

TRANSCONTINENTAL REALTY INVESTORS INC
Form 10-K
March 31, 2015

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, 2014

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 ☒

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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 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 ☐

Accelerated filer ☐

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

Smaller Reporting Company ☒

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

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, 2014 (the last business day of the Registrant's most recently completed second fiscal quarter) was \$19,381,338 based upon a total of 1,361,049 shares held as of June 30, 2014 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 15, 2015, there were 8,717,767 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

INDEX TO
ANNUAL REPORT ON FORM 10-K

	Page
PART I	
Item 1. Business	4
Item 1A. Risk Factors	11
Item 1B. Unresolved Staff Comments	15
Item 2. Properties	15
Item 3. Legal Proceedings	18
Item 4. Mine Safety Disclosures	19
PART II	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	20
Item 6. Selected Financial Data	21
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation	22
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	33
Item 8. Consolidated Financial Statements and Supplementary Data	35
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	73
Item 9A. Controls and Procedures	73
Item 9B. Other Information	73
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	74
Item 11. Executive Compensation	80
Item 12. Security Ownership of Certain Beneficial Owners and Management	80
Item 13. Certain Relationships and Related Transactions, and Director Independence	82
Item 14. Principal Accounting Fees and Services	85
PART IV	
Item 15. Exhibits, Financial Statement Schedules	87
Signatures	89

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 NYSE under the symbol (“ARL”). Subsidiaries of ARL own approximately 80.9% 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, 2014, 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 is \$25.9 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 May Realty Holdings, Inc. ("MRHI", formerly known as Realty Advisors Management, Inc. "RAMI", effective August 7, 2014), 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.

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, 2014, our income-producing properties consisted of:

• 8 commercial properties consisting of four office buildings, one industrial warehouse, two retail properties, and a golf course comprising in aggregate approximately 1.8 million square feet, excluding the golf course;

- 37 residential apartment communities comprising 6,024 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, 2014:

Location	Apartments		Commercial	
	No.	Units	No.	SF
Arkansas	4	678	-	-
Colorado	2	260	-	-
Florida	-	-	1	6,722
Louisiana-Other	2	384	-	-
Mississippi	7	568	-	-
Ohio	1	200	-	-
Tennessee	2	312	-	-
Texas-Greater Dallas-Ft Worth	12	2,122	5	1,652,098
Texas-Greater Houston	2	416	-	-
Texas-San Antonio	2	468	-	-
Texas-Other	3	616	-	-
St. Thomas, US Virgin Islands	-	-	1	5,929,304
Wisconsin	-	-	1	122,205

Total	37	6,024	8	7,710,329
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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, 2014, we had one apartment project 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.

At December 31, 2014, our apartment projects in development included (dollars in thousands):

Property	Location	No. of Units	Costs to Date (1)	Total Projected Costs (1)
Parc at Mansfield	Mansfield, TX	99	\$ 1,512	\$ 11,797
Total		99	\$ 1,512	\$ 11,797

(1) Costs include construction hard costs, construction soft costs and loan borrowing costs.

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, 2014, 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	105	\$ 13,605	Mixed use
Mercer Crossing	Dallas, TX	1996-2013	388	57,809	Mixed use
	Kaufman				Multi-family
Travis Ranch	County, TX	2008	25	2,547	residential
US Virgin Islands Multi-Tracts	St. Thomas, USVI	2005-2014	184	16,788	Single-family residential
					Single-family
Waco Multi-Tracts	Waco, TX	2005-2006	173	1,072	residential
	Kaufman				Single-family
Windmill Farms(1)	County, TX	2011	2,900	43,610	residential
Other Land					
Holdings	Various	1990-2008	312	21,792	Various
Total Land Holdings			4,087	\$ 157,223	

(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, 2014, are discussed below:

On February 6, 2014, the Company sold a 232-unit apartment complex known as Pecan Pointe, located in Temple, Texas, to an independent third party, for a sales price of \$23.1 million. The buyer assumed the existing debt of \$16.5 million secured by the property. A gain of \$6.1 million was recorded on the sale.

On February 12, 2014, the Company exercised the first prepayment option on the settlement with the lender relating to the Amoco Building and paid \$1.2 million to settle all obligations. The remaining balance of the note in the amount of \$3.5 million, along with accrued interest, was forgiven. The 135,000 shares of Series K Convertible Preferred Stock of ARL that was pledged to the lender has been released to TCI. The Series K preferred stock was cancelled May 7, 2014.

On February 28, 2014, the Company refinanced the existing mortgage on Parc at Denham Springs apartments, a 224-unit complex located in Denham Springs, Louisiana, 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, maturing April 1, 2051.

On March 13, 2014, 6.6 acres of land known as Three Hickory located in Farmers Branch, Texas was transferred back to the Company as a result of the settlement agreement with the lender. On the same day TCI sold the land to IOT for \$1.2 million which resulted in a gain of \$1.2 million.

On March 25, 2014, the Company exercised its lender granted option under the settlement agreement relating to the Galleria East Center Retail / Showcase Chevrolet land which was transferred to the existing lender on February 4, 2011. We paid the balance of the notes along with all accrued and unpaid interest and received a reduction in price of \$0.4 million.

On March 26, 2014, the Company sold 6.314 acres of land known as McKinney Ranch land, located in McKinney, Texas, to an independent third party, for a sales price of \$1.7 million. We paid \$1.5 million on the existing mortgage to satisfy a portion of the multi-tract collateral debt of \$6.6 million, secured by various land parcels located in McKinney, Texas. A gain of \$0.8 million was recorded on the sale.

On March 28, 2014, the Company secured financing of \$40.0 million from an independent third party. The note has a term of five years at an interest rate of 12.0%. The note is interest only for the first year with quarterly principal payments due of \$500,000 starting April 1, 2015. The loan is secured by various equity interests in residential apartments and can be prepaid at a penalty rate of 4% for year 1 with the penalty declining by 1% each year thereafter.

On March 31, 2014, the Company entered into a settlement agreement relating to the Fenton Centre building which was transferred to the existing lender on June 7, 2011. The total amount of the settlement was \$7.0 million, \$5.0 million was paid at the time of the settlement and the remaining \$2.0 million will be paid out in equal monthly installments through November 5, 2015.

On April 3, 2014, the Company sold a 512,593 square foot commercial building known as 1010 Common, located in New Orleans, Louisiana, to an independent third party, for a sales price of \$16.6 million. A gain of \$7.0 million was recorded on the sale.

On May 28, 2014, a \$1.5 million principal payment was made to the existing Realty Advisors, Inc. mortgage and two additional land parcels, including 8.0 acres of Ladue land owned by TCI and 16.87 acres of Valwood land owned by ARL, were substituted as collateral under the note in exchange for a release of a \$4 million deposit account. The principal balance is allocated based on the land valuation.

On July 25, 2014, the Company sold 24.498 acres of land known as Stanley Tools and Kelly Lots, located in Farmers Branch, Texas, to an independent third party, for a sales price of \$4.3 million. We paid off the existing mortgage of \$1.7 million in addition to making a \$0.2 million payment on an existing mortgage related to another parcel of land located in Gulfport, Mississippi. A nominal gain was recorded on the sale.

On July 31, 2014, the Company refinanced the existing mortgage on Desoto Ranch apartments, a 248-unit complex located in Desoto, Texas, for a new mortgage of \$15.7 million. We paid off the existing mortgage of \$15.7 million and \$0.5 million in closing costs. The note accrues interest at 3.50% and payments of interest and principal are due monthly, maturing June 1, 2050.

On August 12, 2014, the Company sold a 20,715 square foot commercial building known as Sesame Square, located in Anchorage, Alaska, to an independent third party, for a sales price of \$2.6 million. We paid off the existing mortgage of \$0.8 million. A gain of \$1.8 million was recorded on the sale.

On August 28, 2014, the Company refinanced the existing mortgage on Treehouse apartments, a 160-unit complex located in Irving, Texas, for a new mortgage of \$5.8 million. We paid off the existing mortgage of \$4.7 million and

\$1.1 million in closing costs and escrows. The note accrues interest at 3.55% and payments of interest and principal are due monthly, maturing September 1, 2044.

On September 19, 2014, the Company acquired 100% ownership of Summer Breeze I-V, LLC, from an independent third party, which resulted in the acquisition of Sunset Lodge, a 216-unit complex located in Odessa, Texas. We exchanged the existing note receivable and all accrued interest in the amount of \$3.5 million for the ownership interest.

On September 23, 2014, the Company sold a 106-unit complex known as Bridgewood Ranch, located in Kaufman, Texas, to an independent third party, for a sales price of \$8.0 million. We paid off the existing mortgage of \$4.5 million and the buyer obtained a new mortgage of \$6.6 million. We did not recognize or record the sale in accordance with ASC 360-20 due to our continuing involvement as a result of having the option to repurchase the sold property at a later date. The exercise of the option is subject to the approval of the U.S. Department of Housing and Urban Development. We determined a sale had not occurred for financial reporting purposes and therefore the asset remains on our books.

On October 17, 2014, the construction loan in the amount of \$19.7 million that was taken out on July 1, 2012, to fund the development of Sunset Lodge apartments, a 216-unit complex located in Odessa, Texas, closed into permanent financing. The note accrues interest at 3.00% and payments of interest only are payable commencing August 1, 2012, through February 1, 2014, at which time principal and interest payments are due through the maturity date of February 1, 2054.

On November 3, 2014, the Company sold a 290-unit apartment complex known as Blue Ridge, located in Midland, Texas, to an independent third party, for a sales price of \$52.8 million. We paid off the existing mortgage of \$23.7 million. A gain of \$26.7 million was recorded on the sale.

On November 6, 2014, the Company acquired 100% ownership of Dun-Run Golf, Dun-Run Development, and Dun-Run Restaurants, all limited liability companies, which resulted in the acquisition of Mahogany Run Golf Course for a purchase price of \$13.3 million. The Company took out a note as seller financing to aid in the purchase in the amount of \$6.6 million. The note accrues at 8% with interest only payments due through the maturity date of November 6, 2015. An option to renew for one more year can be exercised if a \$1.0 million principal payment is made before maturity.

On November 13, 2014, the Company sold a 216-unit complex known as Sunset Lodge, as well as 5.98 acres of land, both located in Odessa, Texas, to an independent third party, for a combined sales price of \$40.6 million. The buyer assumed the existing debt of \$19.0 million secured by the property. A gain of \$18.9 million was recorded on the sale.

On December 1, 2014, the Company acquired a 208-unit complex known as Legacy at Pleasant Grove, located in Texarkana, Texas, from a third party. We exchanged the existing note receivable and all accrued interest in the amount of \$5.0 million for the complex.

On December 1, 2014, the Company acquired a 148-unit complex known as Villas at Park West I, located in Pueblo, Colorado, from a third party. We exchanged the existing note receivable and all accrued interest in the amount of \$1.3 million for the complex.

On December 1, 2014, the Company acquired a 112-unit complex known as Villas at Park West II, located in Pueblo, Colorado, from a third party. We exchanged the existing note receivable and all accrued interest in the amount of \$5.1 million for the complex.

On December 12, 2014, the Company refinanced the existing mortgage on Stanford Center, a 333,381 square foot commercial building located in Dallas, Texas, for a new mortgage of \$28.0 million. We paid off the existing mortgage of \$21.3 million and \$7.8 million in closing costs and escrows. The note accrues interest at a floating rate of 5.50% above the 30-day LIBOR index, with a floor of 5.75% and payments of interest only, maturing on January 5, 2017.

On December 30, 2014, the Company acquired 8.387 acres of land known as Bonneau Land, located in Farmers Branch, Texas, from a third party, for a purchase price of \$1.2 million.

On December 30, 2014, the Company sold 2.606 acres of land known as Carr (Luna) Land, located in Farmers Branch, Texas, to a third party, for a sales price of \$0.3 million. A loss of \$0.4 million was recorded on the sale.

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, 2014, 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, 2014, there remains one apartment complex, one commercial building and 110 acres of land that we have sold to a related party and have deferred the recognition of the sale. These are treated as "subject to sales contract" on the Consolidated Balance Sheets. These properties were sold to a related party in order to help facilitate an appropriate debt or organizational restructure and may or may not be transferred back to the seller upon resolution. These properties have mortgages that are secured by the property and many have corporate guarantees. According to the loan documents, the maker is currently in default on these mortgages primarily due to lack of payment and is actively involved in discussions with every lender in order to settle or cure the default situation. We have reviewed each asset and taken impairment to the extent we feel the value of the property was less than our current basis. The Company did not recognize or record the sale in accordance with ASC 360-20 due to our continuing involvement, which included the potential payment of cash shortfalls, future obligations under the existing mortgage and guaranty, the buyer's inadequate initial investment and the Company's questionable recovery of investment cost. The Company determined that no sale had occurred for financial reporting purposes and therefore the asset remained on the books and continued to record operating expenses and depreciation as a period cost until a sale occurred that met the requirements of ASC 360-20. The buyers received no compensation for the facilitation of the bankruptcy or debt restructuring process.

We continue to invest in the development of apartment projects. For the twelve months ended December 31, 2014, we have expended \$3.0 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 residential and 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 the 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, 2014 of approximately \$605.6 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, 2014, our portfolio consisted of 45 income-producing properties consisting of 37 apartments totaling 6,024 units, eight commercial properties consisting of four office buildings, one industrial warehouse, two retail centers, and a golf course. In addition, we own or control 4,087 acres of improved and unimproved land for future development or sale. The average annual rental and other property revenue dollar per square foot is \$10.35 for the Company's residential apartment portfolio and \$10.44 for the commercial portfolio. The table below shows information relating to those properties in which we own or have an ownership interest:

Residential Apartments	Location	Units	Occupancy
Anderson Estates	Oxford, MS	48	100.00%
Blue Lake Villas I	Waxahachie, TX	186	95.70%
Blue Lake Villas II	Waxahachie, TX	70	95.70%
Breakwater Bay	Beaumont, TX	176	93.80%
Bridgewood Ranch	Kaufman, TX	106	99.10%
Capitol Hill	Little Rock, AR	156	91.70%
Curtis Moore Estates	Greenwood, MS	104	85.60%
Dakota Arms	Lubbock, TX	208	89.90%
David Jordan Phase II	Greenwood, MS	32	87.50%
David Jordan Phase III	Greenwood, MS	40	87.50%
Desoto Ranch	DeSoto, TX	248	96.00%
Falcon Lakes	Arlington, TX	248	97.20%
Heather Creek	Mesquite, TX	200	95.00%
Lake Forest	Houston, TX	240	100.00%
Legacy at Pleasant Grove	Texarkana, TX	208	93.80%
Lodge at Pecan Creek	Denton, TX	192	94.30%
Mansions of Mansfield	Mansfield, TX	208	95.20%
Mission Oaks	San Antonio, TX	228	93.00%
Monticello Estate	Monticello, AR	32	90.60%
Northside on Travis	Sherman, TX	200	96.00%
Parc at Clarksville	Clarksville, TN	168	94.60%
Parc at Denham Springs	Denham Springs, LA	224	92.40%
Parc at Maumelle	Little Rock, AR	240	90.00%
Parc at Metro Center	Nashville, TN	144	100.00%

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Parc at Rogers	Rogers, AR	250	98.00%
Preserve at Pecan Creek	Denton, TX	192	96.40%
Riverwalk Phase I	Greenville, MS	32	93.80%
Riverwalk Phase II	Greenville, MS	72	91.70%
Sonoma Court	Rockwall, TX	124	96.80%
Sugar Mill	Baton Rouge, LA	160	100.00%
Toulon	Gautier, MS	240	93.80%
Treehouse	Irving, TX	160	98.10%
Villas at Park West I	Pueblo, CO	148	90.50%
Villas at Park West II	Pueblo, CO	112	97.30%
Vistas of Vance Jackson	San Antonio, TX	240	89.60%
Windsong	Fort Worth, TX	188	95.20%
	Total Apartment Units	5,824	

Apartments Subject to Sales Contract	Location	Units	Occupancy
Quail Hollow	Holland, OH	200	95.50%
	Total Apartments Subject to Sales Contract	200	
	Total Apartments /Average Occupancy rate	6,024	94.36%

Office Buildings	Location	SqFt	Occupancy
600 Las Colinas	Las Colinas, TX	512,836	78.26%
Browning Place (Park West I)	Farmers Branch, TX	625,264	60.50%
Senlac (VHP)	Farmers Branch, TX	2,812	100.00%
Stanford Center	Dallas, TX	333,381	48.57%
	Total Office Buildings	1,474,293	

Retail Centers	Location	SqFt	Occupancy
Bridgeview Plaza	LaCrosse, WI	122,205	94.37%
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 Buildings	1,781,025	

Golf Course	Location	SqFt
Mahogany Run Golf Course	St. Thomas, US Virgin Islands	5,929,304
	Total Golf Course	5,929,304
	Total Commercial and Golf Course	7,710,329

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
2015	3,352	\$ 44,223	\$ 13.19	0.2 %	0.3 %
2016	404,889	4,290,182	\$ 10.60	22.7 %	24.9 %
2017	54,165	877,020	\$ 16.19	3.0 %	5.1 %
2018	117,131	2,278,815	\$ 19.46	6.6 %	13.2 %
2019	232,349	3,762,918	\$ 16.20	13.0 %	21.9 %

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2020	72,580	1,489,083	\$ 20.52	4.1	%	8.7	%
2021	30,394	672,754	\$ 22.13	1.7	%	3.9	%
2022	50,271	1,051,173	\$ 20.91	2.8	%	6.1	%
2023	154,106	1,909,772	\$ 12.39	8.7	%	11.1	%
Thereafter	63,708	833,810	\$ 13.09	3.6	%	4.8	%
Total	1,182,945	\$ 17,209,750		66.4	%	100	%

- (1) Represents the monthly contractual base rent and recoveries from tenants under existing leases as of December 31, 2014, multiplied by twelve. This amount reflects total rent before any rent abatements and includes expense reimbursements, which may be estimates as of such date.

Land	Location	Acres
2427 Valley View Ln	Farmers Branch, TX	0.31
Audubon	Adams County, MS	48.20
Bonneau Land	Farmers Branch, TX	8.39
Cooks Lane	Fort Worth, TX	23.24
Dedeaux	Gulfport, MS	10.00
Denham Springs	Denham Springs, LA	4.38
Gautier	Gautier, MS	3.46
Hollywood Casino Tract II	Farmers Branch, TX	13.85
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 Ventures	Farmers Branch, TX	26.71
Mahogany Run Golf Course	St. Thomas, US Virgin Islands	87.09
Manhattan	Farmers Branch, TX	32.02
McKinney 36	Collin County, TX	34.05
McKinney Ranch	McKinney, TX	71.39
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
Senlac	Farmers Branch, TX	11.94
Sugar Mill Land	Baton Rouge, LA	2.90
Texas Plaza	Irving, TX	10.33
Three Hickory	Farmers Branch, TX	6.60
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	3,974.32

Land Subject to Sales Contract	Location	Acres
Hunter Equities	Dallas, TX	2.56
Dominion Tract	Dallas, TX	10.59

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Hollywood Casino Tract I	Farmers Branch, TX	19.71
Whorton	Bentonville, AR	79.70
	Total Land Subject to Sales Contract	112.56
	Total Land	4,086.88

ITEM 3. LEGAL PROCEEDINGS

Dynex Capital, Inc.

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 in “increased costs” and \$11,161,520 for “lost opportunity” damages in favor of TCI and its subsidiaries (a total of \$12,122,166). 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.

ART and ART Midwest, Inc.

In August 2014, David M. Clapper and two entities related to Mr. Clapper (all, collectively, the “Clapper Parties”) filed a complaint in the U. S. District Court against the Company, its directors and certain of its officers alleging purported transactions to the detriment of the Clapper Parties and others by transferring assets, cash and diverting property. Management of the Company believes that there is no basis for this action against the Company and its officers and directors and intends to vigorously defend itself. The August 2014 complaint does not allege any facts relating to the Company, except that the named directors and officers are directors and officers of the Company and that the Company is a Nevada corporation, with its headquarters/principal place of business in Dallas, Texas.

The case arises over other litigation, commenced in 1999, among the Clapper Parties and American Realty Trust, Inc. (“ART”) and its former subsidiary, Art Midwest, Inc., originally arising out of a transaction in 1998, in which ART and the Clapper Parties were to form a partnership to own eight residential apartment complexes. Over the ensuing years, a number of rulings, both for and against ART and ART Midwest, Inc., were issued, resulting in a ruling in October

2011, under which the Clapper Parties were awarded an initial judgment for approximately \$74 million, including \$26 million in actual damages and \$48 million in interest. The 2011 ruling was only against ART and Art Midwest, Inc., but no other entity. During February 2014, the Court of Appeals affirmed a portion of the judgment in favor of the Clapper Parties but also ruled that a double counting of a significant portion of the damages had occurred and remanded the case back to the trial court to recalculate the damage award, as well as pre- and post-judgment interest thereon. ART was also a significant owner of a partnership interest in the partnership that was awarded the initial damages in the matter. ART and ART Midwest, Inc. are not and have never been a subsidiaries of the Company.

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 above.

The Company is involved in and vigorously defending against other 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.

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 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:

	2014		2013	
	High	Low	High	Low
First Quarter	\$ 17.50	\$ 8.80	\$ 6.50	\$ 4.10
Second Quarter	\$ 17.28	\$ 11.70	\$ 10.21	\$ 5.25
Third Quarter	\$ 14.76	\$ 9.44	\$ 9.26	\$ 6.86
Fourth Quarter	\$ 13.90	\$ 9.00	\$ 9.46	\$ 8.11

On March 12, 2015, the closing price of TCI's common stock as reported on the NYSE was \$10.76 per share, and was held by approximately 3,226 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 2014, 2013 or 2012. 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, 2014:

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, 2014			1,230,535	406,465
October 31, 2014	-	\$ -	1,230,535	406,465
November 30, 2014	-	\$ -	1,230,535	406,465
December 31, 2014	-	\$ -	1,230,535	406,465
Total	-			

ITEM 6. SELECTED FINANCIAL DATA

TRANSCONTINENTAL REALTY INVESTORS, INC.

	For the Years Ended December 31,				
	2014	2013	2012	2011	2010
	(dollars in thousands, except share and per share amounts)				
EARNINGS DATA					
Total operating revenues	\$75,858	\$77,351	\$78,378	\$70,888	\$67,727
Total operating expenses	75,087	82,722	69,157	103,972	92,662
Operating income (loss)	771	(5,371)	9,221	(33,084)	(24,935)
Other expenses	(17,613)	(36,626)	(20,661)	(29,009)	(25,917)
Loss before gain on land sales, non-controlling interest, and taxes	(16,842)	(41,997)	(11,440)	(62,093)	(50,852)
Gain (loss) on land sales	561	(1,073)	6,935	16,970	(15,155)
Income tax benefit (expense)	20,390	40,949	(1,260)	(518)	(351)
Net income (loss) from continuing operations	4,109	(2,121)	(5,765)	(45,641)	(66,358)
Net income (loss) from discontinuing operations	37,868	61,630	(2,339)	(962)	(740)
Net income (loss)	41,977	59,509	(8,104)	(46,603)	(67,098)
Net (income) loss attributable to non-controlling interest	(399)	(979)	(220)	282	(98)
Net income (loss) attributable to Transcontinental Realty Investors, Inc.	41,578	58,530	(8,324)	(46,321)	(67,196)
Preferred dividend requirement	(1,005)	(1,110)	(1,112)	(1,110)	(1,073)
Net income (loss) applicable to common shares	\$40,573	\$57,420	\$(9,436)	\$(47,431)	\$(68,269)
PER SHARE DATA					
Earnings per share - basic					
Income (loss) from continuing operations	\$0.32	\$(0.50)	\$(0.84)	\$(5.55)	\$(8.32)
Income (loss) from discontinued operations	4.42	7.33	(0.28)	(0.11)	(0.09)
Net income (loss) applicable to common shares	\$4.74	\$6.83	\$(1.12)	\$(5.66)	\$(8.41)
Weighted average common share used in computing earnings per share	8,559,370	8,413,469	8,413,469	8,370,729	8,113,575
Earnings per share - diluted					
Income (loss) from continuing operations	\$0.32	\$(0.50)	\$(0.84)	\$(5.55)	\$(8.32)
Income (loss) from discontinued operations	4.42	7.33	(0.28)	(0.11)	(0.09)
Net income (loss) applicable to common shares	\$4.74	\$6.83	\$(1.12)	\$(5.66)	\$(8.41)
Weighted average common share used in computing diluted earnings per share	8,559,370	8,413,469	8,413,469	8,370,729	8,113,575
BALANCE SHEET DATA					
Real estate, net	\$689,121	\$695,802	\$896,950	\$988,339	\$1,213,114

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Notes and interest receivable, net	83,457	67,907	59,098	77,371	67,025
Total assets	930,405	897,671	1,045,344	1,160,324	1,384,761
Notes and interest payables	608,917	602,845	808,043	884,305	1,022,015
Stockholders' equity	233,448	191,570	133,129	141,284	183,448
Book value per share	27.27	22.77	15.82	16.88	22.61

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 2014 we acquired \$45.4 million and sold \$142.5 million of land and income-producing properties. As of December 31, 2014, we owned 6,024 units in 37 residential apartment communities, eight commercial properties comprising approximately 1.8 million rentable square feet. In addition, we own 4,087 acres of land held for development. The Company currently owns income-producing properties and land in nine 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.

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 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.

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.

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.

The Company in accordance with the VIE guidance in ASC 810 “Consolidations” consolidates 35 and 33 multifamily residential properties located throughout the United States at December 31, 2014 and December 31, 2013, respectively, ranging from 32 units to 290 units. Assets totaling \$362.3 million and \$343.9 million at December 31, 2014 and 2013, 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 \$0.0 and \$16.4 million at December 31, 2014 and 2013, 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.

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 (80% or more) 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, 2014, 2013, and 2012 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, 2014, 2013 and 2012, we owned or had interests in a portfolio of 45, 45 and 60 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. Continued operations represents all properties that have not been reclassified to discontinued operations as of December 31, 2014 for the year presented. The table below shows the number of income-producing properties held by year:

	2014	2013	2012
Continued operations	45	41	41
Sales subsequent to year end	-	4	19
Total property portfolio	45	45	60

Comparison of the year ended December 31, 2014 to the same year ended 2013:

For the twelve months ended December 31, 2014, we reported net income applicable to common shares of \$40.6 million or \$4.74 per diluted earnings per share, as compared to a net income applicable to common shares of \$57.4 million or \$6.83 per diluted earnings per share for the same year ended 2013. The current year net income applicable to common shares of \$40.6 million includes gain on land sales of \$0.6 million and net income from discontinued operations of \$37.9 million, as compared to the prior year net income applicable to common shares of \$57.4 million, which includes loss on land sales of \$1.1 million, provisions on the impairment of notes receivable and real estate assets of \$11.3 million, and net income from discontinued operations of \$61.6 million.

Revenues

Rental and other property revenues were \$75.9 million for the twelve months ended December 31, 2014. This represents a decrease of \$1.5 million, as compared to the prior year revenues of \$77.4 million. This change, by segment, is an increase in the apartment portfolio of \$2.4 million, offset by a decrease in the commercial portfolio of \$3.8 million and a decrease in the other portfolio of \$0.1 million. Our apartment portfolio continues to excel in the current economic conditions with occupancies averaging over 94% and increasing rental rates. We have been able to surpass expectations due to the high-quality product offered, strength of our management team and our commitment to our tenants. The decrease in the commercial segment is due to a lease termination fee received in the prior year. Our commercial portfolio expects to improve as the Company has been diligent in our actions to re-lease vacant space and has been successful in attracting high-quality tenants and expects to see the benefits of those new leases over the next twelve months. We continue to work 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 \$39.5 million for the twelve months ended December 31, 2014. This represents an increase of \$2.8 million, as compared to the prior year operating expenses of \$36.7 million. This change, by segment, is an increase in the apartment portfolio of \$1.2 million, an increase in the commercial portfolio of \$1.4 million and an increase of \$0.2 million in our land portfolio. Within the apartment portfolio, the majority of the increase was due to tax refunds received for several properties in the prior year, an increase in the current year real estate taxes, as well as some non-recurring repair projects completed in the current year. In the commercial segment, the increase is due to an increase in occupancy as well as tax refunds received in the prior year. Within the land portfolio, the increase was mainly due to an increase in real estate taxes and professional services.

Depreciation and amortization expenses were \$17.4 million for the twelve months ended December 31, 2014. This represents an increase of \$1.6 million as compared to prior year depreciation of \$15.8 million. The majority of this change is in the commercial portfolio related to an increase in tenant improvements.

General and administrative expenses were \$7.2 million dollars for the twelve months ended December 31, 2014. This represents an increase of \$0.9 million, as compared to the prior year general and administrative expenses of \$6.3 million. This change, by segment, is a decrease in the land portfolio of \$0.6 million and an increase in the other portfolio of \$1.5 million. Within the land portfolio, the decrease is due to a reduction in professional fees. Within the other portfolio, the increase of was mainly due to professional fees and franchise taxes.

There was no provision for impairment of notes receivable, investment in real estate partnerships, and real estate assets for the year ended December 31, 2014. This was a decrease of \$11.3 million as compared to the prior year expense of \$11.3 million. In the prior year, impairment was recorded as an additional loss in the commercial and land portfolios. In our commercial portfolio, an impairment reserve of \$9.6 million was taken to adjust for the appraised value of the building. In our land portfolio, an impairment reserve of \$1.5 million was taken based on a potential sale of land at a value lower than book basis. The remaining \$0.2 million in impairment reserves were related to provisions for losses taken to our notes receivable.

Net income fee was \$3.7 million for the twelve months ended December 31, 2014. This represents a decrease of \$0.4 million, as compared to the prior year net income fee of \$4.1 million. The net income fee paid to Pillar is calculated at 7.5% of net income.

Advisory fees were \$7.4 million for the twelve months ended December 31, 2014. This represents a decrease of \$1.1 million, as compared to the prior year advisory fees of \$8.5 million. Advisory fees are computed based on a gross asset fee of 0.0625% per month (0.75% per annum) of the average of the gross asset value.

Other income (expense)

Interest income was \$12.2 million for the twelve months ending December 31, 2014. This represents a decrease of \$1.6 million, as compared to the prior year interest income of \$13.8 million dollars. This decrease is due to the recognition of uncollectable interest in the prior year on two of the UHF notes receivable, offset by an increase in interest received from our Advisor.

Other income was \$0.4 million for the twelve months ending December 31, 2014. This represents a decrease of \$7.4 million as compared to the prior year other income of \$7.8 million. The decrease is primarily due to the December 30, 2013 Mercer/Travelers land mortgage note buyout, which was paid off at a discounted rate.

Mortgage and loan interest expense was \$28.4 million for the twelve months ended December 31, 2014. This represents a decrease of \$1.3 million, as compared to the prior year expense of \$29.7 million. This change by segment, is a decrease in the apartment portfolio of \$0.9 million and a decrease in the land portfolio of \$1.6 million, offset by an increase in the other portfolio of \$1.1 million and an increase in the commercial portfolio of \$0.1 million. Within the apartment portfolio, the majority of the decrease is due to the refinances closed with long-term, low interest rates. The decrease in the land portfolio relates to principal payments made during the prior years, thereby requiring less future interest to be paid on debt obligations. Within the other portfolio, the majority of the increase is due to the securing of a new loan in the current year, offset by a decrease in the interest owed to our Advisor.

Loan charges and prepayment penalties were \$2.8 million for the twelve months ended December 31, 2014. This represents a decrease of \$2.4 million, as compared to the prior year expense of \$5.2 million. There were fewer refinances completed in the current year than in the prior year.

Litigation settlement expenses were a credit of \$3.6 million for the twelve months ended December 31, 2014. This represents a decrease of \$23.9 million, as compared to the prior year expense of \$20.3 million. The majority of the credit to the current year litigation expense is due to the settlement with the lender relating to the Amoco Building in which the balance in the amount of \$3.5 million was forgiven. Matters were settled in the prior year in order to avoid future litigation and legal expenses.

Gain on land sales was \$0.6 million for the twelve months ended December 31, 2014. In the current year we sold 76.3 acres of land in six transactions for an aggregate sales price of \$8.1 million and recorded a gain of \$0.6 million.

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 5 and 19 income-producing properties as of 2014 and 2013, 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, 2014. In 2014 we sold three apartment complexes (Blue Ridge, Pecan Pointe and Sunset Lodge) and two commercial buildings (1010 Common and Sesame Square). 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) and four commercial properties (225 Baronne, Amoco, Ergon and Eton Square). 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,	
	2014	2013
Revenues:		
Rental and other property revenues	\$5,612	\$34,922
	5,612	34,922
Expenses:		
Property operating expenses	2,350	16,480
Depreciation	751	5,563
General and administrative	515	950
Total operating expenses	3,616	22,993
Other income (expense):		
Other income (expense)	(508)	44
Mortgage and loan interest	(1,743)	(8,082)
Deferred borrowing costs amortization	(1,461)	(3,015)
Loan charges and prepayment penalties	(1,656)	(3,245)
Earnings from unconsolidated subsidiaries and investees	1	30
Litigation settlement	(250)	(250)
Total other expenses	(5,617)	(14,518)
Loss from discontinued operations before gain on sale of real estate and taxes	(3,621)	(2,589)
Gain on sale of real estate from discontinued operations	61,879	97,405
Income tax expense	(20,390)	(33,186)
Income from discontinued operations	\$37,868	\$61,630

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

For the twelve months ended December 31, 2013, we reported net income applicable to common shares of \$57.4 million or \$6.83 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 year ended 2012. The 2013 net income applicable to common shares of \$57.4 million includes loss on land sales of \$1.1 million, provisions on the impairment of notes receivable and real estate assets of \$11.3 million, and net income from discontinued operations of \$61.6 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, provisions on the impairment of notes receivable and real estate assets of \$2.3 million, and net loss from discontinued operations of \$2.3 million.

Revenues

Rental and other property revenues were \$77.4 million for the twelve months ended December 31, 2013. This represents a decrease of \$1.0 million, as compared to the prior year revenues of \$78.4 million. This change, by segment, is an increase in the apartment portfolio of \$2.9 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. 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 \$36.7 million for the twelve months ended December 31, 2013. This represents a decrease of \$1.1 million, as compared to the prior year operating expenses of \$37.8 million. This change, by segment, is an increase in the apartment portfolio of \$1.5 million, offset by a decrease in the commercial portfolio of \$2.6 million. Within the apartment portfolio, the increase is due to an increase in real estate taxes for several properties in 2013. Within the commercial portfolio, the decrease was due to real estate tax refunds from protests and litigations for several properties and lease commissions that were expensed in the prior year and adjusted to capitalize according to the lease terms in the current year.

Depreciation expense was \$15.8 million for the twelve months ended December 31, 2013. This represents an increase of \$1.0 million, as compared to the prior year expense of \$14.8 million. This change, by segment, is an increase in the commercial portfolio of \$0.9 million, and an increase in the apartment portfolio of \$0.1 million. Within the commercial portfolio the increase is related to an increase in tenant improvements and lease commission amortization.

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. This increase, within the other portfolio, 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 year ended December 31, 2013. This was an increase of \$9.0 million, as compared to the prior year expense of \$2.3 million. In 2013, 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 year. In the prior year, 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.

Advisory fees were \$8.5 million for the twelve months ended December 31, 2013. This represents a decrease of \$0.4 million, as compared to the prior year advisory fees of \$8.9 million. Advisory fees are computed based on a gross asset fee of 0.0625% per month (0.75% per annum) of the average of the gross asset value.

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 of 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 \$7.8 million for the twelve months ended December 31, 2013. This represents an increase of \$1.5 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 \$29.7 million for the twelve months ended December 31, 2013. This represents a decrease of \$4.7 million, as compared to the prior year expense of \$34.4 million. This change, by segment, is a decrease in the apartment portfolio of \$2.7 million, a decrease in the land portfolio of \$0.6 million, and 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 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 year 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 2013 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. This change, by segment, is an increase in the commercial portfolio of \$0.2 million, an increase in the apartment portfolio of \$0.4 million, and an increase in the land portfolio of \$1.0 million. The majority of the land increase is due to the extension fees paid relating to the Mercer/Travelers Land note payoff. The apartment portfolio increased as well due to the prepayment penalties from the refinancing of several existing mortgage notes. There were more refinances completed in 2013 than in the prior year.

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 three separate transactions for an aggregate sales price of \$13.1 million and recorded a loss of \$1.1 million.

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 19 and 24 income-producing properties as of 2013 and 2012, 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, 2014. 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) and four commercial properties (225 Baronne, Amoco, Ergon and Eton Square). 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	\$34,922	\$43,010
	34,922	43,010
Expenses:		
Property operating expenses	16,480	22,645
Depreciation	5,563	7,676
General and administrative	950	975
Provision on impairment of notes receivable and real estate assets	-	2,400
Total operating expenses	22,993	33,696
Other income (expense):		
Other income	44	7
Mortgage and loan interest	(8,082)	(12,677)
Deferred borrowing costs amortization	(3,015)	(1,794)
Loan charges and prepayment penalties	(3,245)	(3,471)
Earnings from unconsolidated subsidiaries and investees	30	55
Litigation settlement	(250)	(250)
Total other expenses	(14,518)	(18,130)
Loss from discontinued operations before gain on sale of real estate and taxes	(2,589)	(8,816)
Gain on sale of real estate from discontinued operations	97,405	5,217
Income tax benefit (expense)	(33,186)	1,260
Income (loss) from discontinued operations	\$61,630	\$(2,339)

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, 2014, along with cash that will be generated in 2015 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. 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. 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.

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):

	2014	2013	Variance
Net cash used in operating activities	\$ (29,382)	\$ (66,695)	\$ 37,313
Net cash provided by investing activities	\$ 28,904	\$ 269,049	\$ (240,145)
Net cash used in financing activities	\$ (3,407)	\$ (199,269)	\$ 195,862

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 prior period to pay down related party payables than in the current 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. We received more proceeds from sales of properties and land in the prior period than in the current period. In addition, we spent \$81 million on three residential properties and a combined 15.0 acres of land in the current period.

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. We used \$21.4 million to make recurring note payments and \$153.6 million for maturing notes including payoffs required on sold properties as compared to \$15.8 million and \$386.7 million in the prior period, respectively.

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 GAAP, through the term of the obligation such as interest expense and operating leases. Our aggregate obligations subsequent to December 31, 2014, are shown in the table below (dollars in thousands):

	Total	2015	2016	2017-2019	Thereafter
Long-term debt obligation (1)	\$945,647	\$129,957	\$67,737	\$147,822	\$600,131
Capital lease obligation	-	-	-	-	-
Operating lease obligation	18,630	277	283	883	17,187
Purchase obligation	-	-	-	-	-
Other long-term debt liabilities reflected on the	-	-	-	-	-
Registrant's Balance Sheet under GAAP					
Total	\$964,277	\$130,234	\$68,020	\$148,705	\$617,318

(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, 2014, our \$605.6 million debt portfolio consisted of approximately \$542.6 million of fixed-rate debt and approximately \$63.0 million of variable-rate debt with interest rates ranging from 1.0% to 12.5%. Our overall weighted average interest rate at December 31, 2014 and 2013 was 4.72% and 5.65%, 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 2015 than they did during 2014, TCI's interest expense would increase and net income would decrease by \$0.6 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, 2014. 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):

	2015		2016		2017		2018		2019		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												\$80,304
Instruments' maturities	\$1,319		\$-		\$11,662		\$-		\$19,530		\$47,793	\$80,304
Instruments' amortization	-		-		-		-		-		-	-
Interest	9,512		9,431		9,032		8,032		7,045		73,718	116,770
Average Rate	11.84	%	11.94	%	11.44	%	11.93	%	10.46	%	11.02	%
Notes Payable												
Variable interest rate - fair value												\$63,001
Instruments' maturities	\$17,253		\$8,837		\$32,353		\$-		\$-		\$-	\$58,443
Instruments' amortization	2,449		1,951		158		-		-		-	4,558
Interest	2,497		1,918		197		-		-		-	4,612
Average Rate	5.69	%	5.97	%	5.79	%	0.00	%	0.00	%	0.00	%
Fixed interest rate - fair value												\$542,611
Instruments' maturities	\$74,069		\$26,292		\$1,518		\$-		\$36,540		\$48,236	\$186,655
Instruments' amortization	10,034		8,689		8,478		8,448		6,817		313,490	355,956
Interest	23,655		20,050		19,163		18,647		15,503		238,405	335,423
Average Rate	3.42	%	3.25	%	3.20	%	3.38	%	4.88	%	3.89	%

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO FINANCIAL STATEMENTS

	Page
Financial Statements	
Report of Independent Registered Public Accounting Firm	36
Consolidated Balance Sheets—December 31, 2014 and 2013	37
Consolidated Statements of Operations—Years Ended December 31, 2014, 2013 and 2012	38
Consolidated Statements of Shareholders' Equity—Years Ended December 31, 2014, 2013 and 2012	39
Consolidated Statements of Cash Flows—Years Ended December 31, 2014, 2013 and 2012	40
Statements of Consolidated Comprehensive Income (Loss) – Years Ended December 31, 2014, 2013 and 2012	41
Notes to Consolidated Financial Statements	42
Financial Statement Schedules	
Schedule III—Real Estate and Accumulated Depreciation	66
Schedule IV—Mortgage Loans on Real Estate	69

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, 2014 and 2013, 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, 2014. 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, 2014 and 2013, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2014, 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 30, 2015

TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2014	December 31, 2013
	(dollars in thousands, except share and par value amounts)	
Assets		
Real estate, at cost	\$781,794	\$777,974
Real estate held for sale at cost, net of depreciation (\$0 in 2014 and \$2,390 in 2013)	-	16,427
Real estate subject to sales contracts at cost, net of depreciation (\$2,300 in 2014 and \$1,949 in 2013)	20,395	29,353
Less accumulated depreciation	(113,068)	(127,952)
Total real estate	689,121	695,802
Notes and interest receivable		
Performing (including \$77,853 in 2014 and \$66,431 in 2013 from related parties)	84,863	69,626
Non-Performing	584	543
Less allowance for estimated losses (including \$1,825 in 2014 and \$2,097 in 2013 from related parties)	(1,990)	(2,262)
Total notes and interest receivable	83,457	67,907
Cash and cash equivalents	12,201	16,086
Restricted cash	48,238	31,799
Investments in unconsolidated subsidiaries and investees	1,543	1,697
Receivable from related party	58,404	52,380
Other assets	37,441	32,000
Total assets	\$930,405	\$897,671
Liabilities and Shareholders' Equity		
Liabilities:		
Notes and interest payable	\$588,749	\$562,734
Notes related to assets held for sale	1,552	17,100
Notes related to subject to sales contracts	18,616	23,011
Deferred revenue (from sales to related parties)	51,356	53,096
Accounts payable and other liabilities (including \$4,909 in 2014 and \$4,697 in 2013 from related parties)	36,684	50,160
	696,957	706,101
Shareholders' equity:		
Preferred stock, Series C: \$0.01 par value, authorized 10,000,000 shares, issued and outstanding zero shares		
in 2014 and 30,000 shares in 2013 (liquidation preference \$100 per share). Series D: \$0.01 par value, authorized, issued and outstanding 100,000 shares in 2014 and 2013 (liquidation preference \$100 per share)	1	1
Common Stock, \$0.01 par value, authorized 10,000,000 shares, issued 8,717,967 and 8,413,669 shares in 2014	87	84

and 2013, respectively and outstanding 8,717,767 and 8,413,469 shares in 2014 and 2013, respectively

Treasury stock at cost, 200 shares in 2014 and 2013	(2	)	(2	)
Paid-in capital	271,649		271,720	
Retained earnings	(56,451	)	(98,029	)
Total Transcontinental Realty Investors, Inc. shareholders' equity	215,284		173,774	
Non-controlling interest	18,164		17,796	
Total shareholders' equity	233,448		191,570	
Total liabilities and shareholders' equity	\$930,405		\$897,671	

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,		
	2014	2013	2012
	(dollars in thousands, except per share amounts)		
Revenues:			
Rental and other property revenues (including \$701, \$670 and \$587 for the year ended 2014, 2013 and 2012, respectively, from related parties)	\$75,858	\$77,351	\$78,378
Expenses:			
Property operating expenses (including \$606, \$661 and \$851 for the year ended 2014, 2013 and 2012, respectively, from related parties)	39,484	36,669	37,845
Depreciation and amortization	17,398	15,842	14,813
General and administrative (including \$2,802, \$2,765 and \$2,427 for the year ended 2014, 2013 and 2012, respectively, from related parties)	7,163	6,308	5,074
Provision on impairment of notes receivable and real estate assets	-	11,320	2,330
Net income fee to related party	3,669	4,089	180
Advisory fee to related party	7,373	8,494	8,915
Total operating expenses	75,087	82,722	69,157
Net operating income (loss)	771	(5,371)	9,221
Other income (expense):			
Interest income (including \$11,469, \$13,823 and \$11,677 for the year ended 2014, 2013 and 2012, respectively, from related parties)	12,194	13,790	11,725
Other income (including \$0, \$0 and \$6,000 for the year ended 2014, 2013 and 2012, respectively, from related parties)	403	7,847	6,310
Mortgage and loan interest (including \$31, \$1,761 and \$3,153 for the year ended 2014, 2013 and 2012, respectively, from related parties)	(28,368)	(29,694)	(34,372)
Deferred borrowing costs amortization	(2,509)	(2,582)	(634)
Loan charges and prepayment penalties	(2,804)	(5,219)	(3,574)
Gain (loss) on the sale of investments	(92)	(283)	125
Losses from unconsolidated joint ventures and investees	(28)	(172)	(66)
Litigation settlement	3,591	(20,313)	(175)
Total other expenses	(17,613)	(36,626)	(20,661)
Loss before gain (loss) on land sales, non-controlling interest, and taxes	(16,842)	(41,997)	(11,440)
Gain (loss) on land sales	561	(1,073)	6,935
Net loss from continuing operations before taxes	(16,281)	(43,070)	(4,505)
Income tax benefit (expense)	20,390	40,949	(1,260)
Net income (loss) from continuing operations	4,109	(2,121)	(5,765)
Discontinued operations:			
Net loss from discontinued operations	(3,621)	(2,589)	(8,816)

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Gain on sale of real estate from discontinued operations	61,879	97,405	5,217
Income tax benefit (expense) from discontinued operations	(20,390)	(33,186)	1,260
Net income (loss) from discontinued operations	37,868	61,630	(2,339)
Net income (loss)	41,977	59,509	(8,104)
Net loss attributable to non-controlling interest	(399)	(979)	(220)
Net income (loss) attributable to Transcontinental Realty Investors, Inc.	41,578	58,530	(8,324)
Preferred dividend requirement	(1,005)	(1,110)	(1,112)
Net income (loss) applicable to common shares	\$40,573	\$57,420	\$(9,436)
Earnings per share - basic			
Net income (loss) from continuing operations	\$0.32	\$(0.50)	\$(0.84)
Net income (loss) from discontinued operations	4.42	7.33	(0.28)
Net income (loss) applicable to common shares	\$4.74	\$6.83	\$(1.12)
Earnings per share - diluted			
Net income (loss) from continuing operations	\$0.32	\$(0.50)	\$(0.84)
Net income (loss) from discontinued operations	4.42	7.33	(0.28)
Net income (loss) applicable to common shares	\$4.74	\$6.83	\$(1.12)
Weighted average common shares used in computing earnings per share	8,559,370	8,413,469	8,413,469
Weighted average common shares used in computing diluted earnings per share	8,559,370	8,413,469	8,413,469
Amounts attributable to Transcontinental Realty Investors, Inc.			
Net income (loss) from continuing operations	\$3,710	\$(3,100)	\$(5,985)
Net income (loss) from discontinued operations	37,868	61,630	(2,339)
Net income (loss)	\$41,578	\$58,530	\$(8,324)

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, 2014
(dollars in thousands)

		Comprehensive Income (Loss)	Preferred Stock	Common Shares	Stock Amount	Treasury Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-Controlling Interest
Balance, December 31, 2011	\$ 141,284	\$ (151,052)	\$ 1	8,413,669	\$ 84	\$ (2)	\$ 273,886	\$ (148,235)	\$ -	\$ 15,550
Series C preferred stock dividends (7.0% per year)	(210)	-	-	-	-	-	(210)	-	-	-
Series D preferred stock dividends (9.0% per year)	(902)	-	-	-	-	-	(902)	-	-	-
Net income (loss)	(8,104)	(8,104)	-	-	-	-	-	(8,324)	-	220
Sale of controlling interest	1,138	-	-	-	-	-	-	-	-	1,138
Acquisition of controlling interest	(69)	-	-	-	-	-	-	-	-	(69)
Distributions to non-controlling interests	(8)	-	-	-	-	-	-	-	-	(8)
Balance, December 31, 2012	\$ 133,129	\$ (159,156)	\$ 1	8,413,669	\$ 84	\$ (2)	\$ 272,774	\$ (156,559)	\$ -	\$ 16,831
Series C preferred stock dividends (7.0% per year)	(210)	-	-	-	-	-	(210)	-	-	-
Series D preferred stock dividends (9.0% per year)	(900)	-	-	-	-	-	(900)	-	-	-
Net income	59,509	59,509	-	-	-	-	-	58,530	-	979
Sale of controlling interest	56	-	-	-	-	-	56	-	-	-
Distributions to non-controlling	(14)	-	-	-	-	-	-	-	-	(14)

interests											
Balance,											
December 31,											
2013	\$ 191,570	\$ (99,647)	\$ 1	8,413,669	\$ 84	\$(2)	\$ 271,720	\$(98,029)	\$ -	\$ 17,796	
Series C											
preferred stock											
dividends (7.0%											
per year)	(106)	-	-	-	-	-	(106)	-	-	-	
Series D											
preferred stock											
dividends (9.0%											
per year)	(899)	-	-	-	-	-	(899)	-	-	-	
Net income	41,977	41,977	-	-	-	-	-	41,578	-	399	
Issuance of											
common stock	937	-	-	304,298	3	-	934	-	-	-	
Distributions to											
non-controlling											
interests	(31)	-	-	-	-	-	-	-	-	(31)	
Balance,											
December 31,											
2014	\$ 233,448	\$ (57,670)	\$ 1	8,717,967	\$ 87	\$(2)	\$ 271,649	\$(56,451)	\$ -	\$ 18,164	

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,		
	2014	2013	2012
	(dollars in thousands)		
Cash Flow From Operating Activities:			
Net income (loss)	\$41,977	\$59,509	\$(8,104)
Adjustments to reconcile net income (loss) applicable to common shares to net cash used in operating activities:			
(Gain) loss on sale of land	(561)	1,073	(6,935)
Gain on sale of income producing properties	(61,879)	(97,405)	(5,217)
Depreciation and amortization	18,150	21,404	22,488
Provision on impairment of notes receivable and real estate assets	-	11,320	4,730
Amortization of deferred borrowing costs	3,970	1,349	2,428
Earnings from unconsolidated subsidiaries and investees	298	142	11
(Increase) decrease in assets:			
Accrued interest receivable	7,648	(8,432)	(5,517)
Other assets	2,784	(1,443)	(3,462)
Prepaid expense	(1,995)	(1,722)	(236)
Escrow	(16,733)	3,625	1,157
Earnest money	(420)	(310)	235
Rent receivables	(1,486)	2,445	(1,094)
Increase (decrease) in liabilities:			
Accrued interest payable	104	(5,262)	(7,498)
Related party payables	(6,024)	(62,437)	(7,408)
Other liabilities	(15,215)	9,449	(10,316)
Net cash used in operating activities	(29,382)	(66,695)	(24,738)
Cash Flow From Investing Activities:			
Proceeds from notes receivables	12,504	-	11,993
Originations of notes receivables	(35,430)	(458)	13,477
Acquisition of land held for development	(2,604)	(83)	(18,948)
Acquisition of income producing properties	(78,557)	-	-
Proceeds from sales of income producing properties	135,074	261,495	31,751
Proceeds from sale of land	8,777	13,671	36,648
Proceeds from sale of investments	-	-	132
Investment in unconsolidated real estate entities	(144)	3,600	780
Improvement of land held for development	(3,137)	(399)	(184)
Improvement of income producing properties	(4,563)	(7,681)	(2,201)
Acquisition of non-controlling interest	-	-	(69)
Sale of controlling interest	-	56	113
Construction and development of new properties	(3,016)	(1,152)	(5,683)
Net cash provided by investing activities	28,904	269,049	67,809
Cash Flow From Financing Activities:			
Proceeds from notes payable	178,514	202,535	139,459

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Recurring amortization of principal on notes payable	(21,352)	(15,761)	(21,541)
Payments on maturing notes payable	(153,595)	(386,710)	(163,553)
Deferred financing costs	(6,875)	1,791	(3,305)
Distributions to non-controlling interests	(31)	(14)	(8)
Common stock issuance	937	-	-
Preferred stock dividends - Series C	(106)	(210)	(212)
Preferred stock dividends - Series D	(899)	(900)	(901)
Net cash used in financing activities	(3,407)	(199,269)	(50,061)
Net increase (decrease) in cash and cash equivalents	(3,885)	3,085	(6,990)
Cash and cash equivalents, beginning of period	16,086	13,001	19,991
Cash and cash equivalents, end of period	\$12,201	\$16,086	\$13,001
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$30,110	\$37,776	\$44,737
Schedule of noncash investing and financing activities:			
Affiliate payable/receivable for ARL cost basis sales adjustment	\$-	\$-	\$10,445
Acquisition of land for ARL cost basis sales adjustment	\$-	\$-	\$(10,445)
Notes receivable received from affiliate	\$-	\$-	\$6,000
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,

	2014	2013	2012
	(dollars in thousands)		
Net income (loss)	\$41,977	\$59,509	\$(8,104)
Other comprehensive loss			
Unrealized gain on investment securities	-	-	-
Total other comprehensive loss	-	-	-
Comprehensive income (loss)	41,977	59,509	(8,104)
Comprehensive income attributable to non-controlling interest	(399)	(979)	(220)
Comprehensive income (loss) attributable to Transcontinental Realty Investors, Inc.	\$41,578	\$58,530	\$(8,324)

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. ("TCI") 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 2012 and 2013 have been reclassified to conform to the 2014 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. TCI, 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 NYSE under the symbol ("ARL"). Subsidiaries of ARL own approximately 80.90% 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, 2014, 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 is \$25.9 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 May Realty Holdings, Inc. ("MRHI", formerly known as Realty Advisors Management, Inc. "RAMI", effective August 7, 2014), 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 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.

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, 2014, we owned 37 residential apartment communities comprising of 6,024 units, eight commercial properties comprising an aggregate of approximately 1.8 million rentable square feet, and an investment in 4,087 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.

The Company in accordance with the VIE guidance in ASC 810 “Consolidations” consolidates 35 and 33 multifamily residential properties located throughout the United States at December 31, 2014 and December 31, 2013, respectively, ranging from 32 units to 290 units. Assets totaling \$362.3 million and \$343.9 million at December 31, 2014 and 2013, 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 \$0.0 and \$16.4 million at December 31, 2014 and 2013, 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.

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, 2014 and 2013, 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 GAAP, 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 MRHI, consolidated group for tax purposes. The income tax expense (benefit) for the first part of the 2012 period 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 MRHI for the remainder of 2012 and subsequent years. 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):

	2014	2013
Apartments	\$ 452,631	\$ 433,141
Apartments under construction	1,512	-
Commercial properties	179,171	203,823
Land held for development	148,480	141,010
Real estate held for sale	-	18,817
Real estate subject to sales contract	22,695	31,302
Total real estate, at cost, less impairment	804,489	828,093
Less accumulated depreciation	(115,368)	(132,291)
Total real estate, net of depreciation	\$ 689,121	\$ 695,802

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

There was no provision for impairment of notes receivable, investment in real estate partnerships, and real estate assets for the year ended December 31, 2014.

In the prior year, impairment was recorded as an additional loss in the commercial and land portfolios. In our commercial portfolio, an impairment reserve of \$9.6 million was taken to adjust for the appraised value of the building. In our land portfolio, an impairment reserve of \$1.5 million was taken based on a potential sale of land at a

value lower than book basis. The remaining \$0.2 million in impairment reserves were related to provisions for losses taken to our notes receivable.

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. There was no provision for impairment for the year ended December 31, 2014.

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.

The following is a brief description of the most significant property acquisitions and sales in 2014:

On February 6, 2014, the Company sold a 232-unit apartment complex known as Pecan Pointe, located in Temple, Texas, to an independent third party, for a sales price of \$23.1 million. The buyer assumed the existing debt of \$16.5 million secured by the property. A gain of \$6.1 million was recorded on the sale.

On March 13, 2014, 6.6 acres of land known as Three Hickory located in Farmers Branch, Texas was transferred back to the Company as a result of the settlement agreement with the lender. On the same day TCI sold the land to IOT for \$1.2 million which resulted in a gain of \$1.2 million.

On March 26, 2014, the Company sold 6.314 acres of land known as McKinney Ranch land, located in McKinney, Texas, to an independent third party, for a sales price of \$1.7 million. We paid \$1.5 million on the existing mortgage to satisfy a portion of the multi-tract collateral debt of \$6.6 million, secured by various land parcels located in McKinney, Texas. A gain of \$0.8 million was recorded on the sale.

On April 3, 2014, the Company sold a 512,593 square foot commercial building known as 1010 Common, located in New Orleans, Louisiana, to an independent third party, for a sales price of \$16.6 million. A gain of \$7.0 million was recorded on the sale.

On July 25, 2014, the Company sold 24.498 acres of land known as Stanley Tools and Kelly Lots, located in Farmers Branch, Texas, to an independent third party, for a sales price of \$4.3 million. We paid off the existing mortgage of \$1.7 million in addition to making a \$0.2 million payment on an existing mortgage related to another parcel of land located in Gulfport, Mississippi. A nominal gain was recorded on the sale.

On August 12, 2014, the Company sold a 20,715 square foot commercial building known as Sesame Square, located in Anchorage, Alaska, to an independent third party, for a sales price of \$2.6 million. We paid off the existing mortgage of \$0.8 million. A gain of \$1.8 million was recorded on the sale.

On September 19, 2014, the Company acquired 100% ownership of Summer Breeze I-V, LLC, from an independent third party, which resulted in the acquisition of Sunset Lodge, a 216-unit complex located in Odessa, Texas. We exchanged the existing note receivable and all accrued interest in the amount of \$3.5 million for the ownership interest.

On September 23, 2014, the Company sold a 106-unit complex known as Bridgewood Ranch, located in Kaufman, Texas, to an independent third party, for a sales price of \$8.0 million. We paid off the existing mortgage of \$4.5 million and the buyer obtained a new mortgage of \$6.6 million. We did not recognize or record the sale in accordance with ASC 360-20 due to our continuing involvement as a result of having the option to repurchase the sold property at a later date. The exercise of the option is subject to the approval of the U.S. Department of Housing and Urban Development. We determined a sale had not occurred for financial reporting purposes and therefore the asset remains on our books.

On November 3, 2014, the Company sold a 290-unit apartment complex known as Blue Ridge, located in Midland, Texas, to an independent third party, for a sales price of \$52.8 million. We paid off the existing mortgage of \$23.7 million. A gain of \$26.7 million was recorded on the sale.

On November 6, 2014, the Company acquired 100% ownership of Dun-Run Golf, Dun-Run Development, and Dun-Run Restaurants, all limited liability companies, which resulted in the acquisition of Mahogany Run Golf Course for a purchase price of \$13.1 million. The Company took out a note as seller financing to aid in the purchase in the amount of \$6.6 million. The note accrues at 8% with interest only payments due through the maturity date of November 6, 2015. An option to renew for one more year can be exercised if a \$1.0 million principal payment is made before maturity.

On November 13, 2014, the Company sold a 216-unit complex known as Sunset Lodge, as well as 5.98 acres of land, both located in Odessa, Texas, to an independent third party, for a combined sales price of \$40.6 million. The buyer assumed the existing debt of \$19.0 million secured by the property. A gain of \$20.7 million was recorded on the sale.

On December 1, 2014, the Company acquired a 208-unit complex known as Legacy at Pleasant Grove, located in Texarkana, Texas, from a third party. We exchanged the existing note receivable and all accrued interest in the amount of \$5.0 million for the complex.

On December 1, 2014, the Company acquired a 148-unit complex known as Villas at Park West I, located in Pueblo, Colorado, from a third party. We exchanged the existing note receivable and all accrued interest in the amount of \$1.3 million for the complex.

On December 1, 2014, the Company acquired a 112-unit complex known as Villas at Park West II, located in Pueblo, Colorado, from a third party. We exchanged the existing note receivable and all accrued interest in the amount of \$5.1 million for the complex.

On December 30, 2014, the Company acquired 8.387 acres of land known as Bonneau Land, located in Farmers Branch, Texas, from a third party, for a purchase price of \$1.2 million.

On December 30, 2014, the Company sold 2.606 acres of land known as Carr (Luna) Land, located in Farmers Branch, Texas, to a third party, for a sales price of \$0.3 million. A loss of \$0.4 million was recorded on the sale.

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, 2014, 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, 2014, there remains one apartment complex, one commercial building and 110 acres of land that we have sold to a related party and have deferred the recognition of the sale. These are treated as “subject to sales contract” on the Consolidated Balance Sheets. These properties were sold to a related party in order to help facilitate an appropriate debt or organizational restructure and may or may not be transferred back to the seller upon resolution. These properties have mortgages that are secured by the property and many have corporate guarantees. According to the loan documents, the maker is currently in default on these mortgages primarily due to lack of payment and is actively involved in discussions with every lender in order to settle or cure the default situation. We have reviewed each asset and taken impairment to the extent we feel the value of the property was less than our current basis. The Company did not recognize or record the sale in accordance with ASC 360-20 due to our continuing involvement, which included the potential payment of cash shortfalls, future obligations under the existing mortgage and guaranty, the buyer’s inadequate initial investment and the Company’s questionable recovery of investment cost. The Company determined that no sale had occurred for financial reporting purposes and therefore the asset remained on the books and continued to record operating expenses and depreciation as a period cost until a sale occurred that met the requirements of ASC 360-20. The buyers received no compensation for the facilitation of the bankruptcy or debt restructuring process.

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:				
Foundation for Better Housing, Inc. (Holland Lake) (1)	12/19	12.00%	\$ 4,698	Secured
Foundation for Better Housing, Inc. (Holland Lake) (1)	12/17	12.00%	1,674	Secured
Foundation for Better Housing, Inc. (Overlook at Allensville) (1)	11/19	12.00%	2,472	Secured
Foundation for Better Housing, Inc. (Overlook at Allensville) (1)	12/17	12.00%	1,408	Secured
Foundation for Better Housing, Inc. (Preserve @ Prairie Pointe) (1)	03/19	12.00%	1,810	Secured
Foundation for Better Housing, Inc. (Preserve @ Prairie Pointe) (1)	03/17	12.00%	1,156	Secured
Foundation for Better Housing, Inc. (Vista Ridge) (1)	04/19	12.00%	3,923	Secured
Foundation for Better Housing, Inc. (Vista Ridge) (1)	06/17	12.00%	1,492	Secured
HGH Residential, LLC (Tradewinds Development)	07/19	12.00%	6,131	Secured
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,

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				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)	06/17	12.00%	1,261	Unsecured
Unified Housing Foundation, Inc. (1)	12/17	12.00%	1,207	Unsecured
Other related party notes (1)	Various	Various	768	Various secured interests
Other related party notes (1)	Various	Various	4,276	Various unsecured interests
Other non-related party notes	Various	Various	496	Various secured interests
Accrued interest			5,066	
Total Performing			\$ 84,863	
Non-Performing loans:				
Other non-related party notes	Various	Various	507	Various secured interests
Accrued interest			77	
Total Non-Performing			\$ 584	
Allowance for estimated losses			(1,990)	
Total			\$ 83,457	

(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, 2014, 8.6% of our assets were invested in junior and wraparound mortgage loans.

As of December 31, 2014, the obligors on \$73.2 million or 91.1% of the mortgage notes receivable portfolio were due from related entities. The Company recognized \$9.0 million of interest income from these related party notes receivables.

As of December 31, 2014, \$0.5 million or 0.6% of the mortgage notes receivable portfolio were 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 from operations, sale or refinancing of the underlying properties. These notes are cross collateralized to the extent that any surplus cash available from any of the properties underlying these notes will be used to repay outstanding interest and principal for the remaining notes. Furthermore, any surplus cash available from any of the properties UHF owns, besides the properties underlying these notes, can be used to repay outstanding interest and principal for these notes. The allowance on the notes was a purchase allowance that was netted against the notes when acquired.

In 2010, the Company agreed to reduce the interest rate from 12% to 5.25% for a five year period on the surplus cash flow notes receivable from UHF. As of January 1, 2013, the Company agreed to extend the maturity on these surplus cash flow notes receivable for an additional term of five years in exchange for the early termination of the reduced interest rate.

NOTE 4. ALLOWANCE FOR ESTIMATED LOSSES

The allowance account was reviewed and there were no additional allowances recorded for receivables in 2014. The decrease in 2014 was due to a fully reserved note that was written off. The decrease in 2012 was due to two notes that were written off, both of which were fully reserved. The table below shows our allowance for estimated losses (dollars in thousands):

	2014	2013	2012
Balance January 1,	\$ 2,262	\$ 2,262	\$ 3,942
Decrease in provision	(272)	-	(1,680)
Balance December 31,	\$ 1,990	\$ 2,262	\$ 2,262

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,		
	2014	2013	2012
American Realty Investors, Inc. (1)	1.00%	1.99%	1.99%

(1) Unconsolidated investment in parent company

Our interest in the common stock of ARL in the amount of 1.00% is accounted for under the equity method. Accordingly, the investment is carried at cost, adjusted for the company's proportionate share of earnings or losses.

The market values, other than unconsolidated subsidiaries, as of the year ended December 31, 2014, 2013 and 2012 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):

	For the Twelve Months Ended December 31,		
	2014	2013	2012
Unconsolidated Subsidiaries			
Real estate, net of accumulated depreciation	\$ 15,460	\$ 11,944	\$ 45,032
Notes Receivable	50,909	68,909	44,371
Other assets	128,635	128,945	130,419
Notes payable	(50,048)	(56,103)	(61,720)
Other liabilities	(80,904)	(91,099)	(84,123)
Shareholders' equity/partners' capital	(64,052)	(62,596)	(73,979)
Rents and interest and other income	\$ 12,427	\$ 11,372	\$ 8,198
Depreciation	(285)	(285)	(263)
Operating expenses	(6,983)	(14,162)	(4,013)
Gain on land sales	-	618	(2,785)
Interest expense	(7,144)	(7,173)	(4,283)
Loss from continuing operations	(1,985)	(9,630)	(3,146)
Income from discontinued operations	64	(15)	2,691
Net loss	\$ (1,921)	\$ (9,645)	\$ (455)
Company's proportionate share of loss (1)	\$ (19)	\$ (192)	\$ (9)

(1) Loss represents continued and discontinued operations

NOTE 6. NOTES AND INTEREST PAYABLE

Below is a summary of our notes and interest payable as of December 31, 2014 (dollars in thousands):

	Notes Payable	Accrued Interest	Total Debt
Apartments	\$ 411,180	\$ 1,124	\$ 412,304
Commercial	105,908	409	106,317
Land	65,445	117	65,562
Real estate held for sale	452	-	452
Real estate subject to sales contract	16,961	1,655	18,616
Other	5,666	-	5,666
Total	\$ 605,612	\$ 3,305	\$ 608,917

The following table schedules the principal payments on the notes payable for the next five years and thereafter (dollars in thousands):

Year	Amount
2015	\$ 103,805
2016	45,769
2017	42,507
2018	8,448
2019	43,357
Thereafter	361,726

Total \$ 605,612

Interest payable at December 31, 2014 was \$3.3 million. Interest accrues at rates ranging from 1.0% to 12.5% per annum and mature between 2015 and 2053. The mortgages were collateralized by deeds of trust on real estate having a net carrying value of \$675.2 million. Of the total notes payable, the senior debt is \$552.0 million, junior debt is \$52.3 million, and other debt is \$1.3 million. Included in other debt are property tax loans of \$0.2 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 February 12, 2014, the Company exercised the first prepayment option on the settlement with the lender relating to the Amoco Building and paid \$1.2 million to settle all obligations. The remaining balance of the note in the amount of \$3.5 million, along with accrued interest, was forgiven. The 135,000 shares of Series K Convertible Preferred Stock of ARL that was pledged to the lender has been released to TCI. The Series K preferred stock was cancelled May 7, 2014.

On February 28, 2014, the Company refinanced the existing mortgage on Parc at Denham Springs apartments, a 224-unit complex located in Denham Springs, Louisiana, 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, maturing April 1, 2051.

On March 25, 2014, the Company exercised its lender granted option under the settlement agreement relating to the Galleria East Center Retail / Showcase Chevrolet land which was transferred to the existing lender on February 4, 2011. We paid the balance of the notes along with all accrued and unpaid interest and received a reduction in price of \$0.4 million.

On March 28, 2014, the Company secured financing of \$40.0 million from an independent third party. The note has a term of five years at an interest rate of 12.0%. The note is interest only for the first year with quarterly principal payments due of \$500,000 starting April 1, 2015. The loan is secured by various equity interests in residential apartments and can be prepaid at a penalty rate of 4% for year 1 with the penalty declining by 1% each year thereafter.

On March 31, 2014, the Company entered into a settlement agreement relating to the Fenton Centre building which was transferred to the existing lender on June 7, 2011. The total amount of the settlement was \$7.0 million, \$5.0 million was paid at the time of the settlement and the remaining \$2.0 million will be paid out in equal monthly installments through November 5, 2015.

On May 28, 2014, a \$1.5 million principal payment was made to the existing Realty Advisors, Inc. mortgage and two additional land parcels, including 8.0 acres of Ladue land owned by TCI and 16.87 acres of Valwood land owned by ARL, were substituted as collateral under the note in exchange for a release of a \$4 million deposit account. The principal balance is allocated based on the land valuation.

On July 31, 2014, the Company refinanced the existing mortgage on Desoto Ranch apartments, a 248-unit complex located in Desoto, Texas, for a new mortgage of \$15.7 million. We paid off the existing mortgage of \$15.7 million and \$0.5 million in closing costs. The note accrues interest at 3.50% and payments of interest and principal are due monthly, maturing June 1, 2050.

On August 28, 2014, the Company refinanced the existing mortgage on Treehouse apartments, a 160-unit complex located in Irving, Texas, for a new mortgage of \$5.8 million. We paid off the existing mortgage of \$4.7 million and \$1.1 million in closing costs and escrows. The note accrues interest at 3.55% and payments of interest and principal are due monthly, maturing September 1, 2044.

On September 23, 2014, the Company sold a 106-unit complex known as Bridgewood Ranch, located in Kaufman, Texas, to an independent third party, for a sales price of \$8.0 million. We paid off the existing mortgage of \$4.5 million and the buyer obtained a new mortgage of \$6.6 million. We did not recognize or record the sale in accordance with ASC 360-20 due to our continuing involvement as a result of having the option to repurchase the sold property at a later date. The exercise of the option is subject to the approval of the U.S. Department of Housing and Urban

Development. We determined a sale had not occurred for financial reporting purposes and therefore the asset remains on our books.

On October 17, 2014, the construction loan in the amount of \$19.7 million that was taken out on July 1, 2012, to fund the development of Sunset Lodge apartments, a 216-unit complex located in Odessa, Texas, closed into permanent financing. The note accrues interest at 3.00% and payments of interest only are payable commencing August 1, 2012, through February 1, 2014, at which time principal and interest payments are due through the maturity date of February 1, 2054.

On December 12, 2014, the Company refinanced the existing mortgage on Stanford Center, a 333,381 square foot commercial building located in Dallas, Texas, for a new mortgage of \$28.0 million. We paid off the existing mortgage of \$21.3 million and \$7.8 million in closing costs and escrows. The note accrues interest at a floating rate of 5.50% above the 30-day LIBOR index, with a floor of 5.75% and payments of interest only, maturing on January 5, 2017.

In conjunction with the development of various apartment projects and other developments, we drew down \$3.0 million in construction loans during the twelve months ended December 31, 2014.

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 MRHI, 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

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 and Regis:

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

	2014	2013	2012
	(dollars in thousands)		
Fees:			
Advisory	\$ 7,373	\$ 8,494	\$ 8,915
Construction advisory	-	-	181
Mortgage brokerage and equity refinancing	1,152	1,878	1,873
Net income	3,669	4,089	180
Property acquisition	145	-	20
	\$ 12,339	\$ 14,461	\$ 11,169
Other Expense:			

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	Cost reimbursements	\$ 2,622	\$ 2,585	\$ 2,247
	Interest paid (received)	(2,795)	157	1,194
		\$ (173)	\$ 2,742	\$ 3,441
Revenue:				
	Rental	\$ 701	\$ 670	\$ 587

Fees paid to Regis and related parties:

		2014	2013	2012
		(dollars in thousands)		
Fees:				
	Property acquisition	\$ 348	\$ -	\$ 71
	Property management, construction			
	management and leasing commissions	544	436	2,087
	Real estate brokerage	2,752	4,055	2,263
		\$ 3,644	\$ 4,491	\$ 4,421

The Company received rental revenue of \$0.7 million in 2014, \$0.7 million in 2013, and \$0.6 million in 2012 from Pillar and its related parties for properties owned by the Company.

As of December 31, 2014, the Company had notes and interest receivables, net of allowances, of \$50.0 million and \$3.7 million, respectively, due from UHF, a related party. See Part 2, Item 8. Note 3. "Notes and Interest Receivable". During the current period, the Company recognized interest income of \$7.7 million, originated \$5.4 million, received principal payments of \$6.6 million and received interest payments of \$16.8 million from these related party notes receivables.

As of December 31, 2014, the Company had notes and interest receivables of \$21.0 million and \$1.0 million, respectively, due from FBH, a related party. See Part 2, Item 8. Note 3. "Notes and Interest Receivable". During the current period, the Company recognized interest income of \$1.0 million and originated \$21.0 million from these related party notes receivables.

On January 1, 2012, the Company entered into a development agreement with 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 MRHI for the remainder of 2012 and subsequent years. 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, 2014 (dollars in thousands):

	Pillar	ARL	Total
Related party receivable, December 31, 2013	\$-	\$52,380	\$52,380
Cash transfers	47,701	-	47,701
Advisory fees	(7,373)	-	(7,373)
Net income fee	(3,669)	-	(3,669)
Fees and commissions	(4,398)	-	(4,398)
Cost reimbursements	(2,622)	-	(2,622)
Interest income	-	2,795	2,795
Notes receivable purchaed	(26,290)	-	(26,290)
Expenses paid by advisor	(7,341)	-	(7,341)
Financing (mortgage payments)	(3,321)	-	(3,321)
Sales/Purchases transactions	7,729	-	7,729
Series K preferred stock acquisition	-	270	270
Tax sharing expense	-	-	-
Purchase of obligations	(416)	2,959	2,543
Related party receivable, December 31, 2014	\$-	\$58,404	\$58,404

Below are transactions that involve a related party:

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, 2014, 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, 2014, there remains one apartment complex, one commercial building and 110 acres of land that we have sold to a related party and have deferred the recognition of the sale. These are treated as “subject to sales contract” on the Consolidated Balance Sheets. These properties were sold to a related party in order to help facilitate an appropriate debt or organizational restructure and may or may not be transferred back to the seller upon resolution. These properties have mortgages that are secured by the property and many have corporate guarantees. According to the loan documents, the maker is currently in default on these mortgages primarily due to lack of payment and is actively involved in discussions with every lender in order to settle or cure the default situation. We have reviewed each asset and taken impairment to the extent we feel the value of the property was less than our current basis. The Company did not recognize or record the sale in accordance with ASC 360-20 due to our continuing involvement, which included the potential payment of cash shortfalls, future obligations under the existing mortgage and guaranty, the buyer’s inadequate initial investment and the Company’s questionable recovery of investment cost. The Company determined that no sale had occurred for financial reporting purposes and therefore the asset remained on the books and continued to record operating expenses and depreciation as a period cost until a sale occurred that met the requirements of ASC 360-20. The buyers received no compensation for the facilitation of the bankruptcy or debt restructuring.

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 2014, 2013, or 2012. 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

Prior to July 9, 2014, TCI had 30,000 shares of Series C cumulative convertible preferred stock issued and outstanding. These 30,000 shares were owned by RAI, a related party, and had accrued dividends unpaid of \$0.9 million. The stock had a liquidation preference of \$100.00 per share and could be converted into common stock at 90% of the daily average closing price of the common stock for the prior five trading days. On July 9, 2014, RAI converted all 30,000 shares into the requisite number of shares of common stock. The conversion resulted in the issuance of 304,298 new shares of common stock. The effects of the Series C Cumulative Convertible Preferred Stock are no longer included in the dilutive earnings per share calculation for the current period, but are considered in the calculation for the prior periods if applying the if-converted method is dilutive.

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 and requires dividends payable from the initial rate of 7% annually to the current rate of 9%. The shares can be redeemed at any point after September 30, 2011. Of the 100,000 shares, 89,500 shares are owned by RAI, a related party, and have accrued dividends unpaid of \$3.2 million.

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. At December 31, 2014, there were 5,000 stock options outstanding which were exercisable at \$14.25 per share. These options expired unexercised January 1, 2015.

NOTE 11. INCOME TAXES

For 2014, 2013 and 2012, TCI had net losses for federal tax purposes.

For tax periods ending before August 31, 2012, TCI was part of the ARL consolidated federal return. After that date, TCI and the rest of the ARL group joined the MRHI consolidated group for tax purposes. The income tax expense (benefit) for the first part of the 2012 period 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 MRHI for the remainder of 2012 and subsequent periods. For 2012 and 2014 MRHI, 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):

	2014	2013	2012
Loss from continuing operations	\$(22,902)	\$(24,598)	\$(10,401)
Income from discontinued operations	22,902	16,835	10,401
Tax benefit	\$-	\$(7,763)	\$-

Of the total 2013 tax (benefit), (\$7,763) comes from MRHI.

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):

	2014	2013	2012
Computed "expected" income tax (benefit) expense	\$ 14,762	\$ 26,998	\$(4,211)
Book to tax differences for partnerships not consolidated for tax purposes	(23,900)	(33,565)	(3,831)
Book to tax differences of depreciation and amortization	1,461	1,222	1,434
Book to tax differences in gains on sale of property	(2,350)	(20,308)	(4,835)
Book provision for loss	-	3,962	1,656
Partial valuation allowance against current net operating loss benefit	7,069	16,835	10,401
Other	2,958	2,139	(614)
Total	\$-	\$(2,717)	\$-
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):

	2014	2013	2012
Net operating losses	\$56,897	\$71,071	\$53,857
AMT credits	1,374	1,374	1,374
Basis difference of:			
Real estate holdings	876	(3,045)	(15,159)
Notes receivable	757	860	860
Investments	(4,693)	(4,703)	(4,757)
Notes payable	6,932	12,496	16,598
Deferred gains	10,146	10,806	11,370
Total	\$72,289	\$88,859	\$64,143
Deferred tax valuation allowance	(72,289)	(88,859)	(64,143)
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 \$72.3 million, \$88.9 million and \$64.1 million as of December 31, 2014, 2013 and 2012, respectively.

TCI has tax net operating loss carryforwards of approximately \$146.9 million expiring through the year 2033. The alternative minimum tax credit balance did not change in 2014 and remains at approximately \$1.4 million. The credit has no expiration date.

TCI is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any tax periods. Management believes TCI is no longer subject to income tax examinations for years prior to 2011.

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, 2014 (dollars in thousands):

Year	Amount
2015	\$ 16,741
2016	15,189
2017	12,880
2018	12,012
2019	7,851
Thereafter	17,868
Total	\$ 82,541

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.

Presented below is the Company's reportable segments' operating income including segment assets and expenditures for the years 2014, 2013 and 2012 (dollars in thousands):

For the Twelve Months Ended December 31,
2014

	Properties	Apartments	Land	Other	Total
Rental and other property revenues	\$19,129	\$56,685	\$1	\$43	\$75,858
Property operating expenses	12,238	26,065	1,169	12	39,484
Depreciation	7,310	10,088	-	-	17,398
Mortgage and loan interest	5,625	14,794	4,092	3,857	28,368
Deferred borrowing costs amortization	74	1,527	226	682	2,509
Loan charges and prepayment penalties	113	2,625	16	50	2,804
Interest income	-	-	-	12,194	12,194
Gain on land sales	-	-	561	-	561
Segment operating income (loss)	\$(6,231)	\$1,586	\$(4,941)	\$7,636	\$(1,950)
Capital expenditures	4,418	320	2,435	-	7,173
Assets	140,131	391,767	157,223	-	689,121

Property Sales

Sales price	\$19,182	\$115,273	\$8,091	\$-	\$142,546
Less: Cost of sale	9,168	63,408	7,530	-	80,106
Deferred current gain	-	-	-	-	-
Recognized prior deferred gain	-	-	-	-	-
Gain on sale	\$10,014	\$51,865	\$561	\$-	\$62,440

Commercial

For the Twelve Months Ended December 31,
2013

	Properties	Apartments	Land	Other	Total
Rental and other property revenues	\$22,928	\$54,272	\$39	\$112	\$77,351
Property operating expenses	10,857	24,798	976	38	36,669
Depreciation	5,846	9,996	-	-	15,842
Mortgage and loan interest	5,507	15,754	5,685	2,748	29,694
Deferred borrowing costs amortization	61	2,259	195	67	2,582
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)	\$507	\$(2,472)	\$(8,970)	\$10,997	\$62
Capital expenditures	6,964	315	387	-	7,666
Assets	129,063	354,035	158,359	-	641,457

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

Commercial

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For the Twelve Months Ended December 31,
2012

	Properties	Apartments	Land	Other	Total
Rental and other property revenues	\$26,887	\$51,415	\$25	\$51	\$78,378
Property operating expenses	13,500	23,319	589	437	37,845
Depreciation	4,934	9,879	-	-	14,813
Mortgage and loan interest	5,394	18,499	6,250	4,229	34,372
Deferred borrowing costs amortization	86	394	154	-	634
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)	\$2,973	\$(4,171)	\$(112)	\$7,110	\$5,800
Capital expenditures	1,831	(726)	(920)	-	185
Assets	136,774	363,677	173,132	-	673,583

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

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 31,		
	2014	2013	2012
Segment operating income (loss)	\$(1,950)	) \$62	\$5,800
Other non-segment items of income (expense)			
General and administrative	(7,163)	) (6,308)	) (5,074)
Provision on impairment of notes receivable and real estate assets	-	(11,320)	) (2,330)
Net income fee to related party	(3,669)	) (4,089)	) (180)
Advisory fee to related party	(7,373)	) (8,494)	) (8,915)
Other income	403	7,847	6,310
Gain (loss) on the sale of investments	(92)	) (283)	) 125
Loss from unconsolidated joint ventures and investees	(28)	) (172)	) (66)
Litigation settlement	3,591	(20,313)	) (175)
Income tax benefit (expense)	20,390	40,949	(1,260)
Gain (loss) from continuing operations	\$4,109	\$ (2,121)	) \$ (5,765)

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,		
	2014	2013	2012
Segment assets	\$689,121	\$641,457	\$673,583
Investments in real estate partnerships	1,543	1,697	5,439
Notes and interest receivable	83,457	67,907	59,098
Other assets	156,284	132,265	83,857
Assets held for sale	-	54,345	223,367
Total assets	\$930,405	\$897,671	\$1,045,344

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 2014, 2013 and 2012. Income from discontinued operations relates to 5, 19 and 24 properties that were sold or held for sale in 2014, 2013 and 2012, 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,		
	2014	2013	2012
Revenues:			
Rental and other property revenues	\$5,612	\$34,922	\$43,010
	5,612	34,922	43,010
Expenses:			
Property operating expenses	2,350	16,480	22,645
Depreciation	751	5,563	7,676
General and administrative	515	950	975
Provision on impairment of notes receivable and real estate assets	-	-	2,400
Total operating expenses	3,616	22,993	33,696
Other income (expense):			
Other income (expense)	(508)	44	7
Mortgage and loan interest	(1,743)	(8,082)	(12,677)
Deferred borrowing costs amortization	(1,461)	(3,015)	(1,794)
Loan charges and prepayment penalties	(1,656)	(3,245)	(3,471)
Earnings from unconsolidated subsidiaries and investees	1	30	55
Litigation settlement	(250)	(250)	(250)
Total other expenses	(5,617)	(14,518)	(18,130)
Loss from discontinued operations before gain on sale of real estate and taxes	(3,621)	(2,589)	(8,816)
Gain on sale of real estate from discontinued operations	61,879	97,405	5,217
Income tax benefit (expense)	(20,390)	(33,186)	1,260
Income (loss) from discontinued operations	\$37,868	\$61,630	\$(2,339)

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 2014, 2013 and 2012 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 2014, 2013 and 2012. 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:

For the Three Months Ended 2014

	March 31,	June 30,	September 30,	December 31,
	(dollars in thousands, except share and per share amounts)			

2014				
Revenue and other property revenues	\$18,303	\$18,511	\$18,466	\$20,578
Total operating expenses	17,376	18,388	17,264	22,059
Operating income (loss)	927	123	1,202	(1,481)
Other expenses	(2,899)	(3,718)	(5,754)	(5,242)
Loss before gain on land sales, non-controlling interest, and taxes	(1,972)	(3,595)	(4,552)	(6,723)
Gain (loss) on land sales	753	(159)	40	(73)
Income tax benefit	2,049	2,195	786	15,360
Net income (loss) from continuing operations	830	(1,559)	(3,726)	8,564
Net income from discontinuing operations	3,805	4,076	1,461	28,526
Net income (loss)	4,635	2,517	(2,265)	37,090
Net (loss) attributable to non-controlling interest	(84)	(127)	(81)	(107)
Preferred dividend requirement	(274)	(277)	(227)	(227)
Net income (loss) applicable to common shares	\$4,277	\$2,113	\$(2,573)	\$36,756

PER SHARE DATA

Earnings per share - basic				
Income (loss) from continuing operations	\$0.06	\$(0.23)	\$(0.46)	\$0.94
Income from discontinued operations	0.45	0.48	0.17	3.27
Net income (loss) applicable to common shares	\$0.51	\$0.25	\$(0.29)	\$4.21
Weighted average common shares used in computing earnings per share	8,413,469	8,413,469	8,688,018	8,717,767
Earnings per share - diluted				
Income (loss) from continuing operations	\$0.05	\$(0.23)	\$(0.46)	\$0.94
Income from discontinued operations	0.44	0.48	0.17	3.27
Net income (loss) applicable to common shares	\$0.49	\$0.25	\$(0.29)	\$4.21
Weighted average common shares used in computing diluted earnings per share	8,639,679	8,413,469	8,688,018	8,717,767

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	\$18,242	\$18,351	\$18,663	\$22,095
Total operating expenses	16,416	16,336	17,472	32,498
Operating income (loss)	1,826	2,015	1,191	(10,403)
Other expenses	(11,779)	(5,179)	(8,193)	(11,475)

Loss before gain on land sales, non-controlling interest, and taxes	(9,953)	(3,164)	(7,002)	(21,878)
Loss on land sales	(48)	-	-	(1,025)
Income tax benefit	2,451	5,357	401	32,740
Net income (loss) from continuing operations	(7,550)	2,193	(6,601)	9,837
Net income from discontinuing operations	4,552	9,949	747	46,382
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	\$(0.94)	\$0.21	\$(0.83)	\$1.06
Income from discontinued operations	0.54	1.18	0.09	5.51
Net income (loss) applicable to common shares	\$(0.40)	\$1.39	\$(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	\$(0.94)	\$0.20	\$(0.83)	\$1.01
Income from discontinued operations	0.54	1.13	0.09	5.28
Net income (loss) applicable to common shares	\$(0.40)	\$1.33	\$(0.74)	\$6.29
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,
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(dollars in thousands, except share and per share amounts)

2012

Revenue and other property revenues	\$18,411	\$18,881	\$19,332	\$21,754
Total operating expenses	17,213	15,985	16,518	19,441
Operating income	1,198	2,896	2,814	2,313
Other expenses	(5,124)	(7,311)	(5,360)	(2,866)
Loss before gain on land sales, non-controlling interest, and taxes	(3,926)	(4,415)	(2,546)	(553)
Gain (loss) on land sales	423	4,738	2,913	(1,139)
Income tax benefit (expense)	(219)	747	(205)	(1,583)
Net income (loss) from continuing operations	(3,722)	1,070	162	(3,275)
Net income (loss) from discontinuing operations	(406)	1,387	(381)	(2,939)
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	\$(0.48)	\$0.07	\$(0.02)	\$(0.41)
Income (loss) from discontinued operations	(0.05)	0.16	(0.05)	(0.35)
Net income (loss) applicable to common shares	\$(0.53)	\$0.23	\$(0.07)	\$(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	\$(0.48)	\$0.06	\$(0.02)	\$(0.41)
Income (loss) from discontinued operations	(0.05)	0.14	(0.05)	(0.35)
Net income (loss) applicable to common shares	\$(0.53)	\$0.20	\$(0.07)	\$(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

NOTE 16. COMMITMENTS AND CONTINGENCIES AND LIQUIDITY

Liquidity. Management believes that TCI will generate excess cash from property operations in 2015; such excess, however, will not be sufficient to discharge all of TCI's obligations as they become due. Management intends to sell 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.

Dynex Capital, Inc.

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 in “increased costs” and \$11,161,520 for “lost opportunity” damages in favor of TCI and its subsidiaries (a total of \$12,122,166). 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.

ART and ART Midwest, Inc.

In August 2014, David M. Clapper and two entities related to Mr. Clapper (all, collectively, the “Clapper Parties”) filed a complaint in the U. S. District Court against the Company, its directors and certain of its officers alleging purported transactions to the detriment of the Clapper Parties and others by transferring assets, cash and diverting property. Management of the Company believes that there is no basis for this action against the Company and its officers and directors and intends to vigorously defend itself. The August 2014 complaint does not allege any facts relating to the Company, except that the named directors and officers are directors and officers of the Company and that the Company is a Nevada corporation, with its headquarters/principal place of business in Dallas, Texas.

The case arises over other litigation, commenced in 1999, among the Clapper Parties and American Realty Trust, Inc. (“ART”) and its former subsidiary, Art Midwest, Inc., originally arising out of a transaction in 1998, in which ART and the Clapper Parties were to form a partnership to own eight residential apartment complexes. Over the ensuing years, a number of rulings, both for and against ART and ART Midwest, Inc., were issued, resulting in a ruling in October 2011, under which the Clapper Parties were awarded an initial judgment for approximately \$74 million, including \$26 million in actual damages and \$48 million in interest. The 2011 ruling was only against ART and Art Midwest, Inc., but no other entity. During February 2014, the Court of Appeals affirmed a portion of the judgment in favor of the Clapper Parties but also ruled that a double counting of a significant portion of the damages had occurred and remanded the case back to the trial court to recalculate the damage award, as well as pre- and post-judgment interest thereon. ART was also a significant owner of a partnership interest in the partnership that was awarded the initial damages in the matter. ART and ART Midwest, Inc. are not and have never been subsidiaries of the Company.

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.

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

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

in future years.

NOTE 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.

Prior to July 9, 2014, TCI had 30,000 shares of Series C cumulative convertible preferred stock issued and outstanding. These 30,000 shares were owned by RAI, a related party, and had accrued dividends unpaid of \$0.9 million. The stock had a liquidation preference of \$100.00 per share and could be converted into common stock at 90% of the daily average closing price of the common stock for the prior five trading days. On July 9, 2014, RAI converted all 30,000 shares into the requisite number of shares of common stock. The conversion resulted in the issuance of 304,298 new shares of common stock. The effects of the Series C Cumulative Convertible Preferred Stock are no longer included in the dilutive earnings per share calculation for the current period, but are considered in the calculation for the prior periods if applying the if-converted method is dilutive.

As of December 31, 2014, there were 5,000 shares of stock options outstanding. These options are considered in the computation of diluted earnings per share if the effect of applying the treasury stock method is dilutive. These options expired unexercised January 1, 2015.

As of December 31, 2014, 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, 2014, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is March 30, 2015, which is the date on which the financial statements were available to be issued.

On January 30, 2015, the Company refinanced the existing mortgage on Heather Creek apartments, a 200-unit complex located in Mesquite, Texas, for a new mortgage of \$11.5 million. We paid off the existing mortgage of \$11.5 million and \$0.3 million in closing costs. The note accrues interest at 3.24% and payments of interest and principal are due monthly, maturing August 1, 2050.

On February 9, 2015, the Company purchased 100% of the membership interest in Holland Lake Partners, Ltd, which owns Residences at Holland Lake apartments, a 208-unit complex located in Weatherford, Texas, from FBH, a related party under common control, for \$4.7 million. We assumed the current mortgage of \$12.0 million.

On February 9, 2015, the Company purchased 100% of the membership interest in Mount Drive, LLC, which owns Overlook at Allensville apartments, a 144-unit complex located in Seiverville, Tennessee, from FBH, a related party under common control, for \$2.5 million. We assumed the current mortgage of \$11.6 million.

Schedule III

TRANSCONTINENTAL REALTY INVESTORS
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2014

Property/Location	Encumbrances	Initial Cost		Cost Capitalized Subsequent to Acquisition	Asset Impairment	Gross Amounts
		Land	Buildings	Improvements	Asset Impairment	Land
(dollars in thousands)						
Properties Held for Investment						
Apartments						
Anderson Estates, Oxford, MS	845	378	2,683	313	-	69
Blue Lake Villas I, Waxahachie, TX	10,267	526	10,784	292	-	52
Blue Lake Villas II, Waxahachie, TX	3,953	287	4,451	45	-	28
Breakwater Bay, Beaumont, TX	9,579	740	10,435	63	-	74
Bridgewood Ranch, Kaufman, TX	6,544	762	6,856	-	-	76
Capitol Hill, Little Rock, AR	9,189	1,860	7,948	55	-	1,86
Curtis Moore Estates, Greenwood, MS	1,525	186	5,732	757	-	84
Dakota Arms, Lubbock, TX	12,009	921	12,644	231	-	92
David Jordan Phase II, Greenwood, MS	584	52	1,521	225	-	27
David Jordan Phase III, Greenwood, MS	602	83	2,115	356	-	43
Desoto Ranch, DeSoto, TX	15,578	1,472	17,855	65	-	1,47
Falcon Lakes, Arlington, TX	12,923	1,438	15,093	339	-	1,43
Heather Creek, Mesquite, TX	11,511	1,327	12,015	69	-	1,34

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Lake Forest, Houston, TX	12,385	335	12,268	1,519	-	33
Legacy at Pleasant Grove, Texarkana, TX	15,253	2,005	17,892	-	-	2,00
Lodge at Pecan Creek, Denton, TX	16,025	1,349	16,180	-	-	1,34
Mansions of Mansfield, Mansfield, TX	15,855	977	17,799	54	-	97
Mission Oaks, San Antonio, TX	15,123	1,266	16,627	212	-	1,26
Monticello Estate, Monticello, AR	470	36	1,493	263	-	28
Northside on Travis, Sherman, TX	13,533	1,301	14,560	-	-	1,30
Park at Clarksville, Clarksville, TN	13,075	571	14,300	118	-	58
Parc at Denham Springs, Denham Springs, LA	19,030	1,022	20,188	8	-	1,02
Parc at Maumelle, Little Rock, AR	16,182	1,153	17,688	617	-	1,15
Parc at Metro Center, Nashville, TN	10,637	960	12,226	556	-	96
Parc at Rogers, Rogers, AR	15,860	1,482	22,993	286	(3,180)	1,74
Preserve at Pecan Creek, Denton, TX	14,722	885	16,626	59	-	90
Riverwalk Phase I, Greenville, MS	301	23	1,537	175	-	19
Riverwalk Phase II, Greenville, MS	1,155	52	4,007	364	-	29
Sonoma Court, Rockwall, TX	10,850	941	11,074	-	-	94
Sugar Mill, Baton Rouge, LA	11,570	1,437	13,367	160	-	1,43
Toulon, Gautier, MS	20,820	1,621	20,107	372	-	1,99
Treehouse, Irving, TX	5,753	162	2,807	233	-	20
Villas at Park West I, Pueblo, CO	10,716	1,171	10,453	-	-	1,17
Villas at Park West II, Pueblo,	9,686	1,463	13,060	-	-	1,46

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CO									
Vistas of Vance Jackson, San Antonio, TX	15,511	1,265	16,539	188	-	1,32			
Windsong, Fort Worth, TX	10,309	790	11,526	69	-	79			
Total Apartments Held for Investment	\$ 369,930	\$ 32,299	\$ 415,449	\$ 8,063	\$ (3,180)	\$ 35,31			
Apartment Under Construction									
Parc at Mansfield, Mansfield, TX	1,250	543	-	969	-	54			
Total Apartments Under Construction	\$ 1,250	\$ 543	\$ -	\$ 969	\$ -	\$ 54			
Commercial									
600 Las Colinas, Las Colinas, TX	40,410	5,751	51,759	11,768	-	5,75			
Bridgeview Plaza, LaCrosse, WI	5,956	-	-	965	-				
Browning Place (Park West I), Farmers Branch, TX	23,816	5,096	45,868	12,487	-	5,09			
Mahogany Run Golf Course, US Virgin Islands	6,625	7,058	5,920	-	-	7,05			
Fruitland Plaza, Fruitland Park, FL	-	23	-	66	-	2			
Senlac VHP, Farmers Branch, TX	29	622	-	142	-	62			
Stanford Center, Dallas, TX	28,000	3,878	34,862	2,506	(9,600)	3,87			
Total Commercial Held for Investment	\$ 104,836	\$ 22,428	\$ 138,409	\$ 27,934	\$ (9,600)	\$ 22,42			

Schedule III

(Continued)

TRANSCONTINENTAL REALTY INVESTORS
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2014

				Cost Capitalized Subsequent to	Asset	Gross Amounts
		Initial Cost		Acquisition	Impairment	
Property/Location	Encumbrances	Land	Buildings	Improvements	Asset Impairment	Land
(dollars in thousands)						
Land						
2427 Valley View Ln, Farmers Branch, TX	-	76		-	-	76
Audubon, Adams County, MS	-	518	-	297	-	815
Bonneau Land, Farmers Branch, TX	-	1,309	-	-	-	1,309
Cooks Lane, Fort Worth, TX	830	1,094	-	-	-	1,094
Dedeaux, Gulfport, MS	616	1,612	-	46	(38)	1,620
Denham Springs, Denham Springs, LA	322	339	-	-	-	339
Gautier Land, Gautier, MS	-	202	-	-	-	202
Hollywood Casino Land Tract II, Farmers Branch, TX	3,048	3,192	-	748	-	3,940
Lacy Longhorn Land, Farmers Branch, TX	-	408	-	-	-	408
LaDue Land, Farmers Branch, TX	675	1,845	-	-	-	1,845
Lake Shore Villas, Humble, TX	-	81	-	3	-	84
Lubbock Land, Lubbock, TX	-	234	-	-	-	234
	-	2,934	-	-	-	2,934

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Luna Ventures, Farmers Branch TX						
Manhattan Land, Farmers Branch, TX	1	4,799	-	2,770	-	7,569
McKinney 36, Collin County, TX	3,471	1,948	-	298	(58)	2,181
McKinney Ranch Land, McKinney, TX	5,052	13,078	-	429	(2,089)	11,418
Minivest Land, Dallas, TX	-	7	-	-	-	7
Mira Lago, Farmers Branch, TX	-	59	-	15	-	74
Nakash, Malden, MO	-	113	-	-	-	113
Nashville, Nashville, TN	-	1,256	-	101	-	1,357
Nicholson Croslin, Dallas, TX	2	66	-	-	-	66
Nicholson Mendoza, Dallas, TX	-	29	-	-	-	29
Ocean Estates, Gulfport, MS	-	1,418	-	390	-	1,808
Seminary West, Fort Worth, TX	-	146	-	-	-	146
Senlac Land Tract II, Farmers Branch, TX	-	656	-	-	-	656
Sugar Mill Land, Baton Rouge, LA	245	445	-	90	-	535
Texas Plaza Land, Irving, TX	270	1,738	-	-	(238)	1,500
Three Hickory Land, Farmers Branch, TX	-	1,202	-	-	-	1,202
Travelers Land, Farmers Branch, TX	10,240	24,511	-	4	-	24,515
Travelers Land, Farmers Branch, TX	955	1,913	-	-	-	1,913
Travis Ranch Land, Kaufman County, TX	757	1,030	-	-	-	1,030
	-	1,517	-	-	-	1,517

Travis Ranch Retail, Kaufman City, TX						
Union Pacific Railroad Land, Dallas, TX	-	130	-	-	-	130
US Virgin Islands - Pearl, US Virgin Islands	2,424	14,126	-	2,663	-	16,789
Valley View 34 (Mercer Crossing), Farmers Branch, TX	139	228	-	-	-	228
Valley View/Senlac, Farmers Branch, TX	14	796	-	-	-	796
Waco 151 Land, Waco, TX	1,030	2,106	-	-	(1,207)	899
Waco Swanson, Waco, TX	-	173	-	-	-	173
Walker Land, Dallas County, TX	5,252	13,105	-	70	-	13,175
Willowick Land, Pensacola, FL	-	137	-	-	-	137
Windmill Farms Land, Kaufman County, TX	30,074	49,880	-	14,739	(21,009)	43,610
Total Land Held for Investment	\$ 65,417	\$ 150,456	\$ -	\$ 22,663	\$ (24,639)	\$ 148,480

Schedule III
(Continued)TRANSCONTINENTAL REALTY INVESTORS, INC.
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2014

			Initial Cost		Cost Capitalized Subsequent to Acquisition		Asset Impairment
Property/Location	Encumbrances	Land		Buildings	Improvements		Asset Impairment (dollar)
Corporate Departments/Investments/Misc.							
TCI - Corporate	45,666	-	-	-	-	-	-
Total Corporate	\$ 45,666	\$ -	\$ -	\$ -	\$ -	\$ -	-
Departments/Investments/Misc.							
Total Properties Held for Investment	\$ 587,099	\$ 205,726	\$ -	\$ 553,858	\$ 59,629	\$ -	(37,419)
Properties Held for Sale							
Commercial							
Dunes Plaza, Michigan City, IN	452	-	-	-	-	-	-
Fenton Center (Park West II),	1,100	-	-	-	-	-	-
Total Commercial Held for Sale	\$ 1,552	\$ -	\$ -	\$ -	\$ -	\$ -	-
Total Properties Held for Sale	\$ 1,552	\$ -	\$ -	\$ -	\$ -	\$ -	-
Properties Subject to Sales Contract							
Apartments							
Quail Hollow, Holland, OH	11,129	1,406	12,651	41	(1,998)		
Total Aparments Subject to Sales Contract	\$ 11,129	\$ 1,406	\$ 12,651	\$ 41	\$ (1,998)		
Commercial							
Thermalloy, Farmers Branch, TX	51	791	1,061	-			
Total Commercial Subject to Sales Contract	\$ 51	\$ 791	\$ 1,061	\$ -	\$ -		-

Land									
Dominion Tract, Dallas, TX	\$	1,473	\$	2,439	\$	-	\$	48	(133)
Hollywood Casino Tract I, Farmers Branch, TX		2,571		4,334		-		147	(176)
Hunter Equities Land, Dallas, TX		-		398		-		-	-
Whorton Land, Bentonville, AR		1,737		4,291		-		391	(2,996)
Total Land Subject to Sales Contract	\$	5,781	\$	11,462	\$	-	\$	586	\$ (3,305)
Total Properties Subject to Sales Contract	\$	16,961	\$	13,659	\$	13,712	\$	627	\$ (5,303)
TOTAL: Real Estate	\$	605,612	\$	219,385	\$	567,570	\$	60,256#	\$ (42,722)

REAL ESTATE AND ACCUMULATED DEPRECIATION

As of December 31, 2014

SCHEDULE
III
(Continued)

	2014	2013	2012
	(dollars in thousands)		
Reconciliation of Real Estate			
Balance at January 1,	\$828,093	\$1,063,634	\$1,146,234
Additions			
Acquisitions, improvements and construction	71,423	9,182	15,205
Deductions			
Sale of real estate	(95,027)	(233,617)	(91,504)
Asset impairments	-	(11,106)	(6,301)
Balance at December 31,	\$804,489	\$828,093	\$1,063,634
Reconciliation of Accumulated Depreciation			
Balance at January 1,	\$132,291	\$166,684	\$157,895
Additions			
Depreciation	17,145	20,520	22,486
Deductions			
Sale of real estate	(34,068)	(54,913)	(13,697)
Balance at December 31,	\$115,368	\$132,291	\$166,684

SCHEDULE IV

TRANSCONTINENTAL REALTY INVESTORS, INC.

MORTGAGE LOANS ON REAL ESTATE

December 31, 2014

Description	Interest Rate	Final Maturity Date	Periodic Payment Terms	Prior Liens	Face Amount of Mortgage	Carrying Amount of Mortgage	Principal Amounts of Loans Subject To Delinquent Principal or Interest
(dollars in thousands)							
Foundation for Better Housing, Inc (Holland Lake) Percentage interest in Foundation for Better Housing, Inc.	12.00%	12/19	Excess cash flow	\$ 11,971	\$ 4,698	\$ 4,698	\$ -
Foundation for Better Housing, Inc (Holland Lake Acquisition Fee) Percentage interest in Foundation for Better Housing, Inc.	12.00%	12/17	Excess cash flow	11,971	1,674	1,674	-
Foundation for Better Housing, Inc (Overlook at Allensville) Percentage interest in Foundation for Better Housing, Inc.	12.00%	11/19	Excess cash flow	11,594	2,472	2,472	-
Foundation for Better Housing, Inc (Overlook at Allensville Acquisition Fee) Percentage interest in Foundation for Better Housing, Inc.	12.00%	12/17	Excess cash flow	11,594	1,408	1,408	-
Foundation for Better Housing, Inc.	12.00%	3/19	Excess cash	10,301	1,810	1,810	-

Inc (Preserve @ Prairie Pointe Acquisition) Percentage interest in Foundation for Better Housing, Inc.			flow				
Foundation for Better Housing, Inc (Preserve @ Prairie Pointe Acquisition Fee) Percentage interest in Foundation for Better Housing, Inc.	12.00%	3/17	Excess cash flow	10,301	1,156	1,156	-
Foundation for Better Housing, Inc (Vista Ridge Apts) Percentage interest in Foundation for Better Housing, Inc.	12.00%	4/19	Excess cash flow	10,907	3,923	3,923	-
Foundation for Better Housing, Inc (Vista Ridge Apts Acquisition Fee) Percentage interest in Foundation for Better Housing, Inc.	12.00%	6/17	Excess cash flow	10,907	1,492	1,492	-
HGH Residential, LLC (Tradewinds Dev) Percentage interest in Heritage Guaranty Holdings, Inc.	12.00%	7/19	Excess cash flow	-	6,131	6,131	-
Unified Housing Foundation, Inc. (Echo Station) 100% Interest in UH of Temple, LLC	12.00%	12/32	Excess cash flow	9,862	1,809	1,481	-
Unified Housing Foundation, Inc. (Lakeshore Villas/HFS of Humble,LLC) (31.5% of cash flow)	12.00%	12/32	Excess cash flow	15,965	8,836	6,363	-

Interest in Unified
Housing
Foundation Inc.

70

SCHEDULE IV
(Continued)

TRANSCONTINENTAL REALTY INVESTORS, INC.
MORTGAGE LOANS ON REAL ESTATE
December 31, 2014

Description	Interest Rate	Final Maturity Date	Periodic Payment Terms	Prior Liens	Face Amount of Mortgage	Carrying Amount of Mortgage	Principal Amounts of Loans
							Subject To Delinquent Principal or Interest
Unified Housing Foundation, Inc. (Limestone Canyon) 100% Interest in UH of Austin, LLC	12.00%	12/32	Excess cash flow	13,893	9,215	3,057	-
Unified Housing Foundation, Inc. (Limestone Canyon)	12.00%	12/32	Excess cash flow	13,893	9,215	4,663	-
Unified Housing Foundation, Inc. (Limestone Ranch) 100% Interest in UH of Vista Ridge, LLC	12.00%	12/32	Excess cash flow	18,948	12,335	8,250	-
Unified Housing Foundation, Inc. (Parkside Crossing) 100% Interest in UH of Parkside Crossing, LLC	12.00%	12/32	Excess cash flow	11,730	2,409	1,936	-
Unified Housing Foundation, Inc. (Sendero Ridge) 100% Interest in UH of Sendero Ridge, LLC	12.00%	12/32	Excess cash flow	23,285	12,663	9,986	-
Unified Housing Foundation, Inc. (Timbers of Terrell) 100% Interest in UH of Terrell, LLC	12.00%	12/32	Excess cash flow	7,396	1,702	1,323	-
Unified Housing Foundation, Inc. (Tivoli) 100% Interest in UH of Tivoli, LLC	12.00%	12/32	Excess cash flow	10,606	12,761	7,966	-
Various non-related party notes	various	various		-	1,003	1,003	-
Various related party notes	various	various		-	5,044	5,044	-

UNSECURED LOANS

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Unified Housing Foundation, Inc. (Lakeshore Villas/HFS of Humble,LLC) (68.5% of cash flow)	12.00%	12/32	Excess cash flow	15,965	2,189	2,000	-
Unified Housing Foundation, Inc.	12.00%	6/17			1,261	1,261	-
Unified Housing Foundation, Inc.	12.00%	12/17			1,207	1,207	-
						\$ 80,304	
					Accrued interest	5,143	
					Allowance for estimated losses	(1,990)	
						\$ 83,457	

SCHEDULE IV
(Continued)

TRANSCONTINENTAL REALTY INVESTORS, INC.
MORTGAGE LOANS ON REAL ESTATE
As of December 31,

	2014	2013	2012
	(dollars in thousands)		
Balance at January 1,	\$70,169	\$61,360	\$81,313
Additions			
New mortgage loans	32,380	-	8,590
Funding of existing loans	-	590	-
Increase (decrease) of interest receivable on mortgage loans	(7,650)	12,235	10,113
Deductions			
Amounts received	(9,180)	(3,797)	(12,927)
Non-cash reduction	(272)	(219)	(1,987)
Cost of mortgages sold	-	-	(23,742)
Balance at December 31,	\$85,447	\$70,169	\$61,360

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Principal Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e)) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our Principal Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Based on this evaluation, our Principal Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles. There are inherent limitations to the effectiveness of any system of internal control over financial reporting. These limitations include the possibility of human error, the circumvention of overriding of the system and reasonable resource constraints. Because of its inherent limitations, our internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with policies or procedures may deteriorate.

Management assessed the effectiveness of the Company’s internal control over financial reporting as of December 31, 2014. In making this assessment, management used the criteria set forth in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on management’s assessments and those criteria, management has concluded that Company’s internal control over financial reporting was effective as of December 31, 2014.

This annual report does not include an attestation report of the Company’s registered public accounting firm regarding internal control over financial report. Management’s report was not subject to attestation by the Company’s registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management’s report in this annual report.

Changes in Internal Control over Financial Reporting

In preparation for management’s report on internal control over financial reporting, we documented and tested the design and operating effectiveness of our internal control over financial reporting. There were no changes in our internal controls over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) that occurred

during the quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors

The affairs of TCI are managed by a Board of Directors. The Directors are elected at the annual meeting of stockholders or appointed by the incumbent Board and serve until the next annual meeting of stockholders or until a successor has been elected or approved.

It is the Board's objective that a majority of the Board consists of independent directors. For a director to be considered independent, the Board must determine that the director does not have any direct or indirect material relationship with TCI. The Board has established guidelines to assist it in determining director independence which conform to, or are more exacting than, the independence requirements in the New York Stock Exchange listing rules. The independence guidelines are set forth in TCI's "Corporate Governance Guidelines". The text of this document has been posted on TCI's internet website at <http://www.transconrealty-invest.com> and is available in print to any shareholder who requests it. In addition to applying these guidelines, the Board will consider all relevant facts and circumstances in making an independence determination.

TCI has adopted a code of conduct that applies to all Directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer. Stockholders may find our code of conduct on our website by going to our website address at <http://www.transconrealty-invest.com>. We will post any amendments to the code of conduct, as well as any waivers that are required to be disclosed by the rules of the SEC or the New York Stock Exchange on our website.

Our Board of Directors has adopted charters for our Audit, Compensation and Governance and Nominating Committees of the Board of Directors. Stockholders may find these documents on our website by going to the website address at <http://www.transconrealty-invest.com>. You may also obtain a printed copy of the materials referred to by contacting us at the following address:

Transcontinental Realty Investors, Inc.
Attn: Investor Relations
1603 LBJ Freeway, Suite 800
Dallas, Texas 75234
Telephone: 469-522-4200

All members of the Audit Committee and Nominating and Corporate Governance Committees must be independent directors. Members of the Audit Committee must also satisfy additional independence requirements, which provide (i) that they may not accept, directly or indirectly, any consulting, advisory, or compensatory fee from TCI or any of its subsidiaries other than their director's compensation (other than in their capacity as a member of the Audit Committee, the Board of Directors, or any other committee of the Board), and (ii) no member of the Audit Committee may be an "affiliated person" of TCI or any of its subsidiaries, as defined by the Securities and Exchange Commission.

The current directors of TCI are listed below, together with their ages, terms of service, all positions and offices with TCI and its current advisor, Pillar, their principal occupations, business experience and directorships with other companies during the last five years or more. The designation "affiliated", when used below with respect to a director, means that the director is an officer, director or employee of Pillar, an officer of the Company, or an officer or director of a related party of the Company. The designation "independent", when used below with respect to a Director, means that the Director is neither an officer of the Company nor a director, officer or employee of Pillar (but may be

a director of the Company, although the Company may have certain business or professional relationships with such Director as discussed in Item 13. Certain Relationships and Related Transactions, and Director Independence.

HENRY BUTLER: Age 64, Director (Affiliated) (since December 2001) and Chairman of the Board (since May 2009)

Mr. Butler is Vice President Land Sales for Pillar Income Asset Management, LLC LLC (since April 2011), and its predecessor, Prime Income Asset Management, LLC (July 2003 to April 2011). Mr. Butler is Chairman of the Board (since May 28, 2009) and a Director (since December 2001) of the Company. He is also Chairman of the Board (since May 2009) and a Director (since July 2003) of ARL and Chairman of the Board (since May 2011) and a Director (since February 2011) of IOT.

ROBERT A. JAKUSZEWSKI: Age 52, Director (Independent) (since November 2005)

Mr. Jakuszewski is currently a Medical Specialist for VAYA Pharma, Inc. He was the Senior Medical Liaison (January 2013 to July 2013) for Vein Clinics of America, and Vice President of Sales and Marketing (September 1998 to December 2012) of New Horizon Communications, Inc. Mr. Jakuszewski has been a Director of the Company since his election on November 22, 2005. He is also a director of ARL (since November 2005) and a Director of IOT (since March 2004).

SHARON HUNT: Age 72, Director (Independent) (since October 2011).

Ms. Hunt is a Licensed Realtor in Arkansas with Keystone Realty. Ms. Hunt has been a Director of the Company since her election on October 25, 2011 and previously (from February 2004 to January 2011). She is also a Director of ARL (since October 2011) and previously (February 2004 to January 2011), and a Director of IOT (since October 2011).

TED R. MUNSELLE: Age 59, Director (Independent) (since February 2004).

Mr. Munselle is Vice President and Chief Financial Officer (since October 1998) of Landmark Nurseries, Inc. On February 17, 2012, he was appointed as a member of the Board of Directors for Spindletop Oil & Gas Company and as Chairman of their Audit Committee. Spindletop's stock is traded on the Over-the-Counter (OTC) market. He is a certified public accountant (since 1980). Mr. Munselle has been a Director of the Company since his election on February 20, 2004. He is also a Director of ARL (since February 20, 2004) and a Director of IOT (since May 21, 2009). Mr. Munselle is qualified as an Audit Committee financial expert within the meaning of SEC regulations and the Board of Directors of TCI has determined that he has accounting and related financial management expertise within the meaning of the listing standards of the NYSE.

Board Meetings and Committees

The Board of Directors held seven meetings during 2014. For such year, no incumbent director attended fewer than 100% of the aggregate of (1) the total number of meetings held by the Board during the period for which he or she had been a director and (2) the total number of meetings held by all committees of the Board on which he or she served during the period that he served. Under TCI's Corporate Governance Guidelines, each Director is expected to dedicate sufficient time, energy and attention to ensure the diligent performance of his or her duties, including by attending meetings of the stockholders of the Company, the Board and Committees of which he is a member. The Board of Directors has standing Audit, Compensation and Governance and Nominating Committees.

Audit Committee. The current Audit Committee was formed on February 19, 2004, and its function is to review TCI's operating and accounting procedures. A charter of the Audit Committee has also been adopted by the Board. The charter of the Audit Committee was adopted on February 19, 2004, and is available on the Company's Investor Relations website (www.transconrealty-invest.com). The Audit Committee is an "audit committee" for purposes of Section 3(a)(58) of the Securities Exchange Act of 1934. The current members of the Audit Committee, all of whom are independent within the meaning of the SEC Regulations, the listing standards of the New York Stock Exchange, Inc. and TCI's Corporate Governance Guidelines, are Messrs. Jakuszewski and Munselle (Chairman) and Ms. Hunt. Mr. Ted R. Munselle, a member of the Committee, is qualified as an Audit Committee financial expert within the meaning of SEC Regulations, and the Board has determined that he has accounting and related financial management expertise within the meaning of the listing standards of the New York Stock Exchange, Inc. All of the members of the Audit Committee meet the experience requirements of the listing standards of the New York Stock Exchange. The Audit Committee met five times during 2014.

Governance and Nominating Committee. The Governance and Nominating Committee is responsible for developing and implementing policies and practices relating to corporate governance, including reviewing and monitoring implementation of TCI's Corporate Governance Guidelines. In addition, the Committee develops and reviews background information on candidates for the Board and makes recommendations to the Board regarding such candidates. The Committee also prepares and supervises the Board's annual review of director independence and the Board's performance self-evaluation. The Charter of the Governance and Nominating Committee was adopted on March 22, 2004 and is available on the Company's Investor Relations website (www.transconrealty-invest.com). The current members of the Committee are Messrs. Munselle and Jakuszewski (Chairman) and Ms. Hunt. The Governance

and Nominating Committee met once during 2014.

Compensation Committee. The Compensation Committee is responsible for overseeing the policies of the Company relating to compensation to be paid by the Company to the Company's principal executive officer and any other officers designated by the Board and make recommendations to the Board with respect to such policies, produce necessary reports and executive compensation for inclusion in the Company's Proxy Statement in accordance with applicable rules and regulations and to monitor the development and implementation of succession plans for the principal executive officers and other key executives and make recommendations to the Board with respect to such plans. The charter of the Compensation Committee was adopted on March 22, 2004, and is available on the Company's Investor Relations website (www.transconrealty-invest.com). The current members of the Compensation Committee are Ms. Hunt (Chairman) and Messrs. Jakuszcwski and Munselle. All of the members of the Compensation Committee are independent within the meaning of the listing standards of the NYSE and the Company's Corporate Governance Guidelines. The Compensation Committee is to be comprised of at least two directors who are independent of Management and the Company. The Compensation Committee met once during 2014.

The members of the Board of Directors on the date of this Report and the Committees of the Board on which they serve are identified below:

	Audit Committee	Governance and Nominating Committee	Compensation Committee
Sharon Hunt	X	X	Chair
Robert A. Jakuszewski	X	Chair	X
Ted R. Munselle	Chair	X	X

Presiding Director

In March 2004, the Board created a new position of presiding director, whose primary responsibility is to preside over periodic executive sessions of the Board in which Management directors and other members of Management do not participate. The presiding director also advises the Chairman of the Board and, as appropriate, Committee Chairs with respect to agendas and information needs relating to Board and Committee meetings, provides advice with respect to the selection of Committee Chairs and performs other duties that the Board may from time to time delegate to assist the Board in fulfillment of its responsibilities.

Following the annual meeting of stockholders held December 2014 for the fiscal year ended December 31, 2013, the full Board met and re-appointed Ted R. Munselle as Presiding Director, to serve in such position until the Company's next annual meeting of stockholders to be held following the fiscal year ended December 31, 2015.

Determination of Director's Independence

In February 2004, the Board adopted its Corporate Governance Guidelines. The Guidelines adopted by the Board meet or exceed the new listing standards adopted during that year by the New York Stock Exchange. The full text of the Guidelines can be found on the Company's Investor Relations website (www.transcontrealty-invest.com).

Pursuant to the Guidelines, the Board undertook its annual review of director independence in March 2014 and during this review, the Board considered transactions and relationships between each director or any member of his or her immediate family and TCI and its subsidiaries and related parties, including those reported under Certain Relationships and Related Transactions below. The Board also examined transactions and relationship between directors or their related parties and members of TCI's senior management or their related parties. As provided in the Guidelines, the purpose of such review was to determine whether such relationships or transactions were inconsistent with the determination that the director is independent.

As a result of this review, the Board affirmatively determined of the then directors, Messrs. Munselle and Jakuszewski and Ms. Hunt are each independent of the Company and its Management under the standards set forth in the Corporate Governance Guidelines.

Executive Officers

Executive officers of the Company are listed below, all of whom are employed by Pillar. Mr. Bertcher is employed by New Concept Energy, Inc ("NCE"). None of the executive officers receive any direct remuneration from the Company nor do any hold any options granted by the Company. Their positions with the Company are not subject to a vote of stockholders. In addition to the following executive officers, the Company has several vice presidents and assistant secretaries who are not listed herein. The ages, terms of service and all positions and offices with the Company, Pillar, other related entities, other principal occupations, business experience and directorships with other publicly-held companies during the last five years or more are set forth below. No family relationships exist among any of the

executive officers or directors of the Company.

DANIEL J. MOOS, 64

President (since April 2007) and Chief Executive Officer (since March 2010) of the Company, ARL, IOT, Prime Income Asset Management Inc (“Prime”) (March 2007 to April 2011) and Pillar (since April, 2011).

GENE S. BERTCHER, 66

Executive Vice President (since February 2008), Chief Financial Officer (since October 2009), and Treasurer (since October 2013) of the Company, ARL and IOT. Mr. Bertcher is also Chief Executive Officer (since December 2006), Chief Financial Officer (since November 1989) and a Director (since June 1999) of New Concept Energy, Inc. (“NCE”), a Nevada corporation which has its common stock listed on the NYSE MKT. Mr. Bertcher has been employed by NCE since November 1989. He is a Certified Public Accountant (since 1973).

LOUIS J. CORNA, 67

Executive Vice President—General Counsel/Tax Counsel and Secretary (since February 2004) of the Company, ARL and IOT. Executive Vice President—Tax (since April 30 2011) of Pillar. Mr. Corna was also a Director and Vice President (June 2004 to December 2010) and Secretary (January 2005 to December 2010) of First Equity Properties, Inc., a Nevada corporation with securities registered under Section 12(g) of the Exchange Act.

ALFRED CROZIER, 63

Executive Vice President—Residential Development of Prime (November 2006 to April 2011) and the Company, ARL, IOT and Pillar (since April 2011).

Code of Ethics

TCI has adopted a code of ethics entitled “Code of Business Conduct and Ethics” that applies to all directors, officers, and employees (including those of the contractual Advisor to TCI). In addition, TCI has adopted a code of ethics entitled “Code of Ethics for Senior Financial Officers” that applies to the principal executive officer, president, principal financial officer, chief financial officer, principal accounting officer, and controller. The text of these documents has been posted on TCI’s internet website at <http://www.transconrealty-invest.com> and are available in print to any stockholder who requests them.

Compliance with Section 16(a) of the Securities Exchange Act of 1934

Under the securities laws of the United States, the directors, executive officers, and any persons holding more than 10% of TCI’s shares of Common stock are required to report their share ownership and any changes in that ownership to the Securities and Exchange Commission (the “Commission”). Specific due dates for these reports have been established and TCI is required to report any failure to file by these dates. All of these filing requirements were satisfied by TCI’s directors, executive officers, and 10% holders during the fiscal year ending December 31, 2014. In making these statements, TCI has relied on the written representations of its incumbent directors and executive officers and its 10% holders and copies of the reports they have filed with the Commission.

The Advisor

Pillar has been TCI’s Advisor and Cash Manager since April 30, 2011. Although the Board of Directors is directly responsible for managing the affairs of TCI, and for setting the policies which guide it, the day-to-day operations of TCI are performed by Pillar, as the contractual advisor, under the supervision of the Board. Pillar’s duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities and arranging debt and equity financing for the Company with third party lenders and investors. Additionally, Pillar serves as a consultant to the Board with regard to their decisions in connection with TCI’s business plan and investment policy. Pillar also serves as an Advisor and Cash Manager to ARL and IOT. 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 and as such, employees of Pillar render services to TCI in accordance with the terms of the Advisory Agreement.

Pillar is a Nevada corporation, the sole shareholder of which is Realty Advisors, LLC, a Nevada limited liability company, the sole member of which is RAI, a Nevada corporation, MRHI, a Nevada corporation, the sole shareholder of which is a trust known as the May Trust.

The May Trust is a Trust, the beneficiaries of which are the children of Gene E. Phillips. Mr. Phillips is not an officer, manager or Director of Pillar, Realty Advisors, LLC, RAI, MRHI or ARL, nor is he a Trustee of the May Trust.

Under the Advisory Agreement, Pillar is required to annually formulate and submit, for Board approval, a budget and business plan containing a twelve-month forecast of operations and cash flow, a general plan for asset sales and purchases, lending, foreclosure and borrowing activity, and other investments. Pillar is required to report quarterly to the Board on TCI's performance against the business plan. In addition, all transactions require prior Board approval, unless they are explicitly provided for in the approved business plan or are made pursuant to authority expressly delegated to Pillar by the Board.

The Advisory Agreement also requires prior Board approval for the retention of all consultants and third party professionals, other than legal counsel. The Advisory Agreement provides that Pillar shall be deemed to be in a fiduciary relationship to the TCI stockholders; contains a broad standard governing Pillar's liability for losses incurred by TCI; and contains guidelines for Pillar's allocation of investment opportunities as among itself, TCI and other entities it advises. Pillar is a company of which Messrs. Moos, Bertcher, Corna, and Crozier serve as executive officers.

The Advisory Agreement provides for Pillar to be responsible for the day-to-day operations of TCI and to receive, as compensation for basic management and advisory services, a gross asset fee of 0.0625% per month (0.75% per annum) of the average of the gross asset value (total assets less allowance for amortization, depreciation or depletion and valuation reserves).

In addition to base compensation, Pillar receives the following forms of additional compensation:

- (1) an annual net income fee equal to 7.5% of TCI's net income as an incentive for successful investment and management of the Company's assets;
- (2) an annual incentive sales fee to encourage periodic sales of appreciated real property at optimum value equal to 10.0% of the amount, if any, by which the aggregate sales consideration for all real estate sold by TCI during such fiscal year exceeds the sum of:
 - (a) the cost of each such property as originally recorded in TCI's books for tax purposes (without deduction for depreciation, amortization or reserve for losses);
 - (b) capital improvements made to such assets during the period owned; and
- (c) all closing costs (including real estate commissions) incurred in the sale of such real estate; provided however, no incentive fee shall be paid unless (a) such real estate sold in such fiscal year, in the aggregate, has produced an 8.0% simple annual return on the net investment including capital improvements, calculated over the holding period before depreciation and inclusive of operating income and sales consideration, and (b) the aggregate net operating income from all real estate owned for each of the prior and current fiscal years shall be at least 5.0% higher in the current fiscal year than in the prior fiscal year;
- (3) an acquisition commission, from an unaffiliated party of any existing mortgage or loan, for supervising the acquisition, purchase or long-term lease of real estate equal to the lesser of:
 - (a) up to 1.0% of the cost of acquisition, inclusive of commissions, if any, paid to non-affiliated brokers; or
 - (b) the compensation customarily charged in arm's-length transactions by others rendering similar property acquisition services as an ongoing public activity in the same geographical location and for comparable property, provided that the aggregate purchase price of each property (including acquisition fees and real estate brokerage commissions) may not exceed such property's appraised value at acquisition;
- (4) a construction fee equal to 6.0% of the so-called "hard costs" only of any costs of construction on a completed basis, based upon amounts set forth as approved on any architect's certificate issued in connection with such construction, which fee is payable at such time as the applicable architect certifies other costs for payment to third parties. The phrase "hard costs" means all actual costs of construction paid to contractors, subcontractors and third parties for materials or labor performed as part of the construction but does not include items generally regarded as "soft costs," which are consulting fees, attorneys' fees, architectural fees, permit fees and fees of other professionals; and
- (5) reimbursement of certain expenses incurred by the advisor in the performance of advisory services.

The Advisory Agreement also provides that Pillar receive the following forms of compensation:

- (1) a mortgage or loan acquisition fee with respect to the acquisition or purchase from an unaffiliated party of any existing mortgage loan by TCI equal to the lesser of:
 - (a) 1.0% of the amount of the mortgage or loan purchased; or
 - (b)

a brokerage or commitment fee which is reasonable and fair under the circumstances. Such fee will not be paid in connection with the origination or funding of any mortgage loan by TCI; and

(2) a mortgage brokerage and equity refinancing fee for obtaining loans or refinancing on properties equal to the lesser of:

(a) 1.0% of the amount of the loan or the amount refinanced; or

(b) a brokerage or refinancing fee which is reasonable and fair under the circumstances; provided, however, that no such fee shall be paid on loans from Pillar, or a related party of Pillar, without the approval of TCI's Board of Directors. No fee shall be paid on loan extensions.

Under the Advisory Agreement, all or a portion of the annual advisory fee must be refunded by the Advisor if the operating expenses of TCI (as defined in the Advisory Agreement) exceed certain limits specified in the Advisory Agreement based on the book value, net asset value and net income of TCI during the fiscal year.

The Advisory Agreement requires Pillar to pay to TCI, one-half of any compensation received from third parties with respect to the origination, placement or brokerage of any loan made by TCI; provided, however, that the compensation retained by Pillar, or any affiliate of Pillar, shall not exceed the lesser of (1) 2.0% of the amount of the loan commitment or (2) a loan brokerage and commitment fee which is reasonable and fair under the circumstances.

The TCI Advisory Agreement further provides that Pillar shall bear the cost of certain expenses of its employees, excluding fees paid to TCI's Directors; rent and other office expenses of both Pillar and TCI (unless TCI maintains office space separate from that of Pillar); costs not directly identifiable to TCI's assets, liabilities, operations, business or financial affairs; and miscellaneous administrative expenses relating to the performance by Pillar of its duties under the Advisory Agreement

If and to the extent that TCI shall request Pillar, or any director, officer, partner, or employee of Pillar, to render services for TCI other than those required to be rendered by the Advisory Agreement, Pillar separately would be compensated for such additional services on terms to be agreed upon between such party and TCI from time to time. As discussed below, under "Property Management and Real Estate Brokerage," effective 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 under similar terms as the previous agreements with Triad and Regis Realty I.

TCI entered into a Cash Management Agreement with Pillar on April 30, 2011 to further define the administration of the Company's day-to-day investment operations, relationship contacts, flow of funds and deposit and borrowing of funds. Under the Cash Management Agreement, all funds of the Company are delivered to Pillar which has a deposit liability to the Company and is responsible for payment of all payables and investment of all excess funds which earn interest at the Wall Street Journal prime rate plus 1.0% per annum, as set quarterly on the first day of each calendar quarter. Borrowings for the benefit of the Company bear the same interest rate. The term of the Cash Management Agreement is coterminous with the Advisory Agreement, and is automatically renewed each year unless terminated with the Advisory Agreement. TCI's management believes that the terms of the Advisory Agreement are at least as fair as could be obtained from unaffiliated third parties.

Situations may develop in which the interests of TCI are in conflict with those of one or more directors or officers in their individual capacities, or of Pillar, or of their respective related parties. In addition to services performed for TCI, as described above, Pillar actively provides similar services as agent for, and advisor to, other real estate enterprises, including persons and entities involved in real estate development and financing, including ARL and IOT. The Advisory Agreement provides that Pillar may also serve as advisor to other entities.

As advisor, Pillar is a fiduciary of TCI's public investors. In determining to which entity a particular investment opportunity will be allocated, Pillar will consider the respective investment objectives of each entity and the appropriateness of a particular investment in light of each such entity's existing mortgage note and real estate portfolios and business plan. To the extent any particular investment opportunity is appropriate to more than one such entity, such investment opportunity will be allocated to the entity that has had funds available for investment for the longest period of time, or, if appropriate, the investment may be shared among various entities. See Part III, Item 13 "Certain Relationships and Related Transactions, and Director Independence."

Pillar may assign the Advisory Agreement only with the prior consent of TCI.

The principal executive officers and directors of Pillar are set forth below:

Name	Officer(s)
Daniel J. Moos	

	President, Chief Executive Officer,
	Treasurer
Gene S. Bertcher	Executive Vice President, Chief Accounting Officer
Louis J. Corna	Executive Vice President, Secretary, Tax Counsel, General Legal Counsel
Alfred Crozier	Executive Vice President, Residential Development
Mickey N. Phillips	Director
Ryan T. Phillips	Director

Property Management

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 for a fee of 3.0% or less of the monthly gross rents collected on the commercial properties it manages, and leasing commissions of 6.0% or less in accordance with the terms of its property-level management agreement.

TCI engages third-party companies to lease and manage our apartment properties for a fee of 6.0% or less of the monthly gross rents collected on the residential properties under their management.

Real Estate Brokerage

Regis provides real estate brokerage services to TCI on a non-exclusive basis, and is entitled to receive a real estate commission for property purchases and sales in accordance with the following sliding scale of total fees to be paid:

- (1) maximum fee of 4.5% on the first \$2.0 million of any purchase or sale transaction of which no more than 3.5% is to be paid to Regis;
- (2) maximum fee of 3.5% on transaction amounts between \$2.0 million-\$5.0 million of which no more than 3.0% is to be paid to Regis;
- (3) maximum fee of 2.5% on transaction amounts between \$5.0 million-\$10.0 million of which no more than 2.0% is to be paid to Regis; and
- (4) a maximum fee of 2.0% on transaction amounts in excess of \$10.0 million of which no more than 1.5% is to be paid to Regis.

Regis waived all fees or commissions payable other than cost reimbursements to TCI during the first calendar year expiring December 31, 2011 of a five year agreement.

ITEM 11. EXECUTIVE COMPENSATION

TCI has no employees, payroll or benefit plans and pays no compensation to its executive officers. The executive officers of TCI, who are also officers or employees of Pillar, TCI's advisor, are compensated by Pillar. Such executive officers perform a variety of services for Pillar and the amount of their compensation is determined solely by Pillar. Pillar does not allocate the cash compensation of its officers among the various entities for which it serves as advisor. See Item 10. "Directors, Executive Officers and Corporate Governance" for a more detailed discussion of the compensation payable to Pillar by TCI.

The only remuneration paid by TCI is to the directors who are not officers or employees of Pillar or its related companies. The Independent Directors (1) review the business plan of TCI to determine that it is in the best interest of TCI's stockholders, (2) review the advisory contract, (3) supervise the performance of the advisor and review the reasonableness of the compensation paid to the advisor in terms of the nature and quality of services performed, (4) review the reasonableness of the total fees and expenses of TCI and (5) select, when necessary, a qualified independent real estate appraiser to appraise properties acquired.

Effective February, 2011, each non-affiliated Director is entitled to receive an annual retainer of \$12,000, with the Chairman of the Audit Committee to receive a one-time annual fee of \$500. Directors who are also employees of the Company or its advisor receive no additional compensation for service as a Director.

During 2014, \$36,500 was paid to non-employee Directors in total Directors' fees. The fees paid to the directors are as follows: Sharon Hunt, \$12,000; Robert A. Jakuszewski, \$12,000; Ted R. Munselle, \$12,500.

Director's Stock Option Plan

TCI established a Director's Stock Option Plan ("Director's Plan") for the purpose of attracting and retaining Directors who are not officers or employees of TCI or Pillar. The Director's Plan provides for the grant of options that are exercisable at fair market value of TCI's Common stock on the date of grant. The Director's Plan was approved by stockholders at their annual meeting on October 10, 2000, following which each then-serving Independent Director

was granted options to purchase 5,000 shares of Common stock of TCI. On January 1 of each year, each Independent Director receives options to purchase 5,000 shares of Common stock. The options 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. The Director's Plan was terminated by the Board of Directors on December 15, 2005. As of December 31, 2014, there were 5,000 shares of stock options outstanding which were exercisable at \$14.25 per share. These options expired unexercised January 1, 2015.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2014 regarding compensation plans under which equity securities of TCI are authorized for issuance.

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Compensation Plans (Excluding Securities Reflected in Column) (a) (c)
Equity compensation plans approved by security holders	5,000	\$ 14.25	—

See Note 10. to the financial statements “Stock Options” for information regarding the material features of the above plans.

Security Ownership of Certain Beneficial Owners

The following table sets forth the ownership of TCI’s Common stock, both beneficially and of record, both individually and in the aggregate, for those persons or entities known to be beneficial owners of more than 5.0% of the outstanding shares of Common stock as of the close of business on March 15, 2015.

	Amount and Nature of Beneficial Ownership*	Approximate Percent of Class**
American Realty Investors, Inc. (1)(2) 1603 LBJ Freeway, Suite 800 Dallas, Texas 75234	7,052,420	80.90%
Transcontinental Realty Acquisition Corporation(1) 1603 LBJ Freeway, Suite 800 Dallas, Texas 75234	1,383,226	15.87%

*“Beneficial Ownership” means the sole or shared power to vote, or to direct the voting of, a security or investment power with respect to a security, or any combination thereof.

** Percentage is based upon 8,717,767 shares of Common stock outstanding at March 15, 2015.

(1)Includes 1,383,226 shares owned by Transcontinental Realty Acquisition Corporation (“TRAC”), which is a wholly-owned subsidiary of ARL, over which each of the directors of TRAC, Daniel J. Moos and Gene S. Bertcher may be deemed to be beneficial owners by virtue of their positions as directors of TRAC. The directors of TRAC disclaim beneficial ownership of such shares.

(2)Each of the directors of ARL, Henry A. Butler, Robert A. Jakuszewski, Ted R. Munselle and Sharon Hunt may be deemed to be the beneficial owners by virtue of their positions as current directors of ARL. The directors of ARL disclaim such beneficial ownership.

Security Ownership of Management.

The following table sets forth the ownership of TCI's Common stock, both beneficially and of record, both individually and in the aggregate, for the directors and executive officers of TCI as of the close of business on March 15, 2015.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership*		Approximate Percent of Class**
Gene S. Bertcher	7,052,420	(1)	80.90%
Henry A. Butler	7,052,420	(1)	80.90%
Louis J. Corna	7,052,420	(1)	80.90%
Alfred Crozier	7,052,420	(1)	80.90%
Robert A. Jakuszcwski	7,052,420	(1)	80.90%
Daniel J. Moos	7,052,420	(1)	80.90%
Ted Munselle	7,052,420	(1)	80.90%
Sharon Hunt	7,052,420	(1)	80.90%
All Directors and Executive Officers as a group (8 individuals)	7,052,420	(1)	80.90%

*“Beneficial Ownership” means the sole or shared power to vote, or to direct the voting of, a security or investment power with respect to a security, or any combination thereof.

** Percentages are based upon 8,717,767 shares of Common stock outstanding at March 15, 2015.

(1) At December 31, 2014, Ted R. Munselle had options to purchase 5,000 shares of common stock. These options expired unexercised January 1, 2015.

(2) Includes 1,383,226 shares owned by TRAC, over which the executive officers and members of the Board of Directors of ARL may be deemed to be the beneficial owners by virtue of their positions as executive officers and members of the Board of Directors of ARL. The executive officers and current members of the Board of Directors of ARL disclaim beneficial ownership of such shares.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Policies with Respect to Certain Activities

Article 14 of TCI’s Articles of Incorporation provides that TCI shall not, directly or indirectly, contract or engage in any transaction with (1) any director, officer or employee of TCI, (2) any director, officer or employee of the advisor, (3) the advisor, or (4) any affiliate or associate (as such terms are defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended) of any of the aforementioned persons, unless (a) the material facts as to the relationship among or financial interest of the relevant individuals or persons and as to the contract or transaction are disclosed to or are known by TCI’s Board of Directors or the appropriate committee thereof and (b) TCI’s Board of Directors or committee thereof determines that such contract or transaction is fair to TCI and simultaneously authorizes or ratifies such contract or transaction by the affirmative vote of a majority of independent directors of TCI entitled to vote thereon.

Article 14 defines an “Independent Director” (for purposes of that Article) as one who is neither an officer or employee of TCI, nor a director, officer or employee of TCI’s advisor.

TCI’s policy is to have such contracts or transactions approved or ratified by a majority of the disinterested Directors with full knowledge of the character of such transactions, as being fair and reasonable to the stockholders at the time of such approval or ratification under the circumstances then prevailing. Such Directors also consider the fairness of such transactions to TCI. Management believes that, to date, such transactions have represented the best investments available at the time and they were at least as advantageous to TCI as other investments that could have been obtained.

TCI may enter into future transactions with entities, the officers, directors, or stockholders of which are also officers, directors, or stockholders of TCI, if such transactions would be beneficial to the operations of TCI and consistent with TCI's then-current investment objectives and policies, subject to approval by a majority of disinterested Directors as discussed above.

TCI does not prohibit its officers, directors, stockholders, or related parties from engaging in business activities of the types conducted by TCI.

Certain Business Relationships

Pillar has been TCI's Advisor and Cash Manager since April 30, 2011. Although the Board of Directors is directly responsible for managing the affairs of TCI, and for setting the policies which guide it, the day-to-day operations of TCI are performed by Pillar, as the contractual advisor, under the supervision of the Board. Pillar's duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities and arranging debt and equity financing for the Company with third party lenders and investors. Additionally, Pillar serves as a consultant to the Board with regard to their decisions in connection with TCI's business plan and investment policy. Pillar also serves as an Advisor and Cash Manager to ARL and IOT. 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 and as such, employees of Pillar render services to TCI in accordance with the terms of the Advisory Agreement.

Pillar is a Nevada corporation, the sole shareholder of which is Realty Advisors, LLC, a Nevada limited liability company, the sole member of which is RAI, a Nevada corporation, MRHI, a Nevada corporation, the sole shareholder of which is a trust known as the May Trust.

The May Trust is a Trust, the beneficiaries of which are the children of Gene E. Phillips. Mr. Phillips is not an officer, manager or Director of Pillar, Realty Advisors, LLC, RAI, MRHI or ARL, nor is he a Trustee of the May Trust.

All of TCI's directors also serve as Directors of ARL and IOT. The executive officers of TCI also serve as executive officers of ARL and IOT. As such, they owe fiduciary duties to that entity as well as to Pillar under applicable law. ARL has the same relationship with Pillar, as does TCI. Mr. Bertcher is an officer, director and employee of NCE and as such also owes fiduciary duties to NCE as well as ARL, TCI and IOT under applicable law.

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 for a fee of 3.0% or less of the monthly gross rents collected on the commercial properties it manages, and leasing commissions of 6.0% or less in accordance with the terms of its property-level management agreement.

At December 31, 2014, TCI owned approximately 81.1% of the outstanding common shares of IOT.

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 MRHI for the remainder of 2012 and subsequent years. 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 Company has 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. 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.

Related Party Transactions

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

In 2014, the Company paid advisory fees of \$7.3 million, net income fees of \$3.7 million, mortgage brokerage and equity refinancing fees of \$1.2 million, cost reimbursements of \$2.6 million, and received interest income of \$2.8 million from Pillar.

The Company paid property management fees, construction management fees and leasing commissions of \$0.5 million to Regis in 2014.

As of December 31, 2014, the Company had notes and interest receivables, net of allowances, of \$50.0 million and \$3.7 million, respectively, due from UHF, a related party. See Part 2, Item 8. Note 3. "Notes and Interest

Receivable”. During the current period, the Company recognized interest income of \$7.7 million, originated \$5.4 million, received principal payments of \$6.6 million and received interest payments of \$16.8 million from these related party notes receivables.

As of December 31, 2014, the Company had notes and interest receivables of \$21.0 million and \$1.0 million, respectively, due from FBH, a related party. See Part 2, Item 8. Note 3. “Notes and Interest Receivable”. During the current period, the Company recognized interest income of \$1.0 million and originated \$21.0 million from these related party notes receivables.

Below are transactions that involve a related party:

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, 2014, 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, 2014, there remains one apartment complex, one commercial building and 110 acres of land that we have sold to a related party and have deferred the recognition of the sale. These are treated as "subject to sales contract" on the Consolidated Balance Sheets. These properties were sold to a related party in order to help facilitate an appropriate debt or organizational restructure and may or may not be transferred back to the seller upon resolution. These properties have mortgages that are secured by the property and many have corporate guarantees. According to the loan documents, the maker is currently in default on these mortgages primarily due to lack of payment and is actively involved in discussions with every lender in order to settle or cure the default situation. We have reviewed each asset and taken impairment to the extent we feel the value of the property was less than our current basis. The Company did not recognize or record the sale in accordance with ASC 360-20 due to our continuing involvement, which included the potential payment of cash shortfalls, future obligations under the existing mortgage and guaranty, the buyer's inadequate initial investment and the Company's questionable recovery of investment cost. The Company determined that no sale had occurred for financial reporting purposes and therefore the asset remained on the books and continued to record operating expenses and depreciation as a period cost until a sale occurred that met the requirements of ASC 360-20. The buyers received no compensation for the facilitation of the bankruptcy or debt restructuring.

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.

Operating Relationships

The Company received rental revenue of \$0.7 million in 2014, \$0.7 million in 2013, and \$0.6 million in 2012 from Pillar and its related parties for properties owned by the Company.

Advances and Loans

From time to time, TCI and its related parties have made advances to each other, which generally have not had specific repayment terms, did not bear interest, are unsecured, and have been reflected in TCI's financial statements as other assets or other liabilities. TCI and the advisor charge interest on the outstanding balance of funds advanced to or from TCI. The interest rate, set at the beginning of each quarter, is the Prime rate plus 1.0% on the average daily cash balances advanced. At December 31, 2014, TCI owes ARL \$58.4 million.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table sets forth the aggregate fees for professional services rendered to or for TCI for the years 2014 and 2013 by TCI's principal accounting firms, Farmer, Fuqua and Huff, L.P. and Swalm and Associates, P.C.:

Type of fee	2014		2013	
	Farmer, Fuqua & Huff	Swalm & Associates	Farmer, Fuqua & Huff	Swalm & Associates
Audit Fees	\$591,118	\$54,356	(1) \$549,783	\$56,947 (1)
Tax Fees	39,383	-	42,076	-
Total	\$630,501	\$54,356	\$591,859	\$56,947

(1) All IOT

The audit fees for 2014 and 2013 were for professional services rendered for the audits and reviews of the consolidated financial statements of TCI and its subsidiaries. Tax fees for 2014 and 2013 were for services related to federal and state tax compliance and advice.

All services rendered by the principal auditors are permissible under applicable laws and regulations and were pre-approved by either the Board of Directors or the Audit Committee, as required by law. The fees paid to the principal auditors for the services described in the above table fall under the categories listed below:

Audit Fees. These are fees for professional services performed by the principal auditor for the audit of the Company's annual financial statements and review of financial statements included in the Company's 10-Q filings and services that are normally provided in connection with statutory and regulatory filing or engagements.

Audit-Related Fees. These are fees for assurance and related services performed by the principal auditor that are reasonably related to the performance of the audit or review of the Company's financial statements. These services include attestations by the principal auditor that are not required by statute or regulation and consulting on financial accounting/reporting standards.

Tax Fees. These are fees for professional services performed by the principal auditor with respect to tax compliance, tax planning, tax consultation, returns preparation and review of returns. The review of tax returns includes the Company and its consolidated subsidiaries.

All Other Fees. These are fees for other permissible work performed by the principal auditor that do not meet the above category descriptions.

These services are actively monitored (as to both spending level and work content) by the Audit Committee to maintain the appropriate objectivity and independence in the principal auditor's core work, which is the audit of the Company's consolidated financial statements.

The Audit Committee has established policies and procedures for the approval and pre-approval of audit services and permitted non-audit services. The Audit Committee has the responsibility to engage and terminate TCI's independent auditors, to pre-approve their performance of audit services and permitted non-audit services, to approve all audit and non-audit fees, and to set guidelines for permitted non-audit services and fees. All fees for 2014 and 2013 were pre-approved by the Audit Committee or were within the pre-approved guidelines for permitted non-audit services and

fees established by the Audit Committee, and there were no instances of waiver of approved requirements or guidelines during the same periods.

Under the Sarbanes-Oxley Act of 2002 (the “SOX Act”), and the rules of the Securities and Exchange Commission (the “SEC”), the Audit Committee of the Board of Directors is responsible for the appointment, compensation and oversight of the work of the independent auditor. The purpose of the provisions of the SOX Act and the SEC rules for the Audit Committee role in retaining the independent auditor is two-fold. First, the authority and responsibility for the appointment, compensation and oversight of the auditors should be with directors who are independent of management. Second, any non-audit work performed by the auditors should be reviewed and approved by these same independent directors to ensure that any non-audit services performed by the auditor do not impair the independence of the independent auditor. To implement the provisions of the SOX Act, the SEC issued rules specifying the types of services that an independent may not provide to its audit client, and governing the Audit Committee’s administration of the engagement of the independent auditor. As part of this responsibility, the Audit Committee is required to pre-approve the audit and non-audit services performed by the independent auditor in order to assure that they do not impair the auditor’s independence. Accordingly, the Audit Committee has adopted a pre-approval policy of audit and non-audit services (the “Policy”), which sets forth the procedures and conditions pursuant to which services to be performed by the independent auditor are to be pre-approved. Consistent with the SEC rules establishing two different approaches to pre-approving non-prohibited services, the Policy of the Audit Committee covers Pre-approval of audit services, audit-related services, international administration tax services, non-U.S. income tax compliance services, pension and benefit plan consulting and compliance services, and U.S. tax compliance and planning. At the beginning of each fiscal year, the Audit Committee will evaluate other known potential engagements of the independent auditor, including the scope of work proposed to be performed and the proposed fees, and will approve or reject each service, taking into account whether services are permissible under applicable law and the possible impact of each non-audit service on the independent auditor’s independence from management. Typically, in addition to the generally pre-approved services, other services would include due diligence for an acquisition that may or may not have been known at the beginning of the year. The Audit Committee has also delegated to any member of the Audit Committee designated by the Board or the financial expert member of the Audit Committee responsibilities to pre-approve services to be performed by the independent auditor not exceeding \$25,000 in value or cost per engagement of audit and non-audit services, and such authority may only be exercised when the Audit Committee is not in session.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Report:

1. Financial Statements
 - Reports of Independent Registered Public Accounting Firms
 - Consolidated Balance Sheets—December 31, 2014 and 2013
 - Consolidated Statements of Operations—Years Ended December 31, 2014, 2013, and 2012
 - Consolidated Statements of Stockholders' Equity—Years Ended December 31, 2014, 2013, and 2012
 - Consolidated Statements of Cash Flows—Years Ended December 31, 2014, 2013, and 2012
 - Statements of Consolidated Comprehensive Income (Loss) – Years Ended December 31, 2014, 2013, and 2012
 - Notes to Financial Statements
2. Financial Statement Schedules
 - Schedule III—Real Estate and Accumulated Depreciation
 - Schedule IV—Mortgage Loan Receivables on Real Estate

All other schedules are omitted because they are not applicable or because the required information is shown in the Consolidated Financial Statements or the Notes thereto.

3. Incorporated Financial Statements

Consolidated Financial Statements of Income Opportunity Realty Investors, Inc. (incorporated by reference to Item 8 of Income Opportunity Realty Investors, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2014).

Consolidated Financial Statements of American Realty Investors, Inc. (incorporated by reference to Item 8 of American Realty Investors, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2014).

(b) Exhibits

The following documents are filed as Exhibits to this Report:

Exhibit Number	Description
3.0	Articles of Incorporation of Transcontinental Realty Investors, Inc., (incorporated by reference to Exhibit No. 3.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 1991).
3.1	Certificate of Amendment to the Articles of Incorporation of Transcontinental Realty Investors, Inc., (incorporated by reference to the Registrant's Current Report on Form 8-K, dated June 3, 1996).
3.2	Certificate of Amendment of Articles of Incorporation of Transcontinental Realty Investors, Inc., dated October 10, 2000 (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
3.3	Articles of Amendment to the Articles of Incorporation of Transcontinental Realty Investors, Inc., setting forth the Certificate of Designations, Preferences and Rights of Series A Cumulative Convertible Preferred Stock, dated October 20, 1998 (incorporated by reference to

Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998).

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

- 10.0 Advisory Agreement dated as of April 30, 2011, between Transcontinental Realty Investors, Inc. and Pillar Income Asset Management LLC (incorporated by reference to Exhibit 10.0 to the Registrant's Current Report on Form 8-K for event occurring April 30, 2011).
- 10.1 Lemman Development Ltd. and Kaufman Land Partners, Ltd. (incorporated by reference to Registrant's current report in Form 8-K dated November 21, 2006 at Exhibit 10.1 thereof).
- 14.0 Code of Ethics for Senior Financial Officers (incorporated by reference to Exhibit 14.0 to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004).
- 21.1* Subsidiaries of the Registrant.
- 31.1* Certification Pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934 as amended of Principal Executive Officer.
- 31.2* Certification Pursuant to Rule 13a-14(a) under the Securities and Exchange Act of 1934 as amended of Principal Financial and Accounting Officer.
- 32.1* Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

*

Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TRANSCONTINENTAL REALTY INVESTORS, INC.

Dated: March 30, 2015

By: /s/ GENE S BERTCHER
Gene S. Bertcher
Executive Vice President and Chief Financial
Officer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title	Date
/s/ HENRY A. BUTLER Henry A. Butler	Chairman of the Board and Director	March 30, 2015
/s/ SHARON HUNT Sharon Hunt	Director	March 30, 2015
/s/ ROBERT A. JAKUSZEWSKI Robert A. Jakuszewski	Director	March 30, 2015
/s/ TED R. MUNSELLE Ted R. Munselle	Director	March 30, 2015
/s/ DANIEL J. MOOS Daniel J. Moos	President and Chief Executive Officer (Principal Executive Officer)	March 30, 2015
/s/ GENE S. BERTCHER Gene S. Bertcher	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 30, 2015

ANNUAL REPORT ON FORM 10-K

EXHIBIT INDEX

For the Year Ended December 31, 2014

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