

TRANSCONTINENTAL REALTY INVESTORS INC
Form 10-Q
May 15, 2007
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FORM 10-Q

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTER ENDED MARCH 31, 2007

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 001-09240

TRANSCONTINENTAL REALTY INVESTORS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada
(State or Other Jurisdiction of
Incorporation or Organization)

95-6565852
(I.R.S. Employer
Identification No.)

1800 Valley View Lane, Suite 300

Dallas, Texas 75234

(Address of principal executive offices)

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(Zip Code)

(469) 522-4200

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

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

7,888,987
(Outstanding at May 7, 2007)

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TRANSCONTINENTAL REALTY INVESTORS, INC.

FORM 10-Q

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

The accompanying Consolidated Financial Statements as of and for the three months ended March 31, 2007, have not been audited by independent certified public accountants, but in the opinion of the management of Transcontinental Realty Investors, Inc. (TCI), all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of TCI s consolidated financial position, consolidated results of operations and consolidated cash flows at the dates and for the periods indicated, have been included.

TRANSCONTINENTAL REALTY INVESTORS, INC.**CONSOLIDATED BALANCE SHEETS**

| | March 31, 2007 (dollars in thousands) (unaudited) | December 31, 2006 |
|---|--|----------------------|
| Assets | | |
| Real estate held for investment | \$ 1,243,299 | \$ 1,089,995 |
| Less accumulated depreciation | (102,653) | (97,541) |
| | 1,140,646 | 992,454 |
| Real estate held-for-sale | 34,471 | 54,935 |
| Real estate subject to sales contract | 65,600 | 66,027 |
| Notes and interest receivable (including \$22,661 in 2007 and \$33,947 in 2006 from affiliates and related parties) | 44,373 | 39,566 |
| Investment in unconsolidated real estate entities | 30,300 | 30,573 |
| Marketable equity securities, at market value | 11,226 | 9,038 |
| Cash and cash equivalents | 3,992 | 4,803 |
| Other assets (including \$319 in 2007 and \$1,085 in 2006 from affiliates and related parties) | 48,127 | 52,771 |
| | \$ 1,378,735 | \$ 1,250,167 |
| Liabilities and Stockholders Equity | | |
| Liabilities: | | |
| Notes and interest payable (including \$6,762 in 2007 and \$6,769 in 2006 to affiliates and related parties) | \$ 931,947 | \$ 799,069 |
| Liabilities related to assets held-for-sale | 42,783 | 43,579 |
| Liabilities related to assets subject to sales contract | 58,099 | 58,816 |
| Other liabilities (including \$12,702 in 2007 and \$16,595 in 2006 to affiliates and related parties) | 69,833 | 66,608 |
| | 1,102,662 | 968,072 |
| Commitments and contingencies | | |
| Minority interest | 16,572 | 16,166 |
| Stockholders equity: | | |
| Preferred Stock | | |

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Series C Cumulative Convertible; \$.01 par value; authorized, issued and outstanding 30,000 shares; (liquidation preference \$3,000)

Series D; \$.01 par value; authorized, issued and outstanding 100,000 shares at March 31, 2007 and December 31, 2006 (liquidation preference \$100 per share)

Common Stock, \$.01 par value; authorized, 10,000,000 shares; issued 8,113,669 shares at March 31, 2007 and December 31, 2006

| | | |
|---|--------------|--------------|
| | 1 | 1 |
| | 81 | 81 |
| Additional paid-in capital | 265,978 | 266,206 |
| Treasury stock, at cost (214,800 shares at March 31, 2007 and 212,800 at December 31, 2006) | (3,129) | (3,086) |
| Retained earnings (deficit) | (4,838) | 1,660 |
| Accumulated other comprehensive income | 1,408 | 1,067 |
| | 259,501 | 265,929 |
| | \$ 1,378,735 | \$ 1,250,167 |

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

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

| | For the Three Months | |
|--|-------------------------------|-------------|
| | Ended March 31, | 2006 |
| | (dollars in thousands) | |
| Property revenue: | | |
| Rents and other property revenues | \$ 36,651 | \$ 29,399 |
| Expenses: | | |
| Property operations (including \$1,675 in 2007 and \$1,491 in 2006 to affiliates and related parties) | 21,701 | 17,840 |
| Depreciation and amortization | 5,489 | 5,011 |
| General and administrative (including \$1,343 in 2007 and \$0 in 2006 to affiliates and related parties) | 3,178 | 1,372 |
| Advisory fees | 2,400 | 2,026 |
| Total operating expenses | 32,768 | 26,249 |
| Operating income | 3,883 | 3,150 |
| Other income (expense): | | |
| Interest income (including \$538 in 2007 and \$424 in 2006 from affiliates and related parties) | 730 | 875 |
| Gain on foreign currency transaction | 131 | 2 |
| Mortgage and loan interest | (16,769) | (12,327) |
| Net income fee | 704 | |
| Other income | 1,028 | 361 |
| Total other income (expense) | (14,176) | (11,089) |
| Loss before gain on land sales, equity in earnings of investees and minority interest | (10,293) | (7,939) |
| Gain on land sales | 1,122 | 331 |
| Minority interest | 30 | (173) |
| | 1,152 | 158 |
| Loss from continuing operations | (9,141) | (7,781) |
| Add: income tax benefit | 925 | 2,731 |
| Net loss from continuing operations | (8,216) | (5,050) |
| Income (loss) from discontinued operations (See Note 9) | 2,643 | (710) |
| Less: income tax expense | (925) | (2,731) |
| Net income (loss) from discontinued operations | 1,718 | (3,441) |
| Net loss | (6,498) | (8,491) |

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| | | |
|--------------------------------------|------------|------------|
| Preferred dividend requirement | (228) | (53) |
| Net loss applicable to common shares | \$ (6,726) | \$ (8,544) |

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

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

| | For the Three Months | |
|---|-------------------------------|-------------|
| | Ended March 31, | |
| | 2007 | 2006 |
| | (dollars in thousands) | |
| Basic earnings per share: | | |
| Net loss from continuing operations | \$ (1.07) | \$ (0.65) |
| Discontinued operations | 0.22 | (0.44) |
| Net loss applicable to common shares | \$ (0.85) | \$ (1.09) |
| Diluted earnings per share: | | |
| Net loss from continuing operations | \$ (1.07) | \$ (0.65) |
| Discontinued operations | 0.22 | (0.44) |
| | \$ (0.85) | \$ (1.09) |
| Weighted average common shares used in computing earnings per share: | | |
| Basic | 7,898,869 | 7,900,869 |
| Diluted | 7,898,869 | 7,900,869 |

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

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TRANSCONTINENTAL REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

For the Three Months Ended March 31, 2007

(dollars in thousands)

(unaudited)

| | Common Stock | | Preferred Stock | | | Treasury Stock | | Accumulated | | |
|---|--------------|--------|-----------------|--------|--------------------|----------------|-----------|-------------|----------|------------|
| | Shares | Amount | Shares | Amount | Paid-in Capital | Shares | Amount | Other | | |
| | | | | | | | | Deficit | Income | Equity |
| Balance, January 1, 2007 | 8,113,669 | \$ 81 | 100,000 | \$ 1 | \$ 266,206 | 212,800 | \$(3,086) | \$ 1,660 | \$ 1,067 | \$ 265,929 |
| Unrealized loss on foreign currency translation | | | | | | | | | (879) | (879) |
| Unrealized gain on marketable securities | | | | | | | | | 1,220 | 1,220 |
| Net loss | | | | | | | | (6,498) | | (6,498) |
| Repurchase of Common Stock | | | | | | 2,000 | (43) | | | (43) |
| Series C Preferred Stock cash dividend | | | | | (53) | | | | | (53) |
| Series D Preferred Stock cash dividend | | | | | (175) | | | | | (175) |
| Balance, March 31, 2007 | 8,113,669 | \$ 81 | 100,000 | \$ 1 | \$ 265,978 | 214,800 | \$(3,129) | \$ (4,838) | \$ 1,408 | \$ 259,501 |

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

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TRANSCONTINENTAL REALTY INVESTORS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

A common stock and IIBK common stock will fluctuate before the completion of the merger; therefore, you are urged to obtain current

14.95
[]

9

RISK FACTORS

g day before public announcement of the merger, through [], 2018, the last practicable date before the date of this document, the merger

ock of each of IIBK and First Interstate. For a discussion of the business of First Interstate, First Interstate Bank and of certain factors to

ated benefits of the IIBK merger.

e 54.

17

CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

19

Risk Factors beginning on page 15.

SELECTED HISTORICAL FINANCIAL AND OTHER DATA

Year ending December 31, 2018 or for any other period. See *Where You Can Find More Information* on page 84.

At or For the Y

\$

\$

\$

At or For the Year

\$

\$

\$

UNAUDITED COMPARATIVE PRO FORMA PER SHARE DATA

**CMYF
Historical**

\$

SPECIAL MEETING OF IIBK SHAREHOLDERS

Idaho Independent Bank
1260 W. Riverstone Drive
Coeur d Alene, Idaho 83814
Attention: Paul H. Montreuil, Corporate Secretary

IIBK PROPOSAL NO. 1
APPROVAL OF THE MERGER AGREEMENT

**IIBK s board of directors unanimously recommends
that IIBK shareholders vote FOR
approval of the merger agreement.**

IIBK PROPOSAL NO. 2
ADJOURNMENT OF THE IIBK SPECIAL MEETING

**IIBK s board of directors unanimously recommends
that IIBK shareholders vote FOR
approval of the IIBK adjournment proposal.**

DESCRIPTION OF THE MERGER

or management with the additional analysis. After further consideration, the IIBK board of directors determined that it would be prudent to exchange 1.5 shares of First Interstate's common stock for each IIBK share. Based on First Interstate's stock price at the time, the value of the transaction would have been approximately \$1.5 million.

t just under \$21.00 a share at the time of the meeting.

duties to IIBK and its shareholders.

l research analysts.

to downward adjustment under certain conditions. The IIBK board of directors then reviewed a side-by-side comparison of the aggreg

erstate s board of directors unanimously approved the merger agreement.

32

consideration of the proposed merger.

35

y.

ferred to above, were consistent with) the best currently available projections, estimates and judgments of those respective managements

able laws and other requirements. Finally, with the consent of IIBK, Sandler O Neill relied upon the advice that IIBK received from its

to some or all such factors and analyses, could create an incomplete view of the evaluation process underlying its opinion. Also, no con
n into consideration by IIBK s board of directors in making its determination to approve the merger agreement and should not be view

34.3x

24.2x

245%

245%

18.4%

18.3%

57%

IIBK Peer Group

509
68
128%
9.7x
%
(6.1%)
47.2%
3.30%
0.46%
7.8%
129%
51%
0.00%

IIBK One-Year Stock Price Performance

)x

24.08
 23.19
 22.34
 21.53
 20.76
 20.02
 19.32

%

19.78
 19.06
 18.37
 17.71
 17.08
 16.48
 15.90

)x

18.16
 19.11
 20.05
 21.00
 21.95
 22.90
 23.85

41

Mean

42

First Interstate Peer Group

\$
\$

43

44

ock. As illustrated in the following tables, the analysis indicated an imputed range of values per share of First Interstate common stock o

%

52.67
50.74
48.89
47.14
45.46
43.86

\$
\$
\$
\$
\$
\$

\$
\$
\$
\$
\$
\$
\$

45

Interstate. The analysis indicated that the merger could be accretive to First Interstate's earnings per share (excluding one-time transaction

Interstate in the two years preceding the date of Sandler O'Neill's opinion. Most recently, Sandler O'Neill acted as financial advisor in

summary of certain significant elements of this information is set forth below. The information included below does not comprise all of the

no assurance that the underlying assumptions would prove to be accurate or that the projected results would be realized, and actual results may differ from those projected. The results of operations for the periods presented herein or will be taken as a result of the merger agreement having been executed, or the effect of any business or strategic decisions or actions taken by the Company.

\$

sequences of the merger could be adversely affected.

ty of capital losses is subject to limitations.

or other proceeding if it determines such meeting or other proceeding would be appropriate.

of the community to be served; or (5) First Interstate Bank has not established a record of meeting the credit needs of the communities

l dues and assessment charges to continue membership in all country clubs and private clubs in which he is currently a member. Each e
R. Gustavel, respectively, will not result in the loss of deductibility to IIBK under Section 280G of the Internal Revenue Code or impos

\$

Other

56

57

l by a third party; (4) approve, endorse or recommend any acquisition proposal by a third party; (5) release any person from, waive any

ona fide written offer or proposal made by a third party to consummate an acquisition proposal by a third party that: (1) IIBK's board o

portunity to revise the merger agreement in light of the third party acquisition proposal;

First Interstate Bank
401 North 31st Street
Billings, Montana 59101
Attn: Corporate Secretary

DESCRIPTION OF FIRST INTERSTATE CAPITAL STOCK

70

erstate Bank.

71

Interstate Class A common stock. First Interstate's board of directors believes that these provisions are appropriate to protect First Interstate

73

COMPARISON OF RIGHTS OF SHAREHOLDERS

75

77

MANAGEMENT AND OPERATIONS AFTER THE MERGER

81

MARKET PRICE AND DIVIDEND INFORMATION

High

[]
15.50
14.90
13.30
11.60
11.00
10.30
9.88
9.50
8.30
8.75
8.75

STOCK OWNERSHIP OF IIBK

officers is care of Idaho Independent Bank, 1260 W. Riverstone Drive, Coeur d Alene, Idaho 83814.

LEGAL MATTERS

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EXPERTS

WHERE YOU CAN FIND MORE INFORMATION

FIRST INTERSTATE FILINGS (FILE NO 001-34653)

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First Interstate BancSystem, Inc.

401 North 31st Street

Billings, Montana 59101

Attention: Kirk D. Jensen, General Counsel

Telephone: (406) 255-5304

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AGREEMENT AND PLAN OF MERGER
DATED AS OF OCTOBER 11, 2018
BY AND AMONG
FIRST INTERSTATE BANCSYSTEM, INC.
FIRST INTERSTATE BANK
AND
IDAHO INDEPENDENT BANK

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EXHIBITS

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Agreement and Plan of Merger

Introductory Statement

ARTICLE I
DEFINITIONS

A-1

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rior written consent, or at the request, of the other, including expenses incurred by the parties in consummating the transactions contemplated

A-4

A-5

ARTICLE II
THE MERGER

A-6

h Certificates or the guaranteed delivery of such Certificates) representing all shares of IIBK Common Stock to be converted thereby.

A-7

e that any applicable stock transfer taxes have been paid.

A-8

e funds on the Closing Date.

A-9

ARTICLE III
REPRESENTATIONS AND WARRANTIES

ifications contained in such representations and warranties shall be disregarded).

A-10

A-11

ty of IIBK or a Subsidiary of IIBK. Other than as stated herein, there are no outstanding securities or instruments that contain any rede
ly executed and delivered by IIBK and constitutes a valid and binding obligation of IIBK, enforceable against IIBK in accordance with
ich any of their respective properties or assets may be subject.

A-12

ment, and (vi) the approval by IIBK's stockholders required to approve the Merger under Idaho law, no consents or approvals of, or fil

ance with GAAP consistently applied throughout the periods covered thereby. The books and records of IIBK and its Subsidiaries have

A-13

ents relating to the origination, sale and servicing of mortgage and consumer loans. IIBK and each of its Subsidiaries has all material po

A-14

and its Subsidiaries have not executed an extension or waiver of any statute of limitations on the assessment or collection of any tax due

A-15

A-16

rd party). To the Knowledge of IIBK, neither IIBK nor any of its Subsidiaries has interfered with, infringed upon, misappropriated or o
access to any of IIBK IT Systems that has had, or is reasonably expected to have, a Material Adverse Effect on IIBK. IIBK and its Sub

A-17

r future obligation or that are sponsored, maintained, contributed to or required to be contributed to by IIBK or any of its Subsidiaries o

A-18

A-19

ed by IIBK or any of its Subsidiaries are in all material respects in a good state of maintenance and repair (normal wear and tear except

A-20

A-21

e or in lieu of foreclosure, including in-substance foreclosures, and all other assets currently held that were acquired through foreclosure

A-22

A-23

as adopted, and IIBK (or any Subsidiary of IIBK) has implemented, an anti-money laundering program that contains adequate and appropriate financial reporting.

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