AMERICAN REALTY INVESTORS INC
Form 10-Q
May 13, 2015

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, 2015

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 Incorporation or Organization)	(I.R.S. Employer Identification No.)

1603 Lyndon B. Johnson Freeway, Suite 800, 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. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) x 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 a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x 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	15,514,360
(Class)	(Outstanding at May 5, 2015)

AMERICAN REALTY INVESTORS, INC.
FORM 10-Q
TABLE OF CONTENTS

		PAGE
PART I. FINANCIAL INFORMATION		
Item 1.	Financial Statements	
	Consolidated Balance Sheets at March 31, 2015 (unaudited) and December 31, 2014	3
	Consolidated Statements of Operations for the three months ended March 31, 2015 and 2014 (unaudited)	4
	Consolidated Statement of Shareholders’ Equity for the three months ended March 31, 2015 (unaudited)	5
	Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2015 and 2014 (unaudited)	6
	Consolidated Statements of Cash Flows for the three months ended March 31, 2015 and 2014 (unaudited)	7
	Notes to Consolidated Financial Statements	8
Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3.	Quantitative and Qualitative Disclosures About Market Risks	30
Item 4.	Controls and Procedures	30
PART II. OTHER INFORMATION		
Item 5.	Unregistered Sales of Equity Securities and Use of Proceeds	31
Item 6.	Exhibits	32
SIGNATURES		33

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AMERICAN REALTY INVESTORS, INC.
CONSOLIDATED BALANCE SHEETS
(unaudited)

	March 31, 2015	December 31, 2014
	(dollars in thousands, except share and par value amounts)	
Assets		
Real estate, at cost	$811,359	$810,214
Real estate subject to sales contracts at cost, net of depreciation ($2,387 for 2015 and $2,300 for 2014)	19,047	19,026
Less accumulated depreciation	(133,800)	(129,477)
Total real estate	696,606	699,763
Notes and interest receivable		
Performing (including $136,841 in 2015 and $139,466 in 2014 from related parties)	153,271	149,484
Non-performing	3,171	3,161
Less allowance for doubtful accounts (including $15,537 in 2015 and 2014 from related parties)	(18,279)	(18,279)
Total notes and interest receivable	138,163	134,366
Cash and cash equivalents	19,700	12,299
Restricted cash	36,135	49,266
Investments in unconsolidated subsidiaries and investees	4,462	4,279
Receivable from related party	5,409	21,414
Other assets	45,213	44,111
Total assets	$945,688	$965,498
Liabilities and Shareholders' Equity		
Liabilities:		
Notes and interest payable	$621,596	$638,891
Notes related to assets held for sale	1,227	1,552
Notes related to subject to sales contracts	18,434	18,616
Deferred revenue (including $72,564 in 2015 and 2014 from sales to related parties)	74,409	74,409
Accounts payable and other liabilities (including $11,412 in 2015 and $11,024 in 2014 to related parties)	48,317	52,442
	763,983	785,910
Shareholders' equity:		
Preferred stock, Series A: $2.00 par value, authorized 15,000,000 shares, issued and outstanding	3,126	3,126

2,461,252 shares in 2015 and 2014 (liquidation preference $10 per share), including 900,000 shares in 2015 and 2014 held by ARL or subsidiaries.		
Common stock, $0.01 par value, authorized 100,000,000 shares; issued 14,443,404 shares in 2015 and 2014; outstanding 14,027,619 shares in 2015 and 2014; including 140,000 shares held by TCI (consolidated) in 2015 and 2014.	141	141
Treasury stock at cost; 415,785 shares in 2015 and 2014	(6,395)	(6,395)
Paid-in capital	107,652	108,378
Retained earnings	22,430	19,090
Total American Realty Investors, Inc. shareholders' equity	126,954	124,340
Non-controlling interest	54,751	55,248
Total shareholders' equity	181,705	179,588
Total liabilities and shareholders' equity	$945,688	$965,498

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

3

AMERICAN REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	For the Three Months Ended March 31,	
	2015	2014
	(dollars in thousands, except per share amounts)	
Revenues:		
Rental and other property revenues (including $170 and $175 for the three months ended 2015 and 2014, respectively, from related parties)	$23,156	$19,159
Expenses:		
Property operating expenses (including $162 and $155 for the three months ended 2015 and 2014, respectively, from related parties)	11,668	9,928
Depreciation and amortization	4,704	4,313
General and administrative (including $1,007 and $918 for the three months ended 2015 and 2014, respectively, from related parties)	2,201	1,984
Net income fee to related party	290	490
Advisory fee to related party	2,292	2,242
Total operating expenses	21,155	18,957
Net operating income	2,001	202
Other income (expenses):		
Interest income (including $4,897 and $4,036 for the three months ended 2015 and 2014, respectively, from related parties)	5,237	4,117
Other income	4,097	173
Mortgage and loan interest (including $864 and $798 for the three months ended 2015 and 2014, respectively, from related parties)	(9,193)	(8,119)
Deferred borrowing costs amortization	(601)	(938)
Loan charges and prepayment penalties	(1,850)	(1,582)
Earnings from unconsolidated subsidiaries and investees	45	70
Litigation settlement	(73)	3,839
Total other expenses	(2,338)	(2,440)
Loss before gain on land sales, non-controlling interest, and taxes	(337)	(2,238)
Gain on land sales	2,876	753
Net income (loss) from continuing operations before taxes	2,539	(1,485)
Income tax benefit	103	2,049
Net income from continuing operations	2,642	564
Discontinued operations:		
Net income (loss) from discontinued operations	293	(199)
Gain on sale of real estate from discontinued operations	-	6,053
Income tax expense from discontinued operations	(103)	(2,049)

Net income from discontinued operations	190	3,805
Net income	2,832	4,369
Net (income) loss attributable to non-controlling interest	508	(819)
Net income attributable to American Realty Investors, Inc.	3,340	3,550
Preferred dividend requirement	(390)	(613)
Net income applicable to common shares	$2,950	$2,937
Earnings per share - basic		
Net income (loss) from continuing operations	$0.20	$(0.08)
Net income from discontinued operations	0.01	0.33
Net income applicable to common shares	$0.21	$0.25
Earnings per share - diluted		
Net income (loss) from continuing operations	$0.16	$(0.08)
Net income from discontinued operations	0.01	0.33
Net income applicable to common shares	$0.17	$0.25
Weighted average common shares used in computing earnings per share	14,027,619	11,525,389
Weighted average common shares used in computing diluted earnings per share	17,426,707	11,525,389
Amounts attributable to American Realty Investors, Inc.		
Net income (loss) from continuing operations	$3,150	$(255)
Net income from discontinued operations	190	3,805
Net income applicable to American Realty Investors, Inc.	$3,340	$3,550

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

AMERICAN REALTY INVESTORS, INC.
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the Three Months Ended March 31, 2015
(unaudited, dollars in thousands, except share amounts)

	Total Equity	Comprehensive Income (Loss)	Preferred Stock	Common Stock Shares	Common Stock Amount	Treasury Stock	Paid-in Capital	Retained Earnings	Non-controlling Interest
Balance, December 31, 2014	$ 179,588	$ (53,040)	$3,126	14,443,404	$141	$(6,395)	$108,378	$19,090	$ 55,248
Net income (loss)	2,832	2,832	-	-	-	-	-	3,340	(508)
Contributions from non-controlling interests	11	-	-	-	-	-	-	-	11
Assumption of non-controlling interests	(336)	-	-	-	-	-	(336)	-	-
Series A preferred stock dividend ($1.00 per share)	(390)	-	-	-	-	-	(390)	-	-
Balance, March 31, 2015	$ 181,705	$ (50,208)	$3,126	14,443,404	$141	$(6,395)	$107,652	$22,430	$ 54,751

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

AMERICAN REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(unaudited)

	For the Three Months Ended March 31,	
	2015	2014
	(dollars in thousands)	
Net income	$2,832	$4,369
Other comprehensive income (loss)	-	-
Total comprehensive income	2,832	4,369
Comprehensive (income) loss attributable to non-controlling interest	508	(819)
Comprehensive income attributable to American Realty Investors, Inc.	$3,340	$3,550

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

AMERICAN REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the Three Months Ended March 31,	
	2015	2014
	(dollars in thousands)	
Cash Flow From Operating Activities:		
Net income	$2,832	$4,369
Adjustments to reconcile net income applicable to common shares to net cash flow from operating activities:		
Gain on sale of land	(2,876)	(753)
Gain on sale of income-producing properties	-	(6,053)
Depreciation and amortization	4,704	4,642
Amortization of deferred borrowing costs	602	1,220
Earnings from unconsolidated subsidiaries and investees	(45)	(70)
Decrease (increase) in assets:		
Accrued interest receivable	2,276	12,044
Other assets	1,835	(38)
Prepaid expense	(1,099)	(768)
Escrow	12,931	4,585
Earnest money	(1,720)	535
Rent receivables	(539)	(220)
Related party receivables	16,005	(20,665)
Increase (decrease) in liabilities:		
Accrued interest payable	60	(214)
Other liabilities	(4,065)	(13,801)
Net cash provided by (used in) operating activities	30,901	(15,187)
Cash Flow From Investing Activities:		
Proceeds from notes receivable	338	-
Origination or advances of notes receivable	(6,411)	(4,428)
Acquisition of land held for development	-	(3,425)
Proceeds from sale of income-producing properties	-	22,480
Proceeds from sale of land	6,849	1,504
Investment in unconsolidated real estate entities	(138)	(131)
Improvement of land held for development	(984)	(115)
Improvement of income-producing properties	(3,457)	(1,162)
Assumption of non-controlling interest	(336)	-
Construction and development of new properties	(785)	(205)
Net cash provided by (used in) investing activities	(4,924)	14,518
Cash Flow From Financing Activities:		
Proceeds from notes payable	11,488	65,212
Recurring amortization of principal on notes payable	(4,324)	(4,874)
Payments on maturing notes payable	(25,026)	(52,907)
Stock-secured borrowings	-	(187)
Deferred financing costs	(335)	(3,934)

Contributions from non-controlling interests	11	(81)
Preferred stock dividends - Series A	(390)	(613)
Net cash provided by (used in) financing activities	(18,576)	2,616
Net increase in cash and cash equivalents	7,401	1,947
Cash and cash equivalents, beginning of period	12,299	16,437
Cash and cash equivalents, end of period	$19,700	$18,384
Supplemental disclosures of cash flow information:		
Cash paid for interest	$9,193	$8,784

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

As used herein, the terms "ARL", "the Company", "we", "our" or "us" refer to American Realty Investors, Inc., a Neva corporation, which was formed in November 1999. In August 2000, the Company acquired American Realty Trust, Inc. ("ART"), a Georgia corporation and National Realty, L.P. ("NRLP"), a Delaware partnership.

The Company is headquartered in Dallas, Texas and its common stock trades on the New York Stock Exchange ("NYSE") under the symbol ("ARL"). Approximately 86.7% of ARL's stock is owned by related parties. Subsidiaries of ARL own approximately 80.9% 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 NYSE under the symbol ("TCI"). ARL is a "C" corporation for U.S. federal income tax purposes and has consolidated TCI's accounts and operations since March 2003. During the third quarter 2012, May Realty Holdings, Inc. ("MRHI") subsidiaries acquired more than 80% of ARL stock and as a result, ARL joined the MRHI consolidated group for federal income tax reporting. We have no employees.

TCI, a subsidiary of ARL, owns approximately 81.1% of the common stock of Income Opportunity Realty Investors, Inc. ("IOT"). Effective July 17, 2009, IOT's financial results were consolidated with those of ARL and TCI and their subsidiaries. Shares of IOT are traded on the New York Stock Exchange Euronext ("NYSE MKT") under the symbol ("IOT").

ARL invests in real estate through direct ownership, leases and partnerships and also invests in mortgage loans on real estate. Pillar Income Asset Management, Inc. ("Pillar") is the Company's external Advisor and Cash Manager. Although the Board of Directors is directly responsible for managing the affairs of ARL, and for setting the policies which guide it, the day-to-day operations of ARL are performed by Pillar, as the contractual Advisor, under the supervision of the Board. Pillar's duties include, but are not limited to: locating, evaluating and recommending real estate and real estate-related investment opportunities and arranging debt and equity financing for the Company with third party lenders and investors. Additionally, Pillar serves as a consultant to the Board with regard to their decisions in connection with ARL's business plan and investment policy. Pillar also serves as an Advisor and Cash Manager to TCI and IOT.

Regis Realty Prime, LLC ("Regis") manages our commercial properties and provides brokerage services. ARL engages third-party companies to lease and manage its apartment properties.

Properties

We own or had interests in a total property portfolio of 47 income-producing properties as of March 31, 2015. The properties consisted of:

- Nine commercial properties consisting of four office buildings, one industrial warehouse, three retail centers and a golf course, comprising in aggregate approximately 2.1 million rentable square feet;
- 38 apartment communities totaling 6,344 units, excluding apartments being developed; and
- 4,200 acres of developed and undeveloped land.

We join with various third-party development companies to construct residential apartment communities. We are in the predevelopment process on several residential apartment communities but have not yet begun construction. At March 31, 2015, we had one apartment project in development. The third-party developer typically holds a general partner as well as a majority limited partner interest in a limited partnership formed for the purpose of building a single property, while we generally take a minority limited partner interest in the limited partnership. We may contribute land to the partnership as part of our equity contribution or we may contribute the necessary funds to the partnership to acquire the land. We are required to fund all required equity contributions while the third-party developer is responsible for obtaining construction financing, hiring a general contractor and for the overall management, successful completion and delivery of the project. We generally bear all the economic risks and rewards of ownership in these partnerships and therefore include these partnerships in our Consolidated Financial Statements. The third-party developer is paid a developer fee typically equal to a percentage of the construction costs. When the project reaches stabilized occupancy, we acquire the third-party developer's partnership interests in exchange for any remaining unpaid developer fees.

Basis of Presentation

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted in accordance with such rules and regulations, although management believes the disclosures are adequate to prevent the information presented from being misleading. In the opinion of management, all adjustments (consisting of normal recurring matters) considered necessary for a fair presentation have been included. The results of operations for the three months ended March 31, 2015, are not necessarily indicative of the results that may be expected for other interim periods or for the full fiscal year.

The year-end Consolidated Balance Sheet at December 31, 2014 was derived from the audited Consolidated Financial Statements at that date, but does not include all of the information and disclosures required by GAAP for complete financial statements. For further information, refer to the Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. Certain 2014 Consolidated Financial Statement amounts have been reclassified to conform to the 2015 presentation, including adjustments for discontinued operations.

Principles 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 we have a controlling interest. Arrangements that are not controlled through voting or similar rights are accounted for as a Variable Interest Entity ("VIE"), in accordance with the provisions and guidance of ASC Topic 810, "Consolidation", whereby we have determined that we are a primary beneficiary of the VIE and meet certain criteria of a sole general partner or managing member as identified in accordance with Emerging Issues Task Force ("EITF") Issue 04-5, Investor's Accounting for an Investment in a Limited Partnership when the Investor is the Sole General Partner and the Limited Partners have Certain Rights ("EITF 04-5"). VIEs are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders as a group lack adequate decision making ability, the obligation to absorb expected losses or residual returns of the entity, or have voting rights that are not proportional to their economic interests. The primary beneficiary generally is the entity that provides financial support and bears a majority of the financial risks, authorizes certain capital transactions, or makes operating decisions that materially affect the entity's financial results. All significant intercompany balances and transactions have been eliminated in consolidation.

In determining whether we are the primary beneficiary of a VIE, we consider qualitative and quantitative factors, including, but not limited to: the amount and characteristics of our investment; the obligation or likelihood for us or other investors to provide financial support; our and the other investors' ability to control or significantly influence key decisions for the VIE; and the similarity with and significance to the business activities of us and the other investors. Significant judgments related to these determinations include estimates about the current future fair values and performance of real estate held by these VIEs and general market conditions.

For entities in which we have less than a controlling financial interest or entities where we are not deemed to be the primary beneficiary, the entities are accounted for using the equity method of accounting. Accordingly, our share of the net earnings or losses of these entities is included in consolidated net income. Our investment in Gruppa Florentina, LLC is accounted for under the equity method.

Real Estate, Depreciation and Impairment

Real estate assets are stated at the lower of depreciated cost or fair value, if deemed impaired. Major replacements and betterments are capitalized and depreciated over their estimated useful lives. Depreciation is computed on a straight-line basis over the useful lives of the properties (buildings and improvements – 10-40 years; furniture, fixtures and equipment – 5-10 years). The Company continually evaluates the recoverability of the carrying value of its real estate assets using the methodology prescribed in ASC Topic 360, "Property, Plant and Equipment". Factors considered by management in evaluating impairment of its existing real estate assets held for investment include significant declines in property operating profits, annually recurring property operating losses and other significant adverse changes in general market conditions that are considered permanent in nature. Under ASC Topic 360, a real estate asset held for investment is not considered impaired if the undiscounted, estimated future cash flows of an asset (both the annual estimated cash flow from future operations and the estimated cash flow from the theoretical sale of the asset) over its estimated holding period are in excess of the asset's net book value at the balance sheet date. If any real

estate asset held for investment is considered impaired, a loss is provided to reduce the carrying value of the asset to its estimated fair value.

Real Estate Held For Sale

We periodically classify real estate assets as "held for sale". An asset is classified as held for sale after the approval of our Board of Directors, after an active program to sell the asset has commenced and if the sale is probable. One of the deciding factors in determining whether a sale is probable is whether the firm purchase commitment is obtained and whether the sale is probable within the year. Upon the classification of a real estate asset as held for sale, the carrying value of the asset is reduced to the lower of its net book value or its estimated fair value, less costs to sell the asset. Subsequent to the classification of assets as held for sale, no further depreciation expense is recorded. Real estate assets held for sale are stated separately on the accompanying Consolidated Balance Sheets. Upon a decision that the sale is no longer probable, the asset is classified as an operating asset and depreciation expense is reinstated. The operating results of real estate assets held for sale and sold are reported as discontinued operations in the accompanying Consolidated Statements of Operations. Income from discontinued operations includes the revenues and expenses, including depreciation and interest expense, associated with the assets. This classification of operating results as discontinued operations applies retroactively for all periods presented. Additionally, gains and losses on assets designated as held for sale are classified as part of discontinued operations.

Cost Capitalization

Costs related to planning, developing, leasing and constructing a property are capitalized and classified as Real Estate in the Consolidated Balance Sheets. We capitalize interest to qualifying assets under development based on average accumulated expenditures outstanding during the period. In capitalizing interest to qualifying assets, we first use the interest incurred on specific project debt, if any, and next use the weighted average interest rate of non-project specific debt. We capitalize interest, real estate taxes and certain operating expenses until building construction is substantially complete and the building is ready for its intended use, but no later than one year from the cessation of major construction activity.

We capitalize leasing costs which include commissions paid to outside brokers, legal costs incurred to negotiate and document a lease agreement and any internal costs that may be applicable. We allocate these costs to individual tenant leases and amortize them over the related lease term.

Fair Value Measurement

We apply the guidance in ASC Topic 820, “Fair Value Measurements and Disclosures”, to the valuation of real estate assets. These provisions define fair value as the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at the measurement date, establish a hierarchy that prioritizes the information used in developing fair value estimates and require disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable data (Level 3 measurements), such as the reporting entity’s own data.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date and includes three levels defined as follows:

Level 1 – Unadjusted quoted prices for identical and unrestricted assets or liabilities in active markets.
Level 2 – Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
Level 3 – Unobservable inputs that are significant to the fair value measurement.

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Related Parties

We apply ASC Topic 805, “Business Combinations”, to evaluate business relationships. Related parties are persons or entities who have one or more of the following characteristics, which include entities for which investments in their equity securities would be required, trust for the benefit of persons including principal owners of the entities and members of their immediate families, management personnel of the entity and members of their immediate families and other parties with which the entity may deal if one party controls or can significantly influence the decision making of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests, or affiliates of the entity.

Newly Issued Accounting Standards

We have considered all other newly issued accounting guidance that is applicable to our operations and the preparation of our Consolidated Financial Statements, including that which we have not yet adopted. We do not believe that any such guidance will have a material effect on our financial position or results of operations.

NOTE 2. REAL ESTATE ACTIVITY

Below is a summary of the real estate owned as of March 31, 2015 (dollars in thousands):

Apartments	$455,856
Apartments under construction	1,514
Commercial properties	196,398
Land held for development	157,591
Real estate subject to sales contract	21,434
Total real estate	$832,793
Less accumulated depreciation	(136,187)
Total real estate, net of depreciation	$696,606

The highlights of our significant real estate transactions for the three months ended March 31, 2015 are listed below:

On March 19, 2015, TCI sold 15.515 acres of land known as McKinney Ranch land, located in McKinney, Texas, to an independent third party, for a sales price of $3.4 million. We paid $3.2 million on the existing mortgage to satisfy a portion of the multi-tract collateral debt of $5.1 million, secured by various land parcels located in McKinney, Texas. A gain of $1.3 million was recorded on the sale.

On March 31, 2015, TCI sold 17.872 acres of land known as McKinney Ranch land, located in McKinney, Texas, to an independent third party, for a sales price of $3.9 million. We paid $1.9 million to pay off the remaining balance of the multi-tract collateral debt, secured by various land parcels located in McKinney, Texas. A gain of $1.6 million was recorded on the sale.

As of March 31, 2015, there is one apartment complex, one commercial building and 110 acres of land that TCI has sold to a related party and has deferred the recognition of the sale. These are treated as “subject to sales contract” on the Consolidated Balance Sheets. These properties were sold to a related party in order to help facilitate an appropriate debt or organizational restructure and may or may not be transferred back to the seller upon resolution. These properties have mortgages that are secured by the property and many have corporate guarantees. According to the loan documents, the maker is currently in default on these mortgages primarily due to lack of payment and is actively involved in discussions with every lender in order to settle or cure the default situation. TCI has reviewed each asset and taken impairment to the extent it feels the value of the property was less than its current basis. TCI did not recognize or record the sale in accordance with ASC 360-20 due to our continuing involvement, which included the potential payment of cash shortfalls, future obligations under the existing mortgage and guaranty, the buyer’s inadequate initial investment and TCI’s questionable recovery of investment cost. TCI determined that no sale had occurred for financial reporting purposes and therefore the asset remained on the books and continued to record operating expenses and depreciation as a period cost until a sale occurred that met the requirements of ASC 360-20. The buyers received no compensation for the facilitation of the bankruptcy or debt restructuring process.

We continue to invest in the development of apartment projects. During the three months ended March 31, 2015, we have expended $0.8 million related to the construction or predevelopment of various apartment complexes.

NOTE 3. NOTES AND INTEREST RECEIVABLE

A portion of our assets are invested in mortgage notes receivable, principally secured by real estate. We may originate mortgage loans in conjunction with providing purchase money financing of property sales. Notes receivable are generally collateralized by real estate or interests in real estate and personal guarantees of the borrower and, unless noted otherwise, are so secured. Management intends to service and hold for investment the mortgage notes in our portfolio. A majority of the notes receivable provide for principal to be paid at maturity. Our mortgage notes receivable consist of first, wraparound and junior mortgage loans (dollars in thousands):

Borrower	Maturity Date	Interest Rate		Amount	Security
Performing loans:					
Foundation for Better Housing, Inc. (Holland Lake) (1)	12/19	12.00%	$	4,698	Secured
Foundation for Better Housing, Inc. (Holland Lake) (1)	12/17	12.00%		1,674	Secured
Foundation for Better Housing, Inc. (Overlook at Allensville) (1)	11/19	12.00%		2,472	Secured
Foundation for Better Housing, Inc. (Overlook at Allensville) (1)	12/17	12.00%		1,408	Secured
Foundation for Better Housing, Inc. (Preserve at Prairie Pointe) (1)	03/19	12.00%		1,810	Secured
Foundation for Better Housing, Inc. (Preserve at Prairie Pointe) (1)	03/17	12.00%		1,156	Secured
Foundation for Better Housing, Inc. (Vista Ridge) (1)	04/19	12.00%		3,923	Secured
Foundation for Better Housing, Inc. (Vista Ridge) (1)	06/17	12.00%		1,492	Secured
H198, LLC (Las Vegas Land)	01/20	12.00%		5,907	Secured
HGH Residential, Inc. (Tradewinds Dev)	07/19	12.00%		6,131	Secured
One Realco Corporation (1) (2)	01/17	3.00%		7,000	Unsecured
Realty Advisors Management, Inc. (1)	12/16	2.20%		20,387	Unsecured
Unified Housing Foundation, Inc. (Cliffs of El Dorado) (1)	12/32	12.00%		2,097	100% Membership Interest in Unified Housing of McKinney, LLC
Unified Housing Foundation, Inc. (Echo Station) (1)	12/32	12.00%		1,481	100% Membership Interest in Unified Housing of Temple, LLC
Unified Housing Foundation, Inc. (Inwood on the Park) (1)	12/32	12.00%		5,059	100% Membership Interest in Unified Housing Inwood, LLC
Unified Housing Foundation, Inc. (Kensington Park) (1)	12/32	12.00%		3,936	100% Membership Interest in Unified Housing Kensington, LLC
Unified Housing Foundation, Inc. (Lakeshore Villas) (1)	12/32	12.00%		2,000	Secured
Unified Housing Foundation, Inc. (Lakeshore Villas) (1)	12/32	12.00%		9,096	Membership interest in Housing for Seniors of Humble, LLC

Unified Housing Foundation, Inc. (Limestone Canyon) (1)	12/32	12.00%	3,057	100% Membership Interest in Unified Housing of Austin, LLC
Unified Housing Foundation, Inc. (Limestone Canyon) (1)	12/32	12.00%	4,663	100% Membership Interest in Unified Housing of Austin, LLC
Unified Housing Foundation, Inc. (Limestone Ranch) (1)	12/32	12.00%	2,250	100% Membership Interest in Unified Housing of Vista Ridge, LLC
Unified Housing Foundation, Inc. (Limestone Ranch) (1)	12/32	12.00%	6,000	100% Membership Interest in Unified Housing of Vista Ridge, LLC
Unified Housing Foundation, Inc. (Parkside Crossing) (1)	12/32	12.00%	2,272	100% Membership Interest in Unified Housing of Parkside Crossing, LLC
Unified Housing Foundation, Inc. (Reserve at White Rock Phase I) (1)	12/32	12.00%	2,485	100% Membership Interest in Unified Housing of Harvest Hill I, LLC
Unified Housing Foundation, Inc. (Reserve at White Rock Phase II) (1)	12/32	12.00%	2,555	100% Membership Interest in Unified Housing of Harvest Hill, LLC
Unified Housing Foundation, Inc. (Sendero Ridge) (1)	12/32	12.00%	5,174	100% Membership Interest in Unified Housing of Sendero Ridge, LLC
Unified Housing Foundation, Inc. (Sendero Ridge) (1)	12/32	12.00%	4,812	100% Membership Interest in Unified Housing of Sendero Ridge, LLC
Unified Housing Foundation, Inc. (Timbers at the Park) (1)	12/32	12.00%	1,323	100% Membership Interest in Unified Housing of Terrell, LLC
Unified Housing Foundation, Inc. (Tivoli) (1)	12/32	12.00%	7,966	100% Membership Interest in Unified Housing of Tivoli, LLC
Unified Housing Foundation, Inc. (Trails at White Rock) (1)	12/32	12.00%	3,815	100% Membership Interest in Unified Housing of Harvest Hill III, LLC
Unified Housing Foundation, Inc. (1)	06/17	12.00%	1,261	Unsecured
Unified Housing Foundation, Inc. (1)	12/17	12.00%	1,207	Unsecured
Unified Housing Foundation, Inc. (1)	12/15	12.00%	2,665	Unsecured
Unified Housing Foundation, Inc. (1)	12/16	12.00%	3,657	Unsecured
Other related party notes (1)	Various	Various	2,117	Various secured interests
Other related party notes (1)	Various	Various	4,276	Various unsecured interests
Other non-related party notes	Various	Various	3,166	Various secured interests
Other non-related party notes	Various	Various	503	Various unsecured interests
Accrued interest			6,320	
			$ 153,271	

Total Performing					
Non-Performing loans:					
Leman Development, Ltd (2)	07/11	7.00%	$	1,500	Unsecured
Tracy Suttles (2)	12/11	0.00%		1,077	Unsecured
Other non-related party notes	Various	Various		507	Various secured interests
Accrued interest				87	
Total Non-Performing			$	3,171	
Allowance for doubtful accounts				(18,279)	
Total			$	138,163	

(1) Related party notes
(2) An allowance was taken for estimated losses at full value of note

12

Junior Mortgage Loans. We may invest in junior mortgage loans, secured by mortgages that are subordinate to one or more prior liens either on the fee or a leasehold interest in real estate. Recourse on such loans ordinarily includes the real estate on which the loan is made, other collateral and personal guarantees by the borrower.

At March 31, 2015, we had junior mortgage loans and accrued interest receivable from related parties, net of allowances, totaling $121.3 million. We recognized interest income of $3.8 million related to these notes receivables.

The Company has various notes receivable from Unified Housing Foundation, Inc. ("UHF") and Foundation for Better Housing, Inc. ("FBH"). UHF and FBH are determined to be related parties due to our significant investment in the performance of the collateral secured under the notes receivable. Payments are due from surplus cash flow of operations of the properties. A sale or refinance of any of the properties underlying these notes will be used to repay outstanding interest and principal for the remaining notes for the specific borrower. These notes are cross-collateralized for the specific borrower, but to the extent cash is received from a specific UHF or FBH property, it is applied first against any outstanding interest for the related-property note. The allowance on the UHF notes was a purchase allowance that was netted against the notes when acquired.

NOTE 4. INVESTMENT IN UNCONSOLIDATED INVESTEES

Investments in unconsolidated investees in which we have a 20% to 50% interest or otherwise exercise significant influence are carried at cost and adjusted for the Company's proportionate share of their undistributed earnings or losses under the equity method of accounting.

Investments in unconsolidated investees consist of the following:

	Percentage ownership as of	
	March 31, 2015	March 31, 2014
Gruppa Florentina, LLC	20.00 %	20.00 %

Gruppa Florentina, LLC is the sole member of Milano Restaurants International Corporation, ("Milano") which operates 35 pizza parlors under the trade name "Me-N-Ed's Pizza Parlors" located primarily in Central and Northern California. Milano has a 100% ownership interest in SienaCorp, which operates two grills under the trade names "Me-N-Ed's Victory Grill" and "Me-N-Ed's Coney Island Grill". Milano has a 100% ownership interest in Piazza del Pane, Inc., which operates two restaurants located in Central California. Milano also has 23 franchised locations, including two operating, under the trade name Angelo & Vito's Pizzerias.

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

As of March 31,	2015	2014
Real estate, net of accumulated depreciation	$11,981	$10,518
Notes receivable	7,528	6,730
Other assets	29,163	31,026
Notes payable	(10,132)	(10,473)
Other liabilities	(6,182)	(7,402)
Shareholders' equity	(32,358)	(30,399)

For the Three Months Ended March 31,	2015	2014
Revenue	$12,790	$11,626
Depreciation	(288)	(288)
Operating expenses	(11,598)	(10,669)
Interest expense	(201)	(227)
Income from continuing operations	703	442
Income from discontinued operations	-	-
Net income	$703	$442
Company's proportionate share of earnings (1)	$141	$88

(1) Earnings represents continued and discontinued operations

NOTE 5. NOTES PAYABLE

Below is a summary of our notes and interest payable as of March 31, 2015 (dollars in thousands):

	Notes Payable	Accrued Interest	Total Debt
Apartments	$ 418,681	$ 1,106	$ 419,787
Commercial	104,292	461	104,753
Land	77,227	117	77,344
Real estate held for sale	1,227	-	1,227
Real estate subject to sales contract	16,754	1,680	18,434
Other	19,440	272	19,712
Total	$ 637,621	$ 3,636	$ 641,257

The segment labeled as “Other” consists of unsecured or stock-secured notes payable.

With respect to the additional notes payable due to the acquisition of properties or refinancing of existing mortgages, a summary of some of the more significant transactions is discussed below:

On January 28, 2015, TCI refinanced the existing mortgage on Heather Creek apartments, a 200-unit complex located in Mesquite, Texas, for a new mortgage of $11.5 million. TCI paid off the existing mortgage of $11.5 million and $0.3 million in closing costs. The note accrues interest at 3.24% and payments of interest and principal are due monthly, maturing August 1, 2050.

On January 28, 2015, TCI modified the existing mortgage on Toulon apartments, a 240-unit complex located in Gautier, Mississippi, to reduce the interest rate. The new term accrues interest at 3.24% and payments of interest and principal are due monthly, maturing December 1, 2051.

There are various land mortgages, secured by the property, that are in the process of a modification or extension to the original note due to expiration of the loan. We are in constant contact with these lenders, working together in order to modify the terms of these loans and we anticipate a timely resolution that is similar to the existing agreement or subsequent modification.

The properties that we have sold to a related party and have deferred the recognition of the sale are treated as "subject to sales contract" on the Consolidated Balance Sheets. These properties were sold to a related party in order to help facilitate an appropriate debt or organizational restructure and may or may not be transferred back to the seller upon resolution. These properties have mortgages that are secured by the property and many have corporate guarantees. According to the loan documents, the maker is currently in default on these mortgages primarily due to lack of payment and is actively involved in discussions with every lender in order to settle or cure the default situation. We have reviewed each asset and taken impairment to the extent we feel the value of the property was less than our current basis.

NOTE 6. RELATED PARTY TRANSACTIONS

The following table reconciles the beginning and ending balances of accounts receivable from and (accounts payable) to related parties as of March 31, 2015 (dollars in thousands):

		Pillar	
Related party receivable, December 31, 2014	$	21,414	
Cash transfers		(6,979	)
Advisory fees		(2,292	)
Net income fee		(290	)
Fees and commissions		(353	)
Cost reimbursements		(963	)
Interest income		230	
Expenses paid by Advisor		(1,093	)
Financing (mortgage payments)		(4,265	)
Related party receivable, March 31, 2015	$	5,409	

During the ordinary course of business, we have related party transactions that include, but are not limited to, rent income, interest income, interest expense, general and administrative costs, commissions, management fees and property expenses. In addition, we have assets and liabilities that include related party amounts. The related party amounts included in assets and liabilities, and the related party revenues and expenses received/paid are shown on the face of the Consolidated Financial Statements.

NOTE 7. OPERATING SEGMENTS

Our segments are based on our method of internal reporting which classifies our operations by property type. Our property types are grouped into commercial, apartments, hotels, land and other operating segments. Significant differences among the accounting policies of the operating segments as compared to the Consolidated Financial Statements principally involve the calculation and allocation of administrative and other expenses. Management evaluates the performance of each of the operating segments and allocates resources to them based on their net operating income and cash flow.

Items of income that are not reflected in the segments are interest, other income, gain on debt extinguishment, gain on condemnation award, equity in partnerships and gains on sale of real estate. Expenses that are not reflected in the segments are provision for losses, advisory, net income and incentive fees, general and administrative, non-controlling

interests and net loss from discontinued operations before gains on sale of real estate.

The segment labeled as “Other” consists of revenue and operating expenses related to the notes receivable and corporate debt.

Presented below is our reportable segments' operating income for the three months ended March 31, 2015 and 2014, including segment assets and expenditures (dollars in thousands):

For the Three Months Ended March 31, 2015	Commercial Properties	Apartments	Hotels	Land	Other	Total
Rental and other property revenues	$ 7,091	$ 16,019	$ -	$ -	$ 46	$ 23,156
Property operating expenses	(4,267)	(7,042)	-	(349)	(10)	(11,668)
Depreciation	(1,927)	(2,795)	-	-	18	(4,704)
Mortgage and loan interest	(1,513)	(4,073)	-	(1,064)	(2,543)	(9,193)
Deferred borrowing costs amortization	(103)	(260)	-	(52)	(186)	(601)
Loan charges and prepayment penalties	-	(1,850)	-	-	-	(1,850)
Interest income	-	-	-	-	5,237	5,237
Gain on land sales	-	-	-	2,876	-	2,876
Segment operating income (loss)	$ (719)	$ (1)	$ -	$ 1,411	$ 2,562	$ 3,253
Capital expenditures	3,192	257	-	826	-	4,275
Real estate assets	143,686	387,847	-	165,073	-	696,606
Property Sales						
Sales price	$ -	$ -	$ -	$ 7,257	$ -	$ 7,257
Cost of sale	-	-	-	(4,381)	-	(4,381)
Gain on sale	$ -	$ -	$ -	$ 2,876	$ -	$ 2,876

For the Three Months Ended March 31, 2014	Commercial Properties	Apartments	Hotels	Land	Other	Total
Rental and other property revenues	$ 4,781	$ 14,368	$ -	$ -	$ 10	$ 19,159
Property operating expenses	(3,147)	(6,465)	-	(311)	(5)	(9,928)
Depreciation	(1,814)	(2,534)	-	-	35	(4,313)
Mortgage and loan interest	(1,477)	(3,849)	-	(1,050)	(1,743)	(8,119)
Deferred borrowing costs amortizaion	(13)	(887)	-	(35)	(3)	(938)
Loan charges and prepayment penalties	(9)	(1,573)	-	-	-	(1,582)
Interest income	-	-	-	-	4,117	4,117
Gain on land sales	-	-	-	753	-	753
Segment operating income (loss)	$ (1,679)	$ (940)	$ -	$ (643)	$ 2,411	$ (851)
Capital expenditures	1,130	-	-	85	-	1,215
Real estate assets	130,221	350,226	-	167,692	-	648,139
Property Sales						
Sales price	$ -	$ 23,131	$ -	$ 1,565	$ -	$ 24,696
Cost of sale	-	(17,078)	-	(812)	-	(17,890)

Gain on sale	$ -	$ 6,053	$ -	$ 753	$ -	$ 6,806

The table below reconciles the segment information to the corresponding amounts in the Consolidated Statements of Operations (dollars in thousands):

	For the Three Months Ended March 31,	
	2015	2014
Segment operating income (loss)	$ 3,253	$ (851)
Other non-segment items of income (expense)		
General and administrative	(2,201)	(1,984)
Net income fee to related party	(290)	(490)
Advisory fee to related party	(2,292)	(2,242)
Other income	4,097	173
Earnings from unconsolidated investees	45	70
Litigation settlement	(73)	3,839
Income tax benefit	103	2,049
Net income from continuing operations	$ 2,642	$ 564

The table below reconciles the segment information to the corresponding amounts in the Consolidated Balance Sheets (dollars in thousands):

	March 31,	
	2015	2014
Segment assets	$ 696,606	$ 648,139
Assets held for sale	-	35,475
Investments in unconsolidated investees	4,462	3,990
Notes and interest receivable	138,163	129,220
Other assets	106,457	123,332
Total assets	$ 945,688	$ 940,156

NOTE 8. DISCONTINUED OPERATIONS

We apply the provisions of ASC Topic 360, “Property, Plant and Equipment”. ASC Topic 360 requires that long-lived assets that are to be disposed of by sale be measured at the lesser of (1) book value or (2) fair value less cost to sell. In addition, it requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions.

Discontinued operations relates to properties that were either sold or held for sale as of the period ended March 31, 2015. Included in discontinued operations are a total of zero and four properties for 2015 and 2014, respectively. Properties sold in 2015 have been reclassified to discontinued operations for current and prior year reporting periods, if any. There were no sales of income-producing properties in the first quarter of 2015. In 2014, we sold two apartment complexes (Blue Ridge and Pecan Pointe), and two commercial properties (1010 Common and Sesame Square). The gain on sale of the properties is also included in discontinued operations for those years. The following table summarizes revenue and expense information for the properties sold and held for sale (dollars in thousands):

	For the Three Months Ended March 31,	
	2015	2014
Revenues:		
Rental and other property revenues	$15	$2,571
	15	2,571
Expenses:		
Property operating expenses	(374)	1,317
Depreciation	-	330
General and administrative	95	174
Total operating expenses	(279)	1,821
Other income (expense):		
Other income	-	42
Mortgage and loan interest	(1)	(664)
Deferred borrowing costs amortization	-	(282)
Litigation settlement	-	(45)
Total other expenses	(1)	(949)
Gain (loss) from discontinued operations before gain on sale of real estate and tax	293	(199)
Gain on sale of real estate from discontinued operations	-	6,053
Income tax expense	(103)	(2,049)
Income from discontinued operations	$190	$3,805

Our application of ASC Topic 360 results in the presentation of the net operating results of these qualifying properties sold or held for sale during 2015 as income from discontinued operations. This does not have an impact on net income available to common shareholders and only impacts the presentation of these properties within the Consolidated Statements of Operations.

NOTE 9. COMMITMENTS, CONTINGENCIES, AND LIQUIDITY

LK-FOUR HICKORY, LLC

In conjunction with its sale of Four Hickory in November 2007, the Company agreed to fund amounts to satisfy its commitment to compensate LK-Four Hickory, LLC for move-in discounts and other concessions to existing tenants at the time of sale. The Company also has various agreements with LK-Four Hickory, LLC related to the funding of projection shortfalls, which, to date, they have not had to provide any additional funding. In addition, related parties of the Company have active lease agreements with LK-Four Hickory, LLC, and the Company has since guaranteed amounts related to certain of these leases.

On December 17, 2007, both Limkwang Nevada, Inc., the majority owner of LK-Four Hickory, LLC, and ARL unconditionally guaranteed the punctual payment when due, whether at stated maturity, by acceleration or hereafter, including all fees and expenses incurred by the bank on collection of a $28.0 million note payable for LK-Four Hickory, LLC which has a current outstanding balance of $22.1 million.

The Company's investment in LK-Four Hickory, LLC at January 17, 2012 was sold and the Company has additional reserves for estimated potential amounts it could be liable for if various related parties are not able to meet their obligations to LK-Four Hickory, LLC. The Company will continue to evaluate these potential estimates and also the likelihood of having to fund any of these and adjust their reserves accordingly.

Liquidity. Management believes that ARL will generate excess cash flow from property operations in 2015; such excess, however, will not be sufficient to discharge all of ARL's obligations as they became due. Management intends to sell land and income- producing real estate, refinance real estate and obtain additional borrowings primarily secured by real estate to meet its liquidity requirements.

Partnership Buyouts. ARL is the limited partner in various partnerships related to the construction of residential properties. As permitted in the respective partnership agreements, ARL intends to purchase the interests of the general and any other limited partners in these partnerships subsequent to the completion of these projects. The amounts paid to buy out the non-affiliated partners are limited to development fees earned by the non-affiliated partners and are set forth in the respective partnership agreements.

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

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

Disposed of Entities:

ART and ART Midwest, Inc.

While the Company and all entities in which the Company has a direct or indirect equity interest are not parties to or obligated in any way for the outcome, a formerly owned entity (American Realty Trust, Inc.) and its former subsidiary (ART Midwest, Inc.) have been engaged since 1999 in litigation with Mr. David Clapper and entities related to Mr. Clapper (collectively, the "Clapper Parties"). The matter originally involved a transaction in 1998 in which ART Midwest, Inc. was to acquire eight residential apartment complexes from the Clapper Parties. Through the years, a number of rulings, both for and against American Realty Trust, Inc. ("ART") and ART Midwest, Inc., were issued. In October 2011, a ruling was issued under which the Clapper Parties received a judgment for approximately $74 million, including $26 million in actual damages and $48 million interest. The ruling was against ART and ART Midwest, Inc., but no other entity. During February 2014, the Court of Appeals affirmed a portion of the judgment in favor of the Clapper Parties, but also ruled that a double counting of a significant portion of the damages had occurred and remanded the case back to the trial court to recalculate the damage award, as well as pre and post-judgment interest thereon. ART was also a significant owner of a partnership interest in the partnership that was awarded the initial damages in this matter.

In 2005, ART filed suit against a major national law firm over the initial transaction. That action was initially abated while the principal case with the Clapper Parties was pending, but the abatement was recently lifted and the action against the law firm is expected to move forward. The only defendants in the litigation involving the Clapper Parties are ART and ART Midwest, Inc., which, together, had total assets and net worth, as of December 31, 2012, of approximately $10 million. In January 2012, the Company sold all of the issued and outstanding stock of ART to an unrelated party for a promissory note in the amount of $10 million. At December 31, 2012, the Company fully

reserved and valued such note at zero.

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

Management of the Company believes that the Company has no liability for any ultimate judgment in the proceeding involving the Clapper Parties; however, Management of the Company has serious reservations about the current collectability of the $10 million note and, accordingly, continues to maintain a full reservation of the value of such note at zero.

Port Olpenitz

ARL, through a foreign subsidiary, was involved in developing a maritime harbor town on the 420 acre site of the former naval base of Olpenitz in Kappeln, Germany. Disputes with the local partner related to his mismanagement of the project resulted in his being replaced as the managing partner which was followed by a filing for bankruptcy protection in Germany to completely remove him from the project. An insolvency manager was placed in control of the project in order to protect the creditors and as of December 31, 2013, had sold the vast majority of assets (almost all land) of the project. The Company no longer has any financial responsibility for the obligations of the creditors related to the project and has claims filed for loans relating to our investment in the project. Due to the questionable collectability of these loans from the proceeds of the project, the Company has written off the unreserved balance of $5.3 million in the project. As of December 13, 2013, ARL had filed two lawsuits in Germany to recover funds invested in the project. The lawsuits are against: 1) the former German partner and his company, and 2) against the law firm in Hamburg originally hired to protect ARL's investment in the project. At this time it is unknown how much can be recovered or how successful the litigation will be.

Dynex Capital, Inc.

On February 13, 2013, the Court of Appeals, Fifth District of Texas at Dallas (the "Fifth Court of Appeals") rendered an opinion involving TCI in Case No. 05-04-01358-CV styled Basic Capital Management, Inc., American Realty Trust, Inc., Transcontinental Realty Investors, Inc., Continental Poydras Corp., Continental Common, Inc. and Continental Baronne, Inc. v. Dynex Commercial, Inc. and Dynex Capital, Inc. The case was on appeal from the 68th Judicial District Court of Dallas County, Texas, had previously been appealed to the Fifth Court of Appeals and further appealed to the Supreme Court of the State of Texas which had remanded the instant case back to the Fifth Court of Appeals to address certain issues. The case had its origin with Dynex Commercial making loans to Continental Poydras Corp., Continental Common, Inc. and Continental Baronne, Inc. (subsidiaries of Continental Mortgage & Equity Trust ("CMET"), an entity which merged into TCI in 1999 after the original suit was filed). Under the original loan commitment, $160,000,000 in loans were to be made to the entities. The loans were conditioned on the execution of a commitment between Dynex Commercial and Basic Capital Management, Inc. ("Basic").

An original trial to a jury resulted in the jury awarding significant damages to Basic for "lost opportunity," awarding damages in "increased costs" and "lost opportunity" damages to ART and damages of $960,646 in "increased costs" and $11,161,520 for "lost opportunity" damages in favor of TCI and its subsidiaries (a total of $12,122,166). The original Trial Court ignored the jury's findings and entered a "Judgment Notwithstanding the Verdict" ("JNOV") in Dynex's favor; the Fifth Court of Appeals has now ruled that the JNOV was improper because there was sufficient evidence to support the jury's findings. As a result, the Fifth Court of Appeals ordered the Trial Court to enter a new judgment consistent with the jury's original findings.

The Fifth Court of Appeals also determined that TCI was entitled to damages for "lost opportunities" relating to tenant improvements and awarded TCI an additional $252,577. Issues relating to attorney's fees were also addressed with the Fifth Court of Appeals ordering the Trial Court to "re-try" the issue of attorney's fees to determine the amount of fees to which TCI would be entitled on a "breach of commitment" claim. In addition, as a result of the changes in amounts awarded and passage of time, the Fifth Court of Appeals also ordered the Trial Court to recalculate the correct amounts of pre and post-judgment interest owed to Appellants.

While the fifteen year old controversy is not yet fully resolved, the Fifth Court of Appeals' opinion is favorable to TCI, but TCI expects continued challenges by Dynex to the Fifth Court of Appeals' opinion and any ultimate award of damages by the Trial Court.

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

NOTE 10. EARNINGS PER SHARE

Earnings per share ("EPS") have been computed pursuant to the provisions of ASC Topic 260, "Earnings Per Share". The computation of basic EPS is calculated by dividing net income available to common shareholders from continuing operations, adjusted for preferred dividends, by the weighted-average number of common shares outstanding during the period. Shares issued during the period shall be weighted for the portion of the period that they were outstanding.

As of March 31, 2015, we have 2,461,252 shares of Series A 10.0% cumulative convertible preferred stock, which are outstanding. These shares may be converted into common stock at 90% of the average daily closing price of the common stock for the prior 20 trading days. These are considered in the computation of diluted earnings per share if the effect of applying the if-converted method is dilutive. Of the outstanding 2,461,252 shares of Series A 10.0% cumulative convertible preferred stock, 600,000 shares were owned by ART Hotel Equities, Inc. and 300,000 shares were owned by ART Edina, Inc. a wholly owned subsidiary of ARL. As of May 30, 2014, these 900,000 shares were transferred to ARL. Dividends are not paid on the shares owned by ARL subsidiaries.

Prior to July 17, 2014, RAI owned 2,451,435 shares of the outstanding Series A 10.0% convertible preferred stock and had accrued dividends unpaid of $15.1 million. On July 17, 2014, RAI converted 890,797 shares, including $6.3 million in accumulated dividends unpaid for these shares, into the requisite number of shares of common stock. This conversion resulted in the issuance of 2,502,230 new shares of ARL common stock. As of March 31, 2015, RAI owns 1,560,638 shares of the outstanding Series A 10.0% convertible preferred stock and has accrued dividends unpaid of $10.0 million.

The Company had 135,000 shares of Series K convertible preferred stock, which were held by TCI and used as collateral on a note. The note has been paid in full and the Series K preferred stock was cancelled May 7, 2014.

Prior to January 1, 2015, the Company had 1,000 shares of stock options outstanding. These options expired unexercised January 1, 2015. The options are no longer included in the dilutive earnings per share calculation for the current period, but are considered in the computation for the prior periods if applying the "treasury stock" method is dilutive.

As of March 31, 2015, the series A convertible preferred stock was dilutive and thus was included in the EPS calculation.

NOTE 11. SUBSEQUENT EVENTS

The date to which events occurring after March 31, 2015, the date of the most recent balance sheet, have been evaluated for possible adjustment to the Consolidated Financial Statements or disclosure is May 13, 2015, which is the date on which the Consolidated Financial Statements were available to be issued.

On April 9, 2015, Realty Advisors, Inc. requested that 460,638 shares of ARI Series A Cumulative Convertible Preferred Stock be converted into ARL common stock. This resulted in the issuance of 1,486,741 new shares of ARL common stock, converted at $4.62 per share.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Consolidated Financial Statements and notes thereto appearing elsewhere in this report.

This Report on Form 10-Q 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 expressio relate solely to historical matters are intended to identify forward-looking statements. These statements are subject to risks, uncertainties, and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. We caution you that, while forward-looking statements reflect our good faith beliefs when we make them, they are not guarantees of future performance and are impacted by actual events when they occur after we make such statements. We expressly disclaim any responsibility to update our forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following:

- general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew leases, dependence on tenants' financial condition, and competition from other developers, owners and operators of real estate);

- risks associated with the availability and terms of construction and mortgage financing and the use of debt to fund acquisitions and developments;

- demand for apartments and commercial properties in the Company's markets and the effect on occupancy and rental rates;

- the Company's ability to obtain financing, enter into joint venture arrangements in relation to or self-fund the development or acquisition of properties;

- risks associated with the timing and amount of property sales and the resulting gains/losses associated with such sales;

- 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-Q, including those described under the caption "Risk Factors."

The risks included here are not exhaustive. 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 factors listed and described at Part I, Item 1A. "Risk Factors" in the Company's Annual Report on Form 10-K, which investors should review. There have been no changes from the risk factors previously described in the Company's Form 10-K for the fiscal year ended December 31, 2014.

Other sections of this report may also include suggested factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time-to-time and it is not possible for management to predict all such matters; nor can we assess the impact of all such matter 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 prediction of actual results. Investors should also refer to our quarterly reports on Form 10-Q for future periods and to other materials we may furnish to the public from time-to-time through Forms 8-K or otherwise as we file them with the SEC.

Overview

We are an externally advised and managed real estate investment company that owns a diverse portfolio of income-producing properties and land held for development. Our portfolio of income-producing properties includes residential apartment communities, office buildings and other commercial properties. Our investment strategy includes acquiring existing income-producing properties, as well as developing new properties on land already owned or acquired for a specific development project. We acquire land primarily in urban in-fill locations or high-growth suburban markets. We are an active buyer and seller of real estate and during the three months ended March 31, 2015, we sold $7.3 million of land. As of March 31, 2015, we owned 6,344 units in 38 residential apartment communities and nine commercial properties comprising approximately 2.1 million rentable square feet. In addition, we owned 4,200 acres of land held for development.

We finance our acquisitions primarily through operating cash flow, proceeds from the sale of land and income-producing properties and debt financing primarily in the form of property-specific first-lien mortgage loans from commercial banks and institutional lenders. We finance our development projects principally with short-term, variable interest rate construction loans that are converted to long-term, fixed rate amortizing mortgages when the development project is completed and occupancy has been stabilized. We 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 our wholly owned properties. When we sell assets, we may carry a portion of the sales price generally in the form of a short-term, interest bearing seller-financed note receivable. We generate operating revenues primarily by leasing apartment units to residents and leasing office, retail and industrial space to commercial tenants. We have no employees.

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

Pillar Income Asset Management, Inc. (“Pillar”) is the Company’s external Advisor and Cash Manager. Although the Board of Directors is directly responsible for managing the affairs of ARL, and for setting the policies which guide it, the day-to-day operations of ARL are performed by Pillar, as the contractual Advisor, under the supervision of the Board. Pillar’s duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities and arranging debt and equity financing for the Company with third party lenders and investors. Additionally, Pillar serves as a consultant to the Board with regard to their decisions in connection with ARL’s business plan and investment policy. Pillar also serves as an Advisor and Cash Manager to TCI and IOT.

Regis Realty Prime, LLC (“Regis”) manages our commercial properties and provides brokerage services. ARL engages third-party companies to lease and manage its apartment properties.

Critical Accounting Policies

We present our Consolidated Financial Statements in accordance with generally accepted accounting principles in the United States of America (“GAAP”). The FASB Accounting Standards Codification (“ASC”) is the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. As of the effective date, we no longer refer to the authoritative guidance dictating its accounting methodologies under the previous accounting standards hierarchy.

Instead, we refer to the ASC Codification as the sole source of authoritative literature.

The accompanying Consolidated Financial Statements include our accounts, our subsidiaries, generally all of which are wholly-owned, and all entities in which we have a controlling interest. Arrangements that are not controlled through voting or similar rights are accounted for as a Variable Interest Entity ("VIE"), in accordance with the provisions and guidance of ASC Topic 810 "Consolidation", whereby we have determined that we are a primary beneficiary of the VIE and meet certain criteria of a sole general partner or managing member as identified in accordance with Emerging Issues Task Force ("EITF") Issue 04-5, Investor's Accounting for an Investment in a Limited Partnership when the Investor is the Sole General Partner and the Limited Partners have Certain Rights ("EITF 04-5"). VIEs are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders as a group lack adequate decision making ability, the obligation to absorb expected losses or residual returns of the entity, or have voting rights that are not proportional to their economic interests. The primary beneficiary generally is the entity that provides financial support and bears a majority of the financial risks, authorizes certain capital transactions, or makes operating decisions that materially affect the entity's financial results. All significant intercompany balances and transactions have been eliminated in consolidation.

In determining whether we are the primary beneficiary of a VIE, we consider qualitative and quantitative factors, including, but not limited to: the amount and characteristics of our investment; the obligation or likelihood for us or other investors to provide financial support; our and the other investors' ability to control or significantly influence key decisions for the VIE; and the similarity with and significance to the business activities of us and the other investors. Significant judgments related to these determinations include estimates about the current future fair values and performance of real estate held by these VIEs and general market conditions.

For entities in which we have less than a controlling financial interest or entities where we are not deemed to be the primary beneficiary, the entities are accounted for using the equity method of accounting. Accordingly, our share of the net earnings or losses of these entities are included in consolidated net income. Our investment in Gruppa Florentina, LLC is accounted for under the equity method.

Real Estate

Upon acquisitions of real estate, we assess the fair value of acquired tangible and intangible assets, including land, buildings, tenant improvements, “above-market” and “below-market” leases, origination costs, acquired in-place leases, other identified intangible assets and assumed liabilities in accordance with ASC Topic 805 “Business Combinations”, and allocate the purchase price to the acquired assets and assumed liabilities, including land at appraised value and buildings at replacement cost.

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

We record acquired “above-market” 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.

A variety of costs are incurred in the acquisition, development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. Our capitalization policy on development properties is guided by ASC Topic 835-20 “Interest – Capitalization of Interest” and ASC Topic 970 “Real Estate - General”. The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We cease capitalization when a building is considered substantially complete and ready for its intended use, but no later than one year from the cessation of major construction activity.

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.

ASC Topic 360 “Property, Plant and Equipment” requires that qualifying assets and liabilities and the results of operations that have been sold, or otherwise qualify as held for sale, be presented as discontinued operations in all periods presented if the property operations are expected to be eliminated and we 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.

Depreciation and Impairment

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

Investments in Unconsolidated Real Estate Ventures

Except for ownership interests in variable interest entities, we account for our investments in unconsolidated real estate ventures under the equity method of accounting because we exercise significant influence over, but do 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 our balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in earnings of unconsolidated real estate ventures over the life of the related asset. Under the equity method of accounting, our net equity is reflected within the Consolidated Balance Sheets, and our share of net income or loss from the joint ventures is included within the Consolidated Statements of Operations. The joint venture agreements may designate different percentage allocations among investors for profits and losses; however, our recognition of joint venture income or loss generally follows the joint venture's distribution priorities, which may change upon the achievement of certain investment return thresholds. For ownership interests in variable interest entities, we consolidate those in which we are the primary beneficiary.

Recognition of Rental Income

Rental income for commercial property leases is recognized on a straight-line basis over the respective lease terms. In accordance with ASC Topic 805 "Business Combinations", we recognize rental revenue of acquired in-place "above-market" 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. An allowance for doubtful accounts is recorded for all past due rents and operating expense reimbursements considered to be uncollectible.

Revenue Recognition on the Sale of Real Estate

Sales and the associated gains or losses of real estate are recognized in accordance with the provisions of ASC Topic 360-20, "Property, Plant and Equipment – Real Estate Sale". The specific timing of a sale is measured against various criteria in ASC 360-20 related to the terms of the transaction and any continuing involvement in the form of management or financial assistance associated with the properties. If the sales criteria for the full accrual method are not met, we defer some or all of the gain recognition and account for the continued operations of the property by applying the finance, leasing, deposit, installment or cost recovery methods, as appropriate, until the sales criteria are met.

Non-Performing Notes Receivable

We consider a note receivable to be non-performing when the maturity date has passed without principal repayment and the borrower is not making interest payments in accordance with the terms of the agreement.

Interest Recognition on Notes Receivable

We record interest income as earned in accordance with the terms of the related loan agreements.

Allowance for Estimated Losses

We assess the collectability of notes receivable on a periodic basis, of which the assessment consists primarily of an evaluation of cash flow projections of the borrower to determine whether estimated cash flows are sufficient to repay principal and interest in accordance with the contractual terms of the note. We recognize impairments on notes receivable when it is probable that principal and interest will not be received in accordance with the contractual terms of the loan. The amount of the impairment to be recognized generally is based on the fair value of the partnership's real estate that represents the primary source of loan repayment. See Note 3 "Notes and Interest Receivable" for details on our notes receivable.

Fair Value of Financial Instruments

We apply the guidance in ASC Topic 820, "Fair Value Measurements and Disclosures", to the valuation of real estate assets. These provisions define fair value as the price that would be received to sell an asset or paid to transfer a liability in a transaction between market participants at the measurement date, establish a hierarchy that prioritizes the information used in developing fair value estimates and require disclosure of fair value measurements by level within the fair value hierarchy. The hierarchy gives the highest priority to quoted prices in active markets (Level 1 measurements) and the lowest priority to unobservable data (Level 3 measurements), such as the reporting entity's own data.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date and includes three levels defined as follows:

Level 1 – Unadjusted quoted prices for identical and unrestricted assets or liabilities in active markets.
Level 2 – Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
Level 3 – Unobservable inputs that are significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Related Parties

We apply ASC Topic 805, "Business Combinations", to evaluate business relationships. Related parties are persons or entities who have one or more of the following characteristics, which include entities for which investments in their equity securities would be required, trust for the benefit of persons including principal owners of the entities and members of their immediate families, management personnel of the entity and members of their immediate families and other parties with which the entity may deal if one party controls or can significantly influence the decision making of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests, or affiliates of the entity.

Results of Operations

The discussion of our results of operations is based on management's review of operations, which is based on our segments. Our segments consist of apartments, commercial buildings, hotels, land and other. For discussion purposes, we break these segments down into the following sub-categories; same property portfolio, acquired properties and developed properties in the lease-up phase. The same property portfolio consists of properties that were held by us for the entire period for both years being compared. The acquired property portfolio consists of properties that we acquired but have not been held for the entire period for both periods being compared. Developed properties in the lease-up phase consist of completed projects that are being leased up. As we complete each phase of the project, we lease-up that phase and include those revenues in our continuing operations. Once a developed property becomes leased up and is held the entire period for both periods under comparison, it is considered to be included in the same property portfolio. Income-producing properties that we have sold during the year are reclassified to discontinued operations for all periods presented.

The following discussion is based on our Consolidated Statements of Operations for the three months ended March 31, 2015 and 2014, as included in Part I, Item 1. "Financial Statements" of this report. The prior year's property portfolios have been adjusted for subsequent sales. Continuing operations relates to income-producing properties that were held during those years as adjusted for sales in the subsequent years.

At March 31, 2015 and 2014, we owned or had interests in a portfolio of 47 and 46 income-producing properties, respectively. The total property portfolio represents all income-producing properties held as of March 31 for the period presented. Sales subsequent to the period ended represent properties that were held as of the period end for the periods presented, but sold in the next quarter. Continuing operations represents all properties that have not been reclassified to discontinued operations as of March 31, 2015 for the periods presented. The table below shows the number of income-producing properties held at the quarter ended:

	March 31,	
	2015	2014
Continuing operations	47	43
Held for sale/subsequent sales	0	3
Total property portfolio	47	46

Comparison of the three months ended March 31, 2015 to the same period ended 2014:

For the three months ended March 31, 2015, we reported a net income applicable to common shares of $3.0 million or $0.17 per diluted earnings per share, as compared to a net income applicable to common shares of $2.9 million or $0.25 per diluted earnings per share for the same period ended 2014.

Revenues

Rental and other property revenues were $23.2 million for the three months ended March 31, 2015. This represents an increase of $4.0 million, as compared to the prior period revenues of $19.2 million. This change, by segment, is an increase in the apartment portfolio of $1.6 million, and an increase in the commercial portfolio of $2.4 million. Within the apartment portfolio there was an increase of $1.3 million in the acquired property portfolio and an increase of $0.3 million in the same property portfolio. Our apartment portfolio continues to thrive in the current economic conditions with occupancies averaging over 95%. We have been able to surpass expectations due to the high-quality product offered, strength of our management team and our commitment to our tenants. Within the commercial portfolio there was an increase of $1.5 million in the acquired property portfolio and increase of $0.9 million in the same store properties. We are continuing to market our properties aggressively to attract new tenants and strive for continuous improvement of our properties in order to maintain our existing tenants.

Expense

Property operating expenses were $11.6 million for the three months ended March 31, 2015. This represents an increase of $1.7 million, as compared to the prior period operating expenses of $9.9 million. This change, by segment, is an increase in the apartment portfolio of $0.6 million, and an increase in the commercial portfolio of $1.1 million. Within the apartment portfolio there was an increase of $0.5 million in the acquired properties portfolio and an increase of $0.1 million in the same property portfolio. Within the commercial portfolio there was an increase of $1.0 million in the acquired properties portfolio and an increase of $0.1 million in the same store properties.

Depreciation and amortization expense was $4.7 million for the three months ended March 31, 2015. This represents an increase of $0.4 million, as compared to the prior period expense of $4.3 million. This change, by segment, is an increase in the apartment portfolio of $0.3 million and an increase in the commercial portfolio of $0.1 million. Within the apartment portfolio the increase of $0.3 was attributable to the acquired property portfolio.

Net income fee decreased slightly for the three months ended March 31, 2015 as compared to the prior period. The net income fee paid to our Advisor is calculated at 7.5% of net income.

Advisory fees increased slightly for the three months ended March 31, 2015 as compared to the prior period. Advisory fees are computed based on a gross asset fee of 0.0625% per month (0.75% per annum) of the average of the gross asset value.

Other income (expense)

Interest income was $5.2 million for the three months ended March 31, 2015. This represents an increase of $1.1 million, as compared to the prior year income of $4.1 million. The increase was primarily due to additional notes receivable acquired in prior periods.

Other income was $4.1 million for the three months ended March 31, 2015. This represents an increase of $3.9 million, as compared to the prior period income of $0.2 million. The majority of this increase was due to a settlement agreement on one of the commercial properties whereby upon payoff of the mortgage, we received a debt forgiveness of $3.9 million.

Mortgage and loan interest expense was $9.2 million for the three months ended March 31, 2015. This represents an increase of $1.1 million, as compared to the prior period expense of $8.1 million. The majority of this increase is in the other portfolio and is due to the securing of a new loan subsequent to the prior period.

Litigation settlement expenses were $0.07 million for the three months ended March 31, 2015. This represents an increase of $3.8 million as compared to the prior period income of $3.8 million. This increase is the result of guarantor settlements on various real estate properties in the prior period, therefore avoiding future litigation.

Gain on land sales increased for the three months ended March 31, 2015, as compared to the prior period. In the current period we sold 33.39 acres of land in two transactions for a sales price of $7.3 million and recorded a gain of $2.9 million. In the prior period, we sold 6.31 acres of land in one transaction for a sales price of $1.6 million and recorded a gain of $0.8 million.

Discontinued operations relates to properties that were either sold or held for sale as of the period ended March 31, 2015. Included in discontinued operations are a total of zero and four properties for 2015 and 2014, respectively. Properties sold in 2015 have been reclassified to discontinued operations for current and prior year reporting periods, if any. There were no sales of income-producing properties in the first quarter of 2015. In 2014, we sold two apartment complexes (Blue Ridge and Pecan Pointe), and two commercial properties (1010 Common and Sesame Square). The gain on sale of the properties is also included in discontinued operations for those years. The following table summarizes revenue and expense information for the properties sold and held for sale (dollars in thousands):

	For the Three Months Ended March 31,	
	2015	2014
Revenues:		
Rental and other property revenues	$ 15	$ 2,571
	15	2,571
Expenses:		
Property operating expenses	(374)	1,317
Depreciation	-	330
General and administrative	95	174
Total operating expenses	(279)	1,821
Other income (expense):		
Other income	-	42
Mortgage and loan interest	(1)	(664)
Deferred borrowing costs amortization	-	(282)
Litigation settlement	-	(45)
Total other expenses	(1)	(949)
Gain (loss) from discontinued operations before gain on sale of real estate and tax	293	(199)
Gain on sale of real estate from discontinued operations	-	6,053
Income tax expense	(103)	(2,049)
Income from discontinued operations	$ 190	$ 3,805

Liquidity and Capital Resources

Our principal liquidity needs are:

- fund normal recurring expenses;
- meet debt service and principal repayment obligations including balloon payments on maturing debt;
- fund capital expenditures, including tenant improvements and leasing costs;
- fund development costs not covered under construction loans; and
- fund possible property acquisitions.

Our principal sources of cash have been and will continue to be:

- property operations;
- proceeds from land and income-producing property sales;
- collection of mortgage notes receivable;
- collection of receivables from related party companies;
- refinancing of existing debt; and
- additional borrowing, including mortgage notes payable and lines of credit.

We draw on multiple financing sources to fund our long-term capital needs. We generally fund our development projects with construction loans. Management anticipates that our available cash from property operations may not be sufficient to meet all of our cash requirements. Management intends to selectively sell land and income-producing assets, refinance or extend real estate debt and seek additional borrowing secured by real estate to meet its liquidity requirements. Although the past cannot predict the future, historically, management has been successful at extending a portion of our current maturity obligations and selling assets as necessary to meet current obligations.

Cash Flow Summary

The following summary discussion of our cash flows is based on the statements of cash flows as presented in Part I Item 1. "Financial Statements" and is not meant to be an all-inclusive discussion of the changes in our cash flow (dollars in thousands):

	March 31,		
	2015	2014	Variance
Net cash provided by (used in) operating activities	$30,901	$(15,187)	$46,088
Net cash provided by (used in) investing activities	$(4,924)	$14,518	$(19,442)
Net cash provided by (used in) financing activities	$(18,576)	$2,616	$(21,192)

Our primary use of cash for operations is daily operating costs, general and administrative expenses, advisory fees and land holding costs. Our primary source of cash from operating activities is from rental income on properties. In addition, we have a related party account in which excess cash is transferred to or from. The majority of the increase is due to the reduction in obligations to related parties.

Our primary cash outlays for investing activities are for construction and development, acquisition of land and income producing properties, and capital improvements to existing properties. Our primary sources of cash from investing activities are from the proceeds on the sale of land and income-producing properties. We received more proceeds from sales of properties and land in the prior period than in the current period.

Our primary sources of cash from financing activities are from proceeds on notes payables either through refinancing our existing loans or by obtaining new financing. Our primary cash outlays are for recurring debt payments and payments on maturing notes payable. More cash was used to pay off maturing notes and mortgages on sold properties than proceeds received from new loans and refinancing.

Environmental Matters

Under various federal, state and local environmental laws, ordinances and regulations, we 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 our business, assets or results of operations.

Inflation

The effects of inflation on our operations are not quantifiable. Revenues from property operations tend to fluctuate proportionately with inflationary increases and decreases in real estate costs. Fluctuations in the rate of inflation also affect the sales values of properties and the ultimate gains to be realized from property sales. To the extent that inflation affects interest rates, earnings from short-term investments and the cost of new financings as well as the cost of variable interest rate debt will be affected.

Tax Matters

During the third quarter 2012, May Realty Holdings, Inc. ("MRHI"), formerly known as Realty Advisors Management, Inc., subsidiaries acquired some of the stock of ARL such that more than 80% of ARL was owned by the MRHI group. As a result, ARL joined the MRHI consolidated group for federal income tax reporting.

Financial statement income varies from taxable income principally due to the accounting for income and losses of investees, gains and losses from asset sales, depreciation on owned properties, amortization of discounts on notes receivable and payable and the difference in the allowance for estimated losses. ARL had a loss for federal income tax purposes after the use of net operating loss carryforwards in the first three months of 2015 and a loss in 2014 and 2013, therefore, it recorded no provision for income taxes.

At March 31, 2015, ARL had a net deferred tax asset of $104.6 million due to tax deductions available to it in future years. However, as management cannot determine that it is more likely than not that ARI will realize the benefit of the deferred tax assets, a 100% valuation allowance has been established.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

At March 31, 2015, our exposure to a change in interest rates on our debt is as follows (dollars in thousands, except per share):

	Balance	Weighted Average Interest Rate	Effect of 1% Increase In Base Rates
Notes payable:			
Variable rate	$61,729	5.64 %	$ 617
Total decrease in ARL's annual net income			617
Per share			$ 0.04

ITEM 4. CONTROLS AND PROCEDURES

Based on an evaluation by our management (with the participation of our Principal Executive Officer and Principal Financial Officer), as of the end of the period covered by this report, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), were effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, to allow timely decisions regarding required disclosures.

There has been no change in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 5. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On September 1, 2000, the Board of Directors approved a share repurchase program authorizing the repurchase of up to a total of 1,000,000 shares of ARL common stock. This repurchase program has no termination date. In August 2010, the Board of Directors approved an increase in the share repurchase program for up to an additional 250,000 shares of Common Stock which results in a total authorization under the repurchase program for up to 1,250,000 shares. The following table represents shares repurchased on a monthly basis during the first quarter of 2015:

Period	Total Number of Shares Purchased	Average Price Paid per share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet be Purchased Under the Program
Balance at December 31, 2014			986,750	263,250
January 31, 2015	-	$ -	986,750	263,250
February 28, 2015	-	$ -	986,750	263,250
March 31, 2015	-	$ -	986,750	263,250
Total	-			

ITEM 6. EXHIBITS

The following exhibits are filed herewith or incorporated by reference as indicated below:

Exhibit Number	Description of Exhibit
3.0	Certificate of Restatement of Articles of Incorporation of American Realty Investors, Inc. dated August 3, 2000 (incorporated by reference to Exhibit 3.0 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
3.1	Certificate of Correction of Restated Articles of Incorporation of American Realty Investors, Inc. dated August 29, 2000 (incorporated by reference to Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q dated September 30, 2000).
3.2	Articles of Amendment to the Restated Articles of Incorporation of American Realty Investors, Inc. decreasing the number of authorized shares of and eliminating Series B Cumulative Convertible Preferred Stock dated August 23, 2003 (incorporated by reference to Exhibit 3.3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
3.3	Articles of Amendment to the Restated Articles of Incorporation of American Realty Investors, Inc., decreasing the number of authorized shares of and eliminating Series I Cumulative Preferred Stock dated October 1, 2003 (incorporated by reference to Exhibit 3.4 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
3.4	Bylaws of American Realty Investors, Inc. (incorporated by reference to Exhibit 3.2 to Registrant's Registration Statement on Form S-4 filed December 30, 1999).
4.1	Certificate of Designations, Preferences and Relative Participating or Optional or Other Special Rights, and Qualifications, Limitations or Restrictions Thereof of Series F Redeemable Preferred Stock of American Realty Investors, Inc., dated June 11, 2001 (incorporated by reference to Exhibit 4.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001).
4.2	Certificate of Withdrawal of Preferred Stock, Decreasing the Number of Authorized Shares of and Eliminating Series F Redeemable Preferred Stock, dated June 18, 2002 (incorporated by reference to Exhibit 3.0 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
4.3	Certificate of Designation, Preferences and Rights of the Series I Cumulative Preferred Stock of American Realty Investors, Inc., dated February 3, 2003 (incorporated by reference to Exhibit 4.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).
4.4	Certificate of Designation for Nevada Profit Corporations designating the Series J 8% Cumulative Convertible Preferred Stock as filed with the Secretary of State of Nevada on March 16, 2006 (incorporated by reference to Registrant's current report on Form 8-K for event of March 16, 2006).
4.5	

Certificate of Designation for Nevada Profit Corporation designating the Series K Convertible Preferred Stock as filed with the Secretary of State of Nevada on May 6, 2013 (incorporated by reference to Registrant's current report on form 8-K for event of May 7, 2013).

10.1 Advisory Agreement between American Realty Investors, Inc. and Pillar Income Asset Management, Inc., dated April 30, 2011 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K, dated May 2, 2011).

10.2 Second Amendment to Modification of Stipulation of Settlement dated October 17, 2001 (incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-4, dated February 24, 2002).

31.1* Certification by the Principal Executive Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.

31.2* Certification by the Principal Financial Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.

32.1* Certification pursuant to 18 U.S.C. 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

---

* Filed herewith

SIGNATURE PAGE

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.

		AMERICAN REALTY INVESTORS, INC.
Date: May 13, 2015	By:	/s/ Daniel J. Moos Daniel J. Moos President and Chief Executive Officer (Principal Executive Officer)
Date: May 13, 2015	By:	/s/ Gene S. Bertcher Gene S. Bertcher Executive Vice President and Chief Financial Officer (Principal Financial Officer)