

TRANSCONTINENTAL REALTY INVESTORS INC  
Form 8-K  
August 24, 2004

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# SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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## FORM 8-K

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### CURRENT REPORT

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

June 20, 2004

Date of Report (Date of Earliest Event Reported)

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# TRANSCONTINENTAL REALTY INVESTORS, INC.

(Exact Name of Registrant as Specified in Its Charter)

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Nevada  
(State or Other Jurisdiction of

1-9240  
(Commission File No.)

94-6565852  
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

1800 Valley View Lane, Suite 300, Dallas, Texas

75234

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(Address of Principal Executive Office)

(Zip Code)

(469) 522-4200

(Registrant's Telephone Number, Including Area Code)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Securities Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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ITEM 2.01 COMPLETION OF ACQUISITION OR DISPOSITION OF ASSETS

In 2004, Transcontinental Realty Investors, Inc. ( TCI ) sold a significant amount of its assets, the last sale of which was completed on June 20, 2004. The nature and amount of consideration given principally involved cash received, seller financing provided by TCI and/or debt assumed by purchaser, and the principle followed in determining the amount of such consideration was negotiations between TCI and the purchaser. The properties sold are as follows:

| Date of Completion or Sale Date | Description of Asset or Property | Location          | Units/Sq. Ft./ Acres | Sales Price (in thousands) | Gain/(Loss) on Sale (in thousands) | % of TCI s Assets | Purchaser  |
|---------------------------------|----------------------------------|-------------------|----------------------|----------------------------|------------------------------------|-------------------|--|
| 05/15/04                        | Sandstone Apartments             | Mesa, AZ          | 238 Units            | \$ 8,650                   | \$ 1,136                           | 0.82%             | Palm Desert Villas, L.P.   |
| 05/21/04                        | Cliffs of El Dorado Apartments   | McKinney, TX      | 208 Units            | 13,442                     |                                    | 1.34%             | Unified Housing of McKinney, LLC <sup>(1)</sup>  |
| 06/20/04                        | Waters Edge IV Apartments        | Gulfport, MS      | 80 Units             | 5,000                      |                                    | 0.52%             | Water s Edge III Corporation   |
| 02/17/04                        | Countryside Retail               | Sterling, VA      | 133,422 Sq. Ft.      | 27,100                     | 5,475                              | 2.20%             | Saul Holdings L.P.   |
| 02/17/04                        | Countryside Harmon               | Sterling, VA      | 5,000 Sq. Ft.        | 2,650                      | 1,861                              | 0.08%             | Saul Holdings L.P.   |
| 02/27/04                        | Brandeis Office Bldg.            | Omaha, NE         | 319,234 Sq. Ft.      |                            | (92)                               | 1.00%             | Mack-Cali Sub XV Trust   |
| 05/07/04                        | Atrium Office Bldg.              | Palm Beach, FL    | 74,603 Sq. Ft.       | 5,775                      | 328                                | 0.59%             | Hayden Properties, LLC   |
| 06/04/04                        | 4135 Beltline                    | Addison, TX       | 90,000 Sq. Ft.       | 4,900                      | 345                                | 0.50%             | Beltline Realty Partners, Ltd., Three Rivers Title Co., Inc. & First American Exchange Corporation |
| 02/26/04                        | Ogden Industrial                 | Ogden, UT         | 107,112 Sq. Ft.      | 2,600                      | 1,374                              | 0.12%             | Flying Colors Group, L.P.  |
| 03/01/04                        | Texstar Warehouse                | Arlington, TX     | 97,846 Sq. Ft.       | 2,400                      |                                    | 0.15%             | Basic Capital Management, Inc. <sup>(2)</sup>  |
| 03/29/04                        | Kelly Warehouse (Pinewood)       | Dallas, TX        | 100,000 Sq. Ft.      | 1,650                      | 153                                | 0.15%             | BHP Sale Builders Hardware Ltd.  |
| 07/09/04                        | Kelly Warehouse (Cash Road)      | Dallas, TX        | 97,150 Sq. Ft.       | 1,500                      | 139                                | 0.15%             | Larson Group, L.P.   |
| 03/01/04                        | K-Mart Shopping Center           | Cary, NC          | 92,033 Sq. Ft.       | 3,200                      |                                    | 0.29%             | Basic Capital Management, Inc. <sup>(2)</sup>  |
| 01/30/04                        | Red Cross Land                   | Dallas, TX        | 2.89 Acres           | 8,500                      |                                    | 0.85%             | Shafer Property Company  |
| 03/29/04                        | Allen Land                       | Collin County, TX | 492.531 Acres        | 19,962                     | 2,106                              | 1.55%             | Blue Star Land, L.P.   |
| 08/09/04                        | Rasor Land                       | Plano, TX         | 24.5 Acres           | 2,600                      | 54                                 | 0.29%             | Donald C. Carter   |
|                                 |                                  |                   |                      | \$ 109,929                 | \$ 12,879                          | 10.60%            |  |

(1) Unified Housing of McKinney, LLC, is deemed to be an affiliate of TCI due to common management.

- (2) Basic Capital Management, Inc. is an affiliate of TCI.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

The unaudited pro forma statements of operations are presented for the six months ended June 30, 2004 and the year ended December 31, 2003. The unaudited pro forma statements of operations present TCI's operations as if the transactions described above had occurred at January 1 of each of the periods presented. An unaudited pro forma balance sheet as of June 30, 2004, is also presented. The unaudited pro forma balance sheet presents the property sales described above, as if they had occurred at January 1, 2004.

The unaudited pro forma condensed combined financial statements should be read in conjunction with TCI's financial statements and related notes included in TCI's Report on Form 10-Q for the quarter ended June 30, 2004 and the Report on Form 10-K for the year ended December 31, 2003 filed with the Securities and Exchange Commission.

## TRANSCONTINENTAL REALTY INVESTORS, INC.

## PROFORMA COMBINED CONSOLIDATED BALANCE SHEET

JUNE 30, 2004

(Dollars in thousands)

|   | <u>Actual</u> <sup>(1)</sup> | <u>Kelly Warehouse<br/>(Cash Road)</u> <sup>(2)</sup> | <u>Razor Land</u> <sup>(2)</sup> | <u>Totals</u>     |
|---|------------------------------|---|----------------------------------|-------------------|
| <b>ASSETS</b>                                 |                              |   |                                  |                   |
| Real Estate held for Investment               | \$ 882,095                   | \$  | \$ (2,546)                       | \$ 879,549        |
| Less: Accumulated Depreciation                | (92,055)                     |   |                                  | (92,055)          |
|   | <u>790,040</u>               |   | <u>(2,546)</u>                   | <u>787,494</u>    |
| Real Estate Held for Sale                     | 10,419                       | (1,308)   |                                  | 9,111             |
| Notes and Interest Receivable:                |                              |   |                                  |                   |
| Performing                                    | 41,045                       |   |                                  | 41,045            |
| Non-Performing                                | 4,303                        |   |                                  | 4,303             |
|   | <u>45,348</u>                |   |                                  | <u>45,348</u>     |
| Less: Allowances for Estimated Losses         | (1,456)                      |   |                                  | (1,456)           |
|   | <u>43,892</u>                |   |                                  | <u>43,892</u>     |
| Investment in real estate entities            | 14,272                       |   |                                  | 14,272            |
| Marketable equity securities, at market value | 5,397                        |   |                                  | 5,397             |
| Cash and cash equivalents                     | 4,680                        | (2)   |                                  | 4,678             |
| Other Assets                                  | 30,456                       | (288)   | (13)                             | 30,155            |
|   | <u>899,156</u>               | <u>(1,598)</u>  | <u>(2,559)</u>                   | <u>894,999</u>    |
| <b>Total Assets</b>                           | <b>\$ 899,156</b>            | <b>\$ (1,598)</b>                                     | <b>\$ (2,559)</b>                | <b>\$ 894,999</b> |
| <b>LIABILITIES AND EQUITY</b>                 |                              |   |                                  |                   |
| Notes and interest payable                    | \$ 635,113                   | \$  | \$ (1,260)                       | \$ 633,853        |
| Liabilities related to assets held for sale   | 3,426                        | (465)   |                                  | 2,961             |
| Other Liabilities                             | 39,893                       | (2,181)   | (1,513)                          | 36,199            |
|   | <u>678,432</u>               | <u>(2,646)</u>  | <u>(2,773)</u>                   | <u>673,013</u>    |
| Minority Interest                             | 752                          |   |                                  | 752               |
| Stockholders' equity:                         |                              |   |                                  |                   |
| Preferred Stock                               |                              |   |                                  |                   |
| Common Stock                                  | 81                           |   |                                  | 81                |
| Paid-in capital                               | 256,809                      |   |                                  | 256,809           |
| Accumulated deficit                           | (35,546)                     | 1,048   | 214                              | (34,284)          |
| Accumulated other comprehensive loss          | (1,372)                      |   |                                  | (1,372)           |
|   | <u>219,972</u>               | <u>1,048</u>  | <u>214</u>                       | <u>221,234</u>    |
| <b>Total Liabilities and Equity</b>           | <b>\$ 899,156</b>            | <b>\$ (1,598)</b>                                     | <b>\$ (2,559)</b>                | <b>\$ 894,999</b> |

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- (1) Includes properties sold prior to June 30, 2004.
- (2) Assumes sale by TCI on January 1, 2004.

## TRANSCONTINENTAL REALTY INVESTORS, INC.

PROFORMA COMBINED STATEMENT OF OPERATIONS <sup>(1) (2)</sup>

SIX MONTHS ENDED JUNE 30, 2004

(Dollars in thousands, except per share)

|   | Actual      | Apartments <sup>(3)</sup> | Commercial <sup>(4)</sup> | Land <sup>(5)</sup> | Proforma    |
|---|-------------|---------------------------|---------------------------|---------------------|-------------|
| Property revenue:   |             |                           |                           |                     |             |
| Rents   | \$ 57,892   | \$                        | \$ (387)                  | \$                  | \$ 57,505   |
| Property operations   | 35,964      |                           | (268)                     | (20)                | 35,676      |
| Operating income  | 21,928      |                           | (119)                     | 20                  | 21,829      |
| Land Operations:  |             |                           |                           |                     |             |
| Sales   | 28,462      |                           |                           | 2,600               | 31,062      |
| Cost of Sales   | 21,374      |                           |                           | 2,546               | 23,920      |
| Deferred Gain on Sale   | 4,982       |                           |                           |                     | 4,982       |
| Gain on Land Sales  | 2,106       |                           |                           | 54                  | 2,160       |
| Other income (loss):  |             |                           |                           |                     |             |
| Interest  | 1,554       |                           |                           |                     | 1,554       |
| Gain on foreign currency transaction                                | 1,249       |                           |                           |                     | 1,249       |
| Equity in loss of equity investees                                  | (1,510)     |                           |                           |                     | (1,510)     |
|   | 1,293       |                           |                           |                     | 1,293       |
| Other expense:  |             |                           |                           |                     |             |
| Interest  | 19,759      |                           | (148)                     | (57)                | 19,554      |
| Depreciation  | 10,306      |                           | (122)                     |                     | 10,184      |
| Advisory fee to affiliates  | 3,243       | (63)                      | (63)                      | (24)                | 3,093       |
| General and administrative  | 3,960       |                           |                           |                     | 3,960       |
| Minority interest   | 713         |                           |                           |                     | 713         |
|   | 37,981      | (63)                      | (333)                     | (81)                | 37,504      |
| Net income (loss) from continuing operations                        | \$ (12,654) | \$ 63                     | \$ 214                    | \$ 155              | \$ (12,222) |
| Basic and Diluted Earnings Per Share:                               |             |                           |                           |                     |             |
| Net Loss from Continuing Operations                                 | \$ (1.57)   |                           |                           |                     | \$ (1.52)   |
| Weighted Average Common Shares Used in Computing Earnings Per Share | 8,113,669   |                           |                           |                     | 8,113,669   |

(1) The proforma combined Statement of Operations assumes that each property was sold by TCI on January 1, 2004.

(2) Operating results for properties are their actual operating results from January 1 to their respective dates of sale. Rents, property operations, interest expense and depreciation for non-land properties sold prior to August 15, 2004 were excluded from the actual results of continuing operations at June 30, 2004.

(3) Includes the Cliffs of El Dorado and Sandstone Apartments sold in May 2004, and the Waters Edge IV Apartments sold in June 2004.

(4) Includes Countryside Retail and Harmon, Brandeis and Odgen Industrial sold in February 2004, K-Mart, Texstar Warehouse and the Pinewood Warehouse (Kelly) sold in March 2004, the Atrium sold in May 2004, 4135 Beltline sold in June 2004 and the Cash Road



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Warehouse (Kelly) sold in July 2004.

- (5) Includes Red Cross sold in January 2004, Allen sold in March 2004 and Razor sold in August 2004.

TRANSCONTINENTAL REALTY INVESTORS, INC.

PROFORMA COMBINED STATEMENT OF OPERATIONS <sup>(1)(2)</sup>

YEAR ENDED DECEMBER 31, 2003

(Dollars in thousands, except per share)

|  | <u>Actual</u> <sup>(3)</sup> | <u>Apartments</u> <sup>(4)</sup> | <u>Commercial</u> <sup>(5)</sup> | <u>Land</u> <sup>(6)</sup> | <u>Proforma</u>    |
|--|------------------------------|----------------------------------|----------------------------------|----------------------------|--------------------|
| <b>Property revenue:</b>   |                              |                                  |                                  |                            |                    |
| Rents  | \$ 114,422                   | \$ (2,093)                       | \$ (9,564)                       | \$ (11)                    | \$ 102,754         |
| Property operations  | 73,603                       | (1,163)                          | (4,509)                          | (267)                      | 67,664             |
|  | <u>40,819</u>                | <u>(930)</u>                     | <u>(5,055)</u>                   | <u>256</u>                 | <u>35,090</u>      |
| <b>Land Operations:</b>  |                              |                                  |                                  |                            |                    |
| Sales  | 11,087                       |                                  |                                  | 31,062                     | 42,149             |
| Cost of Sales  | 7,730                        |                                  |                                  | 23,920                     | 31,650             |
| Deferred Gain on Sale  | 1,716                        |                                  |                                  | 4,982                      | 6,698              |
|  | <u>1,641</u>                 |                                  |                                  | <u>2,160</u>               | <u>3,801</u>       |
| <b>Other income (loss):</b>  |                              |                                  |                                  |                            |                    |
| Interest   | 6,683                        |                                  |                                  |                            | 6,683              |
| Equity in loss of equity investees   | (4,291)                      |                                  |                                  |                            | (4,291)            |
| Gain on debt extinguishment  | 4,392                        |                                  |                                  |                            | 4,392              |
| Gain on condemnation award   | 4,800                        |                                  |                                  |                            | 4,800              |
|  | <u>11,584</u>                |                                  |                                  |                            | <u>11,584</u>      |
| <b>Other expense:</b>  |                              |                                  |                                  |                            |                    |
| Interest   | 38,943                       | (744)                            | (2,060)                          | (1,553)                    | 34,586             |
| Depreciation   | 21,199                       | (390)                            | (1,395)                          |                            | 19,414             |
| Provision for asset impairment   | 4,713                        |                                  |                                  |                            | 4,713              |
| Discount on sale of note receivable  | 104                          |                                  |                                  |                            | 104                |
| Advisory fee to affiliates   | 4,935                        | (185)                            | (420)                            | (169)                      | 4,161              |
| General and administrative   | 9,149                        |                                  |                                  |                            | 9,149              |
| Loss on foreign currency translation                                       | 3,309                        |                                  |                                  |                            | 3,309              |
| Minority interest  | (2,230)                      |                                  | 1,064                            |                            | (1,166)            |
|  | <u>80,122</u>                | <u>(1,319)</u>                   | <u>(7,326)</u>                   | <u>(1,920)</u>             | <u>74,270</u>      |
| <b>Net income (loss) from continuing operations</b>                        | <u>\$ (26,078)</u>           | <u>\$ 389</u>                    | <u>\$ 2,271</u>                  | <u>\$ 4,336</u>            | <u>\$ (23,795)</u> |
| <b>Basic and Diluted Earnings Per Share:</b>                               |                              |                                  |                                  |                            |                    |
| Net Loss from Continuing Operations  | <u>\$ (3.23)</u>             |                                  |                                  |                            | <u>\$ (2.95)</u>   |
| <b>Weighted Average Common Shares Used in Computing Earnings Per Share</b> |                              |                                  |                                  |                            |                    |
|  | <u>8,078,108</u>             |                                  |                                  |                            | <u>8,078,108</u>   |

(1) The proforma combined Statement of Operations assumes that each property was sold by TCI on January 1, 2003.

(2) Operating results for properties are their actual operating results from January 1 to their respective dates of sale. Rents, property operations, interest expense and depreciation for non-land properties sold prior to April 1, 2003 were excluded from the actual results of continuing operations at December 31, 2003.

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- (3) TCI's land operations were not separately disclosed in the Consolidated Statement of Operations for the year ending December 31, 2003.
- (4) Includes the Cliffs of El Dorado and Sandstone Apartments sold in May 2004, and the Waters Edge IV Apartments sold in June 2004.
- (5) Includes Countryside Retail and Harmon, Brandeis and Odgen Industrial sold in February 2004, K-Mart, Texstar Warehouse and the Pinewood Warehouse (Kelly) sold in March 2004, the Atrium sold in May 2004, 4135 Beltline sold in June 2004 and the Cash Road Warehouse (Kelly) sold in July 2004.
- (6) Includes Red Cross sold in January 2004, Allen sold in March 2004 and Rasor sold in August 2004.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

TRANSCONTINENTAL REALTY INVESTORS, INC.

Date: August 24, 2004

By: /s/ J. C. Lowenberg III

J. C. Lowenberg III  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer and Acting Principal Executive  
Officer)

Date: August 24, 2004

By: /s/ Scott T. Lewis

Scott T. Lewis  
Vice President and Chief Accounting Officer