TRANSCONTINENTAL REALTY INVESTORS INC
Form 10-K
April 02, 2007
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

**(Mark One)**

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

**For the fiscal year ended December 31, 2006**

**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** | **95-6565852** |
| **(State or other jurisdiction of Incorporation or organization)** | **(IRS Employer Identification Number)** |
| **1800 Valley View Lane,** | |
| **Suite 300 Dallas, Texas** | **75234** |
| **(Address of principal executive offices)** | **(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 x

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 x

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 x 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. x

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

**Large accelerated filer** ¨ **Accelerated filer** ¨ **Non-accelerated filer** x

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

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, 2006 (the last business day of the Registrant s most recently completed second fiscal quarter) was $19,028,169 based upon a total of 1,409,494 shares held as of June 30, 2006 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 23, 2007, there were 7,898,869 shares of common stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE:**

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

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

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**FORWARD-LOOKING STATEMENTS**

**Certain Statements in this Form 10-K are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. The words estimate, plan, intend, expect, anticipate, believe, and similar expressions are intended to identify forward-looking statements. The forward-looking statements are found at various places throughout this Report and in the documents incorporated herein by reference. The Company disclaims any intention or obligations to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Although we believe that our expectations are based upon reasonable assumptions, we can give no assurance that our goals will be achieved. Important factors that could cause our actual results to differ from estimates or projections contained in any forward-looking statements are described under Risk Factors Related to our Business beginning on page 5.**

**PART I**

**ITEM 1.** ***BUSINESS***

Transcontinental Realty Investors, Inc. ( TCI or the Company or we or us ), a Nevada corporation, 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.

TCI s real estate at December 31, 2006, consisted of 165 properties held for investment, 1 partnership property, 14 construction properties and 3 properties held-for-sale. In 2006, TCI purchased 46 properties held for investment. TCI s mortgage notes receivable portfolio at December 31, 2006, consisted of 30 mortgage loans. TCI s real estate and mortgage notes receivable portfolios are more fully discussed in ITEM 2. PROPERTIES.

Effective March 31, 2003, TCI financial results were consolidated in the American Realty Investors, Inc. ( ARI ) Form 10-K and related consolidated financial statements. As of December 31, 2006, ARI through subsidiaries owned 82.2% of the outstanding TCI common shares.

**Business Plan and Investment Policy**

TCI s business is investing in real estate through direct equity ownership and partnerships and financing real estate and real estate related activities through investments in mortgage loans, including first, wraparound and junior mortgage loans. TCI s real estate is located throughout the continental United States and one property is located in Poland. Information regarding TCI s real estate and mortgage notes receivable portfolios is set forth in ITEM 2. PROPERTIES , and in Schedules III and IV to the Consolidated Financial Statements included in ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA. TCI has four operating segments; apartments, commercial properties, hotels and land ownership.

TCI s business is not seasonal. Management intends to pursue a balanced investment policy, seeking both current income and capital appreciation. With respect to new real estate investments, management s plan is to consider all types of real estate with an emphasis on properties generating current cash flow. Management expects to invest in and improve these properties to maximize both their immediate and long-term value. Management intends to continue the development of apartment properties in selected markets primarily in Texas.

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Management intends to pursue sales opportunities for properties in stabilized real estate markets where TCI s properties have reached their potential. Management also expects to be an opportunistic seller of properties in markets where demand exceeds current supply.

Management s operating strategy is to attempt to maximize each TCI property s operating income through aggressive leasing and controlling operating expenses while at the same time making property renovations and/or improvements where appropriate. Such expenditures maintain or enhance the value of the properties, making the properties more desirable to prospective tenants and thereby allowing the Company to charge higher rents.

Management does not expect to fund or acquire new mortgage loans in 2007. However, TCI may originate mortgage loans in conjunction with providing purchase money financing related to a property sale. Management intends to service and hold for investment the mortgage notes in TCI s portfolio. TCI may borrow against its mortgage notes, using the proceeds from such borrowings for property acquisitions or for general working capital needs. Management also intends to pursue TCI s rights vigorously with respect to mortgage notes in default. TCI s Articles of Incorporation impose no limitations on its investment policy with respect to mortgage loans and does not prohibit the Company from investing more than a specified percentage of its assets in any one mortgage loan.

**Management of the Company**

Although the Board of Directors is directly responsible for managing the affairs of TCI and for setting the policies, which guide it, its day-to-day operations were performed until July 1, 2003 by Basic Capital Management, Inc. ( BCM ), a contractual advisor under the supervision of the Board. Effective July 1, 2003, BCM was replaced as contractual advisor to TCI by Prime Asset Management, Inc., ( PAMI ) under the same terms as BCM s advisory agreement. PAMI is owned by Realty Advisors (80.0%) and Syntek West, Inc. (20.0%), related parties. Syntek West, Inc. ( Syntek ) is owned by Gene E. Phillips. Effective August 18, 2003, PAMI changed its name to Prime Income Asset Management, Inc., ( PIAMI ). On October 1, 2003, Prime Income Asset Management, LLC ( Prime ), which is owned 100% by PIAMI, replaced PIAMI as the advisor to TCI. The duties of Prime include, among other things, locating, investigating, evaluating and recommending real estate, mortgage note investment and sales opportunities, as well as financing and refinancing sources. Prime also serves as a consultant in connection with TCI s business plan and investment decisions made by the Board.

Prime is a single-member, limited liability company, the sole member of which is PIAMI, which is owned 80% by Realty Advisors, Inc., and 20% by Syntek. Realty Advisors, Inc. is owned 100% by a trust for the benefit of the children of Gene E. Phillips. Syntek is owned 100% by Gene E. Phillips. Mr. Phillips is not an officer or director of Prime, but serves as a representative of the trust and is an officer of Syntek, is involved in daily consultation with the officers of Prime and has significant influence over the conduct of Prime s business, including the rendering of advisory services and the making of investment decisions for itself and for TCI. Prime is more fully described in ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS & CORPORATE GOVERNANCE The Advisor.

Prime also serves as advisor to ARI. The directors of TCI are also directors of ARI. Certain officers of TCI also serve as officers of ARI, BCM and Prime. As of March 23, 2007, TCI owned approximately 24.0% of Income Opportunity Realty Investors, Inc. ( IORI ) outstanding shares of common stock. ARI owns approximately 82.2% of the outstanding shares of TCI s common stock.

For more than the past three years, Triad Realty Services, Ltd. ( Triad ) an affiliate of Prime has provided property management services to TCI. Triad subcontracts with other entities for the provision of property-level management services to TCI. The general partner of Triad is PIAMI. The limited partner of Triad is Highland Realty Services, Inc. ( Highland ). Triad subcontracts the property-level management and leasing of 24 of TCI s commercial properties (office buildings, shopping centers and industrial warehouses) to Regis Realty I, LLC ( Regis I ), which is owned by Highland. Regis I receives property and construction management fees and leasing commissions in accordance with the terms of its property-level management agreement with Triad. Regis I is also entitled to receive real estate brokerage commissions in accordance with the terms of a non-exclusive brokerage agreement. Since January 1, 2003, Regis Hotel I, LLC, has managed TCI s four hotels. The sole member of Regis I and Regis Hotel I, LLC is Highland. See ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS & CORPORATE GOVERNANCE The Advisor.

TCI has no employees. Employees of Prime render services to TCI in accordance with the terms of the Advisory Agreement dated October 1, 2003.

**Competition**

*Real Estate.* The real estate business is highly competitive and TCI competes with numerous entities engaged in real estate activities (including certain entities described in ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS Related Party Transactions ), some of which have greater financial resources than TCI. Management believes that success against such competition is dependent upon the geographic location of the property, the performance of property-level managers in areas such as leasing and marketing, collections 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 the property, the adequacy of related facilities, such as parking and other amenities, and sensitivity to market conditions in setting rent levels. With respect to apartments, competition is also based upon the design and mix of units and the ability to provide a community atmosphere for the residents. Management believes that beyond general economic circumstances and trends, the degree to which properties are renovated or new properties developed in the competing submarket are also competitive factors. See also Item 1A. RISK FACTORS.

To the extent that TCI seeks to sell any of its properties, the sales prices for such properties may be affected by competition from other real estate entities and financial institutions also attempting to sell their properties and by aggressive buyers attempting to penetrate or dominate a particular market.

As described above and in ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS Related Party Transactions, certain officers and directors of TCI also serve as officers and directors of other entities also advised by Prime, which have business objectives similar to those of TCI. TCI s directors and officers owe fiduciary duties to such other entities as well as to TCI under applicable law. In determining to which entity a particular investment opportunity will be allocated, the officers and directors consider the respective investment objectives of each such entity and the appropriateness of a particular investment in light of each such entity s existing real estate portfolio. To the extent that any particular investment opportunity is appropriate to more than one of the entities, the investment opportunity will be allocated to the entity which had funds available for investment for the longest period of time or, if appropriate, the investment may be shared among all or some of the entities.

In addition, as also described in ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS Certain Business Relationships, TCI also competes with other entities which are affiliates of Prime and which have investment objectives similar to TCI s and may compete with it in purchasing, selling, leasing and financing of real estate and real estate related investments. In resolving any potential conflicts of interest which may arise, Prime intends to continue to exercise its best judgment as to what is fair and reasonable under the circumstances in accordance with applicable law.

**Available Information**

TCI maintains an internet site at *http://www.transconrealty-invest.com*. TCI has available through its 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, the Company has 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. TCI 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 stockholders.

**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 TCI s existing tenants or negative market conditions affecting TCI s existing tenants could have an adverse impact on TCI s 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. TCI 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;
- 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, TCI may not be able to rent the space. Furthermore, leases that are renewed, and some new leases for space that is relet, may have terms that are less economically favorable than expiring lease terms, or may require TCI 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 TCI s 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.

*TCI may not be able to compete successfully with other entities that operate in our industry.* TCI experiences a great deal of competition in attracting tenants for the properties and in locating land to develop and properties to acquire.

In TCI s effort to lease its properties, TCI competes 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 TCI is able to offer.

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

*TCI may experience increased operating costs which could adversely affect our financial results and the value of our properties.* TCI s 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 TCI 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 TCI s markets, TCI 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, TCI s ability to make distributions to shareholders and service indebtedness could be adversely affected.

*TCI s ability to achieve growth in operating income depends in part on its ability to develop additional properties.* TCI intends to continue to develop properties where warranted by market conditions. TCI has 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;
- TCI 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 TCI to abandon its activities entirely with respect to a project;
- TCI may abandon development opportunities after the initial exploration, which may result in failure to recover costs already incurred. If TCI determines to alter or discontinue its development efforts, future costs of the investment may be expensed as incurred rather than capitalized and TCI may determine the investment is impaired resulting in a loss;
- TCI may expend funds on and devote management s time to projects which will not be completed;
- 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.

*TCI faces risks associated with property acquisitions.* TCI acquires individual properties and various portfolios of properties and intends to continue to do so. Acquisition activities are subject to the following risks:

- when TCI is 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 TCI faces 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;

TCI 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.

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TCI 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, TCI might be required to pay substantial sums to settle it, which could adversely affect cash flow.

*Many of TCI s properties are concentrated in our primary markets and the Company may suffer economic harm as a result of adverse conditions in those markets.* TCI s properties are located principally in specific geographic areas in the Southwestern, Southeastern, and Midwestern United States. The Company s overall performance is largely dependent on economic conditions in those regions.

*TCI is leveraged and may not be able to meet our debt service obligations.* TCI had total indebtedness at December 31, 2006 of approximately $968.1 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. TCI s leveraged position makes it vulnerable to declines in the general economy and may limit the Company s ability to pursue other business opportunities in the future.

*TCI may not be able to access financial markets to obtain capital on a timely basis, or on acceptable terms.* TCI relies on proceeds from property dispositions and third party capital sources for a portion of its 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 TCI 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;

TCI s own financial structure and performance;

the market s opinion of real estate companies in general;

the market s opinion of real estate companies that own properties similar to TCI.

*TCI may suffer adverse effects as a result of terms and covenants relating to the Company s indebtedness.* Required payments on TCI s 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, TCI 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.

TCI anticipates only a small portion of the principal of its debt will be repaid prior to maturity. Therefore, TCI is likely to refinance a portion of its outstanding debt as it matures. There is a risk that TCI 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.

TCI s 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, which TCI must maintain. TCI s 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 TCI 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.

*TCI s 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 TCI s ability to obtain additional financing for working

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capital, capital expenditures, acquisitions, development or other general corporate purposes. The degree of leverage could also make TCI 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.* TCI currently has, 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 TCI s debt and the ability to make distributions to shareholders. Further, rising interest rates could limit TCI s 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, TCI 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.

*TCI may need to sell properties from time-to-time for cash flow purposes.* Because of the lack of liquidity of real estate investments generally, TCI s ability to respond to changing circumstances may be limited. Real estate investments generally cannot be sold quickly. In the event that TCI must sell assets to generate cash flow, TCI cannot predict whether there will be a market for those assets in the time period desired, or whether TCI will be able to sell the assets at a price that will allow the Company to fully recoup its investment. TCI 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.

*The Company intends to devote resources to the development of new projects.* TCI plans 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:

- TCI 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;
- TCI may not be able to obtain financing on favorable terms for development of a property, if at all;
- the Company may not complete construction and lease-ups on schedule, resulting in increased development or carrying costs;
- TCI 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.* TCI is 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:

- TCI s 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;

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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.

**Risks Related to the Real Estate Industry**

*Real estate investments are illiquid, and the Company may not be able to sell properties if and when it is appropriate to do so.* Real estate generally cannot be sold quickly. TCI 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 TCI s 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 TCI s ability to meet it s obligations.

**ITEM 1B.** ***UNRESOLVED STAFF COMMENTS***

None.

**ITEM 2.** ***PROPERTIES***

TCI s principal offices are located at 1800 Valley View Lane, Suite 300, Dallas, Texas 75234 and are, in the opinion of management, suitable and adequate for TCI s present operations.

Details of TCI s real estate and mortgage notes receivable portfolios at December 31, 2006, are set forth in Schedules III and IV to the Consolidated Financial Statements included at ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA. The discussions set forth below under the headings Real Estate and Mortgage Loans provide certain summary information concerning TCI s real estate and mortgage notes receivable portfolios.

TCI s real estate portfolio consists of properties held for investment, properties held for sale, properties subject to sales contract, and investments in partnerships. The discussion set forth below under the heading Real Estate provides certain summary information concerning TCI s real estate and further summary information with respect to its properties held for investment, properties held for sale and its investment in partnerships.

At December 31, 2006, none of TCI s properties, mortgage notes receivable or investments in partnerships exceeded 10.0% of total assets. At December 31, 2006, 79.4% of TCI s assets consisted of properties held for investment, 4.4% consisted of properties held for sale, 5.3% consisted of properties subject to sales contract, 3.2% consisted of mortgage notes and interest receivables and 2.4% consisted of investments in partnerships and equity investees. The remaining 5.3% of TCI s assets were invested in cash, cash equivalents, and other assets. The percentage of TCI s assets invested in any one category is subject to change and no assurance can be given that the composition of TCI s assets in the future will approximate the percentages listed above.

TCI s real estate is geographically diverse. At December 31, 2006, TCI held investments in apartments and commercial properties in each of the geographic regions of the continental United States, although its apartments and commercial properties were concentrated in the Southeast and Southwest regions, as shown more specifically in the table under Real Estate below. At December 31, 2006, TCI held mortgage notes receivable secured by commercial properties in the Southwest and Southeast regions of the continental United States, as shown more specifically in the table under Mortgage Loans below.

**Real Estate**

At December 31, 2006, approximately 89.1% of TCI s assets were invested in real estate. TCI invests primarily in real estate located throughout the continental United States, either on a leveraged or non-leveraged basis. TCI s real estate portfolio consists of properties held for investment, investments in partnerships and properties held for sale.

*Types of Real Estate Investments.* TCI s real estate consists of commercial properties (office buildings, industrial warehouses and shopping centers), hotels and apartments having established income-producing capabilities. In selecting real estate for investment, the location, age and type of property, gross rents, lease terms, financial and business standing of tenants, operating expenses, fixed charges, land values and physical condition are among the factors considered. TCI may acquire properties subject to or assume existing debt and may mortgage, pledge or otherwise obtain financing for its properties. The Board of Directors may alter the types of criteria for selecting new real estate investments and for obtaining financing without a vote of stockholders.

TCI typically invests in developed real estate. However, TCI also invests in unimproved land and apartment development and construction. To the extent that TCI continues to invest in development and construction projects, it will be subject to business risks, such as cost overruns and construction delays, associated with higher risk projects.

At December 31, 2006, TCI had the following properties under construction:

| Property | Location | Units | Amount Expended | Additional Amount to Expend | Construction Loan Funding |
|---|---|---|---|---|---|
| *Apartments* | | | | | |
| Bolivar Homes | Cleveland, MS | 65 Units | $ 1,218 | $ 7,390 | $ 1,300 |
| Broadway Estates | Greenville, MS | 104 Units | 788 | 7,569 | 850 |
| Lago Vista | Farmer s Branch, TX | 212 Units | 5,091 | 21,359 | 2,079 |
| Laguna Vista | Farmers Branch, TX | 206 Units | 9,969 | 12,232 | 14,719 |
| Legends of El Paso | El Paso, TX | 240 Units | 6,430 | 15,461 | 14,988 |
| Mason Park | Houston, TX | 312 Units | 1,991 | 17,409 | 3,349 |
| Mission Oaks | San Antonio, TX | 228 Units | 14,241 | | 11,376 |
| Parc at Maumelle | Maumelle, AR | 240 Units | 18,921 | | 13,015 |
| Parc at Metro Center | Nashville, TN | 144 Units | 4,373 | 6,768 | 8,340 |
| Parc at Rogers | Rogers, AR | 152 Units | 973 | 19,852 | 3,563 |
| Park at Clarksville | Clarksville, TN | 206 Units | 889 | 13,002 | 5,624 |
| Pecan Pointe | Temple, TX | 232 Units | 1,991 | 14,846 | 180 |
| Sunflower Estates | Indianola, MS | 65 Units | 755 | 7,674 | 810 |
| Yazoo Estates | Yazoo City, MS | 96 Units | 31 | 8,314 | 835 |

No properties were completed during 2006.

For the period ended December 31, 2005, TCI completed the 70 unit Blue Lake Villas II in Waxahachie, Texas, the 272 unit Bluffs at Vista Ridge in Lewisville, Texas, the 232 unit Bridges on Kinsey in Tyler, Texas, the 208 unit Dakota Arms in Lubbock, Texas, the 240 unit Lake Forest in Houston, Texas, the 220 unit Wildflower Villas in Temple, Texas, the 398 unit Kingsland Ranch Apartments in Houston, Texas, the 240 unit Stonebridge at City Park Apartments in Houston, Texas, and the 240 unit Vistas of Vance Jackson in San Antonio, Texas.

The Company s three office buildings in downtown New Orleans suffered extensive damage from Hurricane Katrina. Management has worked with the Company s insurance carriers to finalize all related claims. Repairs have nearly been completed for the Amoco and 1010 Common buildings. The building at 225 Baronne is

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not open and few repairs have been completed. During 2006, TCI reduced the carrying value of 225 Baronne to $1.2 million, which approximated the value of the underlying land. TCI intends to redevelop 225 Baronne as an urban residential facility, which it considers the best and most profitable use of the property. In August 2006, to facilitate the marketability of the property, TCI acquired the Clarke Garage and 305 Baronne for approximately $14.0 million to provide additional parking and retail for the residential development.

At year end 2006, the Company had received approximately $49.2 million from its insurance carriers as reimbursement for both property damage as well as loss of rents. The Company has spent approximately $7.3 million to make necessary repairs to the New Orleans properties and has reserved approximately $7.2 million for additional repairs.

The Company is currently involved in litigation with certain parties including two parties who purchased properties from the Company but were still insured under the Company s insurance policies and who suffered damage related to Hurricane Katrina. There is a dispute with these parties regarding the disbursement of additional insurance proceeds. At this time, there is no indication as to how this litigation will be resolved. Currently, the courts are holding approximately $50.8 million that is in dispute between the Company and the outside parties.

The following table sets forth the percentages, by property type and geographic region, of TCI s real estate (other than three hotels in the Midwest region, one hotel in Poland and 88 parcels of unimproved land, as described below) at December 31, 2006.

| Region | Apartments | Commercial Properties |
|---|---|---|
| Midwest | 3% | 13% |
| Mountain | | 2 |
| Southwest | 93 | 45 |
| Southeast | 4 | 40 |
| | 100% | 100% |

The foregoing table is based solely on the number of apartment units and amount of commercial square footage and does not reflect the value of TCI s investment in each region. TCI owns 88 parcels of unimproved land; 5 parcels, for a total of 44.82 acres in the Southeast region, 75 parcels, for a total of 5,984.22 acres in the Southwest region, 7 parcels, for a total of 118.92 acres in the Midwest; and 109.18 acres in the U.S. Virgin Islands. See Schedule III to the Consolidated Financial Statements included at ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA for a detailed description of TCI s real estate portfolio.

During 2006, the activity in TCI s owned real estate portfolio was:

| | |
|---|---|
| Owned properties at January 1, 2006 | 143 |
| Properties purchased (excluding additions to existing land parcels or land for construction) | 47 |
| Properties added from consolidation of partnerships | |
| Properties sold (excluding partial sales) | (7) |
| Owned properties at December 31, 2006 | 183 |

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*Properties Held for Investment.* Set forth below are TCI s properties held for investment and the monthly rental rate for apartments, the average annual rental rate for commercial properties and the average daily room rate and room revenue divided by total available rooms for hotels and occupancy at December 31, 2006, 2005 and 2004, for apartments and commercial properties and average occupancy during 2006, 2005 and 2004 for hotels:

| | | | Rent Per Square Foot | | | Occupancy % | | |
|---|---|---|---|---|---|---|---|---|
| **Property** | **Location** | **Units/Sq. Ft.** | **2006** | **2005** | **2004** | **2006** | **2005** | **2004** |
| **Apartments** | | | | | | | | |
| 4400 | Midland, TX | 92 Units/94,472 Sq. Ft. | $ .60 | $ .55 | $ .51 | 94% | 97% | 98% |
| Anderson Estates | Oxford, MS | 48 Units/41,760 Sq. Ft. | .49 | * | * | 98 | * | * |
| Arbor Point | Odessa, TX | 195 Units/178,920 Sq. Ft. | .54 | .50 | .47 | 96 | 92 | 91 |
| Ashton Way | Midland, TX | 178 Units/138,964 Sq. Ft. | .53 | .48 | .45 | 96 | 96 | 96 |
| Autumn Chase | Midland, TX | 64 Units/58,652 Sq. Ft. | .68 | .61 | .57 | 100 | 95 | 98 |
| Bay Walk | Galveston, TX | 192 Units/153,120 Sq. Ft. | .75 | .75 | .75 | 91 | 94 | 90 |
| Blue Lake Villas | Waxahachie, TX | 186 Units/169,746 Sq. Ft. | .95 | .93 | .91 | 95 | 95 | 91 |
| Blue Lake Villas II | Waxahachie, TX | 70 Units/69,768 Sq. Ft. | .81 | .79 | ** | 94 | 99 | ** |
| Bluffs at Vista Ridge | Lewisville, TX | 272 Units/257,450 Sq. Ft. | .99 | .98 | ** | 95 | 89 | ** |
| Breakwater Bay | Beaumont, TX | 176 Units/145,688 Sq. Ft. | .98 | .94 | .93 | 96 | 99 | 88 |
| Bridges on Kinsey | Tyler, TX | 232 Units/209,888 Sq. Ft. | .91 | .87 | ** | 100 | 98 | ** |
| Capitol Hill | Little Rock, AR | 156 Units/151,116 Sq. Ft. | .77 | .76 | .88 | 94 | 98 | 71 |
| Curtis Moore/Leflore | Greenwood, MS | 104 Units/94,256 Sq. Ft. | .39 | * | * | 98 | * | * |
| Courtyard | Midland, TX | 133 Units/111,576 Sq. Ft. | .56 | .49 | .47 | 99 | 96 | 95 |
| Coventry | Midland, TX | 120 Units/105,608 Sq. Ft. | .58 | .51 | .45 | 98 | 98 | 97 |
| Dakota Arms | Lubbock, TX | 208 Units/178,776 Sq. Ft. | .88 | .88 | ** | 99 | 93 | ** |
| David Johnson Phase I | Greenwood, MS | 32 Units/27,840 Sq. Ft. | .35 | * | * | 100 | * | * |
| David Johnson Phase II | Greenwood, MS | 40 Units/35,240 Sq. Ft. | .41 | * | * | 95 | * | * |
| DeSoto Ranch | DeSoto, TX | 248 Units/240,718 Sq. Ft. | .96 | .97 | .95 | 92 | 96 | 98 |
| El Chaparral | San Antonio, TX | 190 Units/174,220 Sq. Ft. | .79 | .76 | .75 | 89 | 93 | 95 |
| Fairway View Estates | El Paso, TX | 264 Units/204,000 Sq. Ft. | .69 | .67 | .65 | 95 | 95 | 90 |
| Fairways | Longview, TX | 152 Units/134,176 Sq. Ft. | .63 | .61 | .59 | 93 | 91 | 96 |
| Falcon Lakes | Arlington, TX | 284 Units/207,960 Sq. Ft. | .97 | .97 | .96 | 97 | 96 | 94 |
| Fountain Lake | Texas City, TX | 166 Units/161,220 Sq. Ft. | .62 | .62 | .62 | 90 | 92 | 87 |
| Fountains of Waterford | Midland, TX | 172 Units/129,200 Sq. Ft. | .69 | .61 | .55 | 95 | 96 | 97 |
| Foxwood | Memphis, TN | 220 Units/212,000 Sq. Ft. | .61 | .61 | * | 88 | 95 | * |
| Harper s Ferry | Lafayette, LA | 122 Units/112,500 Sq. Ft. | .65 | .61 | .61 | 98 | 98 | 96 |
| Heather Creek | Mesquite, TX | 200 Units/170,212 Sq. Ft. | .96 | .95 | .94 | 97 | 94 | 94 |
| Hunters Glen | Midland, TX | 212 Units/174,180 Sq. Ft. | .51 | .45 | .42 | 100 | 100 | 93 |
| Island Bay | Galveston, TX | 458 Units/374,784 Sq. Ft. | .84 | .84 | .83 | 88 | 94 | 93 |
| Kingsland Ranch | Houston, TX | 398 Units/350,584 Sq. Ft. | .96 | .96 | ** | 91 | 97 | ** |
| Laguna Vista(1) | Farmers Branch, TX | 206 Units/191,664 Sq. Ft. | .31 | ** | ** | 16 | ** | ** |
| Lake Forest | Houston, TX | 240 Units/193,872 Sq. Ft. | .97 | .97 | ** | 93 | 95 | ** |
| Legends of El Paso(1) | El Paso, TX | 240 Units/221,340 Sq. Ft. | .38 | ** | ** | 25 | ** | ** |
| Limestone Canyon | Austin, TX | 252 Units/219,600 Sq. Ft. | 1.06 | 1.06 | 1.06 | 90 | 94 | 97 |
| Limestone Ranch | Lewisville, TX | 252 Units/219,600 Sq. Ft. | .98 | .97 | .95 | 93 | 94 | 95 |
| Marina Landing | Galveston, TX | 256 Units/205,504 Sq. Ft. | .83 | .83 | .83 | 90 | 97 | 92 |
| Mariposa Villas | Dallas, TX | 216 Units/200,928 Sq. Ft. | .90 | .89 | .89 | 95 | 92 | 96 |
| Mission Oaks(1) | San Antonio, TX | 228 Units/195,716 Sq. Ft. | .88 | ** | ** | 87 | ** | ** |
| Monticello Estates | Monticello, AR | 32 Units/27,840 Sq. Ft. | .39 | * | * | 94 | * | * |
| Mountain Plaza | El Paso, TX | 188 Units/220,710 Sq. Ft. | .59 | .54 | .52 | 82 | 97 | 90 |
| Oak Park IV | Clute, TX | 108 Units/78,708 Sq. Ft. | .56 | .56 | .56 | 92 | 93 | 94 |
| Parc at Maumelle(1) | Little Rock, AR | 240 Units/208,800 Sq. Ft. | .89 | ** | ** | 78 | ** | ** |
| Parc at Metro(1) | Nashville, TN | 144 Units/130,338 Sq. Ft. | .44 | ** | ** | 64 | ** | ** |
| Paramount Terrace | Amarillo, TX | 181 Units/123,840 Sq. Ft. | .64 | .62 | .61 | 97 | 96 | 92 |
| Quail Oaks | Balch Springs, TX | 131 Units/72,848 Sq. Ft. | .85 | .83 | .83 | 86 | 97 | 95 |
| River Oaks | Wiley, TX | 180 Units/164,604 Sq. Ft. | .90 | .96 | .86 | 94 | 95 | 95 |
| Riverwalk I | Greenville, MS | 32 Units/27,840 Sq. Ft. | .38 | * | * | 100 | * | * |
| Riverwalk II | Greenville, MS | 32 Units/27,840 Sq. Ft. | 47 | * | * | 94 | * | * |
| Sendero Ridge | San Antonio, TX | 384 Units/340,880 Sq. Ft. | 1.03 | .95 | 1.02 | 93 | 90 | 94 |
| Somerset | Texas City, TX | 200 Units/163,368 Sq. Ft. | .68 | .68 | .68 | 90 | 92 | 86 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Southgate | Odessa, TX | 180 Units/151,656 Sq. Ft. | .58 | .51 | .46 | 98 | 95 | 98 |

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| Property | Location | Units/Sq. Ft. | Rent Per Square Foot 2006 | 2005 | 2004 | Occupancy % 2006 | 2005 | 2004 |
|---|---|---|---|---|---|---|---|---|
| Spy Glass | Mansfield, TX | 256 Units/ 239,264 Sq. Ft. | .98 | .97 | .96 | 95 | 93 | 92 |
| Stonebridge at City Park | Houston, TX | 240 Units/ 207,424 Sq. Ft. | .97 | .97 | ** | 94 | 96 | ** |
| Sunchase | Odessa, TX | 300 Units/223,048 Sq. Ft. | .59 | .54 | .51 | 94 | 96 | 97 |
| Tivoli | Dallas, TX | 190 Units/168,862 Sq. Ft. | .97 | .96 | .95 | 95 | 93 | 93 |
| Treehouse | Irving, TX | 160 Units/153,072 Sq. Ft. | .80 | .80 | .80 | 86 | 95 | 97 |
| Verandas at City View | Fort Worth, TX | 314 Units/295,170 Sq. Ft. | .94 | .92 | .92 | 97 | 96 | 94 |
| Vistas at Pinnacle Park | Dallas, TX | 332 Units/276,928 Sq. Ft. | .94 | .93 | .91 | 94 | 93 | 97 |
| Vistas at Vance Jackson | San Antonio, TX | 240 Units/196,272 Sq. Ft. | 1.02 | .72 | ** | 97 | 94 | ** |
| Westwood | Odessa, TX | 79 Units/49,001 Sq. Ft. | .60 | .54 | .46 | 92 | 100 | 91 |
| Wildflower Villas | Temple, TX | 220 Units/201,536 Sq. Ft. | .90 | .85 | ** | 90 | 92 | ** |
| Willow Creek | El Paso, TX | 112 Units/103,140 Sq. Ft. | .60 | .59 | .58 | 91 | 97 | 97 |
| Windsong | Fort Worth, TX | 188 Units/169,464 Sq. Ft. | .92 | .90 | .89 | 89 | 96 | 91 |
| Woodview | Odessa, TX | 232 Units/165,840 Sq. Ft. | .61 | .56 | .53 | 96 | 96 | 94 |
| **Office Buildings** | | | | | | | | |
| 1010 Common | New Orleans, LA | 494,579 Sq. Ft. | 14.08 | 14.09 | 14.08 | 77 | 85 | 84 |
| 225 Baronne | New Orleans, LA | 416,834 Sq. Ft. | 10.43 | 10.62 | 10.70 | 47 | 68 | 69 |
| 600 Las Colinas | Las Colinas, TX | 509,829 Sq. Ft. | 20.67 | 21.88 | * | 92 | 88 | * |
| Amoco | New Orleans, LA | 378,244 Sq. Ft. | 14.02 | 13.78 | 13.66 | 74 | 72 | 69 |
| Eton Square | Tulsa, OK | 222,654 Sq. Ft. | 10.70 | 10.51 | 11.09 | 70 | 60 | 75 |
| Executive Court | Memphis, TN | 41,840 Sq. Ft. | 4.23 | 4.51 | * | 0 | 10 | * |
| Forum | Richmond, VA | 79,791 Sq. Ft. | 13.96 | 13.86 | 13.68 | 90 | 90 | 76 |
| Lexington Center | Colorado Springs, CO | 74,603 Sq. Ft. | 11.20 | 10.88 | 10.56 | 39 | 58 | 58 |
| One Hickory | Dallas, TX | 102,615 Sq. Ft. | 11.16 | * | * | 100 | * | * |
| Park West | Farmers Branch, TX | 243,416 Sq. Ft. | 16.97 | 10.00 | * | 64 | 0 | * |
| Parkway North | Dallas, TX | 71,041 Sq. Ft. | 14.55 | 15.26 | 16.58 | 69 | 31 | 60 |
| Signature Office Building | Dallas, TX | 56,532 Sq. Ft. | 10.42 | 10.00 | 10.00 | 100 | 100 | 100 |
| Two Hickory | Farmers Branch, TX | 96,127 Sq. Ft. | 20.63 | 18.29 | * | 97 | 89 | * |
| Westgrove Air Plaza | Addison, TX | 78,326 Sq. Ft. | 11.29 | 11.29 | 12.68 | 76 | 79 | 74 |
| **Industrial Warehouses** | | | | | | | | |
| 5360 Tulane | Atlanta, GA | 30,000 Sq. Ft. | 2.85 | 2.85 | 2.85 | 100 | 100 | 100 |
| Addison Hangar | Addison, TX | 23,650 Sq. Ft. | 7.80 | 7.83 | 7.54 | 100 | 100 | 67 |
| Addison Hangar II | Addison, TX | 29,000 Sq. Ft. | 7.72 | 9.05 | 9.24 | 100 | 100 | 92 |
| Clarke Garage | New Orleans, LA | 600 spaces | 11.15 | * | * | 70 | * | * |
| Encon | Fort Worth, TX | 256,410 Sq. Ft. | 2.80 | 2.93 | 3.12 | 0 | 100 | 100 |
| Space Center | San Antonio, TX | 101,500 Sq. Ft. | 3.36 | 3.36 | 3.41 | 61 | 61 | 61 |
| **Shopping Centers** | | | | | | | | |
| 305 Baronne | New Orleans, LA | 37,081 Sq. Ft. | 4.64 | 10.62 | 10.70 | 90 | 68 | 69 |
| Bridgeview Plaza | LaCrosse, WI | 116,008 Sq. Ft. | 7.63 | 7.23 | 6.97 | 88 | 89 | 89 |
| Cullman | Cullman, AL | 92,466 Sq. Ft. | 5.08 | 5.15 | 3.55 | 48 | 27 | 27 |
| Dunes Plaza | Michigan City, IN | 223,869 Sq. Ft. | 5.75 | 5.92 | 5.91 | 48 | 53 | 64 |
| Willowbrook Village | Coldwater, MI | 179,741 Sq. Ft. | 5.97 | 5.95 | * | 94 | 93 | * |

| Property | Location | Rooms | Average Room Rate 2006 | 2005 | 2004 | Occupancy % 2006 | 2005 | 2004 | Total Room Revenues Divided By Total Available Rooms 2006 | 2005 | 2004 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Hotels** | | | | | | | | | | | |
| Akademia | Wroclaw, Poland | 161 Rooms | $ 87.21 | $ 63.00 | $ 55.33 | 62 | 73 | 65 | $ 81.34 | $ 45.09 | $ 35.98 |
| City Suites | Chicago, IL | 45 Rooms | 168.24 | 144.21 | 126.29 | 64 | 63 | 58 | 108.50 | 90.19 | 71.60 |
| The Majestic | Chicago, IL | 55 Rooms | 177.11 | 151.17 | 129.64 | 57 | 52 | 52 | 102.34 | 79.18 | 65.91 |
| Willows | Chicago, IL | 52 Rooms | 167.47 | 141.10 | 119.84 | 59 | 57 | 57 | 98.19 | 80.11 | 67.62 |

| Property | Location | Acres |
|---|---|---|
| **Land** | | |

| | | |
|---|---|---|
| 1013 Common | New Orleans, LA | .4 Acres |
| 217 Rampart | New Orleans, LA | .2 Acres |
| Alliance 8 | Tarrant County, TX | 8.0 Acres |
| Alliance 52 | Tarrant County, TX | 51.9 Acres |
| Alliance Airport Land | Tarrant County, TX | 12.7 Acres |

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| Property | Location | Acres |
|---|---|---|
| Bolivar Estates | Bolivar County, MS | 24.8 Acres |
| Broadway Estates | Broadway County, MS | 12.3 Acres |
| Castleglen | Garland, TX | 10.6 Acres |
| Centura | Farmers Branch, TX | 8.8 Acres |
| Circle C Ranch | Austin, TX | 1,092.0 Acres |
| Creekside Land | Ft. Worth, TX | 30.1 Acres |
| Cooks Lane | Fort Worth, TX | 23.2 Acres |
| Crowley Land | Ft. Worth, TX | 24.9 Acres |
| Dedeaux Road | Gulfport, MS | 10.0 Acres |
| Denton Land | Denton, TX | 25.9 Acres |
| Denton-Andrew B | Denton, TX | 22.9 Acres |
| Denton-Andrew C | Denton, TX | 5.2 Acres |
| Denton-Coonrod | Denton, TX | 82.2 Acres |
| DeSoto Ranch Land | DeSoto, TX | 21.9 Acres |
| Diplomat Drive | Farmers Branch, TX | 11.7 Acres |
| Dominion | Farmers Branch, TX | 14.4 Acres |
| Ewing 8 | Addison, TX | 17.0 Acres |
| Fiesta | San Angelo, TX | 0.7 Acres |
| Folsom | Farmers Branch, TX | 36.8 Acres |
| Forney | Kaufman, TX | 34.9 Acres |
| Fruitland | Fruitland, FL | 0.7 Acres |
| Hollywood Casino | Farmers Branch, TX | 29.0 Acres |
| Kaufman Cogen | Kaufman County, TX | 2,567.0 Acres |
| Kaufman Taylor | Kaufman County, TX | 31.0 Acres |
| Keller Springs Lofts | Irving, TX | 1.8 Acres |
| Kinwest (Hackberry Creek) | Irving, TX | 8.0 Acres |
| Lacy Longhorn | Farmers Branch, TX | 17.1 Acres |
| Ladue/Walker | Farmers Branch, TX | 99.0 Acres |
| Lakeshore Villas | Humble, TX | 1.4 Acres |
| Lamar/Parmer | Austin, TX | 17.1 Acres |
| Las Colinas | Las Colinas, TX | 4.7 Acres |
| LCLLP | Las Colinas, TX | 41.2 Acres |
| Limestone Canyon II | Austin, TX | 10.0 Acres |
| Lincoln Estates | Carthage, TX | 18.0 Acres |
| Longfellow Land | Longview, TX | 13.7 Acres |
| Lubbock | Lubbock, TX | 2.9 Acres |
| Luna | Farmers Branch, TX | 2.6 Acres |
| Mandahl Bay | U.S. Virgin Islands | 109.2 Acres |
| Manhattan | Farmers Branch, TX | 108.9 Acres |
| Mansfield | Mansfield, TX | 21.9 Acres |
| Marine Creek | Ft. Worth, TX | 43.4 Acres |
| Mason Park | Houston, TX | 18.0 Acres |
| Mason Park | Katy, TX | 13.0 Acres |
| McKinney 36 | McKinney, TX | 34.6 Acres |
| McKinney Ranch | McKinney, TX | 264.2 Acres |
| Mira Lago | Farmers Branch, TX | 4.2 Acres |
| Nashville | Nashville, TN | 6.2 Acres |
| Pac Trust | Farmers Branch, TX | 7.1 Acres |
| Pantaze | Dallas, TX | 6.0 Acres |
| Parc at Clarksville | Clarksville, TN | 10.4 Acres |
| Parkway Estates | Greenwood, MS | 20.0 Acres |
| Payne I | Las Colinas, TX | 109.9 Acres |
| Payne II | Las Colinas, TX | 39.9 Acres |
| Pecan Pointe | Temple, TX | 12.8 Acres |
| Pioneer Crossing | Austin, TX | 38.5 Acres |
| Pulaski | Pulaski County, AR | 21.9 Acres |
| RB Land | Dallas, TX | 86.2 Acres |
| Ridgepoint Drive | Irving, TX | 0.7 Acres |
| Ritchie Road | Waco, TX | 350.0 Acres |
| Rochelle I | Las Colinas, TX | 10.1 Acres |
| Rochelle II | Las Colinas, TX | 21.3 Acres |

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| Property | Location | Acres |
|---|---|---|
| Rogers | Rogers, AR | 20.1 Acres |
| Seminary West | Ft. Worth, TX | 5.4 Acres |
| Senlac | Farmers Branch, TX | 11.9 Acres |
| Senlac Hutton Land | Farmers Branch, TX | 5.9 Acres |
| Senlac VHP | Farmers Branch, TX | 3.9 Acres |
| Sheffield Village | Grand Prairie, TX | 13.9 Acres |
| Southwood Plantation | Tallahassee, FL | 13.0 Acres |
| Southwood Plantation (1894) | Tallahassee, FL | 14.5 Acres |
| Stanley Tools/2301 | Valley Ranch, TX | 23.8 Acres |
| Sunflower Estates | Sunflower County, MS | 18.7 Acres |
| Union Pacific Railroad | Dallas, TX | 0.3 Acres |
| Valley Ranch | Irving, TX | 30.0 Acres |
| Valley Ranch 20 | Farmers Branch, TX | 20.0 Acres |
| West End | Dallas, TX | 5.3 Acres |
| Waco 42 | Waco, TX | 42.8 Acres |
| Whorton | Benton County, AR | 79.7 Acres |
| Wilmer 88 | Dallas, TX | 87.6 Acres |
| Woodmont Fairway Office | Dallas, TX | 5.9 Acres |
| Woodmont Galleria East Showcase | Dallas, TX | 15.0 Acres |
| Woodmont Galleria West | Dallas, TX | 9.2 Acres |
| Woodmont Merit Drive | Dallas, TX | 9.3 Acres |
| Yazoo Estates | Yazoo County, MS | 15.1 Acres |
| **Total Acres** | | **6,258.4 Acres** |

* Property was purchased in 2004, 2005 or 2006.

** Property was under construction.

(1) Partially completed, partially occupied construction properties.

Occupancy presented here and throughout this ITEM 2. is without reference to whether leases in effect are at, below or above market rates.

In 2006, TCI purchased the following properties:

| Property | Location | Units/ Sq. Ft./Acres | Purchase Price | Net Cash Paid/ (Received) | Debt Incurred | Interest Rate | Maturity Date |
|---|---|---|---|---|---|---|---|
| **Apartments** | | | | | | | |
| Anderson Estates | Oxford, MS | 48 Units | $ 1,144 | $ 148 | $ 996 | 9.50% (1) | 12/20 |
| David Jordan Phase II | Greenwood, MS | 32 Units | 743 | 98 | 645 | 8.50 (1) | 4/19 |
| David Jordan Phase III | Greenwood, MS | 40 Units | 812 | 122 | 690 | 8.75 (1) | 7/22 |
| Leflore Estates | Greenwood, MS | 104 Units | 2,114 | 337 | 1,777 | 7.00 (1) | 2/22 |
| Monticello III Estates | Monticello, AR | 32 Units | 644 | 96 | 548 | 7.00 (1) | 1/22 |
| Riverwalk Phase I | Greenwood, MS | 32 Units | 455 | 99 | 356 | 8.50 (1) | 2/19 |
| Riverwalk Phase II | Greenwood, MS | 72 Units | 1,584 | 226 | 1,358 | 8.25 (1) | 2/19 |
| | | | 7,496 | 1,126 | 6,370 | | |
| **Office Buildings** | | | | | | | |
| 305 Baronne & 217 Rampart | New Orleans, LA | 37,081 Sq. Ft. | 3,985 | 3,483 | 0 | | |
| Clark Garage | New Orleans, LA | 600 spaces | 9,925 | 564 | 9,025 | 9.25 (8) | 6/07 |
| One Hickory | Farmers Branch, TX | 102,615 Sq. Ft. | 12,214 | | (2) | | |
| | | | 26,124 | 4,047 | 9,025 | | |
| **Land** | | | | | | | |
| Bolivar Estates | Bolivar City, MS | 24.8 Acres | 650 | 649 | | | |
| Broadway Estates | Broadway City, MS | 12.3 Acres | 210 | 222 | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Castleglen | Garland, TX | 10.6 Acres | 723 | 690 | | | |
| Circle C Ranch | Austin, TX | 1,092 Acres | 25,569 | 101 | 25,569 | 8.75 | 3/08 |
| Copperridge Condo #211 | Dallas, TX(4) | 1 Unit | 41 | 41 | | | |
| Copperridge Condo #323 | Dallas, TX(4) | 1 Unit | 42 | 42 | | | |
| Creekside Land | Ft. Worth, TX | 30.1 Acres | 2,105 | 2,097 | | | |
| Crowley Land | Ft. Worth, TX | 24.9 Acres | 1,500 | 6 | | | |
| Dedeaux Road | Gulfport, MS | 10.0 Acres | 1,500 | | 1,520 | 13.00 | 9/07 |
| Diplomat Road | Farmers Branch, TX | 11.7 Acres | 1,775 | | (3) | | |
| Ewing Land | Addison, TX | 16.8 Acres | 15,361 | 3,444 | 10,752(5) | 5.50 | 12/09 |
| Forney Land | Kaufman County, TX | 34.87 Acres | 3,945 | 3,926 | | | |

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| Property | Location | Units/ Sq. Ft./Acres | Purchase Price | Net Cash Paid/ (Received) | Debt Incurred | Interest Rate | Maturity Date |
|---|---|---|---|---|---|---|---|
| Galleria East/Showcase | Dallas, TX | 15 Acres | 25,161 | 7,106 | 18,362 | 9.75(8) | 11/07(6) |
| Keller Springs Lofts | Addison, TX | 1.75 Acres | 697 | | 690 | 8.25(8) | 10/07 |
| Kinwest (Hackberry Creek Office Park ) | Irving, TX | 8.0 Acres | 1,737 | 101 | 1,580 | 10.25(8) | 10/07 |
| LaDue/Walker | Farmers Branch, TX | 99 Acres | 21,500 | | 9,949(3) | 8.60 | 8/08 |
| Lincoln Estates | Carthage, MS | 18 Acres | 156 | 163 | | | |
| Longfellow | Longview, TX | 13.7 Acres | 696 | 719 | | | |
| Mason Park | Katy, TX | 13 Acres | 2,225 | | | | |
| Parc at Clarksville | Clarksville, TN | 10.4 Acres | 541 | | 547(7) | 8.00 | 1/48 |
| Parkway Estates | Greenwood, MS | 20.1 Acres | 682 | 364 | 487 | 8.50 | 1/07 |
| Pecan Pointe | Temple, TX | 12.8 Acres | 1,198 | 1,195 | 1,650 | 8.25 | 12/07 |
| Pioneer Crossing | Austin, TX | 38.5 Acres | 614 | 614 | (3) | | |
| RB Land | Dallas, TX | 86.2 Acres | 668 | 673 | | | |
| Ridgepoint Drive | Irving, TX | 0.6 Acres | 179 | 172 | | | |
| Ritchie Road | Waco, TX | 319 & 31 Acres | 2,677 | 897 | 1,735 | 8.58(8) | 11/08 |
| Senlac Hutton | Farmers Branch, TX | 5.9 Acres | 1,050 | 949 | | | |
| Southwood Plantation | Tallahassee, FL | 14.5 Acres | 1,150 | 477 | 748(1) | 8.50 | 2/08 |
| Sunflower Estates | Sunflower City, MS | 18.7 Acres | 187 | 212 | | | |
| Valley Ranch 20 | Farmers Branch, TX | 20 Acres | 4,673 | 1,892 | 3,038(1) | 8.50 | 2/08 |
| Waco 42 | Waco, TX | 42.8 Acres | 531 | 112 | 398 | 8.00 | 5/12 |
| Woodmont Fairway Office | Dallas, TX | 5.9 Acres | 3,833 | 1,014 | 3,000(1) | 8.25 | 1/07 |
| Woodmont Galleria West | Farmers Branch, TX | 7.2 Acres | 5,846 | 808 | 5,230 | 9.25(8) | 12/07 |
| Woodmont Galleria West | Farmers Branch, TX | 2.0 Acres | 1,604 | 184 | 1,475 | 9.25(8) | 12/07 |
| Woodmont Merit Drive | Dallas, TX | 9.3 Acres | 4,560 | 1,868 | 2,964 | 8.00 | 3/07 |
| Yazoo Estates | Yazoo City, MS | 15.1 Acres | 120 | 213 | | | |
| | | | $ 135,706 | $ 30,951 | $ 89,694 | | |
| | | | $ 169,326 | $ 36,124 | $ 105,089 | | |

(1) Assumed debt.
(2) Property purchased from IORI for extinguishment of note receivable.
(3) Property purchased from ARI.
(4) Purchased for interest in condominium community. Intend to develop land.
(5) Financed by seller.
(6) Option to extend by paying 1.5% loan fee and 1% consulting fee on 10/07.
(7) Construction loan funding.
(8) Variable rate.

In 2006, TCI sold the following properties:

| Property | Location | Units/Acres/ Rooms/ Sq. Ft. | Sales Price | Net Cash Received | Debt Discharged | Gain on Sale |
|---|---|---|---|---|---|---|
| **Apartments** | | | | | | |
| Apple Lane | Lawrence, KS | 75 Units | $ 2,600 | $ 1,173 | $ 1,290 | $ 1,273 |
| Plantation Apartments | Tulsa, OK | 138 Units | 2,750 | 638 | 2,191 | 432 |
| Timbers on Broadway | Tyler, TX | 180 Units | 3,500 | | 2,224 | 1,124 |
| Will-O-Wick Apartments | Pensacola, FL | 152 Units | 6,500 | 2,806 | 2,827 | 2,860 |
| | | | 15,350 | 4,617 | 8,532 | 5,689 |
| **Land** | | | | | | |
| Fruitland Land | Fruitland, FL | 4.0 Acres | 1,550 | 1,462 | | 1,279 |
| Hollywood Casino | Farmers Branch, TX | 10.4 Acres | 3,225 | | | 331 |
| Hollywood Casino | Farmers Branch, TX | 3.4 Acres | 2,006 | 1,087 | 900 | 425 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Mandahl Bay | U.S. Virgin Islands | 1.5 Acres | 525 | 265 | 213 | 236 |
| McKinney Ranch | McKinney, TX | 123.9 Acres | 16,591 | 6,004 | 10,051 | 3,529 |
| McKinney Ranch | McKinney, TX | 44.5 Acres | 10,289 | 10,031 | | 5,302 |
| Woodmont Group I and II | Lakeway, TX | 4.9 Acres | 3,648 | 1,518 | 1,806 | 319 |
| | | | 37,834 | 20,367 | 12,970 | 11,421 |
| | | | $ 53,184 | $ 24,984 | $ 21,502 | $ 17,110 |

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Following is a brief description of the most significant property acquisitions and sales in 2006:

**New Orleans Properties**

In August 2006, TCI purchased the Clarke Garage at 913 Gravier in New Orleans, Louisiana for $9.0 million cash. The property is adjacent to and includes 305 Baronne. 305 Baronne contains approximately 37,000 square feet of retail space and is currently occupied by retail tenants. 225 Baronne consists of approximately 417,000 square feet of office space and was significantly damaged during hurricane Katrina in September 2005. During 2006, TCI reduced the carrying value of 225 Baronne to $1.2 million, which approximated the value of the underlying land. TCI intends to redevelop 225 Baronne into an urban residential facility, which it considers the best and most profitable use of the property. To facilitate the marketability of the property, TCI acquired the Clarke Garage and 305 Baronne to provide additional parking and retail for the residential development.

**One Hickory**

In October 2003, TCI sold the One Hickory office building in Farmers Branch, Texas to IORI for $12.2 million and financed $12.0 million of the purchase price with a note receivable bearing interest at 5.49 percent per annum, maturing in June 2006. The $12.2 million sales price approximated TCI s initial cost of acquiring the property in 2002 from ARI. IORI immediately sold One Hickory together with 202 acres of undeveloped land to a partnership, the general partner of which was then an affiliate of ARI for a total sales price of $37.2 million. In May 2006, the partnership sold One Hickory back to TCI in satisfaction of the $12.0 million note payable by IORI.

**Circle C**

In March 2005, TCI entered into an agreement to advance a third party $3.2 million for development costs relating to single-family residential lots in Austin, Texas. These advances are secured by stock in the borrower and hold a second lien on the undeveloped land. The secured note bears interest at 10 percent, requires semi-annual payments, and matures in March 2008. In September 2005, the total amount authorized under this advance was increased to $5.0 million. As of March 31, 2006, TCI had advanced $3.2 million to the borrower. TCI also guaranteed an $18 million loan secured by a first lien on the undeveloped land. In September 2005, TCI purchased for $4.1 million a subsidiary of Tacco Universal, a related party that holds two notes receivable from the borrower for $3.0 and $1.0 million, respectively. These notes are secured by approximately 142 acres of undeveloped land and membership interest in the borrower. These secured notes accrue interest at 12 percent, have an interest reserve for payments that is added to the principal balance on a monthly basis, and matured in June 2005. Both loans were extended to September 2005 and upon maturity were paid under the advance referred to at the beginning of this paragraph. In March 2006, TCI acquired all of the interests in the borrower, including ownership of the Austin, Texas land. The land is secured by the $18 million first mortgage and a $3 million subordinated loan. In March 2006, TCI secured a development loan of $31.3 million (secured by the Austin, Texas land), of which $18 million was used to pay the existing first mortgage. As of December 31, 2006 the development loan balance was approximately $22.8 million. The development loan matures in March 2008 and bears interest at Prime plus one percent. The Company intends to develop the land for sale to single-family residential builders.

**Ewing Land**

In December 2006, TCI acquired 17.0 acres in North Dallas known as the Ewing Land, for $3.4 million and a note payable of $10.8 million. The land was acquired for future development and borders the cities of Addison and Farmers Branch. The loan matures in December 2009 and requires interest only payments of 5.5 percent until maturity.

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**Galleria East**

In November 2006, TCI acquired approximately 15 acres located at the intersection of the Dallas North Tollway and IH-635 (LBJ Freeway) in Dallas, Texas for a purchase price of $25.2 million. Payment was in the form of $8.8 million cash and a note payable of the $18.4 million due in December 2007. Terms of the note required interest only payments at 6.0 percent until maturity. The property is currently occupied by an automobile dealership which pays TCI a monthly rental for the use of the property. TCI intends to hold the land for future development or resale.

**LaDue/Walker**

In August 2006, TCI acquired from ARI, 99 acres in Farmers Branch, Texas known as LaDue/Walker for $21.5 million. Payment was made by an increase in the affiliate payable to Prime of $11.2 million and assumption of a $9.5 million note payable. Terms of the note require principal and interest payments monthly at 10.25 percent until maturity in December 2008. TCI intends to hold the land for future development as part of the Mercer Crossing development.

**Galleria West**

In November 2006, TCI purchased two parcels of land in independent transactions totaling approximately 9.2 acres in North Dallas for a total of approximately $7.5 million. Payment was made in the form of notes payable in the amounts of $1.5 million and $5.2 million. The notes require interest payments at 6.0 percent through maturity in December 2007. TCI intends to hold the land for future development or resale.

**Will-O-Wick**

In May 2006, TCI sold the Will-O-Wick apartments in Pensacola, Florida, for $6.5 million. The sale resulted in a gain of $2.9 million and net cash received of $2.8 million after payment of outstanding mortgages and costs of sale.

**McKinney Ranch**

In June 2006, TCI sold, in two separate transactions, a total of 168.8 acres of the McKinney Ranch land in McKinney, Texas for $26.9 million. The sales resulted in total gains of $8.8 million and net cash of $16.0 million after paydown of $10.2 million in notes payable, closing and other costs of sale.

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In 2006, TCI refinanced the following properties:

| Property | Location | Sq. Ft./Units/ Rooms/ Acres | Debt Incurred | Debt Discharged | Net Cash Received | Interest Rate | Maturity Date |
|---|---|---|---|---|---|---|---|
| **Apartments** | | | | | | | |
| 4400 | Midland, TX | 92 Units | $ 2,825 | $ 945 | $ 2,686 | 6.75% | 1/37 |
| Ashton Way | Midland, TX | 178 Units | 2,600 | 945 | 2,474 | 6.75 | 1/37 |
| Hunters Glen | Midland, TX | 212 Units | 2,475 | 1,804 | 446 | 8.13(1) | 2/09 |
| Woodview. | Odessa, TX | 232 Units | 5,229 | 1,839 | 1,123 | 6.75 | 1/37 |
| | | | 13,129 | 5,533 | 6,729 | | |
| **Office Buildings** | | | | | | | |
| Forum OB | Richmond, VA | 79,791 Sq. Ft. | 6,000 | 4,721 | 1,152 | 7.75 | 7/13 |
| One Hickory | Farmers Branch, TX | 102,615 Sq. Ft. | 9,300 | 6,858 | 2,308 | 6.93 | 5/10 |
| Two Hickory | Farmers Branch, TX | 96,127 Sq. Ft. | 9,500 | 7,331 | 1,860 | 7.03 | 9/11 |
| | | | 24,800 | 18,910 | 5,320 | | |
| **Land** | | | | | | | |
| Diplomat Tract I | Farmers Branch, TX | 3.9 Acres | 309 | | 293 | 10.25 | 5/08 |
| Diplomat Tract II | Farmers Branch, TX | 4.0 Acres | 321 | | 304 | 10.25 | 5/08 |
| Diplomat Tract III | Farmers Branch, TX | 3.7 Acres | 293 | | 278 | 10.25 | 5/08 |
| Forney Land | Kaufman County, TX | 34.9 Acres | 302 | | 228 | 10.25 | 5/08 |
| Hutton Tract | Farmers Branch, TX | 2.4 Acres | 281 | | 265 | 10.25 | 5/08 |
| Kaufman Cogen | Kaufman County, TX | 2,567.0 Acres | 3,573 | | 3,447 | 10.25 | 5/08 |
| Kaufman Taylor | Kaufman County, TX | 30.9 Acres | 2,564 | | 2,481 | 10.25 | 5/08 |
| LaDue/Walker | Farmers Branch, TX | 99.0 Acres | 10,538 | | 334 | 8.60 | 8/08 |
| Payne I Land | Las Colinas, TX | 109.9 Acres | 5,683 | | 5,591 | 9.00 | 12/07 |
| Payne II | Valley Ranch, TX | 39.9 Acres | 4,803 | | 4,526 | 10.25 | 5/08 |
| Pioneer Crossing | Travis County, TX | 38.5 Acres | 1,514 | | 1,484 | 9.25 | 6/08 |
| Valley Ranch | Irving, TX | 29.9 Acres | 2,520 | | 2,469 | 10.25 | 5/08 |
| West End Land | Dallas, TX | 5.3 Acres | 8,370 | 2,000 | 6,169 | 9.25(1) | 1/07 |
| | | | 41,071 | 2,000 | 27,869 | | |
| | | | $ 79,000 | $ 26,443 | $ 39,918 | | |

(1) Variable rate.

In 2005, TCI refinanced the following properties:

| Property | Location | Sq. Ft./Units/ Rooms/ Acres | Debt Incurred | Debt Discharged | Net Cash Received | Interest Rate | Maturity Date |
|---|---|---|---|---|---|---|---|
| **Apartments** | | | | | | | |
| Autumn Chase | Midland, TX | 64 Units | $ 1,166 | $ 797 | $ 317 | 5.88%(1) | 5/35 |
| Courtyard | Midland, TX | 133 Units | 1,342 | 966 | 266 | 5.88(1) | 5/35 |
| Southgate | Odessa, TX | 180 Units | 1,879 | 1,712 | 61 | 5.88(1) | 5/35 |
| Westwood | Odessa, TX | 79 Units | 500 | | 464 | 5.25(1) | 12/35 |
| | | | 4,887 | 3,475 | 1,108 | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Office Buildings** | | | | | | | |
| Bridgeview Plaza | LaCrosse, WI | 116,008 Sq. Ft. | 7,197 | 6,304 | 649 | 7.25(1) | 3/10 |
| **Shopping Centers** | | | | | | | |
| Dunes Plaza | Michigan City, IN | 223,869 Sq. Ft. | 3,750 | 2,685 | 658 | 7.50(1) | 1/10 |
| **Hotels** | | | | | | | |
| The Majestic | Chicago, IL | 55 Rooms | 3,225 | | 3,066 | 6.40 | 6/10 |
| **Land** | | | | | | | |
| 2301 Valley Branch | Farmers Branch, TX | 23.8 Acres | 2,420 | 2,841 | (385) | 8.50(1) | 12/06 |
| Alliance Airport(2) | Tarrant County, TX | 12.7 Acres | 553 | | 540 | 7.25(1) | 1/07 |
| Centura(3) | Farmers Branch, TX | 8.8 Acres | 6,727 | | 6,727 | 8.50(1) | 8/07 |
| DeSoto Ranch(2) | DeSoto, TX | 21.9 Acres | 1,635 | 1,271 | 336 | 7.25(1) | 1/07 |
| McKinney 36 | Collin County, TX | 34.6 Acres | 4,000 | 1,747 | 2,123 | 6.50(1) | 12/07 |
| Payne I | Las Colinas, TX | 109.9 Acres | 6,732 | | 6,550 | 8.00 | 12/07 |
| Sheffield Village(2) | Grand Prairie, TX | 13.9 Acres | 975 | 975 | 94 | 7.75(1) | 3/07 |
| West End(2) | Dallas, TX | 6.3 Acres | 2,000 | | 1,951 | 7.25(1) | 1/07(4) |
| West End(2) | Dallas, TX | 5.5 Acres | 2,000 | | 1,842 | 8.00(1) | 6/07 |
| | | | 27,042 | 6,834 | 19,778 | | |
| | | | $ 46,101 | $ 19,298 | $ 25,259 | | |

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(1) Variable rate.
(2) Drawn on TCI s $10 million line of credit for land acquisition and financing.
(3) IORI purchased the Centura Land for $6.7 million. See Note 8. RELATED PARTIES.
(4) Loan was paid off in November 2005 from a partial sale.

*Properties Held-for-Sale.* Set forth below are TCI s properties held-for-sale.

| Property | Location | Units |
|---|---|---|
| **Apartments** | | |
| Bay Walk | Galveston, TX | 192 Units |
| Island Bay | Galveston, TX | 458 Units |
| Marina Landing | Galveston, TX | 256 Units |

*Partnership Properties.* TCI is a 30% general partner in Sacramento Nine ( SAC 9 ), which owned the Prospect Park #29 Office Building. In December 2004, SAC 9 sold the Prospect Park #29 office building for $3.7 million, of which TCI received $1.1 million after closing costs and fees. TCI recognized a gain from the sale of $882,000.

In December 2004, TCI sold to an unrelated investment group a 95% partnership interest in Garden Centura, L.P. ( Garden Centura ). Garden Centura is the owner of the 410,901 sq. ft. Centura Tower office building located in Farmers Branch, Texas. TCI retained a non-controlling 1% general partner interest and a 4% limited partner interest in Garden Centura, L.P. TCI accounts for its investment in this partnership on the equity method.

*Provision for Asset Impairments.* TCI recorded no asset impairments in 2006, $3.4 million in 2005, and $6.1 million for 2004, representing the write down of certain operating properties to current estimated fair value. The asset impairment for 2005 relates to the following properties:

| Property | Location | Units/ Acres | Fair Value | Property Basis | Costs to Sell | Impairment |
|---|---|---|---|---|---|---|
| **Apartments** | | | | | | |
| Bay Walk/Island Bay | Galveston, TX | 650 Units | $ 25,000 | $ 25,598 | $ 982 | $ 1,580 |
| **Land** | | | | | | |
| Centura | Farmers Branch, TX | 8.8 Acres | 12,025 | 13,865 | | 1,840 |

The Bay Walk and Island Bay Apartments are under contract to sell together and the contractual sales price was used as fair value. The impairment losses for these properties are included in 2005 discontinued operations. Centura Land was appraised for its sale to IORI and the appraised value was used as the fair value. The costs to sell are estimated closing costs and commission to be paid by TCI.

The asset impairment for 2004 relates to the following properties:

| Property | Location | Sq. Ft. | Fair Value | Property Basis | Costs to Sell | Impairment |
|---|---|---|---|---|---|---|
| **Office Building** | | | | | | |
| 225 Baronne | New Orleans, LA | 416,834 Sq. Ft. | $ 8,500 | $ 10,220 | $ | $ 1,720 |
| Harmon | Sterling, VA | 72,062 Sq. Ft. | 6,500 | 9,080 | 320 | 2,900 |
| Mimado | Sterling, VA | 35,127 Sq. Ft. | 4,000 | 5,367 | 210 | 1,577 |

The Harmon and Mimado buildings were sold and the contractual sales prices were used as fair value. The costs to sell were the estimated closing costs and commissions to be paid by TCI. The impairment losses for these properties are included in 2004 discontinued operations. It was determined that the fair value of 225 Baronne was less than the current book value due to the pending loss of a major tenant. The Company intends to redevelop 225 Baronne as a residential project.

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**Mortgage Loans**

In addition to investments in real estate, a portion of TCI s assets are invested in mortgage notes receivable, principally secured by real estate. TCI may originate mortgage loans in conjunction with providing purchase money financing of property sales. Management intends to service and hold for investment the mortgage notes in TCI s portfolio. TCI s mortgage notes receivable consist of first, wraparound and junior mortgage loans.

*Types of Mortgage Activity.* TCI has originated its own mortgage loans, as well as acquired existing mortgage notes either directly from builders, developers or property owners, or through mortgage banking firms, commercial banks or other qualified brokers. Premier Funding, LLC, a related party, services TCI s mortgage notes. TCI s investment policy is described in ITEM 1. BUSINESS Business Plan and Investment Policy.

*Types of Properties Securing Mortgage Notes.* The properties securing TCI s mortgage notes receivable portfolio at December 31, 2006, consisted of four office buildings, seven apartment properties, two parcels of unimproved land, two retail developments and various partnership and membership interests. Four mortgage notes receivable were unsecured at December 31, 2006. The Board of Directors may alter the types of properties securing or collateralizing mortgage loans in which TCI invests without a vote of stockholders. TCI s Articles of Incorporation impose certain restrictions on transactions with related parties, as discussed in ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

At December 31, 2006, TCI s mortgage notes receivable portfolio included 11 mortgage loans with an aggregate principal balance of $22.9 million secured by income-producing real estate located in the Southeast and Southwest regions of the continental United States, two mortgage loans with an aggregate principal balance of $3.5 million secured by unimproved land in the Southwest region of the continental United States, five loans with a principal balance of $6.3 million secured by partnership or membership interests and four unsecured loans with a principal balance of $9.7 million. At December 31, 2006, 3.2% of TCI s assets were invested in notes and interest receivable.

The following table sets forth the percentages (based on the mortgage note principal balance) by property type and geographic region, of the income producing properties that serve as collateral for TCI s mortgage notes receivable at December 31, 2006. Excluded are $16.4 million of mortgage notes that are secured by unimproved land or other security, or are unsecured. See Schedule IV to the Consolidated Financial Statements included at ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA for further details of TCI s mortgage notes receivable portfolio.

| Region | Apartments | Commercial Properties | Total |
|---|---|---|---|
| Southwest | | 16% | 16% |
| Southeast | 4 | 80 | 84 |
| | 4% | 96% | 100% |

A summary of the activity in TCI s mortgage notes receivable portfolio during 2006 is as follows:

| | |
|---|---|
| Mortgage notes receivable at January 1, 2006 | 20 |
| Loans paid off | (6) |
| Loans funded | 8 |
| Mortgage notes receivable at December 31, 2006 | 22 |

During 2006, $20.8 million was collected in full payment of six mortgage notes and $2.1 million in principal payments were received on other mortgage notes. At December 31, 2006, less than one percent of TCI s assets were invested in mortgage notes secured by non-income producing real estate.

*First Mortgage Loans.* TCI invests in first mortgage notes with short, medium and long-term maturities. First mortgage loans generally provide for level periodic payments of principal and interest sufficient to substantially repay the loan prior to maturity, but may involve interest-only payments or moderate amortization of principal and a balloon principal payment at maturity. With respect to first mortgage loans, the borrower is required to provide a mortgagee s title policy or an acceptable legal title opinion as to the validity and the priority of the mortgage lien over all other obligations, except liens arising from unpaid property taxes and other exceptions normally allowed by first mortgage lenders. TCI may grant participations in first mortgage loans it originates to other lenders.

The following discussion briefly describes first mortgage loans funded in 2006, as well as events during 2006 that affected previously funded first mortgage loans.

In March 2002, TCI sold the 174,513 Sq. Ft. Hartford Office Building in Dallas, Texas, for $4.0 million, providing $4.0 million in seller financing as well as an additional $1.4 million line of credit for leasehold improvements all in the form of a first lien mortgage note. The note bears interest at a variable interest rate, currently 8.0% per annum, requires monthly interest only payments and matures in March 2007. As of March 2006, TCI had funded $896,000 of the $1.4 million line of credit. TCI determined during the third quarter of 2005 that it would classify this note as non-performing due to the lack of debt payments received and the probability that no debt payments would be received in the future. In the fourth quarter of 2006, TCI and the borrower entered into an assumption and note modification agreement whereby the note receivable was modified to $3.6 million upon TCI s receipt of approximately $500,000 from the original borrower. The original borrower subsequently transferred interest in the property to a new owner, which assumed the $3.6 million debt. The new note accrues interest at 8.25% for the first year, 9.25% thereafter, and matures October 30, 2008. As a result of the foregoing modification, TCI recorded a charge to earnings of $1.2 million in the fourth quarter of 2006.

In December 2005, TCI sold 27.192 acres and 3.73 acres of the McKinney Ranch land to a third party for $10.1 million and $1.4 million, and provided $7.6 million and $1.0 million of seller financing, respectively. Both notes bear interest at 8.0% per annum, require monthly interest only payments and mature in December 2008. In January 2006, TCI sold both notes to a financial institution for full face value less closing costs, plus accrued interest. The financial institution has a Put Option that would require TCI to purchase both notes back under the following conditions: (1) failure to construct agreed upon roads on the property by December 2006 (the road improvements have been substantially completed); (2) there occurs any event of default by the buyer; (3) certain escrow deposits for the road completion are not sufficient to cover the cost of the road construction; (4) any amendment, modification or assignment of certain development and escrow agreements between TCI and the buyer; and (5) failure of TCI to deliver certain documents to the financial institution within a timely manner. TCI and other related parties have also guaranteed the full payment of the note balances, including any outstanding interest and costs incurred by the financial institution.

*Junior Mortgage Loans.* TCI 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. The Board of Directors restricts investment in junior mortgage loans, excluding wraparound mortgage loans, to not more than 10.0% of TCI s assets. At December 31, 2006, 2.0% of TCI s assets were invested in junior and wraparound mortgage loans.

The following discussion briefly describes the junior mortgage loans that TCI originated in 2006 as well as events that affected previously funded junior mortgage loans during 2006.

In August 2001, TCI agreed to loan Dallas Fund XVII LP up to $5.6 million secured by a second lien on an office building in Dallas, Texas. The note receivable initially had a variable interest rate, required monthly interest payments and originally matured in January 2003. TCI funded a total of $4.3 million on this note. In January 2003, TCI agreed to extend the maturity date to May 2003. The collateral used to secure TCI s second

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lien was subsequently seized by the first lien holder. In March 2004, TCI agreed to accept an assignment of claims in litigation as additional security for the note. TCI later agreed to a modification agreement with the borrower effective November 2003. As of the modified effective date, accrued interest of $582,000 was added to the principal balance of the note; the interest rate was fixed at nine percent per annum with all principal and interest due November 2005. TCI also received certain pledge and security agreements in various partnership interests belonging to the borrower and received various assignments of proceeds from asset sales in certain entities owned by the borrower. TCI reduced accrued interest and principal by $1.5 million from the receipt of notes receivable assigned to TCI by the borrower and by $605,000 from cash received. TCI also received $1.4 million in January 2005 that was applied to accrued interest and principal effective December 30, 2004. TCI received $1.8 million in September 2006 that was applied to accrued interest and principal. Through December 31, 2006, TCI has advanced an additional $3.0 million to the borrower. The following notes were assigned to TCI as payment on the note.

$678,000 from a partnership that owns an apartment building. This note is unsecured, bears no interest and has no maturity date. Distributions made from the partnership operations will be used to pay the principal on the note. TCI received $132,000 in distributions in 2005 and $27,000 in 2006.

$264,000, including accrued interest, secured by a second lien on 13 acres of unimproved land. This note bears interest at 9.0% and matured in February 2003. TCI s parent company, ARI, has taken title to the collateral, giving TCI a first lien position on the collateral. This note is considered performing and no allowance has been established.

$466,000 secured by a second lien on 23.3 acres of unimproved land. This note bears interest at 4.0% and is payable upon demand.

$125,000 secured by a 100% interest in an affiliated company that owns an apartment building. This note bears interest at 12.0% and requires payments only if surplus cash is available and matures in April 2009.

In July 2002, TCI entered into an agreement with a third party developer to fund up to $300,000 under a revolving line of credit secured by 100% interest in a partnership of the borrower. The line of credit bears interest at 12.0% per annum, requires monthly interest only payments and matured in June 2005. This loan was extended to June 2006 in the second quarter of 2005 and was subsequently modified in the fourth quarter 2005. This second modification extends the loan maturity to October 2007 and limits any advances under the line of credit to $25,000 per month. As of December 31, 2006, the borrower had $153,000 of remaining available credit under the credit limit.

In October 2004, TCI sold the In The Pines apartments to a third party and provided $1.0 million of the purchase price as seller financing in the form of two notes. The first note accrued interest at 7.0% per annum, required monthly interest only payments and matured in January 2005. The Purchaser extended this note to March 2005 by paying 1.0% of the outstanding principal balance as an extension fee and then extended the note an additional 30 days to April 2005 by paying an extension fee of 0.5% of the outstanding principal balance. In the event of a default, the note is also secured by membership rights in the purchaser s entity. The second note was unsecured, accrued interest at 8.5% per annum, required monthly interest only payments and matured in January 2005. The Purchaser extended this note to March 2005 by paying 1.0% of the outstanding principal balance as an extension fee and then extended the note an additional 30 days to April 2005 by paying an extension fee of 0.5% of the outstanding principal balance. Both loans were extended to October 2005 with the payment to TCI of a 2.0% extension fee. Both loans were paid in full, including unpaid interest, in October 2005.

In March 2005, TCI entered into an agreement to advance a third party $3.2 million for development costs relating to single-family residential lots in Austin, Texas. These advances are secured by stock in the borrower and hold a second lien on the undeveloped land. The secured note bears interest at 10 percent, requires semi-annual payments and matures in March 2008. In September 2005, the total amount authorized under this advance was increased to $5.0 million. As of March 31, 2006, TCI had advanced $3.2 million to the borrower. TCI also guaranteed an $18 million loan secured by a first lien on the undeveloped land. In September 2005, TCI

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purchased for $4.1 million a subsidiary of Tacco Universal, a related party that holds two notes receivable from the borrower for $3.0 and $1.0 million, respectively. These notes are secured by approximately 142 acres of undeveloped land and membership interest in the borrower. These secured notes bear interest at 12 percent, have an interest reserve for payments that is added to the principal balance on a monthly basis and matured in June 2005. Both loans were extended to September 2005 and upon maturity were paid under the advance referred to at the beginning of this paragraph. In March 2006, TCI acquired all of the interests in the borrower, including ownership of the Austin, Texas land. The land is secured by the $18 million first mortgage and a $3 million subordinated loan. In March 2006, TCI secured a development loan of $31.3 million (secured by the Austin, Texas land), of which $18 million was used to pay the existing first mortgage. The development loan matures in March 2008 and bears interest at Prime plus one percent. The Company intends to develop the land for sale to single-family residential builders.

*Related Parties.* In January 2002, TCI purchased 100% of the outstanding common shares of ART Two Hickory Corporation ( Two Hickory ), a wholly-owned subsidiary of ARI, a related party, for $4.4 million. Two Hickory owns the 96,217 sq. ft. Two Hickory Centre Office Building in Farmers Branch, Texas. ARI guaranteed that the asset shall produce at least a 12.0% annual return of the purchase price for a period of three years from the purchase date. If the asset failed to produce the 12.0% annual return, ARI was obligated to pay TCI any shortfall. In addition, if the asset failed to produce the 12.0% return for any calendar year and ARI failed to pay the shortfall, TCI could have required ARI to repurchase the shares of Two Hickory for the original purchase price. Because ARI guaranteed the 12.0% return and TCI had the option of requiring ARI to repurchase the entities, and because ARI is a related party, management classified the consideration paid as a note receivable from ARI. In June 2002, Two Hickory was refinanced. TCI received $1.3 million of the proceeds as a principal reduction on its note receivable from ARI. In January 2005, the guaranty period ended and TCI completed the purchase of Two Hickory by recording the asset and the assumed debt, and removing the note receivable from ARI.

In April 2002, TCI purchased 100% of the following entities: ART One Hickory Corporation ( One Hickory ), Garden Confederate Point, LP ( Confederate Point ), Garden Foxwood, LP ( Foxwood ), and Garden Woodsong, LP ( Woodsong ), all wholly-owned subsidiaries of ARI, a related party, for $10.0 million. One Hickory owned the 120,615 sq. ft. One Hickory Centre Office Building in Farmers Branch, Texas. Confederate Point owned the 206 unit Confederate Apartments in Jacksonville, Florida. Foxwood owns the 220 unit Foxwood Apartments in Memphis, Tennessee. Woodsong owned the 190 unit Woodsong Apartments in Smyrna, Georgia. ARI guaranteed a minimum 12.0% return annually based on the purchase price for a period of three years from the purchase date. If the assets failed to produce the 12.0% return, ARI was required to pay TCI any shortfall. In addition, if the assets failed to produce the 12.0% return for a calendar year and ARI failed to pay the shortfall, TCI had the option of requiring ARI to repurchase the entities for the original purchase price. Because ARI guaranteed the 12.0% return and TCI had the option of requiring ARI to repurchase the entities, management classified the consideration paid as a note receivable from ARI. In July 2002, the Woodsong Apartments were sold. ARI received $2.8 million from the proceeds as payment of principal and accrued but unpaid interest on the note receivable. In October 2003, TCI sold One Hickory to IORI for $12.2 million, less prorations, for a wraparound promissory note of $12.0 million. This note bears interest at 5.49% interest, requires monthly interest and principal payments and matures in June 2006. This transaction effectively discharged the note receivable TCI had from ARI for the financing of One Hickory. Also, in November 2003, Confederate Point sold the Confederate Apartments and paid $2.1 million to TCI to pay off the loan and accrued but unpaid interest. In April 2005, the guaranty period ended and TCI completed the purchase of the Foxwood Apartments by recording the asset and removing the note receivable from ARI.

In December 2003, TCI purchased a note receivable secured by a second lien on 33 acres of raw land in Travis County, Texas known as Pioneer Development , at par value from ARI for $2.4 million as a paydown on an affiliate loan balance. The note bears interest at ten percent per annum, requires interest only payments beginning in November 2007 and matures in October 2008.

*Other.* In July 2003, TCI advanced $2.3 million to the Class A Limited Partners of TCI Countryside, L.P. of which TCI is the general partner. This loan bears interest at 7.25% and matures in January 2007. TCI also agreed to advance $1.1 million to the Class A Limited Partners by advancing $105,000 in July 2003 and every year thereafter for ten years. This loan bears interest at 7.25% and matures in July 2012. Interest due to TCI will be deducted from the quarterly return owed by TCI to the Class A Limited Partners, eliminating the quarterly payments. In October 2005, TCI agreed to settle the remaining obligations under this loan by paying a lump sum of $425,000, making the total amount advanced $740,000. After January 2007, TCI may redeem the Class A Limited Partners interests in exchange for cancellation of both notes.

In March 2004, TCI sold the Texstar Warehouse in Arlington, Texas to BCM for $2.4 million, including the assumption of debt. TCI also provided $1.3 million of the purchase price as seller financing. The unsecured note bears interest at the prime rate plus 2%, which is currently 10.25%, and matured in April 2005. This note was extended to April 2008.

In March 2004, TCI sold a K-Mart in Cary, North Carolina to BCM for $3.2 million, including the assumption of debt. TCI also provided $1.5 million of the purchase price as seller financing. The unsecured note bears interest at the prime rate plus 2%, which is currently 10.25%, and matured in April 2005. This note was extended to April 2008.

In December 2004, TCI sold the Centura Tower office building to a partnership and retained a 1% non-controlling general partner interest and a 4% limited partner interest. TCI has certain obligations to fund the partnership for rent abatements, tenant improvements, leasing commissions and other cash shortfalls. $4.1 million of these obligations were escrowed by TCI with the lender at loan closing. Through December 31, 2006, TCI has funded $6.5 million of these obligations, with $6.5 million recorded in the form of a note receivable from the partnership. The note bears interest at a fixed rate of 7.0% per annum. The note will be paid out of excess cash flow or from sales proceeds, but only after certain partner preferred returns are paid.

At December 31, 2006, TCI owned 746,972 shares of ARI common stock which were primarily purchased in open market transactions in 1990 and 1991 at a total cost of $1.6 million. The executive officers of TCI also serve as executive officers of ARI. Prime also serves as advisor to ARI and at March 23, 2007, ARI owned approximately 82.2% of TCI s outstanding Common Stock. At December 31, 2006, the market value of the ARI common shares owned by TCI was $6.0 million.

In November 2006, ARI purchased Windmill Farms, 3,035 acres in Kaufman County, Texas for $52.0 million. The purchase price was funded by $39.1 million debt and $10.0 million Preferred Stock of TCI. In connection with the purchase by ARI, TCI issued $10.0 million of Series D Preferred Stock to the sellers of the property. The transaction was recorded on the books of TCI as a reduction in the amount payable to affiliate of $10.0 million.

In August 2006, TCI purchased 99 acres in Farmers Branch, Texas known as the LaDue/Walker tract, from ARI for $21.5 million. The transaction was financed by assumption of $9.9 million note payable and an increase in the amount payable to affiliate of $11.2 million.

In May 2006, TCI acquired the 102,615 square feet One Hickory office building in Farmers Branch, Texas from IORI. The purchase price was paid by forgiveness of the $12.2 million note receivable from IORI.

**ITEM 3.** ***LEGAL PROCEEDINGS***

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

***Waters Edge.*** Shortly before the advent of Hurricane Katrina, an apartment complex in Mississippi was sold to Waters Edge Living, LLC but notwithstanding such sale, the property continued on insurance coverage applicable to Transcontinental Realty Investors, Inc. ( TCI ) and others. As a result of sorting out various claims, two items of litigation exist, *Waters Edge Living, LLC v. RUSI Indemnity Co., et al*, civil action No. 4:06-CV-00334-RH-WCS pending in the United States District Court for the Northern district of Florida and *Prime Income Asset Management, Inc., et al v. Waters Edge Living, LLC, et al,* civil action No. 3:07-CV-0102-D pending in the United States District Court for the Northern district of Texas. TCI is not a direct party in either case. In the Texas case, three subsidiaries of TCI are plaintiffs, Continental Baronne, Inc., Continental Common, Inc. and Continental Amoco, Inc. which own three New Orleans office buildings damaged by Hurricane Katrina. RUSI Indemnity Co. has paid approximately $50.0 million into a trust account held by Merrill Lynch under the supervision of the Florida Court. Of that amount, approximately $32.5 million is money paid on account of the Waters Edge Living, LLC claim and $17.5 million is money paid on the claims of Continental Baronne, Inc. and the other three New Orleans office buildings. Three TCI subsidiaries are intending to intervene in the near future in the Florida proceeding to attempt to obtain prompt return of the $17.5 million, although Prime Income Asset Management, Inc. ( PIAMI ) has pending an emergency motion for return of those funds (which has been pending since February 1, 2007). Of the $32.5 million allegedly allocable to Waters Edge Living, LLC, PIAMI et al are entitled to a refund, at a minimum, of approximately $6.0 million (consisting of $1.9 million previously advanced from PIAMI against the payment of the claim and $4.0 million for flood insurance proceeds, which should be credited against the $32.5 million) and potentially more, depending upon the amount by which the total claims exceed a $100.0 million cap under the applicable policies. While this case is a plaintiff s case from the perspective of the TCI subsidiaries, funds belonging to the TCI subsidiaries are being withheld from those subsidiaries aggregating at least $17.5 million. There is no significant prospect from these cases that TCI will have to pay any additional funds to Waters Edge Living, LLC.

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.

## ITEM 4. *SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS*

The Annual Meeting of Stockholders was held on November 20, 2006, at which proxies were solicited pursuant to Regulation 14 under the Securities Exchange Act of 1934, as amended (the Exchange Act ). There was no solicitation in opposition to Management s nominees listed in the Proxy Statement, all of which were elected. At the Annual meeting stockholders were asked to consider and vote upon the election of Directors and the ratification of the selection of the independent public accountants for TCI for the fiscal year ending December 31, 2006. At the meeting, stockholders elected the following individuals as Directors:

| | Shares Voting | |
|---|---|---|
| **Director** | **For** | **Withheld Authority** |
| Henry A. Butler | 7,377,532 | 19,607 |
| Sharon Hunt | 7,369,895 | 27,244 |
| Robert A. Jakuszewski | 7,380,765 | 16,374 |
| Ted R. Munselle | 7,370,805 | 26,334 |
| Ted P. Stokely | 7,378,217 | 18,922 |

There were no abstentions or broker non-votes on the election of Directors. With respect to the ratification of the appointment of Farmer, Fuqua & Huff, P.C. as independent auditors of the Company for the fiscal year ending December 31, 2006, and any interim period, at least 7,780,097 votes were received in favor of such proposal, 12,224 votes were received against such proposal, and 61,673 votes abstained.

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## PART II

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

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

| Quarter Ended | High | Low |
|---|---|---|
| March 31, 2007 (through March 23, 2007) | $ 13.91 | $ 11.85 |
| March 31, 2006 | 18.79 | 15.60 |
| June 30, 2006 | 18.22 | 13.05 |
| September 30, 2006 | 13.72 | 12.30 |
| December 31, 2006 | 16.27 | 13.05 |
| March 31, 2005 | 20.10 | 14.20 |
| June 30, 2005 | 22.19 | 18.80 |
| September 30, 2005 | 21.45 | 19.60 |
| December 31,2005 | 19.79 | 16.50 |

On March 23, 2007, the closing price of TCI s Common Stock as reported in the consolidated reporting system of the NYSE was $12.75 per share.

As of March 23, 2007, TCI s Common Stock was held by approximately 4,200 holders of record.

TCI paid no dividends in 2006, 2005 or 2004. The payment of dividends, if any, 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 of Directors.

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 1,409,000 shares. Through December 31, 2006, a total of 1,189,910 shares have been repurchased at a cost of $15.9 million. No shares were repurchased in 2006 or 2005. In November 2004, the Board approved a private block purchase of 212,800 shares of Common Stock for a total cost of $3.1 million. The following table represents shares repurchased during each of the three months ended December 31, 2006:

| | 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[(a)] |
|---|---|---|---|---|
| Balance as of September 30, 2006 | | $ | | 219,090 |
| October 1-31, 2006 | | | | 219,090 |
| November 1-30, 2006 | | | | 219,090 |
| December 1-31, 2006 | | | | 219,090 |
| Total | | $ | | 219,090 |

(a)

On June 23, 2000, the TCI Board of Directors approved a share repurchase program for up to 1,409,000 shares of common stock. The repurchase program has no termination date.

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**ITEM 6.** ***SELECTED FINANCIAL DATA***

| | For the Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2006 | 2005 | 2004 | 2003 | 2002 |
| | | | dollars in thousands | | |
| **EARNINGS DATA** | | | | | |
| Total operating revenues | $ 128,064 | $ 103,076 | $ 83,604 | $ 68,558 | $ 52,631 |
| Total operating expenses | 113,238 | 91,919 | 85,936 | 75,066 | 39,715 |
| Operating income (loss) | 14,826 | 11,157 | (2,332) | (6,508) | 12,916 |
| Other income (expense) | (30,185) | (37,206) | (24,658) | (9,120) | (39,126) |
| Loss before gain on real estate sales, minority interest and equity in earnings of investees | (15,359) | (26,049) | (26,990) | (15,628) | (26,210) |
| Gain on land sales | 11,421 | 7,702 | 7,110 | 1,641 | 666 |
| Equity in income (loss) of investees | 890 | 968 | (1,497) | (4,291) | (3,818) |
| Minority interest | 393 | (112) | (1,194) | 2,230 | 892 |
| Net income (loss) from continuing operations | (2,655) | (17,491) | (22,571) | (16,048) | (28,470) |
| Income tax benefit | 4,608 | 802 | 10,976 | | |
| Net income (loss) from continuing operations | 1,953 | (16,689) | (11,595) | (16,048) | (28,470) |
| Discontinued operations, net of taxes | 1,553 | 25,758 | 35,301 | 16,721 | 33,321 |
| Net income (loss) | 3,506 | 9,069 | 23,706 | 673 | 4,851 |
| Preferred dividend requirement | (210) | (210) | (210) | (126) | (190) |
| Net income (loss) applicable to common shares | $ 3,296 | $ 8,859 | $ 23,496 | $ 547 | $ 4,661 |
| **PER SHARE DATA** | | | | | |
| **Basic:** | | | | | |
| Net income (loss) from continuing operations | $ 0.22 | $ (2.14) | $ (1.46) | $ (2.00) | $ (3.56) |
| Net income (loss) from discontinued operations | .20 | 3.26 | 4.37 | 2.07 | 4.14 |
| Net income (loss) applicable to common shares | $ 0.42 | $ 1.12 | $ 2.91 | $ .07 | $ .58 |
| **Diluted:** | | | | | |
| Net income (loss) from continuing operations | $ 0.21 | $ (2.14) | $ (1.46) | $ (2.00) | $ (3.56) |
| Net income (loss) from discontinued operations | .19 | 3.26 | 4.37 | 2.07 | 4.14 |
| Net income (loss) applicable to common shares | $ 0.40 | $ 1.12 | $ 2.91 | $ .07 | $ .58 |
| Weighted average shares outstanding Basic | 7,900,869 | 7,900,869 | 8,082,854 | 8,078,108 | 8,057,361 |
| Weighted average shares outstanding Diluted | 8,180,401 | 7,900,869 | 8,082,854 | 8,078,108 | 8,057,361 |
| **BALANCE SHEET DATA** | | | | | |
| Real estate, net | $ 992,454 | $ 833,885 | $ 658,300 | $ 641,022 | $ 736,977 |
| Real estate held for sale | 54,935 | 40,446 | 49,878 | 61,457 | 22,510 |
| Real estate subject to sales contract | 66,027 | 68,738 | 70,350 | 79,848 | |
| Notes and interest receivable, net | 39,566 | 64,818 | 56,630 | 30,741 | 27,953 |
| Total assets | 1,250,167 | 1,089,079 | 920,311 | 882,784 | 858,489 |
| Notes and interest payable | 901,464 | 770,161 | 644,071 | 626,465 | 586,628 |
| Stockholders equity | 265,929 | 251,179 | 240,519 | 221,758 | 222,394 |
| Book value per share | $ 32.01 | $ 31.41 | $ 30.06 | $ 26.96 | $ 27.18 |

TCI purchased 47 properties for a total of $169.3 million in 2006; 26 properties for a total of $180.6 million in 2005, 20 properties for a total of $86.7 million in 2004, 10 properties for a total of $36.9 million in 2003, 16 properties for a total of $107.7 million in 2002. TCI sold four properties and seven land parcels in 2006 for a total of $53.1 million; sold nine properties and nine parcels of land for $107.1 million in 2005, 20 properties, the two remaining warehouses in the Kelly portfolio and four parcels of land for $276.7 million in 2004, 13 properties, two warehouses in the Kelly portfolio and five parcels of land for $86.6 million in 2003, 18 properties and a partial land parcel for a total of $117.6 million in 2002, See ITEM 2. PROPERTIES Real Estate and ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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**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.

This 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 whicl 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 I Business 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

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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**

TCI is an externally advised and managed real estate investment company that owns a diverse portfolio of income-producing properties and land held for development. The Company s portfolio of income-producing properties includes residential apartment communities, office buildings, hotels and other commercial properties. TCI s investment strategy includes acquiring existing income-producing properties as well as developing new properties on land already owned or acquired for a specific development project. TCI acquires land primarily in in-fill locations or high-growth suburban markets. TCI is an active buyer and seller and during 2006 acquired over $169 million and sold over $53 million of land and income-producing properties. As of December 31, 2006, the Company owned approximately 12,400 units in 65 residential apartment communities, 25 commercial properties comprising almost 3.9 million rentable square feet and four hotels containing a total of 313 rooms. In addition, at December 31, 2006, TCI owned over 6,200 acres of land held for development and had over 2,500 apartment units in 14 projects under construction. The Company currently owns income-producing properties and land in 15 states as well as in the U.S. Virgin Islands and Wroclaw, Poland. TCI finances its acquisitions primarily through operating cash flow, proceeds from the sale of land and income-producing properties and debt financing primarily in the form of property-specific first-lien mortgage loans from commercial banks and institutional lenders. TCI finances it development projects principally with short-term, variable interest rate construction loans that are converted to long-term, fixed rate amortizing mortgages when the development project is completed and occupancy has been stabilized. The Company will, from time to time, also enter into partnerships with various investors to acquire income-producing properties or land and to sell interests in certain of its wholly-owned properties. When the Company sells assets, it may carry a portion of the sales price generally in the form of a short-term, interest bearing seller-financed note receivable. The Company generates operating revenues primarily by leasing apartment units to residents; leasing office, retail and industrial space to commercial tenants; and renting hotel rooms to guests. TCI is advised by Prime under a contractual arrangement that is reviewed annually by TCI s Board of Directors. TCI s commercial properties are managed by Regis Commercial while the Company s hotels are managed by Regis Hotel. TCI currently contracts with five third-party companies to manage the Company s apartment communities. Approximately 82% of TCI s common stock is owned by ARI. TCI is a C Corporation for U.S. federal income tax purposes and files an annual consolidated income tax return with ARI. TCI does not qualify as a Real Estate Investment Trust ( REIT ) for federal income tax purposes primarily due to ARI s majority ownership of the Company.

**Critical Accounting Policies**

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

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***Real Estate***

Upon acquisitions of real estate, TCI assesses 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 Statement of Financial Accounting Standards ( SFAS ) No. 141, Business Combinations and allocates the purchase price to the acquired assets and assumed liabilities, including land at appraised value and buildings at replacement cost.

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

We record acquired above- 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.

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

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

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

A variety of costs are incurred in the acquisition, development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. Our capitalization policy on development properties is guided by SFAS No. 34 Capitalization of Interest Cost and SFAS No. 67 Accounting for Costs and the Initial Rental Operations of Real Estate Properties. The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We consider a construction project as substantially completed and held available for occupancy upon the receipt of certificates of occupancy, but no later than one year from cessation of major construction activity. We cease capitalization on the portion (1) substantially completed and (2) occupied or held available for occupancy, and we capitalize only those costs associated with the portion under construction.

***Investment in Unconsolidated Real Estate Ventures***

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

***Recognition of Rental Income***

Rental income for commercial property leases is recognized on a straight-line basis over the respective lease terms. In accordance with SFAS 141, 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, have discretion in selecting the supplier and have the credit risk with respect to paying the supplier.

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

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

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

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

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

***Non-performing Notes Receivable***

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

***Interest Recognition on Notes Receivable***

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

***Allowance for Estimated Losses***

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

***Fair Value of Financial Instruments***

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

**Results of Operations**

*2006 Compared to 2005.* TCI had net income of $3.5 million in 2006, including gains on land sales totaling $11.4 million and net income from discontinued operations of $1.6 million, compared to $9.1 million of net income in 2005, including gains on land sales of $7.7 million and income from discontinued operations of $25.8 million. TCI defines its same-store universe for each income-producing asset type (apartments, commercial properties and hotels) as properties with stabilized occupancy owned and operated for the entire two-year period beginning January 1, 2005 and ending December 31, 2006. For this time period, TCI had 39 apartment communities, 16 commercial properties and four hotels in its same-store universe.

Rents and other property revenues were $128.1 million in 2006 compared to $103.1 million in 2005, an increase of $25.0 million or 24.2 percent. The overall increase is due to a $10.9 million increase in rental revenues from the Company s apartment communities, a $11.5 million increase in rental and other property revenues from the Company s commercial portfolio, a $2.1 million increase in hotel revenues and a $500,000 increase in rents and royalty income related to the Company s land portfolio. Within the apartment communities portfolio, $3.4 million of the increase from 2005 to 2006 is due to better performance in TCI s same store apartment universe (a 6.5 percent increase from 2005 to 2006); $2.0 million is due to acquisitions; and $5.5 million is due to developed projects placed in service during 2005 and 2006. The improvement in rents and other property revenues within TCI s commercial portfolio was principally comprised of an increase of $12.2 million due to acquisitions of commercial properties in 2005 and 2006 (including TCI s August 2005 acquisition of 600 Las Colinas Boulevard which represented almost $6.8 million of the $12.2 million increase), offset by a decline in same-store rental revenues of 4.7 million. TCI s commercial properties in New Orleans, which suffered extensive damage in 2005 from Hurricane Katrina, are included in the same-store universe. TCI s same-store hotels increased revenues by 22.2 percent or $2.1 million in 2006 compared to 2005, due to both occupancy gains and increases in average room rates. TCI acquired no hotels in 2005 or 2006 and sold one hotel in 2005.

Property operations expenses increased 25.6 percent or $16.1 million from $62.9 million in 2005 to $79.0 million in 2006. The overall increase is due to a $6.2 million increase in operating expenses from the Company s apartment communities, an $8.5 million increase in operating expenses from the Company s commercial portfolio, a $1.2 million increase in hotel operating expenses and a $200,000 increase in operating expenses (principally real estate taxes) related to the Company s land portfolio. Within the apartment communities portfolio, $1.9 million of the increase from 2005 to 2006 is due to TCI s same store apartment universe (a 6.3 percent increase from 2005 to 2006); $1.0 million is due to acquisitions of existing apartment communities; and $3.3 million is due to developed projects placed in service during 2005 and 2006. The increase in operating expenses within TCI s commercial portfolio was due to an increase in same-store operating expenses of 20.0 percent or $2.4 million from 2005 to 2006 (primarily because TCI s New Orleans office buildings which were damaged by Hurricane Katrina, were closed during the last 4 months of 2005 for repairs); $6.1 million of the increase was due to acquisitions of commercial properties in 2005 and 2006 (including TCI s August 2005 acquisition of 600 Las Colinas Boulevard which represented $4.0 million of the $6.1 million increase). Operating expenses for TCI s same-store hotels increased by 22.7 percent or $1.2 million in 2006 compared to 2005.

Depreciation and amortization expense increased $5.6 million, to $21.6 million in 2006 from $16.0 million in 2005. Depreciation on TCI s apartment portfolio increased $2.5 million while depreciation expense for the commercial and hotel portfolios increased $2.7 million and $400,000 respectively. Depreciation expense for the apartment portfolio increased due to 2005 and 2006 acquisitions ($800,000), developed projects placed in service during 2005 and 2006 ($1.6 million) and additions to depreciable assets in the same-store universe ($100,000). Depreciation expense for the commercial portfolio increased due to 2005 and 2006 acquisitions ($1.8 million, of which $1.0 million related to the August 2005 acquisition of 600 Las Colinas Boulevard) and to 2005 revisions to depreciable lives for certain commercial properties ($900,000). Depreciation expense for the hotel portfolio increased $400,000, due principally to additions to depreciable assets at the Company s hotel in Wroclaw, Poland.

General and administrative expenses were $4.0 million in 2006 compared to $8.3 million in 2005. The decrease in 2006 was due to lower legal and professional fees and reduced state income tax expense, offset by higher cost reimbursements paid to the Advisor.

Advisory fee expense was $8.6 million in 2006 compared to $4.7 million in 2005. The increase from 2005 was due to higher gross assets in 2006 and a 2005 refund of 2004 Advisor cost reimbursements received from Prime. TCI s advisory agreement with Prime limits the amount of cost reimbursements payable by TCI to Prime. See NOTE 12. ADVISORY AGREEMENT.

Interest income declined $1.0 million from $3.7 million in 2005 to $2.7 million in 2006 due principally to lower average notes receivable balances and lower average cash balances.

Interest expense increased $12.7 million to $51.8 million in 2006 from $39.1 million in 2005. The overall increase in interest expense is due to a $2.9 million increase within the apartment portfolio, a $3.6 million increase in the commercial portfolio, a $5.8 million increase in the land portfolio and a $400,000 increase in the

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hotel portfolio. Within the apartment portfolio, $600,000 of the increase is due to additional debt incurred as a result of 2005 and 2006 acquisitions while $2.3 million is due to increased debt related to developed projects placed in service in 2005 and 2006. The increase in interest expense for the commercial portfolio is due to a $400,000 increase for the same-store universe (primarily due to rising variable interest rates) and $3.1 million for 2005 and 2006 acquisitions (of which $1.7 million relates to the August 2005 acquisition of 600 Las Colinas Boulevard). Interest expense within the land portfolio increased due to rising variable interest rates, increased debt from refinancing existing land parcels and additional debt incurred to finance 2005 and 2006 land acquisitions. Interest expense for the hotel portfolio increased primarily due to rising variable interest rates.

TCI recorded no asset impairment charges in 2006. In 2005 the Company recorded asset impairment charges of $1.8 million related to the write-down of a certain land tract to its current estimated fair value, as described further in the table below.

| Property | Location | Units/ Acres | Fair Value | Property Basis | Costs to Sell | Impairment |
|---|---|---|---|---|---|---|
| **Land** | | | | | | |
| Centura Land | Farmers Branch, TX | 8.753 Acres | $ 12,025 | $ 13,865 | | $ 1,840 |

The Centura Land was appraised for its sale to IORI and the appraised value was determined to be the fair value. The costs to sell are estimated closing costs and commissions paid by TCI.

The 2006 gain on involuntary conversion of $20.5 million relates to damage sustained at the Company s New Orleans commercial properties from Hurricane Katrina during 2005, principally the Company s 225 Baronne office building. 225 Baronne property was closed immediately after the storm and the Company intends to redevelop 225 Baronne as a residential property. TCI s 1010 Common and Amoco buildings suffered hurricane damage as well but have been repaired and have reopened. 1010 Common is presently 77% occupied and Amoco is 89% occupied. In 2005 the Company received $4.2 million in business interruption insurance proceeds which was included in 2005 rental revenues. TCI received approximately $45 million of insurance proceeds in 2006, of which $4.0 million related to business interruption claims and has been included in 2006 rental revenues.

Gain on land sales increased $3.7 million, to $11.4 million in 2006 from $7.7 million in 2005. During 2006 TCI sold 192.6 acres of land in seven separate transactions at an average sales price of $196,000 per acre. The largest land sales in 2006 were the sale of a) 123.9 acres in McKinney, Texas for $134,000 per acre, generating cash proceeds of $6.0 million and a recognized gain of $3.5 million and b) 44.5 acres in McKinney, Texas for $231,000 per acre, generating cash proceeds of $10.0 million and a recognized gain of $5.3 million. In 2005, the Company sold 66.7 acres of land in nine separate transactions at an average sales price of $428,000 per acre.

Net income tax benefit for 2006 was $3.8 million, compared to net income tax expense of $424,000 for 2005. The income tax benefit for 2006 and expense for 2005 was calculated under a Tax Sharing and Compensating Agreement between TCI and ARI, whereby TCI and ARI are eligible to file a consolidated federal tax return. In 2006, ARI had net taxable income and TCI had net taxable losses, thus in accordance with the sharing agreement, TCI recorded a Federal tax benefit in the amount of $3.8 million for 2006.

Income from discontinued operations was $2.4 million in 2006 compared to $27.0 million in 2005. Included for 2006 are four apartment communities sold during 2006 and four apartment communities designated as held for sale or subject to a sales contract (and subsequently sold by TCI in 2007). Included for 2005 are nine properties (two apartment communities, six commercial properties and one hotel) sold during 2005 and five

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apartment communities designated as held for sale or subject to a sales contract (two of which were subsequently sold in 2006). The following table summarizes revenue and expense information for these properties.

| | 2006 | 2005 |
|---|---|---|
| **Revenue** | | |
| Rental | $ 10,251 | $ 16,994 |
| Property operations | 6,485 | 13,785 |
| | 3,766 | 3,209 |
| **Expenses** | | |
| Interest | 4,988 | 7,158 |
| Depreciation | 2,077 | 633 |
| | 7,065 | 7,791 |
| Net loss from discontinued operations before gains on sale of real estate | (3,299) | (4,582) |
| Gain on sale of real estate | 5,689 | 31,473 |
| Write-down of assets held-for-sale | | (1,580) |
| Equity in investee s gain on sale of real estate | | 1,673 |
| Net income from discontinued operations, before income taxes | $ 2,390 | $ 26,984 |

The $1.6 million 2005 write-down of assets held for sale relates to impairment losses recorded for the Bay Walk and Island Bay apartments. The contract sales price was deemed to be gain value.

The 2005 $1.7 equity in investee s gain on sale of real estate relates primarily to TCI s portion of gain on income-producing properties sold by ARI and IORI.

In 2006 and 2005, TCI recognized gains on sale of real estate totaling $5.7 million and $31.5 million respectively. In 2006, TCI sold four apartment communities comprising 545 units for an average price of $28,000 per unit, generating net cash proceeds of $4.6 million. The four properties were located in Florida, Kansas, Oklahoma and Texas. In 2005, TCI sold two apartment communities (both located in Texas) at an average sales price of $43,000 per unit; six commercial properties at an average sales price of $93 per square foot and one hotel located in San Francisco, CA at a price per room of $139,000. See NOTE 2. REAL ESTATE.

*2005 Compared to 2004.* TCI had net income of $9.1 million in 2005, including gains on land sales totaling $7.7 million and net income from discontinued operations of $25.8 million, compared to $23.7 million of net income in 2004, including gains on land sales of $7.1 million and income from discontinued operations of $35.3 million. TCI defines its same-store universe for each income-producing asset type (apartments, commercial properties and hotels) as properties with stabilized occupancy owned and operated for the entire two-year period beginning January 1, 2004 and ending December 31, 2005. For this time period, TCI had 36 apartment communities, 16 commercial properties and one hotel in its same-store universe.

Rents and other property revenues were $103.1 million in 2005 compared to $83.6 million in 2004, an increase of $19.5 million or 23.3 percent. The overall increase is due to a $14.2 million increase in rental revenues from the Company s apartment communities, a $3.4 million increase in rental and other property revenues from the Company s commercial portfolio and a $1.9 million increase in hotel revenues. Within the apartment communities portfolio, $1.8 million of the increase from 2004 to 2005 is due to better performance in TCI s same store apartment universe (a 4.1 percent increase from 2004 to 2005); $1.3 million is due to acquisitions; and $8.8 million is due to developed projects placed in service during 2004 and 2005. The improvement in rents and other property revenues within TCI s commercial portfolio was principally comprised of an increase of $4.1 million due to acquisitions of commercial properties in 2004 and 2005 (including TCI s August 2005 acquisition of 600 Las Colinas Boulevard which represented almost $4.0 million of the $4.1 million

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increase). The increase in rental revenues for the commercial properties portfolio due to acquisitions was partially offset by a decline in same-store rental revenues of $700,000, which was primarily due to lower rental revenues in the Company s New Orleans office buildings due to Hurricane Katrina. TCI s same-store hotels increased revenues by 25.3 percent or $1.9 million in 2005 compared to 2004, due to both occupancy gains and increases in average room rates. TCI acquired no hotels in 2004 or 2005 and sold one hotel in 2005.

Property operations expenses increased $9.7 million from $53.2 million in 2004 to $62.9 million in 2005. The overall increase is due to a $7.5 million increase in operating expenses from the Company s apartment communities, a $100,000 increase in operating expenses from the Company s commercial portfolio, a $1.0 million increase in hotel operating expenses and a $1.1 million increase in operating expenses (principally real estate taxes) related to the Company s land portfolio. Within the apartment community s portfolio, $1.6 million of the increase from 2004 to 2005 is due to TCI s same store apartment universe; $1.4 million is due to acquisitions of existing apartment communities; and $4.5 million is due to developed projects placed in service during 2004 and 2005. Operating expenses within TCI s commercial portfolio increased $1.7 million due principally to TCI s August 2005 acquisition of 600 Las Colinas Boulevard; the $1.7 million increase was offset by a $1.6 million decline in same-store operating expenses which was due primarily to the Company s New Orleans office buildings being closed for a period of time after Hurricane Katrina. Operating expenses for TCI s same-store hotels increased by $1.0 million in 2005 compared to 2004.

Depreciation and amortization expense decreased $700,000, to $16.0 million in 2005 from $16.7 million in 2004. Depreciation on TCI s apartment portfolio increased $1.5 million while depreciation expense for the commercial and hotel portfolios declined $1.4 million and $800,000 respectively. Depreciation expense for the apartment portfolio increased due to developed projects placed in service during 2004 and 2005 ($800,000) and additions to depreciable assets in the same-store universe ($700,000). Depreciation expense for the commercial portfolio increased $500,000 due to the August 2005 acquisition of 600 Las Colinas Boulevard); however, this increase was offset by a decline in depreciation for the same-store universe of $1.9 million ($600,000 due to certain tenant improvements being fully depreciated in 2004 and $1.3 million due to 2005 revisions to depreciable lives for certain commercial properties). Depreciation expense for the hotel portfolio decreased $800,000, due principally to certain building improvements being fully depreciated in 2004.

General and administrative expenses were $8.3 million in 2005 compared to $9.3 million in 2004. The decrease in 2005 was due to a reduction in legal fees and state income taxes, offset by higher professional fees, cost reimbursements to the advisor, and expensed pursuit costs for abandoned projects.

Advisory fee expense was $4.7 million in 2005 compared to $6.7 million in 2004. The decrease in 2005 was due to TCI receiving a 2004 operating expense refund from Prime of $2.4 million in 2005. See NOTE 12. ADVISORY AGREEMENT.

Interest income of $3.7 million in 2005 was unchanged from 2004.

Gain on foreign currency transaction was $292,000 in 2005 compared to $3.8 million in 2004. Gain or loss on foreign currency transaction is the result of Hotel Akademia converting long-term debt, which is denominated in Euros, into the functional currency, the Polish Zloty. The Euro weakened against the Zloty in 2005 and 2004, which resulted in TCI recognizing these gains.

Interest expense increased $8.7 million to $39.2 million in 2005 from $30.5 million in 2004. The overall increase in interest expense is due to a $6.6 million increase within the apartment portfolio, a $1.3 million increase in the commercial portfolio and a $1.3 million increase in the land portfolio, partially offset by a $500,000 decrease in the hotel portfolio due to certain refinancing costs for three hotels included in 2004 interest expense. Within the apartment portfolio, $300,000 of the increase is due to additional debt incurred as a result of 2005 and 2006 acquisitions while $5.1 million is due to increased debt related to developed projects placed in

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service in 2005 and 2006; the remaining $1.2 million is due to increases in the same-store universe resulting primarily from rising variable interest rates. The increase in interest expense for the commercial portfolio is due to a $500,000 increase for the same-store universe (primarily due to rising variable interest rates) and $800,000 related to the August 2005 acquisition of 600 Las Colinas Boulevard. Interest expense within the land portfolio increased due to rising variable interest rates, increased debt from refinancing existing land parcels and additional debt incurred to finance 2004 and 2005 land acquisitions.

TCI recorded asset impairments of $1.8 million in 2005 and $1.7 million in 2004, representing the write-down of certain operating properties to current estimated fair value.

| Property | Location | Units/ Acres | Fair Value | Property Basis | Costs to Sell | Impairment |
|---|---|---|---|---|---|---|
| **Land** | | | | | | |
| Centura | Farmers Branch, TX | 8.753 Acres | $ 12,025 | $ 13,865 | $ | $ 1,840 |

The Centura Land was appraised for its sale to IORI and the appraised value was used as the fair value. The costs to sell are estimated closing costs and commissions paid by TCI.

The assets for 2004 include the following properties:

| Property | Location | Sq. Feet/ Acres | Fair Value | Property Basis | Costs to Sell | Impairment |
|---|---|---|---|---|---|---|
| **Office Building** | | | | | | |
| 225 Baronne | New Orleans, LA | 416, 834 Sq. Ft. | $ 8,500 | $ 10,220 | $ | $ 1,720 |

Management concluded that a write-down was appropriate due to the fair value of 225 Baronne being less than the current book value due to the pending loss of the anchor tenant, future leases on the vacated space being below market rates and the projected future cash flows of 225 Baronne insufficient to recover the carrying value.

TCI recorded a reduction to loss provisions of $1.5 million in 2004, representing the removal of the allowance on TCI s note receivables. All of TCI s note receivables are performing or are secured by collateral that is equal to or greater than the note balance.

Net income fee to affiliate was $522,000 in 2005 compared to $1.9 million in 2004. The net income fee is payable to TCI s advisor (Prime) based on 7.5% of TCI s net income, after certain adjustments. TCI had higher net income, after adjustments, in 2004 as compared to 2005, therefore the net income fee was higher.

Other income (expense) was $370,000 in 2005 compared to $555,000 in 2004. Other income in 2004 was higher due to TCI receiving a higher amount of dividend income from its holdings in Realty Korea CR-REIT Co., Ltd. No. 1.

Gain on land sales was $7.7 million in 2005 compared to $7.1 million in 2004. In 2005, the Company sold 66.7 acres of land in nine separate transactions at an average sales price of $428,000 per acre. In 2004, TCI recognized gains on the sale of 517 acres in two separate transactions at an average sales price of $44,000 per acre, including one sale of 492 acres in Allen, Texas for a sales price equal to $41,000 per acre.

Equity in earnings of investees was $968,000 in 2005 compared to equity in loss of investees of $1.5 million in 2004. IORI and ARI both recognized income from continuing operations for 2005, as compared to a loss for ARI from continuing operations in 2004.

Net income tax expense for 2005 was $424,000, compared to $12.5 million for 2004. The income tax expense for 2005 and 2004 was calculated under a Tax Sharing and Compensating Agreement between TCI and ARI, whereby TCI and ARI are eligible to file a consolidated federal tax return. In 2004, ARI had net taxable losses

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and TCI had net taxable income, thus in accordance with the sharing agreement, TCI recorded Federal tax expense in the amount of $12.5 million for 2004.

Income from discontinued operations was $27.0 million in 2005 compared to $58.8 million in 2004. Income from discontinued operations relates to 9 operating properties sold during 2005, five apartments designated as held for sale and 22 operating properties TCI sold during 2004. The following table summarizes revenue and expense information for these properties sold and held-for-sale.

| | 2005 | 2004 |
|---|---|---|
| **Revenue** | | |
| Rental | $ 16,994 | $ 36,052 |
| Property operations | 13,785 | 21,885 |
| | 3,209 | 14,167 |
| **Expenses** | | |
| Interest | 7,158 | 12,280 |
| Depreciation | 633 | 5,865 |
| | 7,791 | 18,145 |
| Net loss from discontinued operations before gains on sale of real estate | (4,582) | (3,978) |
| Gain on sale of real estate | 31,473 | 63,348 |
| Write-down of assets held-for-sale | (1,580) | (4,477) |
| Equity in investees gain on sale of real estate | 1,673 | 3,884 |
| Net income from discontinued operations | $ 26,984 | $ 58,777 |

In 2005 and 2004, gains on sale of real estate totaling $31.5 million and $63.3 million were recognized. In 2005, TCI sold two apartment communities (both located in Texas) at an average sales price of $43,000 per unit; six commercial properties at an average sales price of $93 per square foot and one hotel located in San Francisco at a price per room of $139,000. In 2004 recognized gains on the sale of two apartment communities at an average sales price of $42,000 per unit and 14 commercial properties at an average sales price of $121 per square foot (including the December 2004 sale of Centura Tower in Dallas, Texas). See NOTE 2. REAL ESTATE.

**Liquidity and Capital Resources**

Cash and cash equivalents were $4.8 million, $5.5 million and $21.8 million at December 31, 2006, 2005 and 2004, respectively. The principal reasons for the change in cash are discussed in the paragraphs below.

TCI s principal sources of cash have been and will continue to be property operations, proceeds from land and income-producing property sales, the collection of mortgage notes receivable, receivables from affiliated companies, refinancing of existing mortgage notes payable and additional borrowings, including mortgage notes payable, lines of credit and to a lesser extent, distributions from partnerships. TCI may also issue additional equity securities, including common stock and preferred stock. Management anticipates that TCI s cash at December 31, 2006, along with cash that will be generated in 2007 from property operations, may not be sufficient to meet all of TCI s 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. Historically, management has been successful at extending a portion of the Company s current maturity obligations. Management also anticipates funding ongoing real estate development projects and the acquisition of new real estate from cash generated by sales of land and income-producing properties, debt refinancings or extensions, and additional borrowings.

Net cash provided by operating activities was $5.5 million in 2006, compared to $19.9 million in 2005 and $(2.0 million) in 2004. Cash flow from property operations is largely comprised of rental income less operating expenses, or net operating income (sometimes referred to as NOI ). Net cash provided by operating activities declined $14.4 million in 2006 compared to 2005 due primarily to the 2006 payment of certain expenses accrued in 2005 of $33.3 million, increased interest expense of $12.7 million, offset by the receipt of Hurricane Katrina-related insurance proceeds (net of repairs) of $20.5 million and other net sources of operating cash (principally improved NOI) of $2.6 million. Net cash provided by operating activities increased $21.9 million in 2005 compared to 2004 due to improved NOI of $9.8 million, the payment deferral of certain 2004 expenses until 2005 ($18.3 million) and other net sources of operating cash of $2.5 million, offset by increased interest expense of $8.7 million.

Management expects that TCI s existing cash balances, selective sales of land and income-producing properties, refinancing of and additional borrowings against the Company s real estate holdings will be sufficient to meet TCI s cash requirements associated with its current and anticipated level of operations, maturing debt obligations and existing commitments. To the extent that TCI s liquidity permits or financing sources are available, and the investments are otherwise deemed to be profitable, management intends to make additional investments in real estate or real estate-related projects.

Net cash used in investing activities was $146.8 million in 2006 compared to $219.2 million in 2005 and $95.4 million in 2004. Cash used in investing activities decreased $72.4 million in 2006 compared to 2005 due principally to reduced investments in real estate ($34.8 million), higher proceeds from sales of real estate ($24.3 million) and increased net collections of notes receivable ($12.6 million), offset by increased advisory payments of $5.8 million and other net uses of $600,000. Cash used in investing activities increased $123.8 million in 2005 compared to 2004 due primarily to increased investments in real estate ($22.8 million), lower proceeds from real estate sales ($122.5 million), increased investment in seller financing ($11.0 million) and increased distributions to equity investees of $5.4 million, offset by lower payments to the advisor of $42.9 million.

Net cash provided by financing activities was $137.2 million in 2006 compared to $115.4 million in 2005 and $47.6 million in 2004. Cash provided by financing activities increased $21.8 million in 2006 compared to 2005, due primarily to increased proceeds from additional borrowings of $34.4 million (net of deferred financing costs), offset by higher debt service and loan maturities and other principal payments of $19.3 million. Cash provided by financing activities increased $67.8 million in 2005 compared to 2004, principally due to reduced loan maturities and other principal payments of $196.2 million and no common stock repurchases in 2005 ($3.1 million), offset by fewer proceeds from additional borrowings of $131.5 million (net of deferred financing costs).

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

**Obligations and Commitments**

TCI has contractual obligations and commitments primarily with regards to the payment of mortgages.

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The following table aggregates TCI s expected contractual obligations and commitments subsequent to December 31, 2006.

| | PAYMENTS DUE BY PERIOD | | | | |
|---|---|---|---|---|---|
| | Total | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years |
| | dollars in thousands | | | | |
| Long-Term Debt[1] | $ 766,651 | $ 191,426 | $ 124,574 | $ 37,415 | $ 413,236 |
| Capital Lease Obligations | | | | | |
| Operating Leases | | | | | |
| Purchase Obligations | | | | | |
| Other Long-Term Liabilities | 2,163 | 2,163 | | | |

(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.

Other long-term liabilities represent TCI s intentions to purchase the interests of general and limited partners formed to construct residential properties.

**Related Party Transactions**

Historically, TCI, ARI, IORI, and others have each engaged in and may continue to engage in business transactions, including real estate partnerships, with related parties. Management believes that all of the related party transactions represented the best investments available at the time and were at least as advantageous to TCI as could have been obtained from unrelated parties.

**Operating Relationships**

TCI received rents of $846,000 in 2006, $56,000 in 2005 and $69,000 in 2004 from Prime and its affiliates for rents of TCI owned properties, including One Hickory, Two Hickory and Addison Hanger.

**Property Transactions**

**Activity in 2006 included:**

In November 2006, ARI purchased Windmill Farms, 3,035 acres in Kaufman County, Texas for $52.0 million. The purchase price was funded by $39.1 million debt and $10.0 million Preferred Stock of TCI. In connection with the purchase by ARI, TCI issued $10.0 million of Series D Preferred Stock to the sellers of the property. The transaction was recorded on the books of TCI as a reduction in the amount payable to affiliate of $10.0 million.

In August 2006, TCI purchased 99 acres in Farmers Branch, Texas known as the LaDue/Walker tract, from ARI for $21.5 million. The transaction was financed by assumption of $9.9 million note payable and an increase in the amount payable to affiliate of $11.2 million.

In May 2006, TCI acquired the 102,615 square feet One Hickory office building in Farmers Branch, Texas from IORI. The purchase price was paid by forgiveness of the $12.2 million note receivable from IORI.

**Activity in 2005 included:**

In June 2005, TCI purchased a subsidiary of a related party for $4.1 million, decreasing the affiliate receivable by $4.1 million.

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In August 2005, TCI sold 8.753 acres to an affiliate for $6.7 million. For a period of one year following closing and 90 days thereafter, the buyer has the right to convey the land to TCI for the original sales price, plus a 12% preferred return per annum accruing from the closing date. This transaction has been treated as a financing by TCI, with a note payable of $6.7 million recorded.

**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.

**Newly Issued Accounting Standards**

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an Amendment of FASB Statements No. 133 and 140 ( SFAS No. 155 ). The purpose of SFAS No. 155 is to simplify the accounting for certain hybrid financial instruments by permitting fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. We do not expect the adoption of SFAS No. 155 to have a material impact on our cash flows, results of operations, financial position, or liquidity.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets an Amendment of FASB Statement No. 140 ( SFAS No. 156 ). SFAS No. 156 requires recognition of a servicing asset or a servicing liability each time an entity undertakes an obligation to service a financial asset by entering into a servicing contract. SFAS No. 156 also requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value and subsequently measured at fair value at each reporting date. SFAS No. 156 is effective as of the beginning of an entity s first fiscal year that begins after September 15, 2006. We do not expect the adoption of SFAS No. 156 to have a material impact on our cash flows, results of operations, financial position, or liquidity.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 ( FIN No. 48 ). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on description, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. We do not expect the adoption of FIN No. 48 to have a material impact on our cash flows, results of operations, financial position, or liquidity.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 ( SAB No. 108 ), Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements. SAB 108 provides guidance on the consideration of the effects of prior period misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 requires the quantification of financial statement misstatements based on the effects of the misstatements on each of the company s financial statements and the related financial statement disclosures. This model is commonly referred to as the dual approach because it requires quantification of errors under both the iron curtain and the roll-over methods. The roll-over method focuses primarily on the impact of a misstatement on the

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income statement including the reversing effect of prior year misstatements but its use can lead to the accumulation of misstatements in the balance sheet. The iron-curtain method focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. SAB 108 was effective for financial statements for fiscal years ending after November 15, 2006. The adoption of SAB 108 did not have a material impact on our cash flows, results of operations, financial position or liquidity.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements . The new FASB rule defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, or GAAP, and expands disclosures about fair value measurements. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating the impact, if any, to our financial condition or results of operations from the adoption of SFAS No. 157.

**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.

**Tax Matters**

Prior to the year 2000, TCI elected and in the opinion of management, qualified to be taxed as a Real Estate Investment Trust ( REIT ) as defined under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. During the third quarter of 2000, due primarily to a concentration in ownership, TCI no longer met the requirements for tax treatment as a REIT.

**ITEM 7A.** ***QUANTITATIVE AND QUALITATIVE DISCLOSURES REGARDING 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, 2006, our $897.3 million debt portfolio consisted of approximately $643.2 million, or 72%, of fixed-rate debt, with interest rates ranging from 5.06% to 12.0% and approximately $254.1 million, or 28%, of variable-rate debt. As of December 31, 2005, our $766.7 million debt portfolio consisted of approximately $590.8 million, or 77%, of fixed-rate debt, with interest rates ranging from 4.9% to 15.5%, and approximately $175.9 million, or 23%, of variable-rate debt. Our overall weighted average interest rate at December 31, 2006 and 2005 was 7.12% and 6.85%, respectively.

TCI s interest rate sensitivity position is managed by TCI s 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 2007 than they did during 2006, TCI s interest expense would increase and net income would decrease by $2.54 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.

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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, 2006. 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.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Notes receivable | | | | | | | |
| Variable interest rate-fair value | | | | | | | $ 5,624 |
| | **2007** | **2008** | **2009** | **2010** | **2011** | **Thereafter** | **Total** |
| Instrument s maturities | $ | $ 3,612 | $ 2,775 | $ | $ | $ | $ 6,387 |
| Instrument s amortization | | | | | | | |
| Interest | 879 | 592 | | | | | 1,471 |
| Average rate | 9.3% | 8.2% | 0.0% | 0.0% | 0.0% | 0.0% | |
| Fixed interest rate-fair value | | | | | | | $ 27,761 |
| | **2007** | **2008** | **2009** | **2010** | **2011** | **Thereafter** | **Total** |
| Instrument s maturities | $ 7,047 | $ 17,814 | $ 3,219 | $ 157 | $ | $ 4,037 | $ 32,274 |
| Instrument s amortization | 162 | 49 | | | | | 211 |
| Interest | 1,987 | 532 | 496 | 477 | 477 | 1,584 | 5,553 |
| Average rate | 8.5% | 11.4% | 11.5% | 11.5% | 11.5% | 7.6% | |
| **Liabilities** | | | | | | | |
| Non-trading Instruments-Equity Price Risk | | | | | | | |
| Notes payable | | | | | | | |
| Variable interest rate-fair value | | | | | | | $ 231,715 |
| | **2007** | **2008** | **2009** | **2010** | **2011** | **Thereafter** | **Total** |
| Instrument s maturities | $ 112,007 | $ 68,274 | $ 17,332 | $ 16,863 | $ | $ 19,859 | $ 234,335 |
| Instrument s amortization | 6,017 | 3,064 | 671 | 459 | 372 | 9,142 | 19,725 |
| Interest | 16,578 | 8,267 | 4,013 | 2,550 | 1,738 | 10,308 | 43,454 |
| Average rate | 8.6% | 8.4% | 7.7% | 7.2% | 6.1% | 5.6% | |
| Fixed interest rate-fair value | | | | | | | $ 550,815 |
| | **2007** | **2008** | **2009** | **2010** | **2011** | **Thereafter** | **Total** |
| Instrument s maturities | $ 143,637 | $ 10,782 | $ 34,824 | $ 9,145 | $ 29,710 | $ 113,823 | $ 341,921 |
| Instrument s amortization | 5,893 | 5,195 | 5,103 | 5,486 | 5,463 | 274,170 | 301,310 |
| Interest | 34,681 | 32,517 | 30,671 | 28,033 | 26,560 | 440,133 | 592,595 |
| Average rate | 6.7% | 6.7% | 6.7% | 6.6% | 6.6% | 6.4% | |

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**ITEM 8.** ***CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**



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

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors 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, 2006 and 2005, and the related consolidated statements of operations, stockholders equity, and cash flows each of the years in the three-year period ended December 31, 2006. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these 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 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 financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 21, 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, 2006 and 2005, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2006, 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 is 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

Plano, Texas

March 30, 2007

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**TRANSCONTINENTAL REALTY INVESTORS, INC.**

**CONSOLIDATED BALANCE SHEETS**

| | December 31, 2006 | December 31, 2005 |
|---|---|---|
| | (dollars in thousands) | |
| **Assets** | | |
| Real estate held for investment | $ 1,089,995 | $ 911,981 |
| Less accumulated depreciation | (97,541) | (78,096) |
| | 992,454 | 833,885 |
| Real estate held-for-sale (net of accumulated depreciation of $5,035 in 2006 and $4,476 in 2005) | 54,935 | 40,446 |
| Real estate subject to sales contract (net of accumulated depreciation of $7,006 in 2006 and $5,387 in 2005) | 66,027 | 68,738 |
| Notes and interest receivable | | |
| Performing (including $22,249 in 2006 and $34,370 in 2005 from affiliates and related parties) | 39,566 | 59,922 |
| Non-performing, non-accruing | | 4,896 |
| | 39,566 | 64,818 |
| Investment in unconsolidated real estate entities | 30,573 | 24,659 |
| Marketable equity securities, at market value | 9,038 | 7,446 |
| Cash and cash equivalents | 4,803 | 5,462 |
| Other assets (including $320 in 2006 and $1,103 in 2005 from affiliates and related parties) | 52,771 | 43,625 |
| | $ 1,250,167 | $ 1,089,079 |
| **Liabilities and Stockholders Equity** | | |
| Liabilities: | | |
| Notes and interest payable (including $6,769 in 2006 and $6,885 in 2005 to affiliates and related parties) | $ 799,069 | $ 657,481 |
| Liabilities related to assets held for sale | 43,579 | 53,357 |
| Liabilities related to assets subject to sales contract | 58,816 | 59,323 |
| Other liabilities (including $396 in 2006 and $12,272 in 2005 to affiliates and related parties) | 66,608 | 66,500 |
| | 968,072 | 836,661 |
| Commitments and contingencies | | |
| Minority interest | 16,166 | 1,239 |
| Stockholders equity: | | |
| Preferred Stock | | |
| Series C; $.01 par value; authorized, issued and outstanding 30,000 shares (liquidation preference $100 per share) | | |
| Series D; $.01 par value; authorized, issued and outstanding 100,000 shares at December 31, 2006 (liquidation preference $100 per share) | 1 | |
| Common Stock, $.01 par value; authorized, 10,000,000 shares; issued and outstanding 7,900,869 shares at December 31, 2006 and 2005 | 81 | 81 |
| Paid-in capital | 266,206 | 256,494 |
| Treasury stock | (3,086) | (3,086) |
| Retained earnings (deficit) | 1,660 | (1,846) |
| Accumulated other comprehensive income (loss) | 1,067 | (464) |
| | 265,929 | 251,179 |
| | $ 1,250,167 | $ 1,089,079 |

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

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**TRANSCONTINENTAL REALTY INVESTORS, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

| | For the Years Ended December 31, 2006 | 2005 | 2004 |
|---|---|---|---|
| | (dollars in thousands) | | |
| Property revenue: | | | |
| Rents and other property revenues (including $846 in 2006, $56 in 2005 and $69 in 2004 from affiliates) affiliates) | $ 128,064 | $ 103,076 | $ 83,604 |
| Operating expenses: | | | |
| Property operations (including $6,424 in 2006, $5,408 in 2005 and $4,849 in 2004 to affiliates and related parties) | 78,965 | 62,877 | 53,210 |
| Depreciation and amortization | 21,641 | 16,051 | 16,714 |
| General and administrative (including $2,778 in 2006, $2,359 in 2005 and $2,181 in 2004 to affiliates and related parties) | 4,006 | 8,255 | 9,279 |
| Advisory Fees | 8,626 | 4,736 | 6,733 |
| Total operating expenses | 113,238 | 91,919 | 85,936 |
| Operating income (loss) | 14,826 | 11,157 | (2,332) |
| Other income (expense): | | | |
| Interest income (including $1,931 in 2006, $2,336 in 2005 and $2,069 in 2004 from affiliates and related parties and related parties) | 2,698 | 3,671 | 3,683 |
| Gain on foreign currency transaction | 2 | 292 | 3,766 |
| Mortgage and loan interest (including $693 in 2006, $218 in 2005 and $379 in 2004 to affiliates and related parties) and related parties) | (51,830) | (39,177) | (30,463) |
| Provision for asset impairment | | (1,840) | (1,722) |
| Provision for losses | | | 1,456 |
| Net income fee paid to advisor | (972) | (522) | (1,933) |
| Incentive sales fee | (1,490) | | |
| Gain on involuntary conversion | 20,479 | | |
| Other income (expense) | 928 | 370 | 555 |
| Total other income (expense) | (30,185) | (37,206) | (24,658) |
| Loss before gain on land sales, equity in earnings (losses) of investees and minority interest | (15,359) | (26,049) | (26,990) |
| Gain on land sales | 11,421 | 7,702 | 7,110 |
| Equity in earnings (loss) of investees | 890 | 968 | (1,497) |
| Minority interest | 393 | (112) | (1,194) |
| Net income from continuing operations | (2,655) | (17,491) | (22,571) |
| Add: income tax benefit (expense) | 4,608 | 802 | 10,976 |
| Net income (loss) from continuing operations | 1,953 | (16,689) | (11,595) |
| Income (loss) from discontinued operations (See Note 19) | 2,390 | 26,984 | 58,777 |
| Less: Income tax benefit (expense) | (837) | (1,226) | (23,476) |
| Net income (loss) from discontinued operations | 1,553 | 25,758 | 35,301 |
| Net income | 3,506 | 9,069 | 23,706 |
| Preferred dividend requirement | (210) | (210) | (210) |
| Net income applicable to common shares | $ 3,296 | $ 8,859 | $ 23,496 |

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

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**TRANSCONTINENTAL REALTY INVESTORS, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)**

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| | | (dollars in thousands) | |
| Basic earnings per share: | | | |
| Net income (loss) from continuing operations | $ 0.22 | $ (2.14) | $ (1.46) |
| Discontinued operations | 0.20 | 3.26 | 4.37 |
| Net income applicable to Common shares | $ 0.42 | $ 1.12 | $ 2.91 |
| Diluted earnings: | | | |
| Net income (loss) from continuing operations | $ 0.21 | $ (2.14) | $ (1.46) |
| Discontinued operations | 0.19 | 3.26 | 4.37 |
| Net income applicable to Common shares | $ 0.40 | $ 1.12 | $ 2.91 |
| Weighted average Common shares used in computing earnings per share: | | | |
| Basic | 7,900,869 | 7,900,869 | 8,082,854 |
| Diluted | 8,180,401 | 7,900,869 | 8,082,854 |

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

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**TRANSCONTINENTAL REALTY INVESTORS, INC.**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

| | Common Stock | | Preferred Stock | | Paid-in- | | Retained | Accumulated Other Comprehensive | |
|---|---|---|---|---|---|---|---|---|---|
| | **Shares** | **Amount** | **Shares** | **Amount** | **Capital** | **Treasury Stock** | **Earnings (Deficit)** | **Income (Loss)** | **Stockholder s Equity** |
| | | | | | (dollars in thousands) | | | | |
| **Balance, December 31, 2003** | 8,113,669 | $ 81 | | $ | $ 256,914 | $ | $ (34,621) | $ (616) | $ 221,758 |
| Unrealized loss on foreign currency translation | | | | | | | | (3,229) | (3,229) |
| Unrealized gain on marketable securities | | | | | | | | 1,580 | 1,580 |
| Net income | | | | | | | 23,706 | | 23,706 |
| Repurchase of common stock | (212,800) | | | | | (3,086) | | | (3,086) |
| Series C Preferred Stock cash dividends ($7.00 per share) | | | | | (210) | | | | (210) |
| **Balance, December 31, 2004** | 7,900,869 | 81 | | | 256,704 | (3,086) | (10,915) | (2,265) | 240,519 |
| Unrealized gain on foreign currency translation | | | | | | | | 935 | 935 |
| Unrealized gain on marketable securities | | | | | | | | 866 | 866 |
| Net income | | | | | | | 9,069 | | 9,069 |
| Series C Preferred Stock cash dividends ($7.00 per share) | | | | | (210) | | | | (210) |
| **Balance, December 31, 2005** | 7,900,869 | 81 | | | 256,494 | (3,086) | (1,846) | (464) | 251,179 |
| Unrealized loss on foreign currency translation | | | | | | | | (790) | (790) |
| Unrealized gain on marketable equity securities | | | | | | | | 2,321 | 2,321 |
| Net income | | | | | | | 3,506 | | 3,506 |
| Series C Preferred Stock cash dividend ($7.00 per share | | | | | (210) | | | | (210) |
| Series D Preferred Stock | | | 100,000 | 1 | 9,999 | | | | 10,000 |
| Series D Preferred Stock dividend (7% per year) | | | | | (77) | | | | (77) |
| **Balance, December 31, 2006** | 7,900,869 | $ 81 | 100,000 | $ 1 | $ 266,206 | $ (3,086) | $ 1,660 | $ 1,067 | $ 265,929 |

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

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**TRANSCONTINENTAL REALTY INVESTORS, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | For the Years Ended December 31, 2006 | 2005 | 2004 |
|---|---|---|---|
| | (dollars in thousands) | | |
| **Cash Flows from Operating Activities:** | | | |
| Reconciliation of net income (loss) to net cash used by operating activities | | | |
| Net Income from continuing operations | $ 1,953 | $ (16,689) | $ (11,595) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | |
| Depreciation and amortization | 21,641 | 16,051 | 16,714 |
| Provision for loss | | | (1,456) |
| Amortization of deferred borrowing costs | 3,049 | 3,985 | 3,900 |
| Gain on land sales | (11,421) | (10,443) | (10,994) |
| Provision for asset impairment | | 3,420 | 6,199 |
| Equity in (income) loss of equity investees | (890) | (968) | 1,497 |
| (Gain) loss on foreign currency transaction | (2) | (292) | (3,766) |
| (Gain) loss allocated to minority interest | (393) | 112 | 1,194 |
| Income tax (benefit) | (838) | (803) | (10,976) |
| (Increase) decrease in interest receivable | 788 | 1,247 | (1,209) |
| Increase (decrease) in other assets | (9,146) | 782 | 9,173 |
| Increase (decrease) in interest payable | 664 | (269) | (889) |
| Increase (decrease) in other liabilities | 108 | 23,768 | 194 |
| Net cash provided by (used in) operating activities | 5,513 | 19,901 | (2,014) |
| **Cash Flows from Investing Activities:** | | | |
| Collections on notes receivable (including $2,490 in 2005 and $718 in 2004, from affiliates) | 12,033 | 6,160 | 8,851 |
| Funding of notes receivable (including $3,297 in 2004 from affiliates) | (5,060) | (11,752) | (3,457) |
| Acquisitions of real estate | (150,748) | (170,333) | (40,140) |
| Real estate improvements and construction (including $1,714 in 2005, and $5,625 in 2004, to affiliates) | (34,739) | (56,767) | (162,012) |
| Proceeds from sale of real estate | 47,869 | 17,527 | 145,056 |
| Deposits on pending purchase | (9,446) | (2,670) | (4,825) |
| Payments (to) from advisor | (1,684) | 3,032 | (39,867) |
| Distributions (contributions) to equity investees | (5,024) | (4,374) | 1,007 |
| Net cash used in investing activities | (146,799) | (219,177) | (95,387) |
| **Cash Flows from Financing Activities:** | | | |
| Payments on notes payable (including $398 in 2005 and $226 in 2004 to affiliates) | (95,289) | (79,955) | (276,137) |
| Proceeds from notes payable | 239,285 | 198,142 | 330,988 |
| Dividends paid to preferred shareholders | (288) | (210) | (263) |
| Repurchase of Common Stock | | | (3,086) |
| Deferred financing costs | (6,477) | (2,594) | (3,925) |
| Net cash provided by financing activities | 137,231 | 115,383 | 47,577 |
| Net increase (decrease) in cash and cash equivalents | (4,055) | (83,893) | (49,824) |
| **Discontinued Operations:** | | | |
| Cash provided by (used in) operating activities | (1,221) | (3,949) | 1,887 |
| Cash provided by investing activities sale of real estate | 4,617 | 71,459 | 63,348 |
| Net cash provided by discontinued operations | 3,396 | 67,510 | 65,235 |

| | | | |
|---|---|---|---|
| Cash and cash equivalents, beginning of year | 5,462 | 21,845 | 6,434 |
| Cash and cash equivalents, end of year | $ 4,803 | $ 5,462 | $ 21,845 |

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

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**TRANSCONTINENTAL REALTY INVESTORS, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

| | For the Years Ended December 31, | | |
|---|---|---|---|
| | 2006 | 2005 | 2004 |
| | (dollars in thousands) | | |
| **Supplemental Disclosures of Cash Flow Information:** | | | |
| Cash paid for interest | $ 50,652 | $ 42,081 | $ 39,210 |
| Notes payable assumed on purchase of real estate | 10,475 | 13,006 | 15,033 |
| Notes payable assumed by buyer on sale of real estate | | 738 | 21,898 |
| Note payable assumed, decreasing affiliate payable | 5,150 | | |
| Notes receivable received from sale of real estate | | 9,713 | 21,608 |
| Real estate received from related party to satisfy debt | 12,214 | 1,631 | 36,198 |
| Real estate sold to a related party to satisfy debt | | | 5,000 |
| Note payable proceeds used by affiliate for purchase of real estate | | | 1,000 |
| Note payable proceeds used by affiliate to satisfy debt | | | 1,260 |
| Note payable paid-off on behalf of affiliate | | | 1,851 |
| Subsidiary purchased from affiliate decreasing affiliate receivable | | 4,101 | |
| Acquisition of real estate to satisfy note receivable | | 4,207 | |
| Land exchange with non-affiliated party | 1,500 | | |
| Funds collected by affiliate for property damage insurance reimbursement | 41,040 | 8,182 | |
| Unrealized foreign currency translation loss | 790 | | 3,229 |
| Unrealized gain on marketable securities | 2,321 | 866 | 1,580 |
| Unrealized foreign currency translation gain (loss) | | 935 | |
| Asset impairment write-down | | 3,420 | 6,199 |
| Issue of Series D Preferred Stock and reduction of payable to affiliate | 10,000 | | |
| Increase in minority interest related to acquisition of real estate | 15,321 | | |

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

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**TRANSCONTINENTAL REALTY INVESTORS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

Effective March 31, 2003, TCI financial results have been consolidated with the American Realty Investors, Inc. ( ARI ) Form 10-K and related consolidated financial statements. As of December 31, 2006, ARI owned 82.2% of the outstanding TCI common shares.

Certain balances for 2004 and 2005 have been reclassified to conform to the 2006 presentation.

**NOTE 1.** ***SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

*Organization and business.* Transcontinental Realty Investors, Inc. ( TCI ), a Nevada corporation, is successor to a California business trust which was organized on September 6, 1983, and commenced operations on January 31, 1984. TCI invests in real estate through direct ownership, leases and partnerships and it also invests in mortgage loans on real estate. In October 2001, TCI announced a preliminary agreement for the acquisition of TCI by American Realty Investors, Inc. ( ARI ). See NOTE 23. COMMITMENTS AND CONTINGENCIES AND LIQUIDITY.

*Basis of consolidation.* The accompanying Consolidated Financial Statements include the accounts of the Company, its subsidiaries, generally all of which are wholly-owned, and all entities in which the Company has a controlling interest, including where the Company has been determined to be a primary beneficiary of a variable interest entity in accordance with the provisions and guidance of Interpretation No. 46(R), Consolidation of Variable Interest Entities ( FIN 46(R) ) or meets 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 ). Controlling interest in an entity is normally determined by the ownership of a majority of the entity s voting interests; however, other determining factors include, but may not be limited to, whether the Company provides significant financial support and bears a majority of the financial risks, authorizes certain capital transactions such as the purchase, sale or financing of material assets or makes operating decisions that materially affect the entity s financial results. All significant intercompany balances and transactions have been eliminated in consolidation.

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

*Interest recognition on notes receivable.* It is TCI s policy to cease recognizing interest income on notes receivable that have been delinquent for 60 days or more. In addition, accrued but unpaid interest income is only recognized to the extent that the net realizable value of the underlying collateral exceeds the carrying value of the receivable.

**TRANSCONTINENTAL REALTY INVESTORS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

*Recent Accounting pronouncements.* In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an Amendment of FASB Statements No. 133 and 140 ( SFAS No. 155 ). The purpose of SFAS No. 155 is to simplify the accounting for certain hybrid financial instruments by permitting fair value re-measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS No. 155 is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. We do not expect the adoption of SFAS No. 155 to have a material impact on our cash flows, results of operations, financial position, or liquidity.

In March 2006, the FASB issued SFAS No. 156, Accounting for Servicing of Financial Assets an Amendment of FASB Statement No. 140 ( SFAS No. 156 ). SFAS No. 156 requires recognition of a servicing asset or a servicing liability each time an entity undertakes an obligation to service a financial asset by entering into a servicing contract. SFAS No. 156 also requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value and subsequently measured at fair value at each reporting date. SFAS No. 156 is effective as of the beginning of an entity s first fiscal year that begins after September 15, 2006. We do not expect the adoption of SFAS No. 156 to have a material impact on our cash flows, results of operations, financial position, or liquidity.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 ( FIN No. 48 ). FIN No. 48 clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN No. 48 also provides guidance on description, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. We do not expect the adoption of FIN No. 48 to have a material impact on our cash flows, results of operations, financial position, or liquidity.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108 ( SAB No. 108 ), Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements. SAB 108 provides guidance on the consideration of the effects of prior period misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB 108 requires the quantification of financial statement misstatements based on the effects of the misstatements on each of the company s financial statements and the related financial statement disclosures. This model is commonly referred to as the dual approach because it requires quantification of errors under both the iron curtain and the roll-over methods. The roll-over method focuses primarily on the impact of a misstatement on the income statement including the reversing effect of prior year misstatements but its use can lead to the accumulation of misstatements in the balance sheet. The iron-curtain method focuses primarily on the effect of correcting the period-end balance sheet with less emphasis on the reversing effects of prior year errors on the income statement. SAB 108 was effective for financial statements for fiscal years ending after November 15, 2006. The adoption of SAB 108 did not have a material impact on our cash flows, results of operations, financial position or liquidity.

**TRANSCONTINENTAL REALTY INVESTORS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. The new FASB rule defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, or GAAP, and expands disclosures about fair value measurements. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are currently evaluating the impact, if any, to our financial condition or results of operations from the adoption of SFAS No. 157.

*Real estate held for investment and depreciation*. Real estate held for investment is carried at cost. Statement of Financial Accounting Standards No. 144 ( SFAS No. 144 ) requires that a property be considered impaired, if the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the property. If impairment exists, an impairment loss is recognized, by a charge against earnings, equal to the amount by which the carrying amount of the property exceeds the fair value of the property. If impairment of a property is recognized, the carrying amount of the property is reduced by the amount of the impairment, and a new cost for the property is established. Such new cost is depreciated over the property s remaining useful life. Depreciation is provided by the straight-line method over estimated useful lives, which range from five to 40 years.

*Real estate held-for-sale*. Foreclosed real estate is initially recorded at new cost, defined as the lower of original cost or fair value minus estimated cost of sale. SFAS No. 144 also requires properties held for sale be reported at the lower of carrying amount or fair value less costs of sale. If a reduction in a held for sale property s carrying amount to fair value less costs of sale is required, a provision for loss is recognized by a charge against earnings. Subsequent revisions, either upward or downward, to a held for sale property s estimated fair value less costs of sale is recorded as an adjustment to the property s carrying amount, but not in excess of the property s carrying amount when originally classified as held for sale. A corresponding charge against or credit to earnings is recognized. Properties held for sale are not depreciated.

*Foreign Currency Translation.* Assets and liabilities of TCI s foreign subsidiaries are translated using exchange rates as of the current balance sheet date, and revenues and expenses are translated using exchange rates as determined throughout the year. Unrealized gains or losses from translations are included in Accumulated Other Comprehensive Income, as a separate component of the Company s stockholders equity. Gains or losses resulting from foreign currency transactions are translated to local currency at the rates of exchange prevailing at the dates of the transactions. The effect of the transaction s gain or loss is included in the caption Gain/(loss) on foreign currency transaction in TCI s Consolidated Statement of Operations.

*Recognition of Rental Income.* Rental income for commercial property leases is recognized on a straight-line basis over the respective lease terms. Rental income for residential property leases is recorded when due from residents and is recognized monthly as earned, which is not materially different than on a straight-line basis as lease terms are generally for periods of one year or less. For hotel properties, revenues for room sales and guest services are recognized as rooms are occupied and services are rendered.

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

*Investment in non-controlled equity investees.* The equity method is used to account for investments in partnerships which TCI does not control but for which significant influence can be exerted, and for its investment

**TRANSCONTINENTAL REALTY INVESTORS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

in the shares of common stock of Income Opportunity Realty Investors, Inc., ( IORI ) and ARI. Under the equity method, an initial investment, recorded at cost, is increased by a proportionate share of the investee s operating income and any additional advances and decreased by a proportionate share of the investee s operating losses and distributions received.

*Operating segments.* Management has determined reportable operating segments to be those that are used for internal reporting purposes, which disaggregates operations by type of real estate.

*Fair value of financial instruments.* The following assumptions were used in estimating the fair value of notes receivable and notes payable. For performing notes receivable, the fair value was estimated by discounting future cash flows using current interest rates for similar loans. For non-performing notes receivable, the estimated fair value of TCI s interest in the collateral property was used. For notes payable, the fair value was estimated using current rates for mortgages with similar terms and maturities.

*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.

*Earnings per share.* Income (loss) per share is presented in accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share. Income (loss) per share is computed based upon the weighted average number of shares of Common Stock outstanding during each year. Diluted net income per share is computed using the weighted average number of common and dilutive common equivalent shares outstanding during the year. Dilutive common equivalent shares consist of stock options and convertible preferred stock. The weighted average common shares used to calculate diluted earnings per share for the years ended December 31, 2005 and 2004 exclude 240,827, 264,874 and shares relating to options and convertible preferred stock to purchase shares of common stock. These dilutive shares were excluded from the calculation of dilutive earnings per share because the effect of their inclusion would be antidilutive.

*Stock-based employee compensation.* The Company previously accounted for its stock-based compensation utilizing the intrinsic value method in accordance with the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ( APB 25 ). In December 2004, the FASB issued SFAS No. 123(R), Share-Based Payments , which revised SFAS 123, Accounting for Stock-Based Compensation. SFAS 123(R) requires compensation costs related to share-based payment transactions to be recognized in the financial statements and forfeitures to be estimated at the grant date rather than as they occur. The Company previously based its estimated forfeiture rate on historical forfeitures of all stock option grants. The Company adopted SFAS 123(R) effective January 1, 2006 using the modified-prospective method and applied the provisions of SFAS 123(R) to all share-based compensation. All of TCI s stock options were fully vested as of January 1, 2006 and TCI had no outstanding stock option grants that were modified or settled after January 1, 2006; therefore, the adoption of SFAS 123(R) had no material effect on the Company s results of operations for the year ended December 31, 2006.

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**TRANSCONTINENTAL REALTY INVESTORS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Had the compensation cost for options issued prior to the Company s adoption of SFAS 123(R) been determined based on the fair values at the grant dates for awards granted in accordance with the provisions of SFAS 123(R), the Company s net income and net income per share for 2005 and 2004 would have decreased to the proforma amounts indicated in the following table:

| | 2005 | 2004 |
|---|---|---|
| | (dollars in thousands, except per share amounts) | |
| Net income (loss) applicable to common shares, as reported | $ 8,859 | $ 23,496 |
| Deduct: Stock-based employee compensation expense determined under fair value based methods for all awards, net of related tax effects | (154) | (137) |
| Proforma net income applicable to common shares | $ 8,705 | $ 23,359 |
| Net income (loss) per share: | | |
| Basic, as reported | $ 1.12 | $ 2.91 |
| Basic, pro forma | $ 1.10 | $ 2.88 |
| Diluted, as reported | $ 1.12 | $ 2.91 |
| Diluted, pro forma | $ 1.10 | $ 2.88 |

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**TRANSCONTINENTAL REALTY INVESTORS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**NOTE 2.** ***REAL ESTATE***

In 2006, TCI purchased the following properties:

| **Property** | **Location** | **Units/ Sq. Ft./Acres** | **Purchase Price** | **Net Cash Paid/ (Received)** | **Debt Incurred** | **Interest Rate** | **Maturity Date** |
|---|---|---|---|---|---|---|---|
| **Apartments** | | | | | | | |
| Anderson Estates | Oxford, MS | 48 Units | $ 1,144 | $ 148 | $ 996 | 9.50%(1) | 12/20 |
| David Jordan Phase II | Greenwood, MS | 32 Units | 743 | 98 | 645 | 8.50(1) | 4/19 |
| David Jordan Phase III | Greenwood, MS | 40 Units | 812 | 122 | 690 | 8.75(1) | 7/22 |
| Leflore Estates | Greenwood, MS | 104 Units | 2,114 | 337 | 1,777 | 7.00(1) | 2/22 |
| Monticello III Estate | Monticello, AR | 32 Units | 644 | 96 | 548 | 7.00(1) | 1/22 |
| Riverwalk Phase I | Greenwood, MS | 32 Units | 455 | 99 | 356 | 8.50(1) | 2/19 |
| Riverwalk Phase II | Greenwood, MS | 72 Units | 1,584 | 226 | 1,358 | 8.25(1) | 2/19 |
| | | | 7,496 | 1,126 | 6,370 | | |
| **Office Buildings** | | | | | | | |
| 305 Baronne & 217 Rampart | New Orleans, LA | 1.1 Acres & 7,897 Sq.Ft. | 3,985 | 3,483 | | | |
| Clark Garage | New Orleans, LA | 600 spaces | 9,925 | 564 | 9,025 | 9.25(8) | 6/07 |
| One Hickory | Farmers Branch, TX | 102,615 Sq. Ft. | 12,214 | | (2) | | |
| | | | 26,124 | 4,047 | 9,025 | | |
| **Land** | | | | | | | |
| Bolivar Estates | Bolivar City, MS | 24.8 Acres | 650 | 649 | | | |
| Broadway Estates | Broadway City, MS | 12.3 Acres | 210 | 222 | | | |
| Castleglen | Garland, TX | 10.6 Acres | 723 | 690 | | | |
| Circle C Ranch | Austin, TX | 1,092 Acres | 25,569 | 101 | 25,569 | 8.75 | 3/08 |
| Copperridge Condo #211 | Dallas, TX | 1 Unit | 41(4) | 41 | | | |
| Copperridge Condo #323 | Dallas, TX | 1 Unit | 42(4) | 42 | | | |
| Creekside Land | Ft. Worth, TX | 30.1 Acres | 2,105 | 2,097 | | | |
| Crowley Land | Ft. Worth, TX | 24.9 Acres | 1,500 | 6 | | | |
| Dedeaux Road | Gulfport, MS | 10.0 Acres | 1,500 | | 1,520 | 13.00 | 9/07 |
| Diplomat Road | Farmers Branch, TX | 11.7 Acres | 1,775 | | | | |
| Ewing 8 | Addison, TX | 16.8 Acres | 15,361 | 3,444 | 10,752(5) | 5.5 | 12/09 |
| Forney Land | Kaufman County,TX | 34.87 Acres | 3,945 | 3,926 | | | |
| Galleria East Showcase | Dallas, TX | 15 Acres | 25,161 | 7,106 | 18,362 | 9.75(8) | 11/07(6) |
| Keller Springs Lofts | Addison, TX | 1.75 Acres | 697 | | 690 | 9.25(8) | 10/07 |
| Kinwest (Hackberry Creek Office Park) | Irving, TX | 8.0 Acres | 1,737 | 101 | 1,580 | 10.25(8) | 10/07 |
| LaDue/Walker | Farmers Branch, TX | 99 Acres | 21,500 | | 9,949(3) | 8.6 | 8/08 |
| Lincoln Estates | Carthage, MS | 18 Acres | 156 | 163 | | | |
| Longfellow | Longview, TX | 13.7 Acres | 696 | 719 | | | |
| Mason Park | Katy, TX | 13 Acres | 2,225 | | | | |
| Parc at Clarksville | Clarksville, TN | 10.4 Acres | 541 | | 547(7) | 8.00 | 1/48 |
| Parkway Estates | Greenwood, MS | 20.1 Acres | 682 | 364 | 487 | 8.50 | 1/07 |
| Pecan Pointe | Temple, TX | 12.8 Acres | 1,198 | 1,195 | 1,650 | 8.25 | 12/07 |
| Pioneer Crossing | Austin, TX | 38.5 Acres | 614 | 614 | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| RB Land | Dallas, TX | 86.2 Acres | 668 | 673 | | | |
| Ridgepoint Drive | Irving, TX | 0.6 Acres | 179 | 172 | | | |
| Ritchie Road | Waco, TX | 319&31 Acres | 2,677 | 897 | 1,735 | 8.58(8) | 11/08 |
| Senlac Hutton | Farmers Branch, TX | 5.9 Acres | 1,050 | 949 | | | |
| Southwood Plantation | Tallahassee, FL | 14.5 Acres | 1,150 | 477 | 748(1) | 8.50 | 2/08 |
| Sunflower Estates | Sunflower City, MS | 18.7 Acres | 187 | 212 | | | |
| Valley Ranch 20 | Farmers Branch, TX | 20 Acres | 4,673 | 1,892 | 3,038 | 8.50 | 2/08 |
| Waco 42 | Waco, TX | 42.8 Acres | 531 | 112 | 398 | 8.00 | 5/12 |
| Woodmont Fairway Office | Dallas, TX | 5.9 Acres | 3,833 | 1,014 | 3,000(1) | 8.25 | 1/07 |
| Woodmont Galleria West | Farmers Branch, TX | 7.2 Acres | 5,846 | 808 | 5,230 | 9.25(8) | 12/07 |
| Woodmont Galleria West | Farmers Branch, TX | 2.0 Acres | 1,604 | 184 | 1,475 | 9.25(8) | 12/07 |
| Woodmont Merit Drive | Dallas, TX | 9.3 Acres | 4,560 | 1,868 | 2,964(2) | 8.0 | 3/07 |
| Yazoo Estates | Yazoo City, MS | 15.1 Acres | 120 | 213 | | | |
| | | | 135,706 | 30,951 | 89,694 | | |
| | | | $ 169,326 | $ 36,124 | $ 105,089 | | |

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**TRANSCONTINENTAL REALTY INVESTORS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(1) Assumed debt.
(2) Property purchased from IORI for extinguishment of note receivable.
(3) Property purchased from ARI.
(4) Purchased for interest in condominium community. Intend to develop land.
(5) Financed by seller.
(6) Option to extend by paying 1.5% loan fee and 1% consulting fee on 10/07.
(7) Construction loan funding.
(8) Variable rate.

In 2005, TCI purchased the following properties:

| Property | Location | Units/ Sq. Ft./Acres | Purchase Price | Net Cash Paid/ (Received) | Debt Incurred | Interest Rate | Maturity Date |
|---|---|---|---|---|---|---|---|
| **Apartments** | | | | | | | |
| Foxwood(3) | Memphis, TN | 220 Units | $ 6,988 | $ | $ 5,609(1) | 6.54% | 1/08 |
| Legends of El Paso(4) | El Paso, TX | 240 Units | 2,247 | 464 | 1,774 | 5.50 | 1/47 |
| Mission Oaks(4) | San Antonio, TX | 228 Units | 573 | 573 | | 5.30 | 9/46 |
| Parc at Metro Center(4) | Nashville, TN | 144 Units | 817 | | 817 | 5.65 | 9/46 |
| | | | 10,625 | 1,037 | 8,200 | | |
| **Office Buildings** | | | | | | | |
| 600 Las Colinas | Las Colinas, TX | 509,829 Sq. Ft. | 56,000 | 17,663 | 40,487(9) | 6.16(9) | 1/13(9) |
| Park West | Farmers Branch, TX | 243,416 Sq. Ft. | 10,000 | 4,715 | 6,500 | 7.50(2) | 5/06 |
| Two Hickory(3) | Farmers Branch, TX | 96,127 Sq. Ft. | 11,502 | | 7,430(1) | 4.90(2) | 5/06 |
| | | | 77,502 | 22,378 | 54,417 | | |