AMERICAN REALTY INVESTORS INC
Form 10-Q
May 15, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

# FORM 10-Q

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

For the quarterly period ended March 31, 2009

or

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

For the transition period from ________ to ________

Commission File Number 001-15663

# AMERICAN REALTY INVESTORS, INC.

**(Exact Name of Registrant as Specified in Its Charter)**

| | |
|---|---|
| Nevada | 75-2847135 |
| (State or Other Jurisdiction of<br><br>Incorporation or Organization) | (I.R.S. Employer<br><br>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)

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. xYes ¨No

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a Smaller reporting Company. See 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 | x (Do not check if a smaller reporting company) | Smaller reporting company | ¨ |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨Yes xNo.

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 | 11,237,066 |
| (Class) | (Outstanding at April 30, 2009) |

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**AMERICAN REALTY INVESTORS, INC.**

**FORM 10-Q**

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## PART I. FINANCIAL INFORMATION

**ITEM 1. FINANCIAL STATEMENTS**

## AMERICAN REALTY INVESTORS, INC.

## CONSOLIDATED BALANCE SHEETS

**(unaudited)**

| | March 31, 2009 | December 31, 2008 |
|---|---|---|
| | (dollars in thousands, except share and par value amounts) | |
| **Assets** | | |
| Real estate, at cost | $ 1,719,409 | $ 1,712,506 |
| Real estate held for sale at cost, net of depreciation ($384 for 2009 and $640 for 2008) | 4,291 | 10,333 |
| Real estate subject to sales contracts at cost, net of depreciation ($12,666 for 2009 and $12,226 for 2008) | 54,660 | 55,100 |
| Less accumulated depreciation | (172,700) | (164,537) |
| Total real estate | 1,605,660 | 1,613,402 |
| Notes and interest receivable | | |
| Performing (including $62,467 in 2009 and $38,384 in 2008 from affiliates and related parties) | 78,465 | 68,845 |
| Non-performing (including $0 in 2009 and $12,837 in 2008 from affiliates and related parties) | 3,394 | 20,032 |
| Less allowance for estimated losses | (9,670) | (11,874) |
| Total notes and interest receivable | 72,189 | 77,003 |
| Cash and cash equivalents | 2,236 | 6,042 |
| Restricted cash | - | 271 |
| Investments in securities | - | 2,775 |
| Investments in unconsolidated subsidiaries and investees | 27,238 | 27,113 |
| Other assets (including $432 in 2009 and $526 in 2008 from affiliates and related parties) | 103,658 | 115,547 |
| Total assets | $ 1,810,981 | $ 1,842,153 |
| **Liabilities and Shareholders Equity** | | |
| Liabilities: | | |
| Notes and interest payable (including $9,244 in 2009 and $9,103 in 2008 to affiliates and related parties) | $ 1,317,021 | $ 1,311,935 |
| Notes related to assets held-for-sale | 993 | 7,722 |
| Notes related to subject to sales contracts | 62,287 | 62,972 |
| Stock-secured notes payable | 14,022 | 14,026 |
| Accounts payable and other liabilities (including $23,056 in 2009 and $23,018 in 2008 to affiliates and related parties) | 131,402 | 147,920 |
| | 1,525,725 | 1,544,575 |
| Commitments and contingencies: | | |
| Shareholders equity: | | |
| | 4,979 | 4,979 |

| | | |
|---|---|---|
| Preferred Stock, $2.00 par value, authorized 15,000,000 shares, issued and outstanding Series A, 3,390,913 shares in 2009 and in 2008 (liquidation preference $33,909), including 900,000 shares in 2009 and 2008 held by subsidiaries | | |
| Common Stock, $.01 par value, authorized 100,000,000 shares; issued 11,874,138, and outstanding 11,237,066 shares in 2009 and in 2008 | 114 | 114 |
| Treasury stock at cost; 637,072 shares in 2009 and 2008, which includes 276,972 shares held by TCI (consolidated) as of 2009 and 2008. | (5,954) | (5,954) |
| Paid-in capital | 92,027 | 92,609 |
| Retained earnings | 112,373 | 119,599 |
| Accumulated other comprehensive income (loss) | 2,185 | 4,331 |
| Total American Realty Investors, Inc. shareholders equity | 205,724 | 215,678 |
| Non-controlling interest | 79,532 | 81,900 |
| Total equity | 285,256 | 297,578 |
| Total liabilities and equity | $ 1,810,981 | $ 1,842,153 |

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

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**AMERICAN REALTY INVESTORS, INC.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(unaudited)**

| | For the Three Months Ended March 31, 2009 | 2008 |
|---|---|---|
| | (dollars in thousands, except share and per share amounts) | |
| **Revenues:** | | |
| Rental and other property revenues (including $1,090 and $258 for 2009 and 2008 respectively from affiliates and related parties) | $ 47,497 | $ 44,000 |
| **Expenses:** | | |
| Property operating expenses (including $2,138 and $2,218 for 2009 and 2008 respectively from affiliates and related parties) | 30,501 | 30,468 |
| Depreciation and amortization | 7,799 | 6,837 |
| General and administrative (including $1,413 and $1,111 for 2009 and 2008 respectively from affiliates and related parties) | 3,142 | 4,323 |
| Advisory fee to affiliate | 3,847 | 3,975 |
| Total operating expenses | 45,289 | 45,603 |
| Operating income (loss) | 2,208 | (1,603) |
| **Other income (expense):** | | |
| Interest income (including $1,521 and $1,173 for 2009 and 2008 respectively from affiliates and related parties) | 2,098 | 2,100 |
| Other income (including $313 and $877 for 2009 and 2008 respectively from affiliates and related parties) | 4,542 | 1,727 |
| Mortgage and loan interest (including $654 and $258 for 2009 and 2008 respectively from affiliates and related parties) | (21,015) | (22,625) |
| Earnings from unconsolidated subsidiaries and investees | - | 5,112 |
| Gain on foreign currency translation | (525) | - |
| Provision for allowance on notes receivable and impairment | (379) | (12,000) |
| Litigation settlement | - | 781 |
| Total other expenses | (15,279) | (24,905) |
| Loss before gain on land sales, non-controlling interest, and taxes | (13,071) | (26,508) |
| Gain on land sales | 168 | 1,275 |
| Loss from continuing operations before tax | (12,903) | (25,233) |
| Income tax benefit | 1,521 | 34,138 |
| Net income (loss) from continuing operations | (11,382) | 8,905 |
| Discontinued operations: | | |
| Loss from discontinued operations | (13) | (13,833) |
| Gain on sale of real estate from discontinued operations | 4,771 | 111,370 |
| Income tax expense from discontinued operations | (1,665) | (34,138) |

| | | | | |
|---|---|---|---|---|
| Net income (loss) | | (8,289) | | 72,304 |
| Less: net loss attributable to non-controlling interests | | 1,685 | | (11,877) |
| Net income (loss) attributable to American Realty Investors, Inc. | | (6,604) | | 60,427 |
| Preferred dividend requirement | | (622) | | (623) |
| Net income (loss) applicable to common shares | $ | (7,226) | $ | 59,804 |
| **Earnings per share - basic** | | | | |
| Income (loss) from continuing operations | $ | (0.92) | $ | 0.82 |
| Discontinued operations | | 0.28 | | 4.90 |
| Net income (loss) applicable to common shares | $ | (0.64) | $ | 5.72 |
| **Earnings per share - diluted** | | | | |
| Income (loss) from continuing operations | $ | (0.92) | $ | 0.66 |
| Discontinued operations | | 0.28 | | 3.94 |
| Net income (loss) applicable to common shares | $ | (0.64) | $ | 4.60 |
| Weighted average common share used in computing earnings per share | | 11,237,066 | | 10,451,042 |
| Weighted average common share used in computing diluted earnings per share | | 11,237,066 | | 13,012,705 |
| **Amounts attributable to American Realty Investors, Inc.** | | | | |
| Income (loss) from continuing operations | $ | (9,697) | $ | 9,168 |
| Income from discontinued operations | | 3,093 | | 51,259 |
| Net income (loss) | $ | (6,604) | $ | 60,427 |

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

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**AMERICAN REALTY INVESTORS, INC.**

**CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY**

**For the Three Months Ended March 31, 2009**

**(unaudited)**

**(dollars in thousands)**

| | Total Capital | Comprehensive Loss | Series A Preferred Stock | Common Stock Shares | Common Stock Amount | Treasury Stock | Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Non-controlling Interest |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2008** | $ 297,578 | - | $ 4,979 | 11,874,138 | $ 114 | $ (5,954) | $ 92,609 | $ 119,599 | $ 4,331 | $ 81,900 |
| Unrealized loss on investment securities | (2,575) | $ (2,575) | - | - | - | - | - | - | (2,146) | (429) |
| Net loss | (8,289) | (8,289) | - | - | - | - | - | (6,604) | - | (1,685) |
| Acquisition of non-controlling interest | (836) | - | - | - | - | - | (582) | - | - | (254) |
| Series A preferred stock cash dividend ($1.00 per share) | (622) | - | - | - | - | - | - | (622) | - | - |
| Comprehensive loss | | $ (10,864) | - | - | - | - | - | - | - | - |
| **Balance, March 31, 2009** | $ 285,256 | | $ 4,979 | 11,874,138 | $ 114 | $ (5,954) | $ 92,027 | $ 112,373 | $ 2,185 | $ 79,532 |

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

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**AMERICAN REALTY ADVISORS, INC**

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)**

**For Three Months Ended March 31, 2009**

**(unaudited)**

| | 2009 | 2008 |
|---|---|---|
| Net income (loss) | $ (8,289) | $ 72,304 |
| Other comprehensive income (loss) | | |
| Unrealized gain on foreign currency translation | - | 9,685 |
| Unrealized loss on investment securities | (2,146) | (6,952) |
| Total other comprehensive income (loss) | (2,146) | 2,733 |
| Comprehensive income (loss) | (10,435) | 75,037 |
| Comprehensive income attributable to non-controlling interest | 1,685 | (11,877) |
| Comprehensive income (loss) attributable to American Realty Investors, Inc. | $ (8,750) | $ 63,160 |

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

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**AMERICAN REALTY INVESTORS, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(unaudited)**

| | For the Three Months Ended March 31, 2009 | 2008 |
|---|---|---|
| | (dollars in thousands) | |
| **Cash Flow From Operating Activities:** | | |
| Net income (loss) applicable to common shares | $ (7,226) | $ 59,804 |
| Adjustments to reconcile net loss applicable to common shares to net cash used in operating activities: | | |
| Gain on sale of land | (168) | (1,275) |
| Depreciation and amortization | 7,821 | 7,084 |
| Provision for allowance of notes receivable and impairment | 379 | 12,000 |
| Amortization of deferred borrowing costs | 1,819 | 2,860 |
| Earnings from unconsolidated subsidiaries and investees | - | (4,951) |
| Change in non-controlling interest | (1,685) | - |
| Loss on foreign currency translation | 525 | - |
| Gain on sale of income producing properties | (4,771) | (111,370) |
| (Increase) decrease in assets: | | |
| Accrued interest receivable | (74) | (1,194) |
| Restricted cash | 271 | 675 |
| Other assets | (2,939) | (3,356) |
| Prepaid expense | 320 | (48) |
| Escrow | 13,416 | (2,916) |
| Earnest money | (185) | 2,801 |
| Rent receivables | 1,401 | (6,744) |
| Increase (decrease) in liabilities: | | |
| Accrued interest payable | (624) | (1,258) |
| Intercompany change | (1,273) | (2,083) |
| Other liabilities | (15,245) | (5,824) |
| Net cash used in operating activities | (8,238) | (55,795) |
| **Cash Flow From Investing Activities:** | | |
| Proceeds from notes receivables ($3,077 in 2009, $0 in 2008 from affiliates) | 4,888 | 3,541 |
| Acquisition of land held for development | (650) | (12,023) |
| Proceeds from sales of income producing properties | 6,900 | 152,392 |
| Proceeds from sale of land | 6,488 | 2,873 |
| Investment in unconsolidated real estate entities | (125) | (1,391) |
| Improvement of land held for development | (376) | - |
| Improvement of income producing properties | (901) | (2,036) |
| Acquisition of minority interest | (110) | 11,877 |
| Construction and development of new properties | (8,475) | (32,109) |
| Net cash provided by investing activities | 7,639 | 123,124 |
| **Cash Flow From Financing Activities:** | | |
| Proceeds from notes payable | 11,007 | 76,558 |
| Recurring amortization of principal on notes payable | (7,193) | (5,264) |
| Payments on maturing notes payable | (7,513) | (144,312) |
| Deferred financing costs | 496 | 2,179 |
| Stock-secured borrowings | (4) | - |
| Repurchase/sale of treasury stock | - | (212) |

| | | |
|---|---|---|
| Net cash used by financing activities | (3,207) | (71,051) |
| | | |
| Net decrease in cash and cash equivalents | (3,806) | (3,722) |
| Cash and cash equivalents, beginning of period | 6,042 | 11,560 |
| | | |
| Cash and cash equivalents, end of period | $ 2,236 | $ 7,838 |
| | | |
| **Supplemental disclosures of cash flow information:** | | |
| Cash paid for interest | $ 20,428 | $ 26,944 |
| Cash paid for income taxes, net of refunds | $ 1,043 | $ - |
| **Schedule of noncash investing and financing activities:** | | |
| Unrealized foreign currency translation gain | $ - | $ 9,685 |
| Unrealized loss on marketable securities | $ (2,575) | $ (6,952) |
| Note receivable allowance | $ - | $ (1,500) |
| Note receivable received from affiliate | $ 2,341 | $ - |
| Note receivable from sale of real estate | $ 2,700 | $ - |

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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

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

The Company is headquartered in Dallas, Texas and its common stock trades on the New York Stock Exchange under the symbol ARL . Approximately 82% of ARL s stock is owned by affiliated entities. ARL owns approximately 83% of the outstanding shares of common stock of Transcontinental Realty Investors, Inc., ( TCI ) a Nevada corporation which has its common stock listed and traded on the New York Stock Exchange, Inc. under the symbol TCI . The ownership of the TCI shares was achieved through a series of transactions, including a cash tender offer completed March 19, 2003, an exchange by certain ARL subsidiaries of securities with Basic Capital Management, Inc. ( BCM ) and a sale of a participating interest in a line of credit receivable from One Realco Corporation ( One Realco ) to BCM, as well as certain open market purchases of TCI shares in December 2003. ARL has consolidated TCI s accounts and operations since March 31, 2003. As of March 31, 2009, TCI owned approximately 24.9% of the outstanding common stock of Income Opportunity Realty Investors, Inc., ( IOT ), a public company whose shares are listed and traded on the American Stock Exchange.

**Properties**

The Company owns or had interests in a total property portfolio of 101 and 99 income producing properties as of March 31, 2009 and December 31, 2008, respectively. The commercial properties aggregate approximately 5.9 million net rentable square feet as of March 31, 2009 and December 31, 2008.

At March 31, 2009, the properties consisted of:

- 34 commercial buildings, which consists of 20 office buildings, eight commercial warehouses, and six retail centers;
- five hotels;
- 62 apartment communities inclusive of two developed properties in the lease up phase, excluding apartments being developed; and
- 12,560 acres of developed and undeveloped land.

The Company is involved in the construction of three development projects as of March 31, 2009. In addition, the Company invests in several tracts of land and is at several stages of predevelopment on many of these properties. The Company partners with various third-party developers to construct residential projects. The third-party developer typically takes a general partner interest in the development partnership while the Company takes a limited partner (and majority) interest. The Company is required to fund the equity contributions. The third-party developer is responsible for obtaining financing, hiring a general contractor and for the overall management and delivery of the project, and is compensated with a fee equal to a certain percentage of the construction costs.

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

**Newly issued accounting standards**

On January 1, 2009, we adopted SFAS No. 160, Non-controlling Interests in Consolidated Financial Statements an amendment of ARB No. 51, (SFAS No. 160). SFAS No. 160 amends Accounting Research Bulletin No. 51, Consolidated Financial Statements, to establish accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. This standard defines a non-controlling interest, previously called a minority interest, as the portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. SFAS No. 160 requires, among other items, that a non-controlling interest be included in the consolidated statement of financial position within equity separate from the parent s equity; consolidated net income to be reported at amounts inclusive of both the parent s and non-controlling interest s shares and, separately, the amounts of consolidated net income attributable to the parent and non-controlling interest all on the consolidated statement of operations; and if a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary be measured at fair value and a gain or loss be recognized in net income based on such fair value. The presentation and disclosure requirements of SFAS No. 160 were applied retrospectively. Other than the change in presentation of non-controlling interests, the adoption of SFAS No. 160 had no impact on the Financial Statements.

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

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

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

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

**NOTE 2. REAL ESTATE ACTIVITY**

A summary of some of the significant transactions are discussed below:

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

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On January 21, 2009, we sold the Chateau Bayou Apartments, a 122 unit complex located in Ocean Springs, Mississippi, for $6.9 million. We received $3.1 million in cash after paying off the existing mortgage of $3.5 million and closing costs of $0.3 million. We posted a gain on sale from discontinued operations of $4.2 million.

We continue to invest in the development of apartments and various projects. During the three months ended March 31, 2009, we have expended $7.4 million on construction and development, and capitalized $1.9 million of interest costs.

**NOTE 3. NOTES AND INTEREST RECEIVABLE**

The table below shows our notes receivables as of March 31, 2009 (dollars in thousands).

| | Maturity | Interest | | |
|---|---|---|---|---|
| **Borrower** | **Date** | **Rate** | **Amount** | **Security** |
| Performing loans: | | | | |
| 3334Z Apts, LP | 04/12 | 6.50% | $ 1,875 | 100% Interest in 3334Z Apts |
| Basic Capital Management [1] | 10/11 | 7.00% | 1,253 | Industrial building, Arlington, TX |
| Basic Capital Management [1] | 10/11 | 7.00% | 1,523 | Retail building, Cary, NC |
| Blue Lake at Marine Creek [1] | 12/13 | 12.00% | $ 125 | 100% Interest in Marine Creek |
| CTMGT Travis Ranch, LLC | 08/14 | 6.00% | 5,461 | Unsecured |
| Dallas Fund XVII LP | 10/09 | 9.00% | 5,723 | Assignment of partnership interests |
| Garden Centura LP [1] | N/A | 7.00% | 4,130 | Excess cash flow from partnership |
| HFS of Humble LLC [1] | 12/17 | 12.00% | 2,630 | 100% Interest in HFS Humble |
| International Health Product [1] | 08/10 | Prime + 1.00% | 3,779 | 335,900 Shares of Stock ($11.25 per share) |
| Miscellaneous non-related party notes | Various | Various | 3,742 | Various security interests |
| Miscellaneous related party notes [1] | Various | Various | 1,431 | Various security interests |
| Pioneer Austin Development | 10/13 | 10.00% | 2,407 | 33 acres undeveloped land, Austin, TX |
| Realty Advisors [1] | 11/11 | 7.00% | 12,999 | 850 shares of ARI stock owned by BCM |
| Syntek Acquisition Corp [1] | 08/10 | Prime + 1.00% | 3,354 | Unsecured |
| Thornwood Wrap Note, ICC Surfwood | 07/09 | 7.50% | 1,638 | Unsecured |
| UHF Burleson [1] | 10/13 | 12.00% | 762 | 100% Interest in UHF Burleson |
| UHF Chase Oaks [1] | 12/13 | 12.00% | 127 | 100% Interest in UHF Chase Oaks |
| UHF Inwood [1] | 12/13 | 12.00% | 4,974 | 100% Interest in UHF Inwood |
| UHF Kensington [1] | 03/14 | 12.00% | 5,099 | 100% Interest in UHF Kensington |
| UHF McKinney [1] | 12/13 | 12.00% | 2,375 | 100% Interest in UHF McKinney |
| UHF Parkside Advances [1] | 12/13 | 12.00% | 323 | 100% Interest in UHF Parkside Advances |
| UHF Walnut Park Crossing [1] | 12/13 | 12.00% | 355 | 100% Interest in UHF Walnut Park Crossing |
| Unified Housing of Harvest Hill [1] | 10/13 | 12.00% | 8,783 | 100% Interest in UHF Harvest Hill |
| Accrued interest | | | 3,597 | |
| **Total Performing** | | | **$ 78,465** | |
| Non-Performing loans: | | | | |
| Tracy Suttles | 12/11 | 12.00% | 1,077 | Unsecured |
| Windmill Farms | 07/09 | 7.00% | 2,185 | Unsecured |
| Accrued interest | | | 132 | |
| **Total Non-Performing** | | | **$ 3,394** | |
| **Total** | | | **81,859** | |
| Allowance for estimated losses | | | (9,670) | |
| **Total** | | | **$ 72,189** | |

[1] Related party notes

**NOTE 4. INVESTMENTS IN EQUITY INVESTEES**

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

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

| | Percent ownership at March 31, 2009 |
|---|---|
| LK Four Hickory | 29% |
| Income Opportunity Investors, Inc. [(1)] | 25% |
| Garden Centura | 5% |
| Grupa Florentina, LLC | 20% |

(1) Unconsolidated subsidiary

Our partnership interest in Garden Centura LP in the amount of 5% is accounted for under the equity method, because we exercise significant influence over the operations and financial activities. We have guaranteed the notes payable and control the day to day activities. Accordingly, the investment is carried at cost, adjusted for the companies proportionate share of earnings or losses.

The market values, other than the unconsolidated subsidiary, were undeterminable as there are no readily traded markets for these entities.

The following is a summary of the financial position and results of operations from our unconsolidated subsidiaries and investees (dollars in thousands).

| For the three months ended March 31, 2009 | Unconsolidated Subsidiaries | Other Investees | Total |
|---|---|---|---|
| Real estate, net of accumulated depreciation | $ 36,883 | $ 129,448 | $ 166,331 |
| Notes receivable | 37,740 | 3,501 | 41,241 |
| Other assets | 38,781 | 43,026 | 81,807 |
| Notes payable | (42,251) | (95,936) | (138,187) |
| Other liabilities | (747) | (7,987) | (8,734) |
| Shareholders equity/partners capital | $ (70,406) | $ (72,052) | $ (142,458) |
| | - | - | - |
| Revenue | $ 821 | $ 13,274 | $ 14,095 |
| Depreciation | (60) | (1,496) | (1,556) |
| Operating expenses | (397) | (10,051) | (10,448) |
| Gain on land sales | - | - | - |
| Interest expense | (727) | (1,402) | (2,129) |
| Income from continuing operations | (363) | 325 | (38) |
| Income from discontinued operations | (5) | - | (5) |
| Net income | $ (368) | $ 325 | $ (43) |
| Companys proportionate share of earnings | $ (92) | $ 55 | $ (37) |

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| **For the three months ended March 31, 2008** | **Unconsolidated Subsidiaries** | **Other Investees** | **Total** |
|---|---|---|---|
| Real estate, net of accumulated depreciation | $ 40,483 | $ 132,500 | $ 172,983 |
| Notes receivable | 27,441 | 2,865 | 30,306 |
| Other assets | 45,270 | 41,947 | 87,217 |
| Notes payable | (44,440) | (98,183) | (142,623) |
| Other liabilities | (4,722) | (8,379) | (13,101) |
| Shareholders equity/partners capital | $ (64,032) | $ (70,750) | $ (134,782) |
| | - | - | - |
| Revenue | $ 1,024 | $ 14,473 | $ 15,497 |
| Depreciation | (63) | (1,436) | (1,499) |
| Operating expenses | (1,671) | (10,858) | (12,529) |
| Gain on land sales | 29,789 | - | 29,789 |
| Interest expense | (882) | (1,458) | (2,340) |
| Income from continuing operations | 28,197 | 721 | 28,918 |
| Income from discontinued operations | | | |