The buyers received no compensation for the facilitation of the bankruptcy or debt restructuring

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

NOTE 8. DIVIDENDS

TCI's Board of Directors established a policy that dividend declarations on common stock would be determined on an annual basis following the end of each year. In accordance with that policy, no dividends on TCI's common stock were declared for 2013, 2012, or 2011. Future distributions to common stockholders will be determined by the Board of Directors in light of conditions then existing, including the Company's financial condition and requirements, future prospects, restrictions in financing agreements, business conditions and other factors deemed relevant by the Board.

NOTE 9. PREFERRED STOCK

TCI issued 30,000 shares of Series C Preferred Stock. TCI's Series C Cumulative Convertible Preferred Stock consists of a maximum of 30,000 shares with a liquidation preference of \$100.00 per share. Dividends are payable at the annual rate of \$7.00 per share annually or \$1.75 per quarter. After September 30, 2006, the Series C Preferred Stock may be converted into Common stock at 90.0% of the daily average closing price of the common stock for the prior five trading days. The Series C Preferred Stock is redeemable for cash at any time at the option of TCI. At December 31, 2013, 30,000 shares of Series C Preferred Stock were issued and outstanding.

In November 2006, TCI issued 100,000 shares of Series D Preferred Stock with a liquidation preference of \$100 per share. The preferred stock is not convertible into any other security, requires dividends payable at the initial rate of 7% annually. The dividend rate increases ratably from 7% to 9% in future periods and can be redeemed at any point after September 30, 2011. In the fourth quarter of 2012, a preferred stockholder submitted a redemption request that is currently in dispute and we believe will be resolved in 2014.

NOTE 10. STOCK OPTIONS

In October 2000, TCI's stockholders approved the Director's Stock Option Plan (the "Director's Plan") which provides for options to purchase up to 140,000 shares of TCI's common stock. Options granted pursuant to the Director's Plan are immediately exercisable and expire on the earlier of the first anniversary of the date on which a Director ceases to be a Director or 10 years from the date of grant. Effective December 15, 2005 the plan was terminated. As of December 31, 2013, there were 5,000 stock options outstanding which were exercisable at \$14.25 per share. These options will expire January 1, 2015, if not exercised.

NOTE 11. INCOME TAXES

For 2013, 2012 and 2011, TCI had net losses for federal tax purposes.

For tax periods ending before August 31, 2012, the Company was part of the ARL consolidated federal return. After that date, the Company and the rest of the ARL group joined the RAMI consolidated group for tax purposes. The income tax expense (benefit) for the 2011 period in the accompanying financial statement was calculated under a tax sharing and compensating agreement between ARL, TCI and IOT. That agreement continued until August 31, 2012, at which time a new tax sharing and compensating agreement was entered into by ARL, TCI, IOT and RAMI for the remainder of 2012. For 2012, RAMI, ARL, TCI and IOT had a combined net taxable loss and TCI recorded no current tax (benefit) or expense. For 2013, TCI consolidated with IOT had a net taxable loss and the remainder of the

group had net taxable income resulting in a tax (benefit) to TCI. The expense (benefit) in each year was calculated based on the amount of losses absorbed by taxable income multiplied by the maximum statutory rate of 35%.

Current expense (benefit) is attributable to (dollars in thousands):

	2013		2012		2011
Income from continuing operations	\$(24,598)	\$(10,401)	\$(14,460
Income from discontinued operations	16,835		10,401		14,460
Tax benefit	\$(7,763)	\$-		\$-

Of the total 2013 tax benefit, \$6,802 comes from RAMI and \$961 from ARL.

The Federal income tax expense differs from the amount computed by applying the corporate tax rate of 35% to the income before income taxes as follows (dollars in thousands):

	2013	2012	2011
Computed "expected" income tax (benefit) expense	\$26,998	\$(4,211)	\$(16,008)
Book to tax differences for partnerships not consolidated for tax purposes	(33,565)	(3,831)	(6,442)
Book to tax differences of depreciation and amortization	1,222	1,434	1,140
Book to tax differences in gains on sale of property	(20,308)	(4,835)	(7,020)
Book provision for loss	3,962	1,656	10,132
Partial valuation allowance against current net operating loss benefit	16,835	10,401	14,460
Other	4,856	(614)	3,738
Total	\$-	\$-	\$-
Alternative minimum tax	\$-	\$-	\$-

Deferred income taxes reflect the tax effects of temporary timing differences between carrying amounts of assets and liabilities reflected on the financial statements and the amounts used for income tax purposes. TCI's tax basis in its net assets differs from the amount at which its net assets are reported for financial statement purposes, principally due to the accounting for gains and losses on property sales, and depreciation on owned properties. The tax effects of temporary differences and net operating loss carry forwards that give rise to the deferred tax assets are presented below (dollars in thousands):

	2013	2012	2011
Net operating losses	\$71,071	\$53,857	\$42,337
AMT credits	1,374	1,374	1,374
Basis difference of:			
Real estate holdings	(3,045)	(15,159)	(13,514)
Notes receivable	860	860	1,726
Investments	(4,703)	(4,757)	(5,346)
Notes payable	12,496	16,598	22,966
Deferred gains	10,806	11,370	14,985
Total	\$88,859	\$64,143	\$64,528
Deferred tax valuation allowance	(88,859)	(64,143)	(64,528)
Net deferred tax asset	\$-	\$-	\$-

Recognition of the benefits of deferred tax assets will require TCI to generate future taxable income. There is no assurance that TCI will generate earnings in future years. Therefore, TCI has established a valuation allowance for deferred tax assets of approximately \$88,859,000, \$64,143,000 and \$64,528,000 as of December 31, 2013, 2012 and 2011, respectively.

TCI has tax net operating loss carryforwards of approximately \$184.2 million expiring through the year 2032. The alternative minimum tax credit balance did not change in 2013 and remains at approximately \$1,374,000. The credit has no expiration date.

NOTE 12. FUTURE MINIMUM RENTAL INCOME UNDER OPERATING LEASES

TCI'S real estate operations include the leasing of commercial properties (office buildings, industrial warehouses and retail centers). The leases thereon expire at various dates through 2025. The following is a schedule of minimum future rents on non-cancelable operating leases at December 31, 2013 (dollars in thousands):

Year	Amount
2014	\$ 15,158
2015	14,678
2016	12,264
2017	9,790
2018	8,652
Thereafter	16,647
Total	\$ 77,189

NOTE 13. 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, land and other. Significant differences among the accounting policies of the operating segments as compared to the Consolidated Financial Statements principally involve the calculation and allocation of administrative expenses. Management evaluates the performance of each of the operating segments and allocates resources to them based on their operating income and cash flow.

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

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

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Presented below is the Company's reportable segments' operating income including segment assets and expenditures for the years 2013, 2012 and 2011 (dollars in thousands):

For the Twelve Months Ended December 31, 2013	Commercial				Total
	Properties	Apartments	Land	Other	
Rental and other property revenues	\$26,931	\$59,155	\$39	\$112	\$86,237
Property operating expenses	13,916	26,018	976	38	40,948
Depreciation	6,550	10,624	-	-	17,174
Mortgage and loan interest	6,057	17,147	5,685	2,748	31,637
Deferred borrowing costs amortization	61	2,265	195	67	2,588
Loan charges and prepayment penalties	150	3,937	1,080	52	5,219
Interest income	-	-	-	13,790	13,790
Loss on land sales	-	-	(1,073)	-	(1,073)
Segment operating income (loss)	\$197	\$(836)	\$(8,970)	\$10,997	\$1,388
Capital expenditures	7,188	315	387	-	7,890
Assets	141,752	379,264	158,359	-	679,375
Property Sales					
Sales price	\$26,974	\$239,676	\$5,999	\$-	\$272,649
Less: Cost of sale	14,914	154,331	7,072	-	176,317
Deferred current gain	-	-	-	-	-
Recognized prior deferred gain	-	-	-	-	-
Gain (loss) on sale	\$12,060	\$85,345	\$(1,073)	\$-	\$96,332
For the Twelve Months Ended December 31, 2012					
	Commercial				Total
	Properties	Apartments	Land	Other	
Rental and other property revenues	\$30,846	\$55,693	\$25	\$51	\$86,615
Property operating expenses	16,721	24,582	589	437	42,329
Depreciation	5,657	10,484	-	-	16,141
Mortgage and loan interest	5,920	19,844	6,250	4,229	36,243
Deferred borrowing costs amortization	86	397	154	-	637
Loan charges and prepayment penalties	-	3,495	79	-	3,574
Interest income	-	-	-	11,725	11,725
Gain on land sales	-	-	6,935	-	6,935
Segment operating income (loss)	\$2,462	\$(3,109)	\$(112)	\$7,110	\$6,351
Capital expenditures	2,454	839	-	-	3,293
Assets	165,697	540,045	173,132	-	878,874
Property Sales					
Sales price	\$9,825	\$47,131	\$37,799	\$-	\$94,755
Less: Cost of sale	(10,152)	(41,587)	(31,479)	-	(83,218)
Deferred current gain	-	-	615	-	615
Recognized prior deferred gain	-	-	-	-	-
Gain (loss) on sale	\$(327)	\$5,544	\$6,935	\$-	\$12,152

For the Twelve Months Ended December 31, 2011	Commercial				Total
	Properties	Apartments	Land	Other	
Rental and other property revenues	\$28,008	\$49,536	\$132	\$259	\$77,935
Property operating expenses	16,568	23,645	1,573	198	41,984
Depreciation	4,416	9,551	-	-	13,967
Mortgage and loan interest	6,403	19,278	6,957	3,583	36,221
Deferred borrowing costs amortization	136	236	1,184	4	1,560
Loan charges and prepayment penalties	-	292	147	-	439
Interest income	-	-	-	5,720	5,720
Gain on land sales	-	-	17,011	-	17,011
Segment operating income (loss)	\$485	\$(3,466)	\$7,282	\$2,194	\$6,495
Capital expenditures	3,286	1,248	4,103	-	8,637
Assets	172,446	550,892	197,301	-	920,639
Property Sales					
Sales price	\$103,811	\$21,590	\$163,050	\$-	\$288,451
Less: Cost of sale	(108,243)	(14,933)	(154,122)	-	(277,298)
Deferred current gain	-	-	-	-	-
Recognized prior deferred gain	7,287	8,788	8,083	-	24,158
Gain on sale	\$2,855	\$15,445	\$17,011	\$-	\$35,311

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

	For Twelve Months Ended December		
	2013	2012	2011
Segment operating income	\$ 1,388	\$ 6,351	\$ 6,495
Other non-segment items of income (expense)			
General and administrative	(6,323)	(5,090)	(8,971)
Provision on impairment of notes receivable and real estate assets	(11,320)	(2,330)	(35,039)
Net income fee to related party	(4,089)	(180)	(54)
Advisory fee to related party	(8,494)	(8,915)	(9,958)
Other income	7,862	6,303	2,441
Gain (loss) on the sale of investments	(283)	125	(514)
Earnings from unconsolidated joint ventures and investees	(172)	(66)	242
Litigation settlement	(20,313)	(173)	(225)
Income tax benefit (expense)	40,485	(1,445)	(357)
Loss from continuing operations	\$ (1,259)	\$ (5,420)	\$ (45,940)

SEGMENT ASSET RECONCILIATION TO TOTAL ASSETS

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

	For the Years Ended December 31,		
	2013	2012	2011
Segment assets	\$ 679,375	\$ 878,874	\$ 920,639
Investments in real estate partnerships	1,697	5,439	6,362
Notes and interest receivable	67,907	59,098	77,371
Other assets	132,265	83,856	88,251
Assets held for sale	16,427	18,077	67,701
Total assets	\$ 897,671	\$ 1,045,344	\$ 1,160,324

NOTE 14. DISCONTINUED OPERATIONS

The Company applies the provisions of ASC Topic 360, "Property, Plant and Equipment." ASC Topic 360 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.

Discontinued operations relates to properties that were either sold or repositioned as held for sale as of the year ended 2013, 2012 and 2011. Income from discontinued operations relates to 16, 21 and 34 properties that were sold or held for sale in 2013, 2012 and 2011, respectively. The following table summarizes revenue and expense information for these properties sold and held-for-sale (dollars in thousands):

	For the Years Ended December 31,		
	2013	2012	2011
Revenues:			
Rental and other property revenues	\$26,036	\$34,774	\$46,620
	26,036	34,774	46,620
Expenses:			
Property operating expenses	12,201	18,161	25,187
Depreciation	4,231	6,349	9,067
General and administrative	935	961	1,269
Provision on impairment of notes receivable and real estate assets	-	2,400	9,968
Total operating expenses	17,367	27,871	45,491
Other income (expense):			
Other income (expense)	29	14	(24)
Mortgage and loan interest	(6,139)	(10,806)	(18,808)
Deferred borrowing costs amortization	(3,009)	(1,790)	(805)
Loan charges and prepayment penalties	(3,245)	(3,472)	(1,265)
Earnings from unconsolidated subsidiaries and investees	30	55	453
Litigation settlement	(250)	(250)	-
Total other expenses	(12,584)	(16,249)	(20,449)
Loss from discontinued operations before gain on sale of real estate and taxes	(3,915)	(9,346)	(19,320)
Gain on sale of real estate from discontinued operations	97,405	5,217	18,300
Income tax benefit (expense)	(32,722)	1,445	357
Income (loss) from discontinued operations	\$60,768	\$(2,684)	\$(663)

The Company's application of ASC Topic 360 results in the presentation of the net operating results of these qualifying properties sold or held for sale during 2013, 2012 and 2011 as income from discontinued operations. The application of ASC Topic 360 does not have an impact on net income available to common shareholders. ASC Topic 360 only impacts the presentation of these properties within the Consolidated Statements of Operations.

NOTE 15. QUARTERLY RESULTS OF OPERATIONS

The following is a tabulation of TCI's quarterly results of operations for the years 2013, 2012 and 2011 (unaudited, dollars in thousands):

	For the Three Months Ended 2013			
	March 31,	June 30,	September 30,	December 31,
	(dollars in thousands, except share and per share amounts)			
2013				
Revenue and other property revenues	\$20,383	\$20,636	\$20,831	\$24,387
Total operating expenses	17,824	17,730	18,921	33,873
Operating (loss) income	2,559	2,906	1,910	(9,486)
Other expenses	(12,275)	(5,657)	(8,675)	(11,953)
Loss before gain on land sales, non-controlling interest, and taxes	(9,716)	(2,751)	(6,765)	(21,439)
Loss on land sales	(48)	-	-	(1,025)
Income tax benefit	2,368	5,213	319	32,585
Net income (loss) from continuing operations	(7,396)	2,462	(6,447)	10,121
Net income from discontinuing operations	4,398	9,680	593	46,098
Net income (loss)	(2,998)	12,142	(5,854)	56,219
Net loss attributable to non-controlling interest	(111)	(115)	(97)	(656)
Preferred dividend requirement	(274)	(277)	(279)	(280)
Net income (loss) applicable to common shares	\$(3,383)	\$11,750	\$(6,230)	\$55,283
PER SHARE DATA				
Earnings per share - basic				
Income (loss) from continuing operations	\$(0.92)	\$0.25	\$(0.81)	\$1.09
Income from discontinued operations	0.52	1.15	0.07	5.48
Net income (loss) applicable to common shares	\$(0.40)	\$1.40	\$(0.74)	\$6.57
Weighted average common shares used in computing earnings per share	8,413,469	8,413,469	8,413,469	8,413,469
Earnings per share - diluted				
Income (loss) from continuing operations	\$(0.92)	\$0.24	\$(0.81)	\$1.04
Income from discontinued operations	0.52	1.10	0.07	5.24
Net income (loss) applicable to common shares	\$(0.40)	\$1.34	\$(0.74)	\$6.28
Weighted average common shares used in computing diluted earnings per share	8,413,469	8,796,699	8,413,469	8,791,655

	For the Three Months Ended 2012			
	March 31,	June 30,	September 30,	December 31,
	(dollars in thousands, except share and per share amounts)			

2012

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Revenue and other property revenues	\$20,446	\$20,956	\$21,422	\$23,791
Total operating expenses	18,597	17,349	17,972	21,067
Operating income	1,849	3,607	3,450	2,724
Other expenses	(5,541)	(7,736)	(5,905)	(3,358)
Loss before gain on land sales, non-controlling interest, and taxes	(3,692)	(4,129)	(2,455)	(634)
Gain (loss) on land sales	423	4,738	2,913	(1,139)
Income tax benefit (expense)	(301)	647	(237)	(1,554)
Net income (loss) from continuing operations	(3,570)	1,256	221	(3,327)
Net income (loss) from discontinuing operations	(558)	1,201	(440)	(2,887)
Net income (loss)	(4,128)	2,457	(219)	(6,214)
Net income (loss) attributable to non-controlling interest	(79)	(175)	(43)	77
Preferred dividend requirement	(277)	(277)	(277)	(281)
Net income (loss) applicable to common shares	\$(4,484)	\$2,005	\$(539)	\$(6,418)

PER SHARE DATA

Earnings per share - basic				
Income (loss) from continuing operations	\$(0.47)	\$0.10	\$(0.01)	\$(0.42)
Income (loss) from discontinued operations	(0.07)	0.14	(0.05)	(0.34)
Net income (loss) applicable to common shares	\$(0.54)	\$0.24	\$(0.06)	\$(0.76)
Weighted average common shares used in computing earnings per share	8,413,469	8,413,469	8,413,469	8,413,469

Earnings per share - diluted

Income (loss) from continuing operations	\$(0.47)	\$0.08	\$(0.01)	\$(0.42)
Income (loss) from discontinued operations	(0.07)	0.12	(0.05)	(0.34)
Net income (loss) applicable to common shares	\$(0.54)	\$0.20	\$(0.06)	\$(0.76)
Weighted average common shares used in computing diluted earnings per share	8,413,469	9,622,951	8,413,469	8,413,469

For the Three Months Ended 2011
 September December
 March 31, June 30, 30, 31,
 (dollars in thousands, except share and per share
 amounts)

2011				
Revenue and other property revenues	\$18,428	\$20,701	\$21,067	\$17,739
Total operating expenses	23,534	15,854	20,253	50,332
Operating (loss) income	(5,106)	4,847	814	(32,593)
Other expenses	(8,058)	(8,383)	(8,056)	(6,059)
Loss before gain on land sales, non-controlling interest, and taxes	(13,164)	(3,536)	(7,242)	(38,652)
Gain on land sales	796	1,285	1,435	13,495
Income tax benefit (expense)	112	(4,193)	2,211	1,513
Net loss from continuing operations	(12,256)	(6,444)	(3,596)	(23,644)
Net income (loss) from discontinuing operations	208	(7,788)	4,107	2,810
Net income (loss)	(12,048)	(14,232)	511	(20,834)
Net income (loss) attributable to non-controlling interest	85	46	384	(233)
Preferred dividend requirement	(274)	(277)	(279)	(280)
Net income (loss) applicable to common shares	\$(12,237)	\$(14,463)	\$616	\$(21,347)

PER SHARE DATA

Earnings per share - basic				
Income (loss) from continuing operations	\$(1.51)	\$(0.79)	\$(0.41)	\$(2.87)
Income (loss) from discontinued operations	0.03	(0.93)	0.49	0.33
Net income (loss) applicable to common shares	\$(1.48)	\$(1.72)	\$0.08	\$(2.54)
Weighted average common shares used in computing earnings per share	8,240,136	8,413,469	8,413,469	8,413,469
Earnings per share - diluted				
Income (loss) from continuing operations	\$(1.51)	\$(0.79)	\$(0.41)	\$(2.87)
Income (loss) from discontinued operations	0.03	(0.93)	0.49	0.33
Net income (loss) applicable to common shares	\$(1.48)	\$(1.72)	\$0.08	\$(2.54)
Weighted average common shares used in computing diluted earnings per share	8,240,136	8,413,469	8,413,469	8,413,469

Quarterly results presented differ from those previously reported in TCI's Form 10-Q due to the reclassification of the operations of properties sold or held for sale to discontinued operations in accordance with ASC Topic 360.

NOTE 16. COMMITMENTS AND CONTINGENCIES AND LIQUIDITY

Liquidity. Management believes that TCI will generate excess cash from property operations in 2014; 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.

Partnership Buyouts. TCI is the limited partner in various partnerships related the construction of residential properties. As permitted in the respective partnership agreements, TCI intends to purchase the interests of the general

and any other limited partners in these partnerships subsequent to the completion of these projects. The amounts paid to buy out the nonaffiliated partners are limited to development fees earned by the non-affiliated partners, and are set forth in the respective partnership agreements.

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

The Company is involved in and vigorously defending against, a number of deficiency claims with respect to assets that have been foreclosed by various lenders. Such claims are generally against a consolidated subsidiary as the borrower or the Company as a guarantor of indebtedness or performance. Some of these proceedings may ultimately result in an unfavorable determination for the Company and/or one of its consolidated subsidiaries. While we cannot predict the final result of such proceedings, Management believes that the maximum exposure to the Company and its consolidated subsidiaries, if any, will not exceed approximately \$20 million in the aggregate and will occur, if at all, in future years.

NOTE 17. EARNINGS PER SHARE

Earnings per share. Earnings per share ("EPS") have been computed pursuant to the provisions of ASC 260 "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 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, 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.

As of December 31, 2013, we have 5,000 shares of stock options outstanding. These options will expire January 1, 2015, if not exercised. These options are considered in the computation of diluted earnings per share if the effect of applying the treasury stock method is dilutive. At December 31, 2013, the preferred stock and the stock options were anti-dilutive and thus not included in the EPS calculation.

As of December 31, 2013, the preferred stock and the stock options were anti-dilutive and therefore not included in the EPS calculation.

NOTE 18. SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2013, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is March 31, 2014, which is the date on which the financial statements were available to be issued.

On January 29, 2014, the Company entered into a sales contract to sell 1010 Common, a 512,593 square foot commercial building, located in New Orleans, LA, for a sales price of \$16.6 million. Due to the small amount of firm money, we have determined that the contract has not met the requirements to be considered held for sale. Upon a larger firm deposit, we will reclassify the asset as held for sale.

On February 6, 2014, the Company sold a 232-unit apartment complex known as Pecan Pointe located in Temple, TX, for a sales price of \$23.1 million to an independent third party. The buyer assumed the existing debt of \$16.5 million secured by the property. We recorded a gain of \$5.8 million.

On February 12, 2014, the Company exercised the first prepayment option date on the settlement with Petra CRE CDO relating to the Amoco Building. Per the agreement, the Company paid \$1.2 million to settle all obligations and the remaining balance of the note and accrued interest of \$3.5 million was forgiven.

On February 13, 2014, the Company acquired 0.75 acres of land adjacent to the Mandahl Bay Land located in St. Thomas, VI, for a sales price of \$89,454.

On February 28, 2014, the Company refinanced the existing mortgage on Parc at Denham Springs apartments, a 224-unit complex located in Denham Springs, LA, for a new mortgage of \$19.2 million. We paid off the existing mortgage of \$19.2 million and \$1.6 million in closing costs. The note accrues interest at 3.75% and payments of interest and principal are due monthly based upon a 40-year amortization schedule, maturing April 1, 2051.

On March 28, 2014, TCI secured financing of \$40.0 million. The note has a term of five years at an interest rate of 12.0%. The note is interest only for the first year with quarterly principal payments due of \$500,000. The loan is secured by various equity interests in residential apartments.

Schedule III
TRANSCONTINENTAL REALTY INVESTORS
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2013

Property/Location	Encumbrances	Initial Cost		Cost Capitalized Subsequent to	Asset	Gross Amounts
		Land	Building & Improvements	Acquisition	Impairment	Land
Properties Held for Investment						
Apartments						
Anderson Estates, \$	868 \$	378 \$	2,683 \$	313 \$	- \$	69
Oxford, MS						
Blue Lake Villas	10,376	526	10,785	201		52
I, Waxahachie, TX						
Blue Lake Villas	4,012	287	4,451	-		28
II, Waxahachie, TX						
Blue Ridge, Midland, TX	23,839	2,259	24,361	198		2,25
Breakwater Bay, Beaumont, TX	9,727	740	10,435	63		74
Bridgewood Ranch, Kaufman, TX	4,535	762	6,856	-		76
Capitol Hill, Little Rock, AR	9,331	1,860	7,948	-		1,86
Curtis Moore Estates, Greenwood, MS	1,562	186	5,733	757		84
Dakota Arms, Lubbock, TX	12,147	921	12,644	231		92
David Jordan Phase II, Greenwood, MS	593	51	1,521	225		27
David Jordan Phase III, Greenwood, MS	615	83	2,115	356		43
Desoto Ranch, DeSoto, TX	15,759	1,472	17,856	65		1,47
Falcon Lakes, Arlington, TX	13,098	1,438	15,094	327		1,43
	11,643	1,326	12,015	69		1,34

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Heather Creek, Mesquite, TX						
Lake Forest, Houston, TX	12,567	335	12,267	1,519		33
Lodge at Pecan Creek, Denton, TX	16,167	1,349	16,180	-		1,34
Mansions of Mansfield, Mansfield, TX	16,099	977	17,799	20		97
Mission Oaks, San Antonio, TX	15,340	1,266	16,627	212		1,26
Monticello Estate, Monticello, AR	481	36	1,493	263		28
Northside on Travis, Sherman, TX	13,743	1,301	14,560	-		1,30
Park at Clarksville, Clarksville, TN	13,276	571	14,300	118		58
Parc at Denham Springs, Denham Springs, LA	19,247	1,022	20,188	8		1,02
Parc at Maumelle, Little Rock, AR	16,416	1,153	17,688	617		1,15
Parc at Metro Center, Nashville, TN	10,790	960	12,226	556		96
Parc at Rogers, Rogers, AR	16,373	1,482	22,993	266	(3,180)	1,74
Preserve at Pecan Creek, Denton, TX	14,949	885	16,626	59		90
Riverwalk Phase I, Greenville, MS	310	23	1,537	175		19
Riverwalk Phase II, Greenville, MS	1,184	52	4,007	363		29
Sonoma Court, Rockwall, TX	10,941	941	11,132	-		94
Sugar Mill, Baton Rouge, LA	11,740	1,437	13,367	135		1,43
Toulon, Gautier, MS	20,956	1,621	20,104	372		1,99
Treehouse, Irving, TX	4,788	297	2,672	195		29
Vistas of Vance Jackson, San Antonio, TX	15,666	1,265	16,540	189		1,32
Windsong, Fort Worth, TX	10,427	790	11,526	69		79
	\$ 359,566	\$ 30,052	\$ 398,328	\$ 7,942	\$ (3,180)	\$ 33,02

Total Apartments
Held for
Investment

Commercial

1010 Common, New Orleans, LA	\$ 13,189	\$ 2,895	\$ 13,811	\$ 23,240	\$ -	2,89
600 Las Colinas, Las Colinas, TX	40,954	5,751	51,759	10,661		5,75
Bridgeview Plaza, LaCrosse, WI	6,093	-	-	714		
Browning Place (Park West I), Farmers Branch, TX	25,175	5,096	45,868	9,647		5,09
Fruitland Plaza, Fruitland Park, FL	-	23	-	66		2
Senlac VHP, Farmers Branch, TX	32	622	-	142		62
Sesame Square, Anchorage, AK	856	562	1,299	241		56
Stanford Center, Dallas, TX	22,045	3,878	34,862	2,284	(9,600)	3,87
Total Commercial Held for Investment	\$ 108,344	\$ 18,829	\$ 147,598	\$ 46,996	\$ (9,600)	18,82

Schedule III
TRANSCONTINENTAL REALTY INVESTORS
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2013

Property/Location	Encumbrances	Initial Cost		Cost Capitalized Subsequent to	Asset	Gross Amounts
		Land	Building & Improvements	Acquisition	Impairment	Land
(dollars in thousands)						
Land						
2427 Valley View Ln, Farmers Branch, TX	\$ -	\$ 76		\$ -	\$ -	\$ 76
Audubon, Adams County, MS	-	519	-	297		816
Cooks Lane, Fort Worth, TX	1,057	1,094	-	-		1,094
Dedeaux, Gulfport, MS	1,302	1,612	-	46	(38)	1,620
Denham Springs, Denham Springs, LA	409	339	-	-		339
Gautier Land, Gautier, MS	648	2,526	-	128	(1,804)	849
Hollywood Casino Land Tract II, Farmers Branch, TX	3,257	3,131	-	399		3,530
Hunter Equities Land, Dallas, TX	-	398	-	-		398
Kelly Lot, Farmers Branch, TX	-	81	-	-		81
Lacy Longhorn Land, Farmers Branch, TX	-	386	-	-		386
LaDue Land, Farmers Branch, TX	492	1,810	-	-		1,810
Lake Shore Villas, Humble, TX	-	81	-	3		84
Lubbock Land, Lubbock, TX	-	234	-	-		234

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Luna (Carr), Farmers Branch, TX	-	589	-	-		589
Manhattan Land, Farmers Branch, TX	2	4,658	-	379		5,037
McKinney 36, Collin County, TX	3,578	1,948	-	51	(58)	1,941
McKinney Ranch Land, McKinney, TX	6,606	13,935	-	459	(2,226)	12,169
Minivest Land, Dallas, TX	-	7	-	-		7
Mira Lago, Farmers Branch, TX	-	59	-	15		74
Nakash, Malden, MO	-	113	-	-		113
Nashville, Nashville, TN	-	1,256	-	76		1,332
Nicholson Croslin, Dallas, TX	2	63	-	-		65