

AMERICAN REALTY INVESTORS INC
Form 10-Q
November 14, 2008
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2008

or

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

For the transition period from _____ to _____

Commission File Number 001-15663

AMERICAN REALTY INVESTORS, INC.

(Exact Name of Registrant as Specified in Its Charter)

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

Nevada
(State or Other Jurisdiction of
Incorporation or Organization)

75-2847135
(I.R.S. Employer
Identification No.)

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)

(Former name, former address and former fiscal year, if changed since last report)

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

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

Large accelerated filer Accelerated filer

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

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

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

Common Stock, \$.01 par value
(Class)

11,233,672
(Outstanding at October 15, 2008)

Table of Contents

AMERICAN REALTY INVESTORS, INC.

FORM 10-Q

TABLE OF CONTENTS

	PAGE
PART I: <u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Balance Sheets at September 30, 2008 (unaudited) and December 31, 2007</u>	3
<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2008 and 2007 (unaudited)</u>	4
<u>Consolidated Statement of Shareholders' Equity for the nine months ended September 30, 2008 (unaudited)</u>	5
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2008 and 2007 (unaudited)</u>	6
<u>Notes to Consolidated Financial Statements</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	31
Item 4T. <u>Controls and Procedures</u>	31
PART II. <u>OTHER INFORMATION</u>	
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	32
Item 6. <u>Exhibits</u>	33
<u>SIGNATURES</u>	34

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

	September 30, 2008	December 31, 2007
	(dollars in thousands)	
Assets		
Real estate held for investment	\$ 1,696,179	\$ 1,508,815
Less - accumulated depreciation	(161,443)	(148,404)
	1,534,736	1,360,411
Real estate held for sale, net of depreciation	3,285	61,128
Real estate subject to sales contracts	57,201	64,320
Notes and interest receivable		
Performing (including \$26,383 in 2008 and \$16,485 in 2007 from affiliates and related parties)	71,140	69,977
Non-performing (including \$15,616 in 2008 and \$16,246 in 2007 from affiliates and related parties)	17,951	16,468
	89,091	86,445
Less - allowance for estimated losses	(9,478)	(2,978)
	79,613	83,467
Cash and cash equivalents	3,199	11,560
Restricted cash	749	2,556
Marketable securities, at market value	1,405	13,157
Investments in equity investees	31,101	23,867
Other assets (including \$2,201 in 2008 and \$54,439 in 2007 from affiliates and related parties)	116,021	157,388
	\$ 1,827,310	\$ 1,777,854
Liabilities and Shareholders Equity		
Liabilities:		
Notes and interest payable (including \$9,018 in 2008 and \$8,269 in 2007 from affiliates and related parties)	\$ 1,295,162	\$ 1,221,987
Liabilities related to assets held-for-sale	4,884	116,377
Liabilities subject to sales contracts	60,848	62,513
Stock-secured notes payable	13,549	17,546
Accounts payable and other liabilities (including \$29,671 in 2008 and \$1,873 in 2007 from affiliates and related parties)	126,233	104,884
	1,500,676	1,523,307
Commitments and contingencies		
Minority interest	71,402	62,161
Shareholders equity:		
Preferred Stock, \$2.00 par value, authorized 15,000,000 shares, issued and outstanding Series A, 3,390,316 shares in 2008 and 2007 (liquidation preference \$33,909), including 900,000 shares in 2008 and 2007 held by subsidiaries	4,979	4,979

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

Common Stock, \$.01 par value, authorized 100,000,000 shares; issued 11,592,272 shares in 2008 and 2007	114	114
Treasury stock at cost; 637,072 and 1,129,530 shares in 2008 and 2007, respectively, which includes 276,972 and 746,972 shares held by TCI (consolidated) as of 2008 and 2007 respectively. (See Note 1).	(5,954)	(12,664)
Paid-in capital	115,416	100,277
Retained earnings	137,716	99,452
Accumulated other comprehensive income	2,961	228
	255,232	192,386
	\$ 1,827,310	\$ 1,777,854

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
	(dollars in thousands)		(dollars in thousands)	
Revenue:				
Rental and other property revenues (including \$206 and \$(82) for the three months ended, \$575 and \$270 for the nine months ended 2008 and 2007 respectively from affiliates and related parties)	\$ 46,957	\$ 41,655	\$ 137,107	\$ 126,279
Expenses:				
Property operating expenses (including \$2,198 and \$2,299 for the three months ended, \$6,533 and \$6,718 for the nine months ended 2008 and 2007 respectively from affiliates and related parties)	30,167	26,487	89,168	78,748
Depreciation and amortization	5,557	6,155	19,230	20,904
General and administrative (including \$1,395 and \$703 for the three months ended, \$3,380 and \$2,464 for the nine months ended 2008 and 2007 respectively from affiliates and related parties)	3,204	3,471	11,461	12,014
Advisory fee to affiliate	3,847	3,886	11,742	11,019
Total operating expenses	42,775	39,999	131,601	122,685
Operating income	4,182	1,656	5,506	3,594
Other income (expense):				
Interest income (including \$1,781 and \$1,974 for the three months ended, \$4,794 and \$2,790 for the nine months ended 2008 and 2007 respectively from affiliates and related parties)	1,503	1,663	5,222	4,687
Other income (including \$85 and \$15 for the three months ended, \$1,043 and \$2,802 for the nine months ended 2008 and 2007 respectively from affiliates and related parties)	2,858	2,785	7,214	6,356
Mortgage and loan interest (including \$1,065 and \$183 for the three months ended, \$1,610 and \$546 for the nine months ended 2008 and 2007 respectively from affiliates and related parties)	(21,256)	(22,333)	(66,232)	(66,741)
Net income fee to affiliate		1		705
Gain on foreign currency translation	(480)		(480)	
Provision for allowance on notes receivable and impairment			(12,000)	
Litigation settlement	785	(1,643)	785	(1,595)
Total other income (expense)	(16,590)	(19,527)	(65,491)	(56,588)
Loss before gain on land sales, minority interest, and equity in earnings (loss) of investees	(12,408)	(17,871)	(59,985)	(52,994)
Gain on land sales	1,172	7,010	5,337	11,704
Minority interest	1,962	(231)	(165)	(736)
Equity in income (loss) of investees	(2,170)		2,226	
Loss from continuing operations before income tax benefit	(11,444)	(11,092)	(52,587)	(42,026)
Income tax benefit	1,266	2,909	32,452	2,922

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

Net loss from continuing operations	(10,178)	(8,183)	(20,135)	(39,104)
Income from discontinued operations before income tax expense	3,616	8,313	92,720	8,349
Income tax expense	(1,266)	(2,909)	(32,452)	(2,922)
Net income from discontinuing operations	2,350	5,404	60,268	5,427
Net income (loss)	(7,828)	(2,779)	40,133	(33,677)
Preferred dividend requirement	(623)	(626)	(1,869)	(1,869)
Net income (loss) applicable to common shares	\$ (8,451)	\$ (3,405)	\$ 38,264	\$ (35,546)

Earnings per share

Basic earnings per share:

Income (loss) from continuing operations	\$ (1.02)	\$ (0.86)	\$ (2.10)	\$ (4.04)
Discontinued operations	0.22	0.53	5.74	0.53
Net income (loss) applicable to common shares	\$ (0.80)	\$ (0.33)	\$ 3.64	\$ (3.51)

Diluted earnings per share:

Income (loss) from continuing operations	\$ (1.02)	\$ (0.86)	\$ (2.10)	\$ (4.04)
Discontinued operations	0.22	0.53	5.74	0.53
Net income (loss) applicable to common shares	\$ (0.80)	\$ (0.33)	\$ 3.64	\$ (3.51)

Weighted average common share used in computing earnings per share	10,575,107	10,150,511	10,490,041	10,146,624
Weighted average common share used in computing diluted earnings per share	10,575,107	10,150,511	10,490,041	10,146,624

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

Table of Contents

AMERICAN REALTY INVESTORS, INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

For the Nine Months Ended September 30, 2008

(dollars in thousands)

(unaudited)

	Series A Preferred Stock	Common Stock	Treasury Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Capital
Balance, December 31, 2007	\$ 4,979	\$ 114					