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AMERICAN REALTY INVESTORS INC
Form S-4
February 22, 2002

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON FEBRUARY 22, 2002
REGISTRATION NO. _____

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

FORM S-4
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

AMERICAN REALTY INVESTORS, INC.
(Exact name of Registrant as specified in its charter)

NEVADA
(State or other jurisdiction of
incorporation or organization)

6510
(Primary Standard Industrial
Classification Code Number)

75-2847135
(I.R.S. Employer Identification
Number)

1800 VALLEY VIEW LANE, SUITE 300, DALLAS, TX 75234
(ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE,
OF REGISTRANT'S PRINCIPAL EXECUTIVE OFFICE)

ROBERT A. WALDMAN
1800 VALLEY VIEW LANE, SUITE 300
DALLAS, TEXAS 75234
(469) 522-4200
(469) 522-4360 (FAX)
(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER,
INCLUDING AREA CODE, OF AGENT FOR SERVICE)

WITH COPIES TO:

STEVEN C. METZGER, ESQ.
PRAGER METZGER & KROEMER, PLLC
2626 COLE AVENUE, SUITE 900
DALLAS, TEXAS 75204
(214) 969-7600
(214) 523-3838 (FAX)

JEFFREY M. SONE, ESQ.
JACKSON WALKER L.L.P.
901 MAIN STREET, SUITE 6000
DALLAS, TEXAS 75202
(214) 953-6000
(214) 953-5822 (FAX)

Approximate date of commencement of proposed sale of the securities to
the public: As soon as practicable after the effective date of this Registration
Statement.

If the securities being registered on this Form are being offered in
connection with the formation of a holding company and there is compliance with
General Instruction G, check the following box.[]

If this Form is filed to register additional securities for an offering
pursuant to Rule 462(b) under the Securities Act, check the following box and

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list the Securities Act registration statement number of the earlier effective registration statement for the same offering.[]

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.[]

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT	P AG
10% Series G Cumulative Convertible preferred stock, par value \$2.00	4,021,254(1)	Not applicable	
Common Stock, par value \$0.01 per share	10,060,393(4)	Not applicable	
10% Series H Cumulative Convertible preferred stock, par value \$2.00 per share	683,282(7)	Not applicable	
Common Stock, par value \$0.01 per share	1,538,734(10)	Not applicable	
Total:			

(1) Represents the maximum number of shares of Series G preferred stock of American Realty Investors, Inc. ("ARL") estimated to be issued in connection with the merger of Transcontinental Realty Investors, Inc. ("TCI") described herein at the exchange ratio of one share of Series G preferred stock for each share of TCI's common stock outstanding (other than shares owned by ARL and its subsidiaries).

(2) Estimated solely for the purpose of calculating the registration fee. Pursuant to Rules 457(f)(1) and 457(c) of the Securities Act of 1933, as amended (the "Securities Act"), the registration fee is based on the product of (i) \$15.93, the average of the high and low sales price of TCI common stock on February 15, 2002, as reported by the New York Stock Exchange, and (ii) the maximum number of shares of TCI common stock estimated to be converted or cancelled pursuant to the merger.

(3) Computed in accordance with Rule 457(f) under the Securities Act to be \$11,786.96, which is equal to 0.000092 multiplied by the proposed maximum offering price of \$128,119,079.97.

(4) Represents the maximum number of shares of common stock of ARL estimated to be issued upon conversion of the shares of Series G preferred stock, assuming each record holder receives one share of ARL common stock in lieu of a fractional share. Pursuant to Rule 416, there are also registered hereunder an indeterminate number of additional shares of ARL common stock as may be issuable as a result of stock splits, stock dividends and other provisions of the Series G preferred stock.

(5) No additional consideration will be received in connection with the conversion of the shares of preferred stock.

(6) Pursuant to Rule 457(i), no filing fee is due.

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(7) Represents the maximum number of shares of Series H preferred stock of ARL estimated to be issued in connection with the merger of Income Opportunity Realty Investors, Inc. ("IOT") described herein at the exchange ratio of one share of Series H preferred stock for each share of IOT's common stock outstanding (other than shares owned by ARL and its subsidiaries and TCI).

(8) Estimated solely for the purpose of calculating the registration fee. Pursuant to Rules 457(f)(1) and 457(c) of the Securities Act, the registration fee is based on the product of (i) \$17.25, the average of the high and low sales price of IOT common stock on February 15, 2002, as reported by the American Stock Exchange, and (ii) the maximum number of shares of IOT common stock estimated to be converted or cancelled pursuant to the merger.

(9) Computed in accordance with Rule 457(f) under the Securities Act to be \$2,283.61, which is equal to 0.000092 multiplied by the proposed maximum offering price of \$24,821,801.25.

(10) Represents the maximum number of shares of common stock of ARL estimated to be issued upon conversion of the shares of Series H preferred stock, assuming each record holder receives one share of ARL common stock in lieu of a fractional share. Pursuant to Rule 416, there are also registered hereunder an indeterminate number of additional shares of ARL common stock as may be issuable as a result of stock splits, stock dividends and other provisions of the Series H preferred stock.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

AMERICAN REALTY
INVESTORS, INC.

TRANSCONTINENTAL REALTY
INVESTORS, INC.

INCOME OPPORTUNITY
REALTY INVESTORS, INC.

To the stockholders of American Realty Investors, Inc.,
Transcontinental Realty Investors, Inc. and Income Opportunity Realty Investors,
Inc.:

As the result of a court approved settlement of litigation involving, among others, a subsidiary of American Realty Investors, Inc. ("ARL"), Transcontinental Realty Investors, Inc. ("TCI") and Income Opportunity Realty Investors, Inc. ("IOT"), ARL has agreed to acquire all of the outstanding common stock of TCI and IOT through the merger of TCI and IOT with two subsidiaries of ARL. The mergers will not be consummated unless, in each case, sufficient cash is available to ARL to pay the cash merger consideration due as a result of the mergers. If the mergers are approved by the ARL, TCI and IOT stockholders and sufficient cash is available to ARL, wholly-owned subsidiaries of ARL will be merged into TCI and IOT, with TCI and IOT being the surviving corporations (the mergers and related transactions are collectively referred to as the business combination).

In order to complete the business combination, we must, among other things, obtain the required approval of the ARL, TCI and IOT stockholders. However, if the stockholders of ARL and only one of either TCI or IOT approve their merger, that merger alone may be consummated. In addition to being a condition to the settlement of the lawsuit, we believe that the business combination will benefit the stockholders of all three companies and we ask for

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your support in voting for the mergers at the special meetings.

When the mergers are completed, holders of TCI's common stock (other than ARL and its affiliates) will receive \$17.50 in cash less any dividends declared and paid on the TCI common stock after January 2, 2002 or, if they affirmatively elect, one share of newly issued ARL Series G preferred stock for each share of TCI common stock they currently own. IOT stockholders (other than ARL and its affiliates) will receive \$19.00 in cash less any dividends declared and paid on the IOT common stock after January 2, 2002 or, if they affirmatively elect, one share of newly issued ARL Series H preferred stock for each share of IOT common stock they currently own. Each share of TCI common stock held by certain affiliates of ARL will be converted into one share of the Series G preferred stock. Shares of the TCI common stock held by ARL and its affiliates will be cancelled. Each share of IOT common stock held by certain affiliates of ARL will be converted into one share of the Series H preferred stock. Shares of IOT common stock held by ARL, its affiliates and TCI will be cancelled.

1,168,774 shares of the Series G preferred stock and 106,802 shares of the Series H preferred stock will be issued to affiliates of ARL. In the event that each stockholder of TCI and IOT, other than persons or entities affiliated with ARL, elects to receive shares of the Series G preferred stock or the Series H preferred stock, respectively, persons not affiliated with ARL will hold approximately 2,853,080 shares of Series G preferred stock and 576,480 shares of Series H preferred stock, representing approximately 70.9% and 84.4% of all issued and outstanding shares of the Series G preferred stock and the Series H preferred stock, respectively.

The boards of directors of ARL, TCI and IOT have approved the mergers and recommend that their respective stockholders vote for the merger proposals as described in the attached materials. You should also consider the matters discussed under "Risk Factors" beginning on page 24 of this document.

ARL stockholders will vote at ARL's special meeting on Wednesday, March 27, 2002, at 2:00 p.m., local time, at 1800 Valley View Lane, Suite 300, Dallas, Texas.

TCI stockholders will vote at TCI's special meeting on Wednesday, March 27, 2002, at 3:00 p.m., local time, at 1800 Valley View Lane, Suite 300, Dallas, Texas.

IOT stockholders will vote at IOT's special meeting on Wednesday, March 27, 2002, at 4:00 p.m., local time, at 1800 Valley View Lane, Suite 300, Dallas, Texas.

Your vote is important, regardless of the number of shares you own. Please vote as soon as possible to make sure that your shares are represented at the special meetings. You may vote your shares by completing the enclosed proxy card, by telephoning the transfer agent or by voting on the Internet. You may also cast your vote in person at the special meetings.

/s/ Robert A. Waldman

Robert A. Waldman,
Senior Vice President, General
Counsel and Secretary
American Realty Investors, Inc.

/s/ Robert A. Waldman

Robert A. Waldman,
Senior Vice President, General
Counsel and Secretary
Transcontinental Realty
Investors, Inc.

/s/ Robert A. Waldman

Robert A. Waldman,
Senior Vice President,
Counsel and Secretary
Income Opportunity R
Investors, Inc.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES

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COMMISSION HAS APPROVED OR DISAPPROVED OF THE PREFERRED STOCK OR COMMON STOCK TO BE ISSUED UNDER THIS JOINT PROXY STATEMENT AND PROSPECTUS OR DETERMINED IF THIS JOINT PROXY STATEMENT AND PROSPECTUS IS TRUTHFUL OR INCOMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This joint proxy statement and prospectus is dated _____, 2002, and is first being mailed to stockholders on or about _____, 2002.

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS OF
AMERICAN REALTY INVESTORS, INC.
TO BE HELD MARCH 27, 2002 AT 2:00 P.M.

To Our Stockholders:

You are invited to attend the special meeting of stockholders of American Realty Investors, Inc. ("ARL"). The meeting will be held at 1800 Valley View Lane, Suite 300, Dallas, Texas on March 27, 2002 at 2:00 p.m. local time. At the special meeting, ARL's stockholders will be asked to consider and vote upon:

- o A PROPOSAL TO APPROVE THE TCI MERGER WHEREBY ARL WILL ACQUIRE ALL OF THE OUTSTANDING COMMON STOCK OF TRANSCONTINENTAL REALTY INVESTORS, INC. ("TCI") THROUGH THE MERGER OF A RECENTLY FORMED WHOLLY-OWNED SUBSIDIARY OF ARL WITH AND INTO TCI;
- o A PROPOSAL TO APPROVE THE IOT MERGER WHEREBY ARL WILL ACQUIRE ALL OF THE OUTSTANDING COMMON STOCK OF INCOME OPPORTUNITY REALTY INVESTORS, INC. ("IOT") THROUGH THE MERGER OF A RECENTLY FORMED WHOLLY-OWNED SUBSIDIARY OF ARL WITH AND INTO IOT; AND
- o ANY OTHER MATTERS THAT MAY PROPERLY COME BEFORE THE SPECIAL MEETING OR ANY ADJOURNMENTS THEREOF.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT ITS STOCKHOLDERS VOTE FOR THE MERGERS DESCRIBED ABOVE.

Only holders of record of ARL's common stock at the close of business on February 9, 2002, the record date, are entitled to notice of, and to vote at, the special meeting and any adjournments or postponements thereof. None of the stockholders are entitled to dissenters' or appraisal rights in connection with the mergers.

Your vote is important. Whether or not you plan to attend the Special Meeting, please complete, sign and date the accompanying proxy card and return it in the enclosed prepaid envelope. You may also submit a proxy by telephone or by internet by following the instructions in the proxy statement and on the enclosed proxy card. If you attend the Special Meeting, you may revoke your proxy and vote in person if you wish to do so. However, if you hold your shares in a brokerage account, you cannot vote in person at the Special Meeting. If you have instructed your broker to vote your shares, you must follow your broker's instructions regarding how to change your vote.

By Order of the Board of Directors of
AMERICAN REALTY INVESTORS, INC.

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/s/ Robert A. Waldman

Robert A. Waldman, Senior Vice President,
General Counsel and Secretary
American Realty Investors, Inc.

Dallas, Texas
, 2002

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS OF
TRANSCONTINENTAL REALTY INVESTORS, INC.
TO BE HELD MARCH 27, 2002 AT 3:00 P.M.

To Our Stockholders:

You are invited to attend the special meeting of stockholders of Transcontinental Realty Investors, Inc. ("TCI"). The meeting will be held at 1800 Valley View Lane, Suite 300, Dallas, Texas on March 27, 2002 at 3:00 p.m. local time. At the special meeting, TCI's stockholders will be asked to consider and vote upon:

- o A PROPOSAL TO APPROVE THE TCI MERGER WHEREBY AMERICAN REALTY INVESTORS, INC., ("ARL") WILL ACQUIRE ALL OF THE OUTSTANDING COMMON STOCK OF TCI THROUGH THE MERGER OF A RECENTLY FORMED WHOLLY-OWNED SUBSIDIARY OF ARL WITH AND INTO TCI; and
- o ANY OTHER MATTERS THAT MAY PROPERLY COME BEFORE THE SPECIAL MEETING OR ANY ADJOURNMENTS THEREOF.

After careful consideration, the board of directors of TCI have determined that the terms of the proposed TCI merger are fair to and in the best interests of TCI's stockholders.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT ITS STOCKHOLDERS VOTE FOR THE MERGER AND OTHER MATTERS DESCRIBED ABOVE.

Only holders of record of TCI's common stock at the close of business on February 9, 2002, the record date, are entitled to notice of, and to vote at, the special meeting and any adjournments or postponements thereof. None of the stockholders are entitled to dissenters' or appraisal rights in connection with the merger.

Your vote is important. Whether or not you plan to attend the Special Meeting, please complete, sign and date the accompanying proxy card and return it in the enclosed prepaid envelope. You may also submit a proxy by telephone or by internet by following the instructions in the proxy statement and on the enclosed proxy card. If you attend the Special Meeting, you may revoke your proxy and vote in person if you wish to do so. However, if you hold your shares in a brokerage account, you cannot vote in person at the Special Meeting. If you have instructed your broker to vote your shares, you must follow your broker's instructions regarding how to change your vote.

By Order of the Board of Directors of
TRANSCONTINENTAL REALTY INVESTORS, INC.

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Robert A. Waldman, Senior Vice President,
General Counsel and Secretary
Income Opportunity Realty Investors, Inc.

Dallas, Texas
, 2002

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JOINT PROXY STATEMENT AND PROSPECTUS

This joint proxy statement and prospectus is being used to solicit votes with respect to stockholder meetings for each of American Realty Investors, Inc., Transcontinental Realty Investors, Inc. and Income Opportunity Realty Investors, Inc. called to approve a proposed business combination of those companies. "We", "us" and "our" as used in this joint proxy statement and prospectus means American Realty Investors, Inc., Transcontinental Realty Investors, Inc. and Income Opportunity Realty Investors, Inc.

SUMMARY

This summary highlights selected information from this joint proxy statement and prospectus and may not contain all information that is important to you. You should read carefully this entire joint proxy statement and prospectus and the documents to which we have referred you. The following summary is qualified in its entirety by reference to the detailed information appearing elsewhere in this joint proxy statement and prospectus.

OVERVIEW

As part of this joint proxy statement and prospectus, three public companies, American Realty Investors, Inc. ("ARL"), Transcontinental Realty Investors, Inc. ("TCI") and Income Opportunity Realty Investors, Inc. ("IOT"), are seeking stockholder approval of two proposed mergers whereby TCI and IOT will become subsidiaries of ARL. Together, these mergers are often referred to as the "business combination." The business combination is the result of a court approved settlement that is described below under "The Olive Settlement."

THE PARTIES

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The material parties that are discussed throughout this joint proxy statement and prospectus statement include the following:

AMERICAN REALTY INVESTORS, INC. ("ARL") is a publicly traded Nevada corporation engaged primarily in the business of owning and operating a portfolio of real estate and financing real estate and real estate activities through investments in mortgage loans. ARL holds a diverse portfolio of equity real estate located across the U.S., including office buildings, apartments, hotels, shopping centers and developed and undeveloped land. The day-to-day operations of ARL are managed by Basic Capital Management, Inc. ("BCM"), a contractual advisor, under the supervision of ARL's board of directors.

TRANSCONTINENTAL REALTY INVESTORS, INC. ("TCI") is a publicly traded Nevada corporation engaged primarily in the business of owning and operating a portfolio of real estate and financing real estate and real estate activities through investments in mortgage loans similar to ARL. The day-to-day operations of TCI are performed by BCM, a contractual advisor, under the supervision of TCI's board of directors.

INCOME OPPORTUNITY REALTY INVESTORS, INC. ("IOT") is a publicly traded Nevada corporation primarily engaged in the business of owning and operating a portfolio of real estate and financing real estate and real estate activities through investments in mortgage

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loans. IOT is a real estate investment trust. The day-to-day operations of IOT are performed by BCM, a contractual advisor, under the supervision of IOT's board of directors.

BASIC CAPITAL MANAGEMENT, INC. ("BCM") is a contractual advisor that is responsible for managing the affairs of ARL, TCI and IOT and for advising the respective boards on setting the policies which guide ARL, TCI and IOT. The day-to-day operations of ARL, TCI and IOT are performed by BCM under the supervision of each respective board. Among other things, BCM locates, investigates, evaluates and recommends real estate and mortgage loan investments and sales opportunities, as well as financing and refinancing sources. BCM also serves as a consultant to ARL's, TCI's and IOT's boards of directors in connection with the business plan and investment policy decisions made by each board.

GENE E. PHILLIPS ("MR. PHILLIPS") serves as the representative of a trust for the benefit of his children that indirectly owns BCM. As representative of the trust, Mr. Phillips had, until June 2000, substantial contact with the management of BCM and input with respect to BCM's performance of advisory services for ARL, TCI and IOT. Mr. Phillips does not own any stock of ARL, TCI or IOT.

ARL, TCI, IOT and BCM have substantially the same management and have ownership affiliations as seen in the chart below.

ARL	TCI	
Out of 11,375,127 shares of ARL common stock outstanding as of February 11, 2002:	Out of 8,042,629 shares of TCI common stock outstanding as of February 11, 2002:	Out of 1,438, stock outstan 2002:

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- o BCM owns 6,269,344 (55.1%)
- o TCI owns 746,972 (6.6%)
- o Non-affiliates own 4,331,209 (38.1%)
- o ARL indirectly owns 3,994,300 (49.7%)
- o BCM directly and indirectly owns 1,193,422 (14.8%)
- o Non-affiliates own 2,853,080 (35.5%)
- o ARL indire (28.5%)
- o BCM owns 1
- o TCI owns 3
- o Non-affili (40.06%)

The principal operating offices of each of ARL, TCI, IOT and BCM are located at 1800 Valley View Lane, Suite 300, Dallas, Texas 75234. The telephone number for each corporation is 469-522-4200.

THE OLIVE SETTLEMENT

The business combination being proposed results from a court approved settlement of a lawsuit styled Jack Olive, et. al. v. Gene E. Phillips, et al, Case No. C89 4331 MHP pending in the United States District Court for the Northern District of California (the "Olive Litigation"). The claims in the Olive Litigation related to the operation and management of TCI and IOT. Defendants in the lawsuit included, among others, American Realty Trust, Inc. (a subsidiary of ARL, "ART"), TCI, IOT, BCM and Mr. Phillips.

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TCI and IOT are parties to a 1990 settlement of litigation known as the Olive Settlement. The original settlement has been modified and the modification has been the subject of an amendment. Periodically, since 1990, designated Settlement Counsel, George Donaldson, has challenged the compliance of the parties under the Olive Settlement, the modification and the amendment and has unsuccessfully sought to remove BCM from its advisory position to TCI, IOT and other entities. Mr. Donaldson also sought to, from time to time, remove some or all of the directors of TCI, IOT and other entities.

The parties to the lawsuit acknowledged that further and substantial expense and time would be necessary to litigate the matters raised by the pending requests made by Settlement Counsel that the court exercise its retained jurisdiction over the parties' prior settlement agreements. Thus, in order to finally put an end to the Olive Litigation and to avoid the anticipated expense, inconvenience, distraction, and risk of further legal proceedings, the parties concluded that it was desirable to compromise, settle and discharge all claims arising from such matters while at the same time devising a mechanism to enable all stockholders of TCI and IOT to convert their common stock in TCI or IOT into cash or, if they affirmatively elected, preferred stock of ARL.

To that end, after arm's length negotiations, TCI, IOT and ARL, as the parent corporation of ART, entered into the Second Amendment to the Modification of Stipulation of Settlement (the "Settlement Agreement"), dated October 17, 2001. The Settlement Agreement provides that if the stockholders so approve, TCI and IOT will become subsidiaries of ARL through the mechanism of freeze-out mergers. As part of the mergers, stockholders (other than Mr. Phillips, BCM, ARL and ART (collectively the "Affiliated Entities") or their affiliates) are to receive \$19 per share in cash for IOT common stock or \$17.50 per share in cash for TCI common stock, which amounts shall be reduced by any dividends paid after January 2, 2002 on the TCI or IOT common stock, respectively. In the mergers, the stockholders of TCI and IOT not affiliated with the Affiliated Entities have the opportunity (but no obligation) to affirmatively elect to receive shares of preferred stock of ARL having a liquidation value of \$21.50 per share in exchange for IOT common stock or \$20 per share in exchange for TCI common stock, which amounts shall be reduced by any dividends paid after January 2, 2002 on

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the TCI or IOT common stock, respectively. In the mergers, the Affiliated Entities will receive shares of the ARL preferred stock for the shares of common stock of TCI and IOT held by them, provided, however, that shares of TCI and IOT common stock held by ARL and its subsidiaries will be cancelled. The purchase prices and liquidation values have been established under the Settlement Agreement. The cash consideration to be paid to the non-affiliated TCI and IOT stockholders is to be guaranteed by and becomes an obligation of the Affiliated Entities. The mergers are to occur only after the satisfaction of certain conditions, including the approval of each merger by a majority of the shares held by the non-affiliated TCI and IOT stockholders, as applicable, who vote by in person or by proxy at meetings of stockholders called for that purpose. The ARL board of directors has determined that it will not enter into the TCI and IOT mergers until, in each case, sufficient cash is available to ARL, either from its own resources or from TCI or IOT immediately after the mergers, to pay the cash merger consideration due as a result of the mergers.

In order to proceed with the mergers under the Settlement Agreement, the Affiliated Entities have been required to perform certain matters which are described in this joint proxy

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statement and prospectus, including filing of materials with the Securities and Exchange Commission ("SEC") and completion of that process prior to a specified date. The other requirements were:

- o obtaining a fairness opinion from a reputable investment banking firm that the consideration to be paid to the non-affiliated TCI and IOT stockholders in each merger (or the tender offers described below) is fair from a financial point of view, and
- o placement of a \$1,000,000 deposit in escrow to cover the costs and fees necessary to compel the payment of any liquidated damages.

If the SEC review process of this joint proxy statement and prospectus was not completed by a specified date, unless extended by the consent of settlement counsel, the Affiliated Entities would be in default under the Settlement Agreement and liable for liquidated damages equal to \$5 for each share of TCI and IOT common stock. The Affiliated Entities may cure that default by filing tender offers for all of the shares of IOT and TCI stock held by non-affiliated stockholders, with respect to the cash option, at a cash price equal to or better than the amount specified under the mergers (\$19 per share for IOT common stock, and \$17.50 per share for TCI common stock). If the tender offers are substantially completed within 120 days following the making of such tender offers, the Affiliated Entities will be deemed to have fully complied with the Settlement Agreement.

Under the Settlement Agreement, except to the extent necessary to obtain the requisite quorum of any vote of stockholders in connection with the mergers, the Affiliated Entities and TCI and IOT will not engage in any solicitation activity directed at the non-affiliated stockholders in any manner which would have the effect of causing a non-affiliated stockholder to accept preferred stock rather than cash.

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QUESTIONS AND ANSWERS ABOUT THE BUSINESS COMBINATION

1.Q: WHAT IS BEING PROPOSED? (SEE PAGE 71)

A: Two separate mergers are being proposed as the result of the Settlement Agreement. In the TCI merger, a newly formed subsidiary of ARL would be merged with and into TCI and TCI would become a subsidiary of ARL. In the IOT merger, a newly formed subsidiary of ARL would be merged with and into IOT and IOT would become a subsidiary of ARL.

2.Q: WHAT WILL I RECEIVE IN THE MERGER? (SEE PAGES 71 TO 72)

A: Each share of TCI common stock will be converted into \$17.50 in cash (less the amount of any dividends paid by TCI on TCI common stock after January 2, 2002) or, at the affirmative election of the TCI stockholder, one share of ARL 10% Series G Cumulative Convertible preferred stock (the "Series G preferred stock"). Outstanding shares of TCI common stock held by ARL or its subsidiaries will be canceled and shares of TCI common stock held by BCM and other affiliates of ARL will be exchanged for shares of Series G preferred stock. If all of the holders of the TCI common stock other than BCM and other affiliates of ARL elect to convert their shares of TCI common stock to Series G preferred stock, they will own approximately 70.9% of the issued and outstanding shares of the Series G preferred stock. BCM and other affiliates of ARL would own the remaining shares of Series G preferred stock.

Preferred stock of TCI outstanding prior to the mergers will continue to be outstanding after the mergers on the same terms and conditions.

Each share of IOT common stock will be converted into \$19.00 in cash (less the amount of any dividends paid by IOT on IOT common stock after January 2, 2002) or, at the affirmative election of the IOT stockholder, one share of the ARL 10% Series H Cumulative Convertible preferred stock (the "Series H preferred stock"). Outstanding shares of IOT held by ARL, its subsidiaries or TCI will be canceled and each share of IOT common stock held by BCM and other affiliates of ARL will be exchanged for shares of Series H preferred stock. If all of the holders of IOT common stock other than BCM and other affiliates of ARL elect to convert their shares to Series H preferred stock, they would own approximately 84.4% of the issued and outstanding shares of the Series H preferred stock. BCM and other affiliates of ARL would own the remaining shares of Series H preferred stock.

ARL will apply to list the Series G and Series H preferred stock, and the shares of ARL common stock issuable upon conversion of the Series G and Series H preferred stock, on the New York Stock Exchange ("NYSE"), however, the Exchange may not accept the shares for listing.

3.Q: WHAT ARE THE MATERIAL TERMS OF THE TCI MERGER AND THE IOT MERGER? (SEE PAGES 71 TO 72)

A: Copies of the forms of agreements and plans of merger that have been approved by each board of directors as applicable are attached as APPENDIX A and APPENDIX B to this joint proxy statement and prospectus.

According to the terms of the agreements and plans of merger, two recently formed wholly-owned subsidiaries of ARL will be merged with and into TCI and IOT, respectively. TCI and IOT will survive the merger as subsidiaries of ARL. The two acquisitions are

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not dependent upon each other, and if the stockholders of one company do not approve their merger, only the approved merger will be consummated.

The execution and delivery of the merger agreements and the closings of the transactions in connection therewith cannot take place until the conditions of the merger agreements have been met. Although ARL, TCI and IOT boards of directors have approved the terms of the merger agreements, the merger agreements will not be executed until after the stockholders approve the mergers and other conditions precedent thereto. The material conditions include obtaining the approval of the stockholders of TCI or IOT of their respective mergers. Additionally, ARL has determined not to enter into the merger agreements unless it has sufficient cash available to it to pay the cash merger consideration.

CONDITIONS OF THE MERGERS. Completion of the mergers is dependent upon the fulfillment of a number of conditions, including the following material conditions:

- o all necessary consents from third parties having been obtained
- o no restraining order, injunction, order or decree of any court having been issued
- o the filing by the parties of all documents and instruments required to be filed with governmental entities
- o no action having been taken by any state or federal government or agency which would prevent the merger or impose material conditions on the merger
- o Although not part of the merger agreements, ARL has determined not to enter into the merger agreements unless it has sufficient cash available to it, either from its own resources or from TCI or IOT immediately after the mergers, to pay the cash merger consideration

The merger agreements may be terminated by one or more parties at any time prior to the effective time of the mergers if specific events occur.

4.Q: WHAT ARE THE TERMS OF THE SERIES G AND SERIES H PREFERRED STOCK? (SEE PAGE 184)

A: The Series G and Series H preferred shares will have a liquidation value of \$20 and \$21.50 per share, respectively, and will be convertible into ARL common stock during a 75 day period commencing on the 15th day after ARL publicly files its first Form 10-Q with the SEC following the consummation of the respective TCI and IOT mergers. The liquidation value of the Series G and Series H preferred shares shall be reduced by any dividends paid on the TCI and IOT common stock, respectively, after January 2, 2002 and prior to conversion. During such conversion period, each share of Series G preferred stock shall be convertible at the election of such holder into 2.5 shares of ARL Common Stock, and each share of Series H preferred stock shall be convertible at the election of such holder into 2.25 shares of ARL Common Stock. ARL may provide notice of its intention to redeem the Series G or Series H preferred stock no earlier than 45 days after ARL publicly files its first Form 10-Q with the SEC following the

consummation of the TCI and IOT mergers, respectively. ARL may redeem any or all of the Series G and Series H preferred stock upon payment of the liquidation

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value plus all accrued and unpaid dividends by giving the holder thereof not less than 45 days nor more than 60 days notice thereof prior to the date on which ARL desires such shares redeemed.

The holders of Series G and Series H preferred stock do not vote for the election of directors or on any matter except: (i) as otherwise provided by law, (ii) with respect to an amendment to ARL's articles of incorporation or bylaws that would materially alter or change the existing terms of the Series G and Series H preferred stock, respectively, (iii) as to the Series G preferred stock, at any time or times for the election of two directors when all or any portion of the dividends on the Series G preferred stock for any six quarterly dividends, whether or not consecutive, shall be in arrears and unpaid; and (iv) as to the Series H preferred stock, at any time or times for the election of two directors when all or any portion of the dividends on the Series H preferred stock for any six quarterly dividends, whether or not consecutive, shall be in arrears and unpaid. In the event of (iii) above, the number of directors constituting the board of directors of ARL shall be increased by two and the holders of Series G preferred stock, voting separately as a class, shall be entitled to elect two directors to fill the newly created directorships with each holder being entitled to one vote in the election for each share of Series G preferred stock held. In the event of (iv) above, the number of directors constituting the board of directors of ARL shall be increased by two and the holders of Series H preferred stock, voting separately as a class, shall be entitled to elect two directors to fill the newly created directorships with each holder being entitled to one vote in the election for each share of Series H preferred stock held. The full text of the description of the Series G and Series H preferred shares is set forth in APPENDIX C and D, respectively. For a comparison of the differences in the Series G and Series H preferred stock and the TCI common stock and IOT common stock, respectively, see "Comparison of Ownership of Shares."

5.Q: WHAT IS THE INTENDED ACCOUNTING TREATMENT OF THE TCI MERGER AND IOT MERGER?
(SEE PAGE 74)

A: ARL will account for the mergers under the purchase method of accounting.

6.Q: WILL I RECOGNIZE INCOME TAX GAIN OR LOSS IN THE TCI MERGER OR IOT MERGER?
(SEE PAGE 67)

A: The mergers involve numerous federal income tax consequences to you, depending in part on whether you are a common stockholder of TCI or IOT.

Each merger will be a taxable event for United States federal income tax purposes. The TCI and IOT stockholders who do not affirmatively elect to receive preferred stock in the mergers will recognize gain or loss equal to the difference between (i) the amount of cash they receive in connection with the merger and (ii) their tax basis in their stock of TCI common stock or IOT common stock, as the case may be. The TCI and IOT stockholders who affirmatively elect to receive preferred stock in connection with the mergers will recognize gain or loss equal to the difference between (i) the fair market value of the shares of preferred stock received in the merger and (ii) their tax basis in their shares of TCI common stock or IOT common stock, as the case may be. The mergers will not be a taxable event to the ARL stockholders. We urge you to

carefully read the complete explanation of the tax consequences of the mergers on pages 66 through 68.

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TAX MATTERS ARE VERY COMPLICATED, AND THE TAX CONSEQUENCES OF THE MERGER TO STOCKHOLDERS WILL DEPEND UPON THE FACTS OF EACH INDIVIDUAL'S SITUATION. WE URGE YOU TO CONSULT YOUR TAX ADVISOR FOR A FULL UNDERSTANDING OF THE MERGER'S TAX CONSEQUENCES TO YOU.

7.Q: ARE THERE RISKS INVOLVED IN THE MERGERS? (SEE PAGE 24)

A: Yes. In considering whether or not to vote in favor of your merger, ARL, TCI and IOT stockholders should carefully consider all of the information set forth in this joint proxy statement and prospectus and, in particular, should evaluate the factors set forth under the caption "Risk Factors" herein. These factors include, among other things:

RISKS RELATED TO THE MERGERS

- SUBSTANTIAL AMOUNTS OF CASH ARE REQUIRED FOR THE MERGERS. A substantial amount of cash is required to fund the cash payments to the stockholders of TCI and IOT in the mergers and to pay expenses associated with the mergers. If ARL, TCI and IOT are not able to raise the cash, the mergers may be delayed or abandoned.
- LENDER CONSENT MAY BE NECESSARY. ARL, TCI and IOT have each borrowed substantial amounts of money to buy and develop real estate. If they are unable to get any necessary lender consents or have disagreements with their lenders regarding the mergers, their businesses may be adversely affected and the mergers may be delayed or abandoned.
- THE MERGERS ARE SEPARATE TRANSACTIONS. If one of TCI or IOT does not approve the merger, ARL may be adversely affected and the merger of ARL and the other company may be delayed or abandoned.
- A TENDER OFFER MAY BE REQUIRED. ARL can make a tender offer for the shares of the common stock of the company or companies that did not approve the merger. Making a tender offer for the shares of TCI or IOT would be expensive for ARL, and there can be no assurance that it would be able to arrange the necessary financing to consummate such a transaction.

RISKS RELATED TO THE ARL PREFERRED STOCK

- VALUE OF THE ARL PREFERRED STOCK IS UNCERTAIN. There can be no assurance regarding the value of the ARL preferred stock. The NYSE may not accept the preferred shares for listing, and even if accepted, an active trading market for them may not develop.
- THE ARL PREFERRED STOCK HAS LIMITED VOTING RIGHTS. The shares of Series G preferred stock and Series H preferred stock have very limited voting rights.

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- AFFILIATES OF ARL MAY HOLD A MAJORITY OF THE ARL PREFERRED STOCK. Affiliates of ARL own a substantial number of shares of the common stock of TCI and IOT, and may be able to control any vote of holders of the Series G and H preferred stock, including any vote to amend the terms of the Series G and H

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preferred stock and the rights of the holders of the Series G and H preferred stock.

RISKS RELATED TO THE COMBINED BUSINESS

- ARL WILL NEED TO SELL PROPERTY AND BORROW MONEY TO MEET ITS LIQUIDITY NEEDS. The combined business of ARL, TCI and IOT will need to sell properties or borrow additional amounts to repay maturing debt and to fund their ongoing business operations.
- ARL WILL HAVE SUBSTANTIAL DEBT. ARL, TCI and IOT each have substantial indebtedness and the combined business of ARL, TCI and IOT will be highly leveraged.
- CONTROL BY BCM. ARL, TCI and IOT are each managed and controlled by BCM and the combined business will continue to be managed by BCM. The interests of BCM may be different from those of other stockholders.
- DEPENDENCE ON REAL ESTATE INVESTMENTS. ARL, TCI and IOT each invest primarily in real estate, which are subject to varying degrees of risk and are relatively illiquid. The performance of real estate assets and ARL's resulting ability to pay dividends to its stockholders may be adversely affected by a number of factors.
- COMPETITION. Developing and managing real estate assets is a highly competitive business. Many of the competitors in the business of purchasing, developing and managing real estate are considerably larger, have greater financial resources and may have management personnel with more experience than the officers of the combined business of ARL, TCI and IOT will have.
- GEOGRAPHIC CONCENTRATION. A substantial portion of assets of the combined business of ARL, TCI and IOT will consist of real estate and mortgage notes receivable secured by income producing real estate located in the Midwest, Northeast and Southwest regions of the United States. Specific geographic regions of the United States from time to time will experience weaker regional economic conditions and housing markets, and, consequently, will experience higher rates of loss and delinquency on mortgage loans.
- REAL ESTATE OPERATING RISKS. The real estate assets of the combined business of ARL, TCI and IOT will be subject to industry-specific operating risks, any or all of which may adversely affect the results of the operations of the combined business. If operating expenses increase, the local rental market, governmental regulations or the lease may limit the extent to which rents may be increased to meet expenses without decreasing occupancy rates. To the extent rents cannot be

increased or costs controlled, the cash flow and financial condition of the combined business of ARL, TCI and IOT will be adversely affected.

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8.Q: HOW WILL THE BUSINESS COMBINATION BE FINANCED? (SEE PAGE 49)

A: The estimated cash requirements to pay the amounts to the non-affiliated TCI and IOT stockholders if each takes the cash merger consideration and to pay all expenses (including prepayments of indebtedness) of the transactions is approximately \$94,235,000. The actual amount required to purchase the TCI common stock and IOT common stock will depend on the number of stockholders who affirmatively elect to take Series G and Series H preferred stock. Consequently, the greater number of stockholders who affirmatively elect to receive Series G and Series H preferred stock the less funds will be required to pay the cash merger consideration. ARL intends to first seek new loans, which it expects to be able to obtain from several lenders aggregating at least \$43,000,000. ARL, TCI and IOT also have available a number of assets which, if necessary, should be able to be sold (or utilized as collateral for loans) to realize at least \$93,700,000. These sums total an estimated \$136,700,000. If all such loans are entered into and all available properties are sold any remaining difference (presently estimated at \$36,100,000) will be available to ARL for working capital purposes. ARL presently has no written commitments for any of the expected loans and has no written or oral contracts to sell any assets.

9.Q: WILL I HAVE DISSENTERS' OR APPRAISAL RIGHTS IN THE MERGER? (SEE PAGE 37)

A: No.

10.Q: HAVE TCI AND IOT RECEIVED A FAVORABLE OPINION FROM THEIR FINANCIAL ADVISORS CONCERNING THE TCI MERGER AND IOT MERGER AS APPLICABLE? (SEE PAGES 54 TO 62)

A: Yes. Houlihan Lokey Howard & Zukin Financial Advisors, Inc. ("Houlihan Lokey"), has delivered its opinion to the board of TCI that, based upon the assumptions and analyses contained in its letter dated February 1, 2002, after allowing for the factors and assumptions stated in its opinion and as of that date, the consideration being offered to the public stockholders of TCI, other than ARL and its affiliates, in the merger is fair from a financial point of view.

Houlihan Lokey has delivered its opinion to the board of IOT that, based upon the assumptions and analyses contained in its letter dated February 1, 2002 after allowing for the factors and assumptions stated in its opinion and as of that date, the consideration being offered to the public stockholders of IOT, other than ARL and its affiliates, in the merger is fair from a financial point of view.

These opinions are attached as APPENDICES E and F. We encourage you to read these opinions.

11.Q: DO PERSONS INVOLVED IN THE MERGERS HAVE INTERESTS THAT DIFFER FROM MINE? (SEE PAGES 69 TO 70)

A: Yes. In considering your board's recommendation that you vote for the merger, you should be aware that the determination of the boards of ARL, TCI and IOT to participate in the mergers may have been affected by conflicts of interest. In particular:

The boards of directors of TCI and IOT are identical. Additionally, the executive officers of ARL, TCI, IOT and BCM are essentially the same persons. Each of the individuals, as a result of their multiple positions, owe fiduciary duties to the stockholders of all three of ARL,

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TCI and IOT. At times, they may be confronted by issues, including the mergers, that present them with potentially conflicting interests and obligations. Furthermore, in accordance with the advisory agreements that each of ARL, TCI and IOT have with BCM (as discussed under the heading "The Advisor"), BCM will receive a fee upon the sale, if any, of the properties that may be sold to fund the payment of the cash merger consideration. For the properties available for sale as of February 1, 2002, the amount of the fee is estimated to be \$3,038,815. See "Special Factors - Financing the Business Combination."

It is currently expected that the officers and directors of ARL, TCI and IOT will remain the same after the business combination with the exception that the TCI and IOT board members shall become members of the ARL board. As a result of these business relationships, the directors and officers of ARL, TCI and IOT could be more likely to support or recommend the business combination, the agreements and plans of merger and related matters than might otherwise be the case. You should consider whether these interests may have influenced these directors and officers to support or recommend the business combination. The directors of ARL, TCI and IOT were aware of these interests and considered them in approving the mergers.

12.Q: WHAT PERCENTAGE OF OUTSTANDING SHARES OF ARL, TCI AND IOT ARE HELD BY OFFICERS, DIRECTORS AND THEIR AFFILIATES? (SEE PAGES 36 TO 37)

A: The directors, executive officers and the affiliates of the directors and executive officers of ARL beneficially own 61.7% of the outstanding shares of ARL voting with respect to the TCI and IOT mergers.

The directors, executive officers and the affiliates of the directors and executive officers of TCI (including ARL and its affiliates) own 64.5% of the outstanding shares of TCI voting with respect to the TCI merger.

The directors, executive officers and the affiliates of the directors and executive officers of IOT (including ARL, TCI and their affiliates) own 59.9% of the outstanding shares of IOT voting with respect to the IOT merger.

13.Q: WHAT VOTE IS REQUIRED TO APPROVE MY MERGER? (SEE PAGE 36)

A: Approval of the TCI merger requires:

- o The affirmative vote of a majority of the votes cast at the TCI meeting;
- o The affirmative vote of a majority of the votes cast by the holders of shares of TCI common stock voting at the TCI meeting not held by Mr. Phillips, BCM or ARL and their affiliates; and
- o The affirmative vote of a majority of the votes cast in favor of the TCI merger at the ARL meeting.

Approval of the IOT merger requires:

- o The affirmative vote of a majority of the votes cast at the IOT meeting;
- o The affirmative vote of a majority of the votes cast by the holders of shares of IOT common stock voting at the IOT meeting not held by Mr. Phillips, BCM or ARL and their affiliates; and

- o The affirmative vote of a majority of the votes cast in favor of the IOT merger at the ARL meeting.

In the event the stockholders of either TCI or IOT approve their merger but the stockholders of the other company do not, the approved merger may be consummated, but the other one will not.

ARL and its affiliates currently own 5,215,324 shares of TCI common stock representing approximately 64.5% of the outstanding TCI shares and 862,465 shares of IOT common stock representing approximately 59.9% of the outstanding IOT shares.

14.Q: IF THE MERGERS ARE APPROVED AND I AFFIRMATIVELY ELECT TO RECEIVE SHARES OF THE ARL PREFERRED STOCK WILL THESE SHARES BE LISTED FOR TRADING? (SEE PAGE 21)

A: ARL will apply to list the Series G and Series H preferred stock, and the shares of ARL common stock issuable upon conversion of the Series G and Series H preferred stock, on the NYSE. There can be, however, no assurance that the shares will be listed. The listing of the preferred and common shares for trading on the NYSE is not a condition to the respective obligations of TCI and IOT to consummate the mergers.

15.Q: DO THE BOARDS OF DIRECTORS OF ARL, TCI AND IOT RECOMMEND VOTING IN FAVOR OF THE TCI MERGER AND IOT MERGER AS APPLICABLE? (SEE PAGES 45, 46 TO 49)

A: ARL. The ARL board of directors has approved the TCI merger agreement and the IOT merger agreement and unanimously recommends that its stockholders vote "for" the mergers. In reaching its decision to approve and recommend the mergers, the ARL board of directors considered, among other factors, the following:

- o The current and historical market prices of the TCI and IOT common stock relative to the historical market prices of the ARL common stock and relative to the merger consideration.
- o The view of the ARL board of directors that an increase in the size and diversity of ARL's portfolio of developed and undeveloped real estate would benefit the company.
- o The view of the ARL board of directors that stockholders of ARL would benefit from an increase in the size of ARL's asset base and a diversification of its real estate portfolio.
- o The expectation of the ARL board of directors that the cash to be paid as merger consideration could be raised in large part from sales of real estate held by TCI and IOT.
- o The fact that stockholders of TCI and IOT affiliated with ARL will accept preferred stock of ARL in lieu of cash as merger consideration.
- o The expectation of the ARL board of directors that the TCI and IOT mergers would not be consummated unless, in each case, sufficient cash was available to ARL to pay the cash merger consideration due as a result of the mergers.
- o The fact that the TCI and IOT mergers are not conditioned upon one another.
- o The ARL board of directors understanding that any regulatory approvals

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necessary to consummate the TCI and IOT mergers could be obtained.

TCI. The TCI board of directors has determined that the terms of the proposed TCI merger are fair to and in the best interests of the non-affiliated TCI stockholders, approved the

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TCI merger agreement and unanimously recommends that its stockholders vote "for" the TCI merger. In reaching its decision to approve and recommend the TCI merger, the TCI board of directors considered, among other factors, the following:

- o The current and historical market prices of TCI common stock relative to the merger consideration and the fact that the \$17.50 per share merger consideration represented a 44.6% premium over the average closing price of TCI common stock over the thirty trading days prior to October 23, 2001.
- o The fact that the merger consideration is all cash.
- o The fact that holders of TCI common stock have the opportunity to affirmatively elect to receive ARL preferred stock instead of cash.
- o The view of the TCI board of directors that the trading value for shares of TCI common stock was not likely to exceed the merger price in the near term if TCI remained independent.
- o The potential stockholder value that could be expected to be generated from other strategic options available to TCI.
- o The financial presentation of Houlihan Lokey and the opinion to the effect that the consideration to be offered to the non-affiliated TCI public stockholders pursuant to the TCI merger agreement was fair from a financial point of view to those holders.
- o The terms of the TCI merger agreement, as reviewed by the TCI board of directors with TCI legal advisors.
- o The TCI board of directors' determination, based on the fact that no other offers to acquire TCI common stock have been made at a level equal to or better than the merger consideration of \$17.50 per share after initial press reports on and after October 23, 2001, that ARL had agreed to acquire the non-affiliated stockholder interest in TCI and after discussing with TCI's advisors the potential risks, costs and benefits of contacting other third parties, that there was insufficient reason to justify the risk of delay in proceeding with the favorable transaction with ARL.
- o The view of the TCI board of directors that the regulatory approvals necessary to consummate the TCI merger could be obtained.
- o The fact that TCI will no longer exist as an independent company and its stockholders will no longer participate in the growth of TCI.
- o The fact that gains from an all cash transaction would be taxable to TCI stockholders for U.S. federal income tax purposes.

IOT. The IOT board of directors has determined that the terms of the proposed IOT merger are fair to and in the best interests of the non-affiliated

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IOT stockholders, approved the IOT merger agreement and unanimously recommends that its stockholders vote "for" the IOT merger. In reaching its decision to approve and recommend the IOT merger, the IOT board of directors considered, among other factors, the following:

- o The current and historical market prices of IOT common stock relative to the merger consideration and the fact that the \$19.00 per share merger consideration represented a 28.7% premium over the average closing price of IOT common stock over the thirty trading days prior to October 23, 2001.
- o The fact that the merger consideration is all cash.

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- o The fact that holders of IOT stock have the opportunity to affirmatively elect to receive ARL preferred stock instead of cash.
- o The view of the IOT board of directors that the trading value for shares of IOT common stock was not likely to exceed the merger price in the near term if IOT remained independent.
- o The potential stockholder value that can be expected to be generated from other strategic options available to IOT.
- o The financial presentation of Houlihan Lokey and the opinion to the effect that the consideration to be offered to the non-affiliated IOT public stockholders pursuant to the IOT merger agreement was fair from a financial point of view to those holders.
- o The terms of the IOT merger agreement, as reviewed by the IOT board of directors with IOT legal advisors.
- o The IOT board of directors' determination, based on the fact that no other offers to acquire IOT common stock have been made at a level equal to or better than the merger consideration of \$19 per share after initial press reports on and after October 23, 2001, that ARL had agreed to acquire the non-affiliated stockholder interest in IOT and after discussing with IOT's advisors the potential risks, costs and benefits of contacting other third parties, that there was insufficient reason to justify the risk of delay in proceeding with the favorable transaction with ARL.
- o The view of the IOT board of directors, the regulatory approvals necessary to consummate the IOT merger could be obtained.
- o IOT will no longer exist as an independent company and its stockholders will no longer participate in the growth of IOT.
- o The fact that gains from an all cash transaction would be taxable to IOT stockholders for U.S. federal income tax purposes.

16.Q: WHEN DO THE COMPANIES EXPECT TO COMPLETE THE MERGERS? (SEE PAGE 71)

A: Assuming the mergers receive the required stockholder approval from the stockholders of ARL, TCI and IOT, the mergers will occur at the time ARL determines it has sufficient cash available to it, either from its own resources or from TCI or IOT, immediately after the mergers, to pay the cash merger consideration due as a result of the mergers.

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17.Q: WHEN DO I ELECT WHETHER TO RECEIVE ARL PREFERRED STOCK OR CASH? (SEE PAGE 73)

A: At the time you send in the letter of transmittal mentioned below you will elect whether to receive ARL preferred stock or cash.

18.Q: WHERE AND AT WHAT TIME WILL THE MEETINGS BE HELD? (SEE PAGE 35)

A: The ARL special meeting will be held on Wednesday, March 27, 2002, at the offices of ARL at 1800 Valley View Lane, Suite 300, Dallas, Texas, at 2:00 p.m., Central Time.

The TCI special meeting will be held on Wednesday, March 27, 2002, at the offices of TCI at 1800 Valley View Lane, Suite 300, Dallas, Texas, at 3:00 p.m., Central Time.

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The IOT special meeting will be held on Wednesday, March 27, 2002, at the offices of IOT at 1800 Valley View Lane, Suite 300, Dallas, Texas, at 4:00 p.m., Central Time.

19.Q: WHAT DO I NEED TO DO NOW? (SEE PAGE 35)

A: Please mail your signed proxy card in the enclosed return envelope as soon as possible so that your shares of stock may be represented at the appropriate meeting.

20.Q: IF MY SHARES ARE HELD BY MY BROKER, WILL MY BROKER VOTE MY SHARES FOR ME? (SEE PAGE 37)

A: Your broker may vote shares on the merger only if you instruct your broker how to vote. You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares. If you do not tell your broker how to vote, your shares will not be voted on the merger. If you hold your shares in a brokerage account, you cannot vote in person at your meeting.

21.Q: CAN I CHANGE MY VOTE AFTER I HAVE MAILED MY SIGNED PROXY CARD? (SEE PAGE 37)

A: Yes. You may change your vote at any time before your proxy is voted at your meeting. You may do this by sending a written notice stating that you would like to revoke your proxy or by completing and submitting a new proxy card bearing a later date than the proxy relating to the same shares to our transfer agent, American Stock Transfer & Trust Company, 6201 15th Avenue, Brooklyn, New York 11219, attention Joe Alicia. You may also attend your meeting and vote in person. Simply attending the meeting, however, will not revoke your proxy. If you hold your shares in a brokerage account and you have instructed your broker to vote, you must follow your broker's instructions regarding how to change your vote.

22.Q: SHOULD I SEND IN MY CERTIFICATES NOW? (SEE PAGE 73)

A: No. After the mergers are approved and the business combination is consummated, you will receive a letter of transmittal with instructions for exchanging shares in TCI and IOT for cash or, at your affirmative election, shares of either Series G preferred stock or Series H preferred stock, respectively.

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23.Q: I'VE LOST MY CERTIFICATE. WHAT SHOULD I DO? (SEE PAGE 73)

A: The letter of transmittal mentioned above will contain complete instructions for a lost certificate.

24.Q: WHO CAN I CONTACT FOR MORE INFORMATION? (SEE PAGE 35)

A: ARL, TCI and IOT stockholders who have questions about the mergers may call Investor Relations at 1-800-400-6407.

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RATIO OF EARNINGS TO FIXED CHARGES

The following table summarizes the ratio of ARL's earnings to fixed charges and preferred stock dividends at the dates set forth below:

	2000	Years Ended December 31,			1996
	----	1999	1998	1997	----
Ratio of earnings to fixed charges and preferred stock dividends	1.35	1.54	**	**	**

**Earnings were inadequate to cover fixed charges and preferred stock dividends by \$19,307,000, \$11,247,000 and \$6,167,000 in 1998, 1997 and 1996, respectively. For the period ended September 30, 2001, the ratio of earnings to fixed charges and preferred stock dividend was 1.17.

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SUMMARY FINANCIAL DATA OF ARL

The following is a summary of financial data incorporated by reference in this joint proxy statement and prospectus. You should read the following data in conjunction with the more detailed information contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the ARL consolidated financial statements and related notes included elsewhere in this joint proxy statement and prospectus.

	Nine Months Ended September 30,		For the Years Ende		
	2001	2000	2000	1999	1
	(unaudited)		(dollars in thousand		
EARNINGS DATA					
Revenue	\$ 126,182	\$ 133,313	\$ 172,750	\$ 193,980	\$
Expense	186,210	213,373	272,045	324,789	1

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(Loss) from operations	(60,028)	(80,060)	(99,295)	(130,809)	(
Equity in income of investees	9,157	2,873	5,246	11,847	
Gain on sale of real estate	62,860	78,828	96,728	129,260	
	-----	-----	-----	-----	-----
Income (loss) before extraordinary gain	11,989	1,641	2,679	10,298	(
Extraordinary gain	--	--	--	--	
	-----	-----	-----	-----	-----
Net income (loss)	11,989	1,641	2,679	10,298	(
Preferred dividend requirement	(1,868)	(1,661)	(2,327)	(2,281)	
	-----	-----	-----	-----	-----
Income (loss) applicable to common shares	\$ 10,121	\$ (20)	\$ 352	\$ 8,017	\$ (
	=====	=====	=====	=====	=====

PER SHARE DATA

(Loss) before extraordinary gain	\$ 1.00	\$ --	\$.03	\$.75	\$
Extraordinary gain	--	--	--	--	
	-----	-----	-----	-----	-----
Net income (loss) applicable to Common shares	\$ 1.00	\$ --	\$.03	\$.75	\$
	=====	=====	=====	=====	=====
Dividends per Common share	\$ --	\$ --	\$ --	\$.05	\$
Weighted average shares outstanding	10,141,840	10,496,364	10,399,890	10,759,416	10,6

		December 31,		
	September 30,	-----		
	2001	2000	1999	1998
	-----	-----	-----	-----
	(unaudited)	(dollars in thousands, except per		

BALANCE SHEET DATA

Real estate, net	\$604,589	\$653,744	\$771,630	\$734,907
Notes and interest receivable, net	29,222	13,831	38,604	52,053
Total assets	780,378	787,015	919,546	918,605
Notes and interest payable	582,139	616,331	706,196	768,272
Margin borrowings	28,703	13,485	33,264	35,773
Preferred stock	3,969	--	--	--
Stockholders' equity	83,420	73,402	46,266	38,272
Book value per share	\$ 8.23	\$ 7.06	\$ 4.30	\$ 3.58

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SUMMARY FINANCIAL DATA OF TCI

The following is a summary of financial data incorporated by reference in this joint proxy statement and prospectus. You should read the following data in conjunction with the more detailed information contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the TCI consolidated financial statements and related notes included elsewhere in this joint proxy statement and prospectus.

	Nine Months Ended September 30,		For the Years Ended		
	2001	2000	2000	1999	1998
	(unaudited)		(dollars in thousands,		
EARNINGS DATA					
Rents	\$ 103,464	\$ 103,855	\$ 139,357	\$ 82,039	\$ 69,000
Property expense	60,084	56,659	78,061	44,497	38,000
Operating income	43,380	47,196	61,296	37,542	31,000
Other income	(2,254)	1,451	1,814	555	0
Other expense	62,892	61,187	83,878	48,395	38,000
Gain on sale of real estate	47,529	29,562	50,550	40,517	12,000
Net income (loss)	25,763	17,022	29,782	30,219	6,000
Preferred dividend requirement	(22)	(22)	(22)	(30)	0
Net income (loss) applicable to Common shares	\$ 25,741	\$ 17,000	\$ 29,760	\$ 30,189	\$ 6,000
Basic and Diluted Earnings Per Share Net income (loss) applicable to Common shares					
Basic	\$ 2.98	1.97	\$ 3.45	\$ 7.05	\$ 0.60
Diluted	\$ 2.97	\$ 1.97	\$ 3.45	\$ 7.05	\$ 0.60
Dividends per Common share	--	.54	\$.54	\$.60	\$.60
Weighted average Common shares outstanding	8,675,230	8,630,029	8,631,621	4,283,574	3,876,000

* Does not include a special dividend of \$1.00 per share.

	September 30, 2001	2000	1999	December 31, 1998
	(unaudited)		(dollars in thousands, except	

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BALANCE SHEET DATA

Real estate held for investment, net	\$604,571	\$639,040	\$599,746	\$347,389
Real estate held for sale, net				
Foreclosed	504	1,824	1,790	1,356
Other	--	--	--	--
Notes and interest receivable, net	13,802	8,172	11,530	1,493
Total assets	708,789	731,885	714,195	382,203
Notes and interest payable	460,275	501,734	503,406	282,688
Redeemable preferred stock	1,500	1,500	--	--
Stockholders' equity	216,811	200,560	179,112	91,132
Book value per share	\$ 24.99	\$ 23.22	\$ 20.76	\$ 23.35

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SUMMARY FINANCIAL DATA OF IOT

The following is a summary of financial data incorporated by reference in this joint proxy statement and prospectus. You should read the following data in conjunction with the more detailed information contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the IOT consolidated financial statements and related notes included elsewhere in this joint proxy statement and prospectus.

	Nine Months Ended September 30,		For the Years En		
	2001	2000	2000	1999	19
	(unaudited)		(dollars in thousand)		
EARNINGS DATA					
Rents	\$ 9,759	\$ 10,732	\$ 13,731	\$ 15,968	\$ 1
Property expense	5,292	5,286	6,969	6,768	
Operating income	4,467	5,446	6,762	9,200	
Interest income	142	206	319	29	
Income (loss) from equity partnerships	(27)	(71)	(61)	148	
Gain on sale of real estate	--	20,878	20,878	1,525	
	115	21,013	21,136	1,702	
Other expense	7,780	8,537	11,104	9,580	
Net income (loss)	\$ (3,198)	\$ 17,922	\$ 16,794	\$ 1,322	\$

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PER SHARE DATA

Net income (loss)	\$ (2.11)	\$ 11.70	\$ 11.03	\$.87	\$
Dividends per share	\$ --	\$.45	\$.45	\$.60	\$
Weighted average Common shares outstanding	1,512,119	1,531,177	1,522,510	1,527,386	1,52

	September 30, 2001	December 31,			
	-----	-----	-----	-----	-----
	(unaudited)	2000	1999	1998	19
		(dollars in thousands, except per s			

BALANCE SHEET DATA

Real estate held for investment, net	\$85,781	\$86,277	\$86,542	\$83,691	\$81,
Real estate held for sale, net	--	--	--	--	
Notes and interest receivable, net	505	1,500	--	--	2,
Total assets	92,874	96,519	91,185	88,695	90,
Notes and interest payable	54,329	54,206	62,852	60,786	61,
Stockholders' equity	35,486	39,998	23,991	23,560	25,
Book value per share	\$ 24.66	\$ 26.42	\$ 15.69	\$ 15.44	\$ 16

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COMPARATIVE PER SHARE INFORMATION

The following table sets forth per share data of the shares of TCI and IOT common stock on a historical, pro forma combined and pro forma equivalent basis. Pro forma equivalent information for ARL, TCI and IOT was calculated by multiplying the pro forma per share amounts for ARL by the exchange ratio for TCI and IOT common stock, respectively. This table should be read in conjunction with the historical financial statements and notes thereto contained elsewhere in this joint proxy statement and prospectus and in conjunction with the unaudited pro forma combined financial information included elsewhere in this joint proxy statement and prospectus.

ARL COMMON STOCK

	Historical	Proforma Combined
	-----	-----
Income (loss) per common share, diluted		
Nine months ended September 30, 2001	\$1.00	\$2.19
Year ended December 31, 2000	.04	2.16
Cash dividend per common share		
Nine months ended September 30, 2001	--	--

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Year ended December 31, 2000	--	--
Book value per common share at September 30, 2001	7.05	9.30

TCI COMMON STOCK

	Historical -----	Proforma Combined -----
Income (loss) per common share, diluted		
Nine months ended September 30, 2001	\$ 2.97	\$ 2.34
Year ended December 31, 2000	3.45	1.77
Cash dividend per common share		
Nine months ended September 30, 2001	-0-	-0-
Year ended December 31, 2000	.54	-0-
Book value per common share at September 30, 2001	26.96	9.72

IOT COMMON STOCK

	Historical -----	Proforma Combined -----
Income (loss) per common share		
Nine months ended September 30, 2001	\$(2.11)	\$.71
Year ended December 31, 2000	11.03	.92
Cash distribution per common share		
Nine months ended September 30, 2001	-0-	-0-
Year ended December 31, 2000	.45	-0-
Book value per common share	24.66	7.25

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MARKET PRICES AND DIVIDEND INFORMATION

As of October 22, 2001, the last full trading day prior to the public announcement of the mergers, the table below sets forth the closing prices per share of the common stock of ARL, TCI and IOT:

	Closing Price
ARL common stock.....	\$11.62
TCI common stock.....	\$12.00

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IOT common stock..... \$14.76

The shares of ARL common stock and the shares of TCI common stock are traded on the NYSE under the symbols "ARL" and "TCI," respectively. The shares of IOT common stock are traded on the American Stock Exchange ("AMEX") under the symbol "IOT." As of the record date, there were 5,415 record holders of ARL common stock, 7,258 record holders of TCI common stock and 1,351 record holders of IOT common stock. As of the record date, there were no restrictions on TCI's or IOT's ability to pay dividends. The following table sets forth the quarterly high and low reported sales prices of ARL, TCI and IOT common stock, as well as the quarterly distributions, declared per share, as applicable, for the periods indicated below.

	ARL COMMON STOCK(1)			TCI COMMON STOCK		
	HIGH	LOW	DIVIDENDS (2)	HIGH	LOW	DIVIDENDS (3)
1999:						
First Quarter	\$ --	\$ --	\$ --	\$ 16 3/8	\$ 11 5/8	\$.15
Second Quarter	--	--	--	12 1/2	11 3/8	.15
Third Quarter	--	--	--	13 7/16	10 7/8	.15
Fourth Quarter	--	--	--	13 7/16	11 1/4	.15
2000:						
First Quarter	--	--	--	13	10 13/16	.18
Second Quarter	--	--	--	13 1/2	2 7/8	.18
Third Quarter	17	7	--	16	11 1/2	.18
Fourth Quarter	17 1/4	13 7/16	--	16	8 7/8	--
2001:						
First Quarter	14 1/2	12 1/2	--	12 9/16	8 3/16	--
Second Quarter	12 10/16	9 3/4	--	16	8 15/16	--
Third Quarter	12	10 1/8	--	14 3/4	11 11/16	--
Fourth Quarter	13	9 3/4	--	16 3/8	11 5/8	--

Although ARL will apply to have the Series G and Series H preferred stock, and the shares of ARL common stock issuable upon conversion of the Series G and Series H preferred stock, listed on the NYSE, there is no assurance the NYSE will list the shares. The listing of the preferred and common shares for trading on the NYSE is not a condition to the respective obligations of TCI and IOT to consummate the mergers.

(1) Trading of ARL common stock on the NYSE commenced on August 3, 2000.

(2) It is the policy of ARL to determine annually whether to pay dividends. In accordance with that policy, ARL did not pay any dividends in 2000 or 2001.

(3) During the fourth quarter of 2000, IOT and TCI discontinued the payment of dividends.

FORWARD LOOKING STATEMENTS

The SEC encourages companies to disclose forward-looking information so that investors can better understand a company's future prospects and make informed investment decisions. These statements may be made directly in this joint proxy statement and prospectus referring to ARL, TCI or IOT, and they may also be made a part of this joint proxy statement and prospectus by reference to other documents filed by us with the SEC, which is known as "incorporation by reference."

Words such as "anticipate," "estimate," "expect," "project," "intend," "plan," "believe," "target," "objective," "strategy," "goal" and words and terms of similar substance used in connection with any discussion of future operating or financial performance, or the acquisition by ARL of TCI and/or IOT, identify forward-looking statements. Forward-looking statements are based on management's current views about future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. The following risks could cause or contribute to actual results differing materially from those described in the forward-looking statements:

- o inability to obtain, or to meet conditions imposed for, regulatory approval of pending acquisitions and divestitures
- o availability, terms and development of capital
- o business abilities and judgment of personnel
- o changes in, or the failure to comply with, governmental regulations, particularly those affecting the environment and water quality
- o competition
- o success of operating initiatives, advertising and promotional efforts
- o existence of adverse publicity or litigation
- o changes in business strategy or plans
- o quality of management
- o general economic, business and financial market conditions
- o the ability to satisfy the conditions to closing set forth in the merger agreements
- o other factors described in our filings with the SEC

We caution you not to place undue reliance on our forward-looking statements, which speak only as of the date of this joint proxy statement and prospectus or the date of the documents incorporated by reference in this joint proxy statement and prospectus. Except as required by law, we are under no obligation, and expressly disclaim any obligation, to update or

alter any forward-looking statements, whether as a result of new information, future events or otherwise.

For additional information about factors that could cause actual results to differ materially from those described in the forward-looking statements, please see the quarterly reports on Form 10-Q and the annual reports on Form 10-K as well as current reports on Form 8-K that ARL, TCI and IOT have filed with the SEC as described under "Where You Can Find More Information."

All forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section.

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RISK FACTORS

You should carefully consider the risks described below and other information in this joint proxy statement and prospectus before you decide how to vote on the mergers of TCI and IOT with ARL. If the mergers are approved, stockholders of TCI and IOT should also consider these risk factors again before they decide to exercise their right to affirmatively elect to receive preferred stock of ARL instead of cash for their shares of the common stock of TCI or IOT.

The plan to merge ARL, TCI and IOT involves risk. Some of those risks relate to the proposed transactions themselves. Other risks relate to the preferred stock of ARL being offered or to the businesses of ARL, TCI and IOT themselves.

RISKS RELATED TO THE MERGERS

SUBSTANTIAL AMOUNTS OF CASH ARE REQUIRED FOR THE MERGERS. A substantial amount of cash is necessary to fund the cash payments to the stockholders of TCI and IOT required in the mergers and to pay expenses associated with the mergers. Also, the combined business of ARL, TCI and IOT have substantial indebtedness due in the next twelve months that must be repaid or refinanced.

- o Non-affiliated TCI and IOT stockholders will be entitled to receive up to an aggregate of \$60,882,020 in cash for their shares of the common stock of TCI and IOT if none affirmatively elect to receive the preferred stock of ARL
- o ARL, TCI and IOT expect to incur approximately \$27,149,311 in costs in connection with the mergers, including prepayment of indebtedness and fees and commissions associated with property sales necessary to raise cash to fund payments to the stockholders of TCI and IOT
- o ARL, TCI and IOT have approximately \$395,558,476 in loans coming due in the next twelve months that must be repaid or refinanced

Approximately \$104,235,586 must be raised in order to fund all of the obligations related to the mergers, and an additional \$395,558,477 in the next twelve months to repay or refinance maturing indebtedness. ARL does not currently have this much cash presently available. Although ARL, TCI and IOT expect to be able to raise the cash necessary to fund the transactions required

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in connection with the mergers and their continuing combined business by selling real estate and obtaining new loans, there can be no assurance that sales will be made or that loans will be obtained, or that they will be made or obtained on terms favorable to the combined business of ARL, TCI and IOT. The ARL board of directors has determined that the TCI and IOT mergers would not be consummated unless, in each case, sufficient cash was available to ARL, either from its own resources or from TCI or IOT immediately after the mergers, to pay the cash merger consideration due as a result of the mergers. If ARL, TCI and IOT are not able to raise the cash anticipated through the sale of real estate and obtaining new loans, the mergers may be delayed or abandoned and the ongoing combined business of ARL, TCI and IOT may be adversely affected.

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SUBSTANTIAL PROPERTY SALES OR LOANS ARE NECESSARY. ARL, TCI and IOT expect to raise most of the cash necessary to fund all of the obligations related to the mergers from the sale of real estate or loans. Because ARL, TCI and IOT may need to sell assets before the mergers, they may not receive the best possible prices for their properties and may have to incur higher expenses than would otherwise be incurred. Real estate assets are not readily saleable. The consummation of the sales anticipated by ARL, TCI and IOT will be subject to a number of contingencies outside of their control, including:

- o The buyers' ability to obtain any necessary financing;
- o The satisfactory completion of any due diligence review made by the buyers and the buyers' lenders; and
- o Satisfactory completion of any environmental review and other review of the subject properties' legal compliance.

Similarly, the consummation of any potential loans to ARL, TCI or IOT will be subject to contingencies outside of their control.

LENDER CONSENT MAY BE NECESSARY. ARL, TCI and IOT have each borrowed substantial amounts of money to buy and develop real estate. Some of ARL, TCI or IOT's loan agreements may contain provisions limiting their ability to do the mergers or requiring advance consent for the mergers by lenders. In some cases, ARL, TCI and IOT may disagree with their lenders about the interpretation of these provisions. To the extent that ARL, TCI and IOT are unable to get any necessary lender consents, or to the extent that they have disagreements with their lenders regarding the mergers, the businesses of ARL, TCI and IOT may be adversely affected and the mergers may be delayed or abandoned.

THE MERGERS ARE SEPARATE TRANSACTIONS. TCI and IOT are separate companies. TCI and IOT will each enter into a separate merger agreement with ARL and their stockholders will receive different compensation as a result of the merger. It is possible that the stockholders of TCI or IOT will vote to approve a merger with ARL and that the stockholders of the other will not. If one of these companies does not approve the merger, ARL may be adversely affected and may not have sufficient cash to consummate the other merger. If the stockholders of either TCI or IOT do not approve the merger, but the stockholders of the other do, the merger of ARL and the other company may be delayed or abandoned.

A TENDER OFFER MAY BE REQUIRED. In connection with the Settlement Agreement, ARL agreed to propose the mergers to the stockholders of TCI and IOT. It was also agreed that if the stockholders of TCI or IOT did not approve the mergers, ARL can make a tender offer for the shares of the common stock of the company or companies that did not approve the merger. Making a tender offer for

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the shares of TCI or IOT would be expensive for ARL, and there can be no assurance that it would be able to arrange the necessary financing to make and consummate such a transaction. If ARL does not make the tender offer required by the Settlement Agreement it could be liable for damages of approximately \$14,265,400 (or \$5.00 for each share of TCI stock it does not acquire) and/or \$2,882,400 (or \$5.00 for each share of IOT stock it does not acquire.)

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RISKS RELATED TO THE ARL PREFERRED STOCK

If the mergers are consummated, stockholders of TCI and IOT will receive cash for their shares of TCI and IOT common stock unless they elect to receive shares of ARL preferred stock instead. The opportunity to receive shares of ARL preferred stock instead of cash will be given to stockholders of TCI and IOT after the mergers are completed, if they are completed. Electing to receive shares of ARL preferred stock is a decision to invest in the stock of ARL and is subject to the risks of investing in the combined business of ARL, TCI and IOT. Investing in the preferred stock of ARL is also subject to risks related to the terms and nature of the Series G and Series H preferred stock. TCI and IOT stockholders should carefully review the risks described below before electing to take ARL preferred stock instead of cash.

VALUE OF THE ARL PREFERRED STOCK IS UNCERTAIN. There can be no assurance regarding the value of the ARL preferred stock. Along with the risks associated with owning securities generally, stockholders of TCI and IOT should consider the following specific risks associated with the ARL preferred stock:

- o Although ARL will apply to list the preferred shares to be offered to TCI and IOT stockholders on the NYSE, the exchange may not accept them for listing. Even if the shares of ARL preferred stock are listed on an exchange, an active trading market for them may not develop
- o There can be no assurance that an active trading market for the ARL preferred stock will develop, even if those shares are listed on the NYSE. As a result, holders of the ARL preferred stock may not be able to sell those shares for cash when they wish to or may be limited in the number of shares that they are able to sell at any one time
- o Stockholders of TCI and IOT who affirmatively elect to receive ARL preferred stock instead of cash for their shares of TCI or IOT will be investing in the combined business of ARL. If there is a trading market for the ARL preferred stock after the mergers, the value of those shares will rise and fall based upon many factors, including the results of ARL's business operations and its financial condition. There can be no assurance that the ARL preferred stock will rise in value
- o The preferred shares to be offered to stockholders of TCI and IOT will have a annual dividend which will be payable quarterly. Although the preferred shares have a dividend, ARL is only obligated to pay the dividend when it is declared and when it has sufficient funds to do so. Unpaid dividends will accumulate until paid, but will not bear interest. Because ARL will need to pay substantial amounts to consummate the mergers and to repay or refinance indebtedness in the next twelve months, there can be no assurance that ARL will have sufficient cash to pay the dividend contemplated on the shares

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of ARL preferred stock to be offered to stockholders of TCI and IOT

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- o Even if it is able to fund its near term cash needs, ARL's ability to declare and pay dividends on its preferred stock will depend upon the results of its business operations, the terms of loan agreements it may have and the amount of cash it has available from time to time. Dividends on ARL's preferred stock will only be payable when its board of directors determines it has sufficient cash available and that it is otherwise appropriate to do so. Unpaid dividends on the ARL preferred stock will not bear interest
- o ARL has other shares of preferred stock outstanding that are entitled to dividends. ARL can only pay dividends on its preferred stock if it pays dividends on all of the shares of preferred stock entitled to dividends at the same time. Currently, ARL has 2,778,869.75 shares of its Series A, E and F preferred stock outstanding. Those shares require the payment of a total of approximately \$688,725 in dividends quarterly. If all of the stockholders of TCI and IOT elect to receive preferred stock instead of cash, ARL will add approximately 7,484,006 shares of preferred stock outstanding with a dividend requirement of approximately \$1,736,398 quarterly
- o Stockholders of TCI and IOT who affirmatively elect to receive shares of ARL preferred stock instead of cash will each receive one share of preferred stock for each share of TCI or IOT common stock that they hold. No adjustment in this exchange ratio will be made to reflect changes in the market prices of the shares of ARL, TCI or IOT. Shares of the ARL preferred stock to be issued to TCI and IOT stockholders who elect to receive them instead of cash will be convertible into shares of ARL common stock in the future. The number of shares of ARL common stock you will receive if you convert a share of ARL preferred stock has already been set and will not be adjusted if the market value of ARL's common stock declines in the future

THE ARL PREFERRED HAS LIMITED VOTING RIGHTS. The ARL shares of Series G preferred stock and Series H preferred stock have very limited voting rights. The holders of Series G preferred stock and Series H preferred stock are not voting for the election of directors or on any matter except: (i) as otherwise provided by law, (ii) with respect to an amendment to ARL's articles of incorporation or bylaws that would materially alter or change the existing terms of such series of preferred stock, and (iii) at any time or times for the election of two directors when all or any portion of the dividends on such series of preferred stock for any six quarterly dividends, whether or not consecutive, shall be in arrears and unpaid. In the latter event, the number of directors constituting the board of directors of ARL shall be increased by two and the holders of such Series G preferred stock or Series H preferred stock, as applicable, voting separately as a class, shall be entitled to elect two directors to fill the newly created directorships with each holder being entitled to one vote in the election for each share of such preferred stock held by such stockholder.

AFFILIATES OF ARL MAY HOLD A MAJORITY OF THE ARL PREFERRED STOCK.

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Affiliates of ARL own a substantial number of shares of the common stock of TCI and IOT. If the mergers occur, shares of TCI and IOT held by ARL's affiliates will be converted into preferred stock of ARL. Thus, a majority of the issued and outstanding shares of the ARL preferred stock to be issued as

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a result of the mergers may be held by affiliates of ARL. Affiliates of ARL may be able to control any vote of holders of the Series G and H ARL preferred stock, including any vote to amend the terms of the Series G and H ARL preferred stock and the rights of the holders of the Series G and H ARL preferred stock.

RISKS RELATED TO THE COMBINED BUSINESS

The combined businesses of ARL, TCI and IOT will be subject to risks. If the mergers are consummated, stockholders of TCI and IOT will receive cash for their shares of TCI and IOT common stock unless they affirmatively elect to receive shares of ARL preferred stock instead. The opportunity to receive shares of ARL preferred stock instead of cash will be given to stockholders of TCI and IOT after the mergers are completed, if they are completed. Electing to receive shares of ARL preferred stock is a decision to invest in the stock of ARL and is subject to the risks of investing in the combined businesses of ARL, TCI and IOT. TCI and IOT stockholders should carefully review the risks described below before affirmatively electing to take ARL preferred stock instead of cash.

ARL WILL NEED TO SELL PROPERTY AND BORROW MONEY TO MEET ITS LIQUIDITY NEEDS. The combined business of ARL, TCI and IOT will need to sell properties or borrow additional amounts to repay maturing debt and to fund their ongoing business operations. There can be no assurance that the combined business will be able to make the required property sales for favorable prices or at all, or that it will be able to borrow additional funds on favorable terms or at all. In connection with considering an investment in the ARL preferred stock, stockholders of TCI and IOT should consider the following risks related to the indebtedness and liquidity needs of the combined business of ARL, TCI and IOT:

- o In addition to the substantial amounts of cash that will be needed to fund the cash payments to the non-affiliated stockholders, the combined business of ARL, TCI and IOT will need to raise approximately \$395,558,476 to repay or refinance debts maturing in the next twelve months. The combined business of ARL, TCI and IOT will have approximately \$395,558,476 of indebtedness coming due in the next twelve months out of a total debt of \$1,196,996,000. After consummating the mergers and paying related expenses, assuming no stockholders of TCI or IOT elect to receive ARL preferred stock instead of cash, ARL expects to have approximately \$10,000,000 of cash and negotiable securities on hand to meet its obligations
- o ARL, TCI and IOT have significant debt service obligations when compared to their available cash flow. As of September 30, 2001, after giving effect to the mergers and related transactions on a pro forma basis, the combination of ARL, TCI and IOT would have had total debt of approximately \$1,196,996,000 and total stockholders equity of approximately \$110,072,000, if no stockholders of TCI and IOT elect to receive ARL preferred stock instead of cash. For the nine months ended September 30, 2001, after giving effect to the mergers and assuming that no TCI or IOT stockholder elects to receive ARL preferred stock instead of cash, the interest

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expense for the combined business of ARL, TCI and

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IOT would have been \$92,191,000 as compared to net available cash flow of approximately \$93,034,000

- o The ongoing business operations of the combined business of ARL, TCI and IOT will require substantial amounts of cash from property sales, new borrowings or sales of securities. A large portion of the assets of ARL, TCI and IOT consist of undeveloped real estate that produces little or no income. In addition, ARL, TCI and IOT have made substantial commitments in connection with the development of property. For the nine months ended September 30, 2001, the combined business operations of ARL, TCI and IOT, on a pro forma basis, would have had revenues of approximately \$279,156,000 and expenses, exclusive of debt service and non cash expenses such as depreciation and amortization of approximately \$231,382,000. ARL anticipates requiring additional cash of approximately \$50,522,713 in excess of its expected revenues to fund the ongoing business operations of the combined business of ARL, TCI and IOT during the next twelve months

ARL WILL HAVE SUBSTANTIAL DEBT. ARL, TCI and IOT each have substantial indebtedness and the combined business of ARL, TCI and IOT will be highly leveraged. This high level of indebtedness will subject the combined business to risk. Among those risks are the following:

- o the combined businesses of ARL, TCI and IOT may be limited in their ability to grow by a lack of cash or the availability of loans for new acquisitions
- o the combined business of ARL, TCI and IOT may be forced to sell properties on disadvantageous terms if it is unable to refinance maturing debt obligations
- o the interest expense of the combined business of ARL, TCI and IOT could increase if general interest rates increase, because 28.3% of their loans are floating rate loans and another 55.1% come due and must be refinanced within the next three years
- o the substantial leverage of the combined business of ARL, TCI and IOT will increase their vulnerability to economic downturns and could place them at a competitive disadvantage to competitors having lower levels of debt
- o high levels of debt could limit the ability of the combined businesses of ARL, TCI and IOT to react to changing conditions in the real estate industry or the economy generally
- o failure by the combined business to comply with financial and other restrictive covenants in loan agreements, or failure to make debt service payments could result in events of default under those and other loan agreements that, if not cured or waived, could harm the business or could result in the bankruptcy of one or more subsidiaries of ARL, TCI or IOT or of the combined business as a whole

CONTROL BY BCM. ARL, TCI and IOT are each managed and controlled by BCM. The combined business of ARL, TCI and IOT will continue to be managed BCM as well. ARL, TCI and IOT have no employees. Instead, pursuant to a written advisory agreement, BCM provides services for specific compensation. This arrangement will continue after the mergers. Also, BCM and its affiliates own or control more than a majority of the voting securities of each of ARL, TCI and IOT, and will own more than a majority of the voting securities of ARL after the merger. The interest of BCM may be different from those of other stockholders of ARL, TCI and IOT, and may be different from those of other holders of the ARL preferred stock. BCM's position may have a number of effects on the combined business of ARL, TCI and IOT which may affect the value of the ARL common and preferred stock, including:

- o BCM and its affiliates can control the election of all members of the board of directors of ARL at the present time, and will continue to have that control after the mergers
- o BCM and its affiliates is able, and will be able after the mergers, to prevent any transaction that would result in a change of control of ARL
- o Dealings between ARL and BCM after the mergers may not be at arms length

DEPENDENCE ON REAL ESTATE INVESTMENTS. ARL, TCI and IOT each invest primarily in real estate. Real estate investments are subject to varying degrees of risk and are relatively illiquid. The performance of real estate assets and ARL's resulting ability to pay dividends to its stockholders may be adversely affected by a number of factors, including:

- o the general economic climate and local real estate conditions (such as oversupply of or reduced demand for space and changes in market rental rates)
- o the perceptions of prospective tenants of the safety, convenience and attractiveness of the properties
- o the ability of the owner of the properties to provide adequate management, maintenance and insurance
- o the ability to collect on a timely basis all rent from tenants and interest from borrowers
- o the expense of periodically renovating, repairing and reletting spaces
- o increasing operating costs (including real estate taxes and utilities) which may not be passed through to tenants. Certain significant expenditures associated with investments in real estate (such as mortgage payments, real estate taxes, insurance and maintenance costs) are generally not reduced when circumstances cause a reduction in rental revenues from the investment
- o governmental regulations, local rent control or stabilization ordinances

ENVIRONMENTAL REGULATIONS. Under various federal, state and local environmental laws, ordinances and regulations, an owner of real estate may be liable for the costs of removal or remediation of certain hazardous or toxic substances on the property. These laws often impose environmental liability without regard to whether the owner knew of, or was responsible for, the presence of hazardous or toxic substances. The presence of hazardous substances, or the failure to remediate them properly, may adversely affect the owner's ability to sell or rent the property or to borrow money using the property as collateral. Persons who arrange for the disposal or treatment of hazardous or toxic substances may also be liable for the costs of removal or remediation of these substances at a disposal or treatment facility, whether or not the facility is owned or operated by this person. Certain laws impose liability for release of asbestos-containing materials into the air and third parties may seek recovery from owners or operators of real properties for personal injury associated with asbestos-containing materials. In connection with the ownership (directly or indirectly), operation, management and development of real properties, the combined business of ARL, TCI and IOT may be considered an owner or operator of these properties or as having arranged for the disposal or treatment of hazardous or toxic substances and, therefore, potentially liable for removal or remediation costs, as well as for other related costs, including governmental fines and injuries to persons and property.

COMPETITION. Developing and managing real estate assets is a highly competitive business. The combined business of ARL, TCI and IOT will compete with many public and private real estate investment entities, including financial institutions (such as mortgage banks, pension funds and real estate investment trusts), other institutional investors and individuals for property to purchase. In addition, developed real estate owned by the combined business of ARL, TCI and IOT will compete for tenants and customers with other developed real estate owned by third parties. Many of the competitors in the business of purchasing, developing and managing real estate are considerably larger, have greater financial resources and may have management personnel with more experience than the officers of the combined business of ARL, TCI and IOT will have.

GEOGRAPHIC CONCENTRATION. A substantial portion of assets of the combined business of ARL, TCI and IOT will consist of real estate and mortgage notes receivable secured by income producing real estate such as apartment complexes, office buildings, shopping centers and partnership interests located in the Midwest, Northeast and Southwest regions of the United States. Specific geographic regions of the United States from time to time will experience weaker regional economic conditions and housing markets, and, consequently, will experience higher rates of loss and delinquency on mortgage loans. Any concentration of assets in a region may present risks in addition to those generally present for similar real estate assets or mortgage-backed or asset-backed securities without this concentration.

REAL ESTATE OPERATING RISKS. The real estate assets of the combined business of ARL, TCI and IOT will be subject to industry-specific operating risks, any or all of which may adversely affect the results of the operations of the combined business. All properties are subject to increases in operating expenses, including: cleaning, electricity, heating, ventilation and air-conditioning, elevator repair and maintenance, insurance and administrative costs, and other general costs associated with security, landscaping, repairs, regulatory compliance and maintenance. While commercial tenants are often obligated to pay a portion of these escalating costs, there can be no assurance that they will agree to pay these costs in the absence of a

contractual duty or that their payments will fully cover these costs. If operating expenses increase, the local rental market, governmental regulations or the lease may limit the extent to which rents may be increased to meet expenses without decreasing occupancy rates. To the extent rents cannot be increased or costs controlled, the cash flow and financial condition of the combined business of ARL, TCI and IOT will be adversely affected. Industry specific risks related to the asset of the combined business of ARL, TCI and IOT include the following:

- o APARTMENT PROPERTIES. Market values of apartments can be affected significantly by the supply and demand in the geographic market for the properties and, therefore, may be subject to adverse economic conditions. Market values of apartments may vary as a result of economic events or governmental regulations outside the control of the borrower or lender. Governmental regulations such as rent control laws may impact the future cash flow of the apartments
- o UNDEVELOPED PROPERTY. Undeveloped real estate (raw land) generates little or no income. To the extent that undeveloped real estate is purchased with the proceeds of debt, as a result, the costs of holding it will greatly exceed any income it may generate. In addition, the market value of undeveloped real estate tends to fluctuate greatly, depending upon many factors, including local and national economic conditions, interest rates, local development conditions, local land use regulations, the nature and quality of surrounding developed real estate
- o HOTEL PROPERTIES. Like any income producing property, the income generated by a hotel property is subject to local, regional and national economic conditions and competition. However, because the income is primarily generated by short-term occupancies, the level of income responds more quickly to market conditions. Sensitivity to competition may require more frequent improvements and renovations than other properties. To the extent a hotel is affiliated with a regional, national or international chain, changes in the public perception of the affiliated chain may have an impact on the income generated by the hotel. In addition, since the hotel industry is generally seasonal, income generated by a hotel property will fluctuate in accordance with the particular demand characteristics of the market in which it is located
- o OFFICE AND RETAIL PROPERTIES. The market value of office buildings and shopping centers is affected by the risk that a lease may not be renewed, that the space may not be released and that the terms of renewal or release (including the cost of required renovations or concessions to tenants) may be less favorable than current lease terms
- o INVESTMENTS IN NON-RECOURSE MORTGAGE LOANS. Mortgage loans may or may not be recourse obligations of the borrower and generally will not be insured or guaranteed by governmental agencies or otherwise. In the event of a default under this type of a loan, ARL may have to foreclose the mortgage or protect its investment by acquiring title to the property.

Taking title to a property may require investing in substantial improvements or repairs in order to maximize the property's investment potential. Borrowers may contest enforcement of

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foreclosure or other remedies, seek bankruptcy protection against foreclosure and/or bring claims for lender liability in response to actions to enforce mortgage obligations. Because of relatively high "loan-to-value" ratios and declines in the value of the mortgaged property, the amount received in foreclosure may be less than the amount outstanding under the mortgage loan

- PARTICIPATION IN LOANS MADE BY OTHERS. The combined business of ARL, TCI and IOT may participate in loans originated by other real estate lenders or investors such as financial institutions. A participant in a loan or investment originated by another entity may not have the sole authority, or any authority, to declare a default under the mortgage or to control the management or disposition of the financed property or any related foreclosure proceedings
- SUBORDINATED INTERESTS. The combined business of ARL, TCI and IOT may make loans that are subordinated to other obligations of the debtor. Any investments in subordinated mortgage loans involve additional risks, including the lack of control over collateral and related foreclosure proceedings
- INVESTMENTS IN PARTNERSHIPS OR JOINT VENTURES. The combined business of ARL, TCI and IOT will have investments in one of more partnerships, joint ventures or similar entities where responsibility for the conduct of the business of the investment is shared with a third party. As a result, the success of such an investment will be subject to risks that the third party may become bankrupt or fail to perform its obligations, have different economic goals than the combined business, take actions which are contrary to the interests of the combined business or be unable to agree upon the proper conduct of the investment's business
- RISK OF TERRORISM. Office buildings, hotels and other properties are subject to the risk that terrorists or other persons may damage or destroy them, or that their value may be damaged or destroyed as a result of damage to or destruction of neighboring properties. In addition, to the extent that added security measures made necessary by changing political conditions increases the cost of operating real property investments, operating income from and value of such properties may be reduced
- AMERICANS WITH DISABILITIES ACT. Under the Americans with Disabilities Act ("ADA"), places of public accommodation and commercial facilities are required to meet requirements related to access and use by disabled persons. Compliance with ADA requirements could require both structural and non-structural changes to the properties in which the combined business of ARL, TCI and IOT invests. Noncompliance could result in fines imposed by the federal government or an award

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of damages to private litigants. The combined business of ARL, TCI and IOT may be required to incur additional and unexpected costs to ensure compliance with the ADA in the future. A number of additional federal, state and local laws exist which impose additional burdens or restrictions on owners with respect to access by disabled persons. Those laws may require modifications or restrict renovations to properties owned by the combined business of ARL, TCI

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and IOT. The ultimate amount of the cost of compliance with the ADA or other related laws is not currently ascertainable. Any substantial unexpected costs of compliance with the ADA and similar statutes could adversely affect the results of operations of the combined business of ARL, TCI and IOT

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THE SPECIAL MEETINGS

INTRODUCTION

This joint proxy statement and prospectus is being furnished in connection with the solicitation of proxies by the ARL, TCI and IOT boards of directors for use in connection with the special meeting to be held by each entity and any adjournments or postponements of the meetings.

ARL SPECIAL MEETING

The special meeting of holders of ARL common stock will be held on March 27, 2002 at 2:00 p.m., Dallas time at 1800 Valley View Lane, Suite 300, Dallas, Texas. The purpose of the ARL meeting is to consider and vote upon the proposal to approve the TCI merger and the IOT merger and the corresponding agreements and plans of merger.

TCI SPECIAL MEETING

The special meeting of holders of TCI common stock will be held on March 27, 2002 at 3:00 p.m., Dallas time at 1800 Valley View Lane, Suite 300, Dallas, Texas. The purpose of the TCI meeting is to consider and vote upon the proposal to approve the TCI merger and the agreement and plan of merger.

IOT SPECIAL MEETING

The special meeting of holders of IOT common stock will be held on March 27, 2002 at 4:00 p.m., Dallas time at 1800 Valley View Lane, Suite 300, Dallas, Texas. The purpose of the IOT meeting is to consider and vote upon the proposal to approve the IOT merger and the agreement and plan of merger.

VOTING INSTRUCTIONS

VOTING BY WRITTEN PROXY CARD. To vote by written proxy card, sign and date each proxy card you receive and return it in the prepaid envelope. If a stockholder is a corporation or partnership, the accompanying proxy card must be signed in the full corporate or partnership name by a duly authorized person. If the proxy card is signed pursuant to a power of attorney or by an executor,

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administrator, trustee or guardian, the signer's full title must be given and a certificate or other evidence of appointment must be furnished. If shares are owned jointly, each joint owner must sign the proxy card.

VOTING BY TELEPHONE OR THE INTERNET. Instructions for a stockholder of record to vote by telephone or the Internet are set forth on the enclosed proxy card. The telephone and Internet voting procedures are designed to authenticate votes cast by use of a personal identification number. The procedures, which comply with Nevada law, allow stockholders to appoint a proxy to vote their shares and to confirm that their instructions have been properly recorded.

If the stockholders have any questions regarding the business combination, they should contact Investor Relations at 1-800-400-6407.

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RECORD DATE; VOTES REQUIRED

ARL. Only holders of shares of ARL common stock of record at the close of business on the record date, February 9, 2002, will be entitled to notice of and to vote at the ARL special meeting. The mergers will be approved by ARL if the mergers receive the affirmative vote, in person or by proxy, of a majority of the votes cast at the ARL meeting. The holders of a majority of the outstanding stock entitled to vote, present in person or by proxy, will constitute a quorum for purposes of the ARL meeting. As of the record date for the ARL special meeting, there were 11,375,127 shares of ARL common stock outstanding. BCM, TCI and the members of the board of directors and executive officers of ARL and its affiliates beneficially owned, as of the record date, 7,016,316 shares, which represent approximately 61.7% of the outstanding shares. Each share of ARL common stock entitles its holder to cast one vote on matters as to which voting is permitted or required by Nevada law. BCM, TCI and, to the knowledge of ARL, the members of the board of directors and executive officers of ARL and their affiliates intend to vote their shares in favor of the mergers. Abstentions and broker non-votes will be excluded when calculating the number of votes required for approval of the proposals.

TCI. Only holders of shares of TCI common stock of record at the close of business on the record date, February 9, 2002, will be entitled to notice of and to vote at the TCI special meeting. The TCI merger and the TCI merger agreement will be approved by TCI if the TCI merger receives the affirmative vote, in person or by proxy, of (1) a majority of the votes cast at the TCI meeting and (2) a majority of the votes cast by the holders of shares of TCI common stock not held by Mr. Phillips, BCM or ARL, voting at the TCI meeting, whether in person or by proxy. The holders of a majority of the shares of voting stock, present in person or by proxy, will constitute a quorum for purposes of the TCI meeting. As of the record date for the TCI special meeting, there were 8,042,629 shares of TCI common stock outstanding. Each share of TCI common stock entitles its holder to cast one vote on matters as to which voting is permitted or required by Nevada law. ARL (indirectly), BCM (directly and indirectly) and the members of the board of directors and executive officers of TCI and its affiliates beneficially owned, as of the record date for the TCI special meeting, 5,187,722 shares, which represent approximately 64.5% of the outstanding shares. ARL, BCM and, to the knowledge of TCI, the members of the board of directors and the executive officers of TCI and its affiliates intend to vote their shares in favor of the TCI merger. Abstentions and broker non-votes will be excluded when calculating the number of votes required for approval of the proposals.

IOT. Only holders of shares of IOT common stock record at the close of business on the record date, February 9, 2002, will be entitled to notice of and to vote at the IOT special meeting. The IOT merger and merger agreement will be

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approved by IOT if the merger receives the affirmative vote, in person or by proxy, of (1) a majority of the votes cast at the IOT meeting and (2) a majority of the votes cast by the holders of shares of IOT common stock not held by Mr. Phillips, BCM or ARL, voting at the IOT meeting, whether in person or by proxy. The holders of a majority of the shares of voting stock, present in person or by proxy, will constitute a quorum for purposes of the IOT meeting. As of the record date for the IOT special meeting, there were 1,438,945 shares of IOT common stock outstanding. Each share of IOT common stock entitles its holder to cast one vote on matters as to which voting is permitted or required by Nevada law. ARL (indirectly),

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BCM and the members of the board of directors and executive officers of IOT and its affiliates beneficially owned, as of the record date for the IOT special meeting, 862,465 shares, which represent approximately 59.9% of the outstanding shares. ARL, TCI, BCM and, to the knowledge of IOT, directors and members of management of IOT and its affiliates intend to vote their shares in favor of the IOT merger. Abstentions and broker non-votes will be excluded when calculating the number of votes required for approval of the proposals.

APPRAISAL RIGHTS

None of the ARL, TCI or IOT stockholders will be entitled to dissenters or appraisal rights as a result of or in connection with the mergers.

PROXY

Enclosed is a form of proxy which should be completed, dated, signed and returned by each ARL, TCI and IOT stockholder before the ARL, TCI and IOT special meetings to ensure that each stockholder's shares will be voted at the meeting. Any ARL, TCI or IOT stockholder signing and delivering a proxy has the power to revoke the proxy at any time prior to its use by:

- a. filing with the corporate secretary of ARL, TCI or IOT, as applicable, a written revocation of the proxy or a duly executed proxy;
- b. submitting another proper proxy bearing a later date than that of the proxy first given by:
 - o signing and returning a proxy card to either the corporate secretary of ARL, TCI or IOT, as applicable;
 - o following the telephone voting instructions;
 - o following the Internet voting instructions; or
- c. attending and voting in person at the meeting.

Shares represented by a properly executed proxy, and all properly completed proxies voted by telephone or the Internet, which are delivered pursuant to this solicitation (and not later revoked) will be voted in accordance with the instructions indicated on the proxy, and at the discretion of the proxy holders on all other matters properly addressed at the meeting. If an ARL, TCI or IOT stockholder executes a proxy without instructions, the votes represented by the proxy will be submitted in favor of the proposals.

Your broker may vote shares on the merger only if you instruct your broker how to vote. You should follow the directions provided by your broker

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regarding how to instruct your broker to vote your shares. If you do not tell your broker how to vote, your shares will not be voted on the merger. If you hold your shares in a brokerage account, you cannot vote in person at your meeting. If you hold your shares in a brokerage account and you have instructed your broker to vote, you must follow your broker's instructions regarding how to change your vote.

SOLICITATION OF PROXIES

The boards of directors of ARL, TCI and IOT are soliciting proxies for use in connection with the special meetings to be held by each entity and any adjournments or postponements of either meeting. ARL, TCI and IOT will bear equally the expense of the proxy solicitation. The costs of the proxy solicitation are estimated to be \$7,000. Georgeson Shareholder Communications, Inc. has been retained to act as proxy solicitor in connection with the special meetings. The proxy solicitor may contact ARL, TCI and IOT stockholders by mail, telephone, telex, telegraph and personal interviews and may request brokers, dealers and other nominee

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stockholders to forward the proxy materials to beneficial owners of ARL, TCI or IOT shares. The proxy solicitor will receive a fee estimated not to exceed \$30,000 for these services, plus reimbursement of out-of-pocket expenses. ARL, TCI and IOT will indemnify the proxy solicitor against certain liabilities and expenses in connection with the mergers, including liabilities under federal securities laws. The telephone number of the proxy solicitor is 212-805-7000.

OTHER MATTERS FOR ACTION AT THE SPECIAL MEETINGS

The ARL, TCI and IOT boards of directors are not aware of any matters to be presented for action at any of the special meetings other than those described in this joint proxy statement and prospectus. If other matters should properly come before any special meeting, it is intended that the holders of proxies solicited by this joint proxy statement and prospectus will vote on those matters in their discretion.

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SPECIAL FACTORS

GENERAL

The following is a description of all material matters concerning the business combination. Pursuant to the business combination, wholly-owned subsidiaries of ARL will be merged with and into TCI and IOT and TCI and IOT will become subsidiaries of ARL. If the TCI stockholders approve their merger and the merger is consummated, each share of outstanding TCI common stock will be converted into \$17.50 in cash (less the amount of any dividend declared and paid after January 2, 2002 by TCI on the TCI common stock) unless the TCI stockholder affirmatively elects to receive one share of Series G preferred stock in exchange for each share of outstanding TCI common stock. Outstanding shares of TCI common stock held by ARL, its subsidiaries or TCI will be canceled and shares of TCI common stock held by BCM and other affiliates of ARL will be exchanged for shares of Series G preferred stock. Similarly, if the IOT stockholders approve their merger, each share of outstanding IOT common stock will be converted into \$19.00 in cash (less the amount of any dividends declared

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and paid after January 2, 2002 by IOT on the IOT common stock) unless the IOT stockholder affirmatively elects to receive one share of Series H preferred stock. Outstanding shares of IOT held by ARL, its subsidiaries TCI or IOT will be canceled and each share of IOT common stock held by BCM and other affiliates of ARL will be exchanged for shares of Series H preferred stock. Notwithstanding the foregoing, the ARL board of directors has determined that ARL would not enter into the merger agreements unless, in each case, sufficient cash was available to ARL, either from its own resources or from TCI or IOT immediately after the mergers, to pay the cash merger consideration due as a result of the mergers.

THE COMPANIES

AMERICAN REALTY INVESTORS, INC. ("ARL"). A publicly traded (NYSE) Nevada corporation engaged primarily in the business of owning and operating a portfolio of real estate and financing real estate and real estate activities through investments in mortgage loans.

TRANSCONTINENTAL REALTY INVESTORS, INC. ("TCI"). A publicly traded (NYSE) Nevada corporation engaged primarily in the business of owning and operating a portfolio of real estate and financing real estate and real estate activities through investments in mortgage loans.

INCOME OPPORTUNITY REALTY INVESTORS, INC. ("IOT"). A publicly traded (AMEX) Nevada corporation engaged primarily in the business of owning and operating a portfolio of real estate and financing real estate and real estate activities through investments in mortgage loans. IOT is a real estate investment trust.

TRANSCONTINENTAL REALTY ACQUISITION CORPORATION. A Nevada corporation recently formed as a wholly-owned subsidiary of ARL that will merge with and into TCI.

INCOME OPPORTUNITY ACQUISITION CORPORATION. A Nevada corporation recently formed as a wholly-owned subsidiary of ARL that will merge with and into IOT.

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The principal operating offices of each of ARL, TCI, IOT, Income Opportunity Acquisition Corporation and Transcontinental Realty Acquisition Corporation are located at 1800 Valley View Lane, Suite 300, Dallas, Texas 75234. The telephone number for each corporation is 469-522-4200.

BACKGROUND OF THE BUSINESS COMBINATION

TCI and IOT are parties to a 1990 settlement of litigation known as the Olive Settlement. The original settlement has been modified and the modification has been the subject of an amendment. Periodically, since 1990, designated Settlement Counsel, George Donaldson, has challenged the compliance of the parties under the Olive Settlement, the modification and the amendment and has unsuccessfully sought to remove BCM from its advisory position to TCI, IOT and other entities. Mr. Donaldson also sought to, from time to time, remove some or all of the directors of TCI, IOT and other entities.

On June 14, 2000, Mr. Phillips and A. Cal Rossi, Jr. were indicted* by a Grand Jury in the Southern District of New York, charged with conspiracy to commit securities fraud and kickback and wire fraud schemes. Mr. Phillips is a representative of a trust for the benefit of his children that indirectly owns BCM. As a representative of the trust, Mr. Phillips had, until June 2000,

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substantial contact with the management of BCM and input with respect to BCM's performance of advisory services for ARL, TCI and IOT. Until June 2000, Mr. Rossi served as an officer of BCM. Following the announcement of the indictments the market values of TCI and IOT common stock declined precipitously, thereby exposing certain owners of the securities to margin calls. Sales under margin calls were averted in almost all instances, but one brokerage firm sold a large block of stock in TCI to an investment fund. On October 3, 2001, American Realty Trust, Inc. ("ART"), a subsidiary of ARL, entered into an option to purchase the TCI common stock from the investment fund at a price of \$16.50 per share. Settlement Counsel under the Olive Settlement, read of the purchase option agreement and inquired as to whether or not there was interest in a transaction whereby all of the shares owned by non-affiliates in IOT and TCI might be purchased by ART for cash.

In early July 2000, Henry W. Simon, Jr. and the Fort Worth, Texas law firm of Simon, Warner & Doby, were employed to represent BCM, Mr. Phillips, ART and ARL. On October 12, 2000, Simon attended a hearing in San Francisco in the Olive Litigation. After the hearing there was a brief conversation between Simon and Donaldson in which the possibility of finally settling the disputes in the Olive Settlement by offering cash to non-affiliated TCI and IOT stockholders was discussed.

On October 31, 2000, Simon met with his clients and others about the status and possibilities of the Olive Settlement. These parties contacted Donaldson by telephone, informing him that there was some willingness to consider attempts to determine cash prices which would be agreeable to all parties and acceptable to Judge Marilyn H. Patel, Chief Judge, United States District Court for the Northern District of California. Judge Patel would have to make a finding that each price offered was fair pursuant to the class action provisions which govern the

* On February 13, 2002, following a lengthy trial, Messrs. Phillips and Rossi were acquitted of all charges in the U.S. District Court, Southern District of New York.

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derivative litigation. Later the same date, Simon attended a meeting with Ted Stokely, Chairman of the Board of TCI and IOT, and Robert A. Waldman, General Counsel to ARL, TCI and IOT, to discuss the mechanics leading toward a possible settlement. On November 3, 2000, Messrs. Donaldson, Mr. Phillips and Simon met to negotiate a possible pricing structure. Mr. Phillips indicated that he might consider recommending that ARL acquire the shares of common stock held by non-affiliated TCI stockholders for \$16 per share and non-affiliated IOT stockholders for \$14 per share.

On November 15, 2000, Waldman contacted representatives of Houlihan Lokey in Los Angeles, California to discuss Houlihan Lokey's interest in providing a fairness opinion which would be necessary in the event the parties reached an agreement on prices. Houlihan Lokey indicated that they would be pleased to work in furtherance of the transaction. Houlihan Lokey prepared a draft retainer agreement among IOT, TCI and Houlihan Lokey, and sent it to Waldman.

On November 17, 2000, at meetings of the boards of directors of TCI and IOT, the members were advised that Donaldson had expressed an initial interest in a buy out by ARL of all non-affiliated stockholders at \$16 per TCI share and \$14 per IOT share, subject to further information and negotiation as to price.

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In attendance at that meeting were directors R. Douglas Leonhard*, Martin L. White, Edward G. Zampa* and Ted P. Stokely. Also attending that meeting were Mark W. Branigan, then a director of ARL and Chief Financial Officer of ARL, TCI and IOT, Karl L. Blaha, then a director of ARL and President of ARL, TCI and IOT, and Robert A. Waldman, Senior Vice President, General Counsel and Secretary of ARL, TCI and IOT.

On November 20, 2000, Messrs. Donaldson, Waldman, Mr. Phillips and Simon met in Dallas to discuss the proposals made and responses received between the parties. At that time Donaldson indicated that he would not consider any price less than \$16.50 per share for the TCI shares, which was the option price agreed to between ARL and the investment fund. Donaldson also advised that whatever price might be agreed upon would be based upon a current appraisal and evaluation of the underlying assets of the subject companies. Donaldson advised that in order to go forward he wished to engage Green Street Advisors, Inc. ("Green Street") in Newport Beach, California, to review asset values of TCI and IOT.

The ARL board of directors met on November 22, 2000, to consider the possible acquisition of the shares of non-affiliated stockholders at TCI and IOT. Present at that meeting were ARL directors Richard D. Morgan**, Karl L. Blaha***, Collene C. Currie, Roy E. Bode****, Joseph Mizrachi and Mark W. Branigan and Waldman. The ARL board determined that management should proceed with negotiations on this matter.

During the month of December 2000, Simon discussed with Donaldson the appropriate procedure to advise Judge Patel that the parties were considering settlement. On December 21, 2000, Simon approved a form of Statement of the Case to be submitted by Settlement Counsel, Mr. Donaldson, which would formally advise Judge Patel that the parties were discussing a

* Messrs. Leonhard and Zampa resigned as directors of TCI and IOT on December 14, 2001.

** Richard D. Morgan resigned as a director of ARL on October 25, 2001.

*** Karl L. Blaha resigned as a director of ARL on February 5, 2002.

**** Roy E. Bode did not stand for re-election at ARL's Annual Meeting on July 10, 2001 and therefore ceased to be a director of ARL on that date.

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settlement. During January 2001, Simon and Waldman prepared at the request of Donaldson certain historical summaries of the trading values of stocks involved and facilitated the exchange of information between BCM and Green Street in order to expedite the analysis of the underlying values of TCI and IOT. On February 14, 2001, Simon discussed with Donaldson certain discounts and other assumptions which ARL felt were appropriate in reaching final values. These discussions continued with telephone conversations on February 22, 23, and 28, 2001. On March 7, 2001, Donaldson and Adam Markman of Green Street met with Simon and Waldman in Dallas to review additional information regarding certain assets. Following that meeting and several other conversations but prior to April 12, 2001, Messrs. Simon, Donaldson and Mr. Phillips reached a tentative agreement to propose final cash prices of \$16.50 for each of the TCI shares and \$19 for each of the IOT shares.

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On March 20, 26, 27, and 30, 2001, Simon held telephone conversations with Donaldson to complete the data base from which the final agreed prices might be determined. On April 10, 2001, Mr. Phillips and Simon met with Donaldson in California and reached an initial agreement on which Donaldson was authorized to communicate to Judge Patel. In May 2001, Donaldson delivered a letter to Judge Patel concerning the proposed settlement of the litigation which included the proposed purchase prices of \$16.50 per TCI share and \$19.00 per IOT share. The letter was labeled "CONFIDENTIAL- FILED UNDER SEAL." On May 8, 2001, Simon appeared before Judge Patel in a conference format and discussed with the Court the nature of the proposed settlement, the steps necessary to achieve both a resolution of all open issues between the parties and the subsequent judicial and regulatory approvals which would be needed to implement the transaction.

In June and July 2001, Donaldson, aided by the Green Street evaluation team, continued to review data in order to reach an agreement on share price. On July 26, 2001, Simon met with Mr. Phillips in his Dallas office to review the summary pages of the Green Street report for TCI. On July 30, 2001, Simon met with Donaldson in the offices of BCM in Dallas, Texas to discuss the initial evaluations submitted by Green Street. On the following day, July 31, 2001, Markman of Green Street joined in meetings with Donaldson, Mr. Phillips, certain asset managers of BCM, and others in the Dallas offices of BCM. Markman also viewed some of the more significant TCI properties located in the Dallas area.

Negotiations regarding comparative values and their effect upon proposed price per share provisions of a joint settlement continued during the month of August 2001. ARL desired that there be an alternative election offered to TCI and IOT stockholders whereby a stockholder could (if a clear affirmative election to do so is made) accept preferred stock in ARL in lieu of the cash amounts of \$16.50 per TCI share and \$19 per IOT share. Settlement counsel negotiated for a penalty if the transaction is not completed by ARL and urged that the TCI data warranted an increase in the cash price to be paid to TCI stockholders. Just prior to August 30, 2001, Donaldson, Mr. Phillips, and the other participants from BCM agreed upon (a) an increase in the price to be offered TCI stockholders from \$16.50 per share to \$17.50 per share; (b) a preferred stock election as to each offeree; (c) a \$5.00 per share penalty for failure to complete the transaction; and (d) a tender offer procedure, providing the same considerations, in the event that the regulatory process with the SEC could not be completed satisfactorily or expeditiously.

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On August 30, 2001, the TCI and IOT directors held special meetings at which time they approved the terms of the proposed settlement subject to completion of due diligence and negotiation of a final agreement. The Settlement Agreement was drafted by Donaldson and Simon in September 2001. Simon spent September 4, 2001 in San Francisco and discussed the proposed joint settlement with Donaldson on an everyday basis during September and the early part of October. Simon met with Donaldson in San Francisco on October 3 and 4, 2001 to continue discussions of the Settlement Agreement. Commencing on October 12, 2001, Simon broadened his activities to discuss all aspects of the then "draft" form of the Settlement Agreement, along with ancillary documents to be filed therewith, with Jessica Pers and David Goldstein of the Heller Ehrman White & McAuliffe law firm, counsel to the boards of directors of TCI and IOT in the Olive Case.

On October 15, 2001, Simon discussed certain new concerns with Donaldson, Waldman, Eric Redwine, an attorney for BCM, and again with Pers. Pers, by letter, and in telephone conferences raised a concern regarding whether or not the language embodied in the draft agreement might be read to indicate that an appeal, then pending, was being abandoned by the appellants. It was

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agreed that a part of the Settlement Agreement would be a voluntary abatement, assuming the consent of the 9th Circuit Court of Appeals, in the pending appeal over issues of jurisdiction which arose from an earlier order from Judge Patel in which the Court declared that it had jurisdiction to continue consideration of certain activities of the TCI and IOT directors and of BCM and its officers.

On October 18, 2001, the written Settlement Agreement was filed with Judge Patel. Pers suggested new language which would make it clear that the appeal, if abated, was not being abandoned or resolved by agreement and would revive in the event the contemplated settlement failed to come to fruition. On October 23, 2001, a press release was issued on behalf of ARL, TCI and IOT announcing the preliminary agreement with Settlement Counsel providing for ARL to acquire all of the outstanding common stock of TCI and IOT. On the morning of December 10, 2001, counsel reported to Judge Patel on their progress and received the Court's comments. That afternoon and evening the parties worked through the Court's comments, as well as certain comments relayed to the parties from Stephen Taylor, the Special Master.

On December 11, 2001, Simon and Donaldson had extensive telephone conversations with all participants in the negotiation process which resulted in certain changes being made to the documents and, upon accomplishment of such changes, the documents then believed to be in final form were filed with Judge Patel. The Court signed the order preliminarily approving the Settlement Agreement on December 18, 2001.

On February 1 and 4, 2002, the TCI board of directors again met by telephone conference to review a revised form of opinion from Houlihan Lokey, which contained proposed revisions to the timing of the conversion period of the preferred stock available by affirmative election by the TCI stockholders. During that meeting, discussions ensued concerning the probable timing based upon potential filings by ARL depending upon the consummation of the TCI merger. The TCI board of directors concluded that the recommended change in timing of conversion periods would be beneficial to those TCI stockholders who affirmatively elect to receive preferred stock. Following these discussions, the TCI directors reaffirmed their February 1, 2002, determination

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that the terms of the Settlement Agreement and contemplated merger are procedurally and substantively fair to the non-affiliated TCI stockholders as previously described.

On February 1 and 4, 2002, the IOT board of directors again met by telephone conference to review a revised form of opinion from Houlihan Lokey, which contained proposed revisions to the timing of the conversion period of the preferred stock available by affirmative election by the IOT stockholders. During that meeting, discussions ensued concerning the probable timing based upon potential filings by ARL depending upon the consummation of the IOT merger. The IOT board of directors concluded that the recommended change in timing of conversion periods would be beneficial to those IOT stockholders who affirmatively elect to receive preferred stock. Following these discussions, the IOT directors reaffirmed their February 1, 2002, determination that the terms of the Settlement Agreement and contemplated merger are procedurally and substantively fair to the non-affiliated IOT stockholders as previously described.

On February 4, 2002, the board of directors of ARL had a telephonic board meeting to begin consideration of the proposed acquisitions of TCI and IOT by ARL in the manner contemplated by the Settlement Agreement. Present at the meeting were Earl Cecil, Collene Currie, Richard Humphrey and Joseph Mizrachi.

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Karl Blaha was not present. Counsel for ARL and representatives of BCM were present, telephonically, at this meeting. Following a discussion of the proposed transaction, the ARL board adjourned until the following afternoon to permit members of the board to consider information provided by management and to receive additional information requested by members of the board. The meeting of the ARL board reconvened on February 5, and the board received presentations from management regarding the proposed transaction, including detailed presentations regarding ARL's proposed plan for raising the funds necessary to pay for shares of TCI and IOT common stock to be purchased from stockholders not affiliated with ARL or BCM. In addition, the ARL board received representations from legal counsel to ARL and discussed with management of ARL and ARL's legal counsel matters relating to the proposed transactions. Mr. Cecil, Ms. Currie and Mr. Humphrey were present, in person, at the meeting of the ARL board on February 5. Mr. Blaha and Mr. Mizrachi were not present. Following an extended discussion regarding the proposed transactions among ARL, TCI and IOT and other matters related to the current and proposed business operations of ARL, the board again adjourned its meeting until the following afternoon. Subsequent to the adjournment of the ARL board's meeting on February 5, Mr. Blaha tendered his resignation as a member of the ARL board and as an officer of ARL, TCI and IOT. Mr. Blaha did not communicate the reasons for his resignation to the ARL board or to the boards of TCI or IOT.

On February 6, 2002, the ARL board reconvened telephonically. Present for the entire meeting were Ms. Currie, Mr. Humphrey and Mr. Mizrachi. Mr. Cecil joined the meeting after it was in progress. Following a discussion of the proposed transaction, the board unanimously approved the proposed transactions between ARL and each of TCI and IOT and determined to recommend that stockholders of ARL approve the transactions. Following these actions, the board adjourned its meeting.

On February 12, 2002 the Court signed the order finally approving the Settlement Agreement.

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TCI'S PURPOSE AND REASONS FOR THE TCI MERGER

In reaching its decision to approve the TCI merger agreement, and to recommend that TCI stockholders approve the TCI merger agreement, the TCI board of directors consulted with management and its legal and financial advisors. The TCI board of directors considered a number of factors including, without limitation, the following:

- o The current and historical market prices of TCI common stock relative to the merger consideration and the fact that the \$17.50 per share merger consideration represented a 44.6% premium over the average closing price of TCI common stock over the thirty trading days prior to October 23, 2001.
- o The fact that the merger consideration is all cash, which provides certainty of value to non-affiliated TCI stockholders compared to a transaction in which stockholders would only receive stock.
- o The fact that non-affiliated TCI stockholders have the opportunity to affirmatively elect to receive ARL preferred stock instead of cash.
- o It is the view of the TCI board of directors that the trading value for shares of TCI common stock was not likely to exceed

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the merger price in the near term if TCI remained independent.

- o The potential stockholder value that could be expected to be generated from other strategic options available to TCI, including (a) remaining independent and continuing to implement its growth strategy, or (b) pursuing other strategic alternatives, as well as the risks and uncertainties associated with those alternatives.
- o The financial presentation of Houlihan Lokey and the opinion of that firm delivered on February 1, 2002 to the TCI board of directors to the effect that, based upon and subject to the matters set forth in that opinion, as of February 1, 2002, the consideration to be offered to the non-affiliated TCI public stockholders pursuant to the TCI merger agreement was fair from a financial point of view to those holders.
- o The terms of the TCI merger agreement, as reviewed by the TCI board of directors with TCI legal advisors including:
 - o the absence of any financing condition.
 - o no termination fee if the TCI merger agreement is terminated.
 - o consummation of the TCI merger agreement resolving expensive, inconvenient and distracting litigation.
- o The TCI board of directors' determination, based on the fact that no other offers to acquire TCI common stock have been made at a level equal to or better than the merger consideration of \$17.50 per share after initial press reports on and after

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October 23, 2001, that ARL had agreed to acquire the non-affiliated stockholder interest in TCI and after discussing with TCI's advisors the potential risks, costs and benefits of contacting other third parties, that there was insufficient reason to justify the risk of delay in proceeding with the favorable transaction with ARL.

- o In the view of the TCI board of directors, based upon the advice of management after consultation with its legal counsel, the regulatory approvals necessary to consummate the TCI merger could be obtained.
- o TCI will no longer exist as an independent company, and its stockholders will no longer participate in the growth of TCI or the pursuit of its standalone business plan and other factors set forth in the TCI certificate of incorporation.
- o Under the terms of the TCI merger agreement, the fact that gains from an all cash transaction would be taxable to TCI stockholders for U.S. federal income tax purposes.

During its consideration of the transaction with ARL, the TCI board of directors were also aware that certain directors and executive officers of TCI may have interests in the merger that are different from or in addition to those

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of non-affiliated TCI stockholders generally, as described under "Interests of Certain Persons in the Business Combination."

The discussion of the information and factors considered and given and weighed by the TCI board of directors is not intended to be exhaustive, but it is believed to address the material information and factors considered by the TCI board of directors. In view of the number and variety of these factors, the TCI board of directors did not find it practicable to make specific assessments of or otherwise assign relative weights to, the specific factors and analyses considered in reaching its determination. The determination to approve and recommend the TCI merger agreement was made after consideration of all of the factors and analyses as a whole. In addition, individual members of the TCI board of directors may have given different weights to different factors.

IOT'S PURPOSE AND REASONS FOR THE IOT MERGER

In reaching its decision to approve the IOT merger agreement and to recommend that IOT stockholders approve the IOT merger agreement, the IOT board of directors consulted with management and its legal and financial advisors. The IOT board of directors considered a number of factors, including, without limitation, the following:

- o The current and historical market prices of IOT common stock relative to the merger consideration, and the fact that the \$19 per share merger consideration represented a 28.7% premium over the average closing price of IOT common stock over the thirty trading days prior to October 23, 2001.
- o The fact that the merger consideration is all cash, which provides certainty of value to non-affiliated IOT stockholders compared to a transaction in which stockholders would only receive stock.

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- o The fact that non-affiliated IOT stockholders have the opportunity to affirmatively elect to receive ARL preferred stock instead of cash.
- o It is the view of the IOT board of directors that the trading value for shares of IOT common stock was not likely to exceed the merger price in the near term if IOT remained independent.
- o The potential stockholder value that can be expected to be generated from other strategic options available to IOT, including (a) remaining independent and continuing to implement its growth strategy, or (b) pursuing other strategic alternatives, as well as the risk and uncertainties associated with those alternatives.
- o The financial presentation of Houlihan Lokey and the opinion of that firm delivered on February 1, 2002 to the IOT board of directors to the effect that, based upon and subject to the matters set forth in that opinion, as of February 1, 2002, the consideration to be offered to the non-affiliated IOT public stockholders pursuant to the IOT merger agreement was fair from a financial point of view to those holders.
- o The terms of the IOT merger agreement, as reviewed by the IOT board of directors with IOT legal advisors including:

- o the absence of any financing condition.
- o no termination fee if the IOT merger agreement is terminated.
- o consummation of the IOT merger agreement finally putting to end an expensive, inconvenient, distracting litigation.
- o The IOT board of directors' determination, based on the fact that no other offers to acquire IOT common stock have been made at a level equal to or better than the merger consideration of \$19 per share after initial press reports on and after October 23, 2001, that ARL had agreed to acquire the non-affiliated stockholder interest in IOT and after discussing with IOT's advisors the potential risks, costs and benefits of contacting other third parties, that there was insufficient reason to justify the risk of delay in proceeding with the favorable transaction with ARL.
- o In the view of the IOT board of directors, based upon the advice of management after consultation with its legal counsel, the regulatory approvals necessary to consummate the IOT merger could be obtained.
- o IOT will no longer exist as an independent company, and its stockholders will no longer participate in the growth of IOT or the pursuit of its standalone business plan and other factors set forth in the IOT certificate of incorporation.
- o Under the terms of the IOT merger agreement, the fact that gains from an all cash transaction would be taxable to IOT stockholders for U.S. federal income tax purposes.

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During its consideration of the transaction with ARL, the IOT board of directors were also aware that certain directors and executive officers of IOT may have interests in the merger that are different from or in addition to those of non-affiliated IOT stockholders generally, as described under "Interests of Certain Persons in the Business Combination."

The discussion of the information and factors considered and given and weighted by the IOT board of directors is not intended to be exhaustive, but it is believed to address the material information and factors considered by the IOT board of directors. In view of the number and variety of these factors, the IOT board of directors did not find it practicable to make specific assessments of or otherwise assign relative weights to, the specific factors and analyses considered in reaching its determination. The determination to approve and recommend the IOT merger agreement was made after consideration of all of the factors and analyses as a whole. In addition, individual members of the IOT board of directors may have given different weights to different factors.

ARL'S PURPOSE AND REASONS FOR THE MERGER

In reaching its decision to approve and recommend to the ARL stockholders the TCI merger agreement and the IOT merger agreement, the ARL board of directors consulted with management and its legal advisors and considered a number of factors, including, without limitation, the following:

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- o The current and historical market prices of the TCI and IOT common stock relative to the historical market prices of the ARL common stock.
- o The current and historical market prices of the TCI and IOT common stock relative to the merger consideration being offered the TCI and IOT stockholders.
- o The view of the ARL board of directors that an increase in the size and diversity of ARL's portfolio of developed and undeveloped real estate would benefit the company by increasing the development opportunities available to it and providing it with increased financial flexibility.
- o The view of the ARL board of directors that stockholders of ARL would benefit from an increase in the size of ARL's asset base and a diversification of its real estate portfolio.
- o The expectation of the ARL board of directors following discussions with management that the cash to be paid as merger consideration could be raised in large part from sales of real estate held by TCI and IOT themselves.
- o The fact that stockholders of TCI and IOT affiliated with ARL hold approximately 14.9% and 7.4% of the issued and outstanding common stock of TCI and IOT respectively, and that those affiliated stockholders will accept preferred stock of ARL in lieu of cash as merger consideration.
- o The expectation of the ARL board of directors that the TCI and IOT mergers would not be consummated unless, in each case, sufficient cash was available to ARL, either from its own resources or from TCI or IOT immediately after the mergers, to pay the cash merger consideration due as a result of the mergers.
- o The fact that the TCI and IOT mergers are not conditioned upon one another.

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- o The ARL board of directors understanding, based upon advice of management and after consultation with its legal counsel, that any regulatory approvals necessary to consummate the TCI and IOT mergers could be obtained.

During its consideration of the proposed transactions with TCI and IOT, the ARL board of directors were aware that certain executive officers and directors of ARL may have interests in the proposed transactions that are different from or in addition to those of ARL's non-affiliated stockholders generally, as described under "Interests of Certain Persons in the Business Combination."

The discussion of the information and factors considered and given and weighted by the ARL board of directors is not intended to be exhaustive, but its believed to address the material information and factors considered by the ARL board of directors. In the view of the number and variety of these factors, the ARL board of directors did not find it practicable to make specific assessment of or otherwise assign relative weights to the specific factors and analyses considered in reaching its determination. The determination to approve and recommend the TCI and IOT merger agreements was made after consideration of all of the factors and analyses as a whole. In addition, individual members of the ARL board of directors may have given different weights to different factors.

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FINANCING OF THE BUSINESS COMBINATION

ARL estimates that approximately \$94,235,586 will be required, if all non-affiliated TCI and IOT stockholders take cash in exchange for their shares of TCI common stock and IOT common stock, and to pay the related fees and expenses of the transactions set forth in this section. The actual amount required to purchase such shares and pay the related expenses will depend on the number of stockholders who affirmatively elect to receive Series G and Series H preferred stock. Consequently, the greater number of stockholders who affirmatively elect to receive Series G and Series H preferred stock the less funds will be required to pay the cash merger consideration and certain of the related expenses. The following table contains an itemized list of funds applicable to the individual mergers as well as funds that apply to both mergers. This table assumes that all non-affiliated TCI and IOT stockholders take the cash merger consideration.

APPLICATION OF FUNDS SPECIFIC TO TCI MERGER	AMOUNT OF FUNDS	SOURCE OF
Purchase of 2,853,080 shares of TCI common stock at \$17.50 per share from all non-affiliated TCI stockholders.....	\$49,928,900	Cash from the sources s Source of Funds table b
Sunset Management loan secured by 2,601,798 shares of TCI common stock.....	\$20,000,000	ARL intends to satisfy substituting ARL stock secured by \$40,000,000 IOT income properties f stock now used as colla must pay off this loan
Dynamic Finance loan secured by 843,311 shares of TCI common stock.....	\$ 4,000,000	ARL intends to satisfy substituting ARL stock collateral for the TCI used as collateral, oth pay off this loan
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Preferred Bank loan secured by 249,191 shares of TCI common stock.....	\$250,000	ARL intends to satisfy substituting ARL stock collateral for the TCI used as collateral, oth pay off this loan
Subtotal.....	\$74,178,900	

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APPLICATION OF FUNDS SPECIFIC TO IOT MERGER	AMOUNT OF FUNDS	SOURCE OF
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Purchase of 576,480 shares of IOT common stock at \$19.00 per share from non-affiliated IOT stockholders.....	\$10,953,120	Cash from the sources s Source of Funds table b
Beal Bank loan secured by 250,000 shares of IOT common stock.....	\$ 3,000,000	ARL intends to satisfy substituting ARL stock collateral for the IOT used as collateral, oth pay off this loan
Subtotal.....	\$13,953,120	

APPLICATION OF FUNDS APPLICABLE TO BOTH THE TCI AND IOT MERGERS	AMOUNT OF FUNDS	TYPE OF FUN
Payment to George Donaldson, Settlement Counsel, pursuant to the Olive Settlement.....	\$ 875,000	Cash from the sources s Source of Funds table b
Professional fees.....	\$ 590,000	Cash from the sources s Source of Funds table b
Advisory fees on property sales.....	\$ 3,038,566	Cash from the sources s Source of Funds table b
Payment of a margin loan with a brokerage firm secured by 300,000 shares of TCI common stock and 150,000 shares of IOT common stock.....	\$ 1,600,000	ARL will satisfy the ma substituting stock of A BCM as collateral for t common stock now used a otherwise ARL must pay
Subtotal.....	\$ 6,103,566	
TOTAL.....	\$ 94,235,586	

ARL expects the amount of funds needed to complete the business combination to be funded first through new loans and, if necessary, through internally generated funds from the sale (or use as collateral for loans) of a number of assets. The amount of loans, and the sale of assets, if necessary, will depend on the number of stockholders who accept cash rather than affirmatively elect to receive Series G and Series H preferred stock. The more stockholders who elect to receive Series G and Series H preferred stock will reduce the amount of cash needed to pay the cash merger consideration and in turn will affect the amount of loans and whether the assets need to be sold. At the date of this joint proxy statement and prospectus, while preliminary discussions for new financings have occurred, no written formal commitment has been issued by any of the lenders. Similarly, no stated or effective interest rates or other material terms of any financing arrangement have been agreed. ARL, TCI and IOT have available a number of real property assets which should be able to be sold (or used as collateral for loans) if such funds are necessary, however, presently there are no written or oral contracts to sell any of the assets. The table set forth below summarizes the expected loans and the expected sales of real property that ARL may use to fund the business combination. Some or all of the loans and property sales may not be required depending on the amount of cash needed. The properties listed below are more fully described under "Properties of ARL," "Properties of TCI" and "Properties of IOT," as applicable. In the event the cash from loans and any sales of assets is greater than needed to satisfy the cash merger consideration requirements, ARL and its

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subsidiaries will use the excess for working capital purposes.

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SOURCE OF FUNDS	AMOUNT OF NET CASH EXPECTED TO BE GENERATED
ARL expects to enter into new loans that total in the aggregate \$20,000,000 that will be secured by approximately 4,000,000 shares of ARL stock with a market value of \$40,000,000.....	\$20,000,000
ARL expects to obtain new loans that are secured by the following properties+:	\$ 8,231,543
PROPERTY	LOCATION
Williamsburg Hospitality House	Williamsburg, VA
Cross County Mall	Mattoon, IL
Conradi House	Tallahassee, FL
Villager	Ft. Walton, FL
One Hickory Center	Farmers Branch, TX
TCI expects to obtain new loans that are secured by the following properties+:	\$14,835,438
PROPERTY	LOCATION
The Forum	Richmond, VA
Jefferson Office Building	Washington, DC
Durham Center	Durham, NC
Plaza on Bachman Creek	Dallas, TX
Autumn Chase Apartments	Midland, TX
Gladstell Forest	Curee, TX
Treehouse-Irving	Irving, TX
Westwood Square	Odessa, TX
Surf Hotel	Chicago, IL
Majestic Hotel	San Francisco, CA
City Suites Hotel	Chicago, IL
ARL, TCI and IOT expect to sell a package of multi-family properties+:	\$38,633,439
ARL PROPERTY	LOCATION
Bay Anchor	Panama City, FL
Governor's Square	Tallahassee, FL
Grand Lagoon Cove	Panama City, FL
Greenbriar	Tallahassee, FL
Lake Chateau	Thomasville, GA
Lee Hills	Tallahassee, FL
Northside Villas	Tallahassee, FL
Oak Hill	Tallahassee, FL
Park Avenue Villas	Tallahassee, FL
Pine Crest West	Tallahassee, FL
Rolling Hills	Tallahassee, FL
Seville	Tallahassee, FL
Valley Hi	Tallahassee, FL

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Regency on Kennedy Apts	Tampa, FL
Confederate Pointe	Jacksonville, FL
Pheasant Ridge	Belleview, NE
Oak Tree Square	Grandview, MO
Woodsong	Smyrna, GA
Whispering Pines	Topeka, KS
Centura Towers	Farmers Branch, TX

+ Properties available as of February 1, 2002. The available properties are subject to change depending on interim sales and market conditions.

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SOURCE OF FUNDS	AMOUNT OF NET CASH EXPECTED TO BE GENERATED
TCI expects to sell the following properties+.....	\$34,872,293
PROPERTY	LOCATION
Primrose Place	Bakersfield, CA
In the Pines	Gainesville, FL
Heritage on the River	Jacksonville, FL
Stone Oak Place	San Antonio, TX
Plaza Tower & Courtyard	St. Petersburg, FL
Bay Plaza I	Tampa, FL
Bay Plaza II	Tampa, FL
Summerfield Apts	Orlando, FL
4242 Cedar Springs	Dallas, TX
Total.....	\$136,748,266

OPINION OF FINANCIAL ADVISOR

The board of directors of each of TCI and IOT retained Houlihan Lokey, pursuant to engagement letters dated October 4, 2001 (the "Engagement Letters"), to render fairness opinions, from a financial point of view, to public TCI common stockholders and public IOT common stockholders, in each case excluding those stockholders affiliated with ARL, of the consideration to be received by the non-affiliated TCI stockholders and the non-affiliated IOT stockholders in the merger of TCI and IOT with two subsidiaries of ARL pursuant to which (a) non-affiliated TCI stockholders will receive: (i) \$17.50 in cash or (ii) if they affirmatively elect, one share of newly issued ARL Series G preferred stock for each share of TCI common stock that they currently own and (b) non-affiliated IOT stockholders will receive: (i) \$19.00 in cash or (ii) if they affirmatively elect, one share of newly issued ARL Series H preferred stock. Both the Series G preferred stock and Series H preferred stock are convertible into ARL common stock based upon the terms, conditions and exchange ratios set forth herein.

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Houlihan Lokey and the board of directors of each of TCI and IOT amended the Engagement Letters on February 1, 2002, to provide for Houlihan Lokey's performance of certain additional financial advisory services on behalf of the board of directors of each of TCI and IOT, specifically, conducting negotiations with ARL regarding the mergers.

Houlihan Lokey is a nationally recognized investment banking firm that provides financial advisory services in connection with mergers and acquisitions, leveraged buyouts, business valuations for a variety of regulatory and planning purposes, recapitalizations, financial restructurings, and private placements of debt and equity securities. In November of 1999, Houlihan Lokey acted as financial advisor to an affiliate of ARL, TCI and IOT, National Realty, L. P. ("NRLP"), and rendered a fairness opinion with respect to the consideration to be received by unitholders of NRLP in connection with a business combination. The board of directors of each of TCI and IOT selected Houlihan Lokey to provide the financial advisory

+ Properties available as of February 1, 2002. The available properties are subject to change depending on interim sales and market conditions.

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services described herein upon a referral from NRLP and because of Houlihan Lokey's reputation as a nationally recognized valuation and financial consulting firm that has substantial experience providing valuation and consulting services. TCI agreed to pay Houlihan Lokey a fee of \$340,000 and IOT agreed to pay Houlihan Lokey a fee of \$60,000, in each case for its preparation and delivery of a fairness opinion plus reasonable out-of-pocket expenses that may be incurred by Houlihan Lokey in connection herewith, plus a refundable indemnification deposit of \$42,500 from TCI and a refundable indemnification deposit of \$7,500 from IOT. In accordance with the Settlement Agreement in the Olive Litigation, Mr. Phillips, BCM and ARL are required to reimburse TCI and IOT for such expenses. Pursuant to the amendment to the Engagement Letters, TCI and IOT agreed to jointly pay Houlihan Lokey an additional fee of \$100,000 for the additional services described below. No portion of Houlihan Lokey's fee is contingent upon the successful completion of the mergers or any other related transaction. Houlihan Lokey has been retained by TCI and IOT to deliver fairness opinions to the board of directors of TCI and IOT and provide certain additional financial advisory services on behalf of the board of directors of each of TCI and IOT, specifically, to conduct negotiations with ARL regarding the terms of the Series G preferred and the Series H preferred. TCI and IOT agreed to indemnify Houlihan Lokey and its affiliates against certain liabilities, including liabilities under federal securities laws that arise out of the engagement of Houlihan Lokey.

At joint meetings of the TCI and IOT boards of directors on February 1, 2002, Houlihan Lokey rendered its oral opinion regarding the consideration to be received by the stockholders of TCI and IOT in connection with the mergers. Thereafter, Houlihan Lokey assisted the TCI and IOT boards of directors with respect to certain negotiations regarding modifications to the terms of the Series G preferred stock and Series H preferred stock. On February 4, 2002, Houlihan Lokey confirmed in writing, that as of February 1, 2002, and subject to and based upon the various qualifications and assumptions set forth in its written opinions, the consideration to be received by the stockholders of TCI and IOT in connection with the mergers was fair, from a financial point of view, to the non-affiliated TCI stockholders and the non-affiliated IOT stockholders. The full text of Houlihan Lokey's opinions, which set forth the assumptions

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made, general procedures followed, factors considered and limitations on the review undertaken by Houlihan Lokey in rendering its opinions are attached hereto as APPENDIX E and APPENDIX F and are incorporated herein by reference. The discussion of the opinions below is qualified in its entirety by reference to the opinions. You are urged to read Houlihan Lokey's opinions in their entirety carefully for a description of the procedures followed, the factors considered and the assumptions made by Houlihan Lokey.

Houlihan Lokey's opinions to the TCI and IOT boards of directors address only the fairness from a financial point of view of the consideration to be received in the mergers. Houlihan Lokey's opinions do not constitute a recommendation as to how any person should vote with respect to the mergers or a recommendation as to the form and amount of consideration that any person should elect in connection with the mergers. Houlihan Lokey is not rendering any opinion on the current or prospective public share prices of any of TCI, IOT or ARL (collectively, the "Subject Companies"). Houlihan Lokey's opinions also do not address TCI's or IOT's underlying business decision to effect the mergers, the tax consequences of the mergers, the fair market value of any of the Subject Companies' assets either individually or collectively, or the reasonableness of any aspect of the mergers not expressly addressed in its fairness opinions. Houlihan Lokey has not been requested and does not intend to update, revise or reaffirm its

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fairness opinion in connection with the mergers. Events that could affect the fairness of the mergers, from a financial point of view, include adverse changes in industry performance or market conditions and changes to the business, financial condition and results of operations of the Subject Companies.

In arriving at its fairness opinions, among other things, Houlihan Lokey assumed that: (i) each Series G share will have a liquidation preference of \$20.00 per share and will pay a cash dividend of 10 percent per annum; (ii) each Series H share will have a liquidation preference of \$21.50 per share and will pay a cash dividend of 10 percent per annum; (iii) at the holders' option, each Series G share is convertible into 2.5 shares of ARL common stock during a 75 day period commencing on the fifteenth day after the public issuance of ARL's form 10-Q (the "10-Q Issuance Date") to the public following the close date of the mergers; (iv) at the holders' option, each Series H share is convertible into 2.25 shares of ARL common stock during a 75 day period commencing on the fifteenth day after the 10-Q Issuance Date following the close date of the mergers; and (v) the Series G and Series H shares will be redeemable by ARL 90 days after the 10-Q Issuance Date following the close date of the mergers at the liquidation preference plus any accrued and unpaid dividends thereon.

In arriving at its fairness opinions, among other things, Houlihan Lokey:

1. met with certain members of the senior management of the Subject Companies and their advisor, BCM, to discuss the operations, financial condition, future prospects and projected operations and performance of the Subject Companies;
2. visited certain facilities and business offices of the Subject Companies;
3. reviewed the Subject Companies' annual reports to stockholders and on Form 10-K for the fiscal years ended December 31, 2000 and quarterly reports on Form 10-Q for the three quarters ended September 30, 2001, which Subject Companies' management

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have identified as being the most current financial statements available;

4. reviewed forecasts and projections prepared by the Subject Companies management with respect to the Subject Companies' apartment, retail, industrial, hotel and office building assets for the years ended December, 2002 through 2006;
5. requested the latest appraisals on the Subject Companies' income producing properties and any and all appraisals for the Subject Companies' land assets, and reviewed such appraisals as were provided by management;
6. reviewed ARL's Land Portfolio Book dated September 2001;
7. reviewed certain estimated valuations of TCI and IOT prepared in connection with the Settlement Agreement;
8. reviewed the historical market prices and trading volume for the Subject Companies' publicly traded securities;

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9. reviewed certain other publicly available financial data for certain companies that Houlihan Lokey deems comparable to the Subject Companies; and
10. conducted such other studies, analyses and inquiries as Houlihan Lokey deemed appropriate.

ANALYSES

In order to determine the fairness, from a financial point of view, of the consideration to be received by the non-affiliated IOT stockholders and the non-affiliated TCI stockholders in the mergers, Houlihan Lokey determined an indicated range per share of equity net asset values for ARL, IOT and TCI and compared such per share concluded equity net asset values to each other and to the ARL per share public trading price. This analysis was premised upon a valuation of each of the Subject Companies' income and non-income producing properties and other assets and considered their respective liabilities.

In determining the value of the Subject Companies' income producing properties, Houlihan Lokey conducted several analyses, including the following: (1) a "Net Asset Value" approach whereby Houlihan Lokey (a) applied capitalization rates to historical and projected adjusted net operating income for each of the income producing properties held by the Subject Companies (the "Income Producing Properties") and (b) estimated the present value of the projected future cash flows to be generated from the Income Producing Properties by applying a discount rate to the projected future cash flow, (2) a "Portfolio" approach whereby Houlihan Lokey determined a level of earnings considered to be representative of future performance of the Subject Companies, and capitalized such figure with a risk-adjusted rate, and (3) various other analyses. Houlihan Lokey used the following valuation methodologies to determine the value of the land assets: historical sales price per square foot, outstanding offers and letters of intent, management estimates and book value. In addition, certain assets, such as Pizza World, Signature Athletic Club and parking lots, were valued by employing the market multiple approach and other assets, including notes receivable and oil and gas operations, were valued at book value.

NET ASSET VALUE APPROACH - INCOME PRODUCING PROPERTY

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DIRECT CAPITALIZATION

In conducting the direct capitalization net asset value approach, Houlihan Lokey applied (x) rates from publicly available capitalization rates estimated in the Second Quarter 2001 Market Monitor and the Fall 2001 Real Estate Outlook by Cushman & Wakefield, Inc. and The Appraisal Institute to (y) each of the Income Producing Properties (i) adjusted net operating income for the twelve months ended September 30, 2001 and (ii) projected adjusted net operating income for the fiscal year ended December 31, 2002. The capitalization rates used in the direct capitalization approach ranged from 8.9% to 15.9% for the twelve-month period ended September 30, 2001 and from 9.3% to 16.4% for the twelve month period ended December 31, 2002.

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DISCOUNTED CASH FLOW

In conducting the discounted cash flow net asset value approach, Houlihan Lokey applied a discount rate to the projected future cash flows of each Income Producing Property to arrive at present value of such Income Producing Property. The applicable Subject Company provided Houlihan Lokey with the property level historical and projected financial information used to determine the net operating income of each property. The discount rates used in the discounted cash flow approach ranged from 11.3% to 18.3% and were intended to reflect risks of ownership of the relevant Income Producing Property and the associated risks of realizing the stream of projected future cash flows. Houlihan Lokey's ability to use the discounted cash flow method of valuation was limited by the lack of availability of necessary forecasts for certain Income Producing Properties resulting from changes in tenant occupancy or other factors that effect projected performance for certain Income Producing Properties. Accordingly, Houlihan Lokey utilized the discount cash flow method only for those assets with forecasts considered relevant. Additionally, based upon Houlihan Lokey's discussions with management, due diligence and analysis of projections, in some instances the discount rate was adjusted to reflect additional uncertainty and risk associated with the projections.

SELECTED ASSET VALUES

Based upon the valuation indications of both the direct capitalization and discounted cash flow analyses, Houlihan Lokey selected a range of values for each asset. Following the determination of the individual income producing property asset values, each property's value was allocated to the Subject Companies based on respective ownership of the assets.

PORTFOLIO (MARKET) APPROACH - INCOME PRODUCING PROPERTY

The Subject Companies own various real estate assets that were combined, based on asset types, into portfolios. Property level financial data was provided by the applicable Subject Company based on internally prepared property operating statements. The market approach consists of determining a level of earnings and capitalizing this figure by an appropriate risk-adjusted rate. This approach provides an indication of value for the security, which corresponds with the particular earnings figure being capitalized. For purposes of determining the value of the Income Producing Properties owned by the Subject Companies, net operating income was utilized as a representative level of earnings for the office, hotel, apartment, retail and industrial assets.

In using the portfolio (market) approach, Houlihan Lokey applied debt-free market capitalization rates to net operating income of the various

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categories of Income Producing Properties of the Subject Companies, in each case to arrive at the values of the Income Producing Properties.

Houlihan Lokey utilized the Subject Companies' internal financial statements to determine consolidated net operating income for the twelve months ended September 30, 2001 and management projections for the twelve months ended December 31, 2002. In performing the portfolio (market) analysis, Houlihan Lokey applied capitalization rates ranging from 9.5% to 15.0% to the net operating income for the twelve months ended September 30, 2001.

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ARL VALUATION

Based on the portfolio (market) analysis conducted by Houlihan Lokey, Houlihan Lokey estimated a range of asset value for ARL's income producing property as follows: (1) \$230.5 million to \$254.7 million for the ARL apartment portfolio, (2) \$50.7 million to \$55.8 million for the ARL office portfolio, (3) \$70.7 million to \$77.1 million for the ARL shopping center portfolio and (4) \$68.8 million to \$80.3 million for ARL's hotel portfolio. In utilizing the "Net Asset Value" approach, Houlihan Lokey estimated a range of asset value for ARL's income producing property as follows: (1) \$237.6 million to \$248.8 million for apartment assets, (2) \$59.4 million to \$65.0 million for hotel assets, (3) \$120.9 million to \$133.0 million for office assets and (4) \$84.4 million to \$90.6 million for retail assets. Houlihan Lokey estimated a range of asset values for ARL's land assets of \$290.0 million to \$400.0 million. The estimate asset value for other assets such as investments in joint ventures, Pizza World, oil & gas operations, notes receivable, accounts receivable, escrows and earnest money, net other liabilities such as accounts payable, property taxes and accrued expenses, was \$27.6 million to \$35.1 million. Houlihan Lokey estimated a range of value for ARL's investment in real estate securities of \$7.8 million to \$10.5 million for ARL's 28.3 percent ownership interest in IOT and \$86.3 million to \$122.8 million for ARL's 49.7 percent ownership interest in TCI. These estimated values were calculated based upon ARL's percentage ownership in TCI and IOT multiplied by Houlihan Lokey's concluded equity net asset values for TCI and IOT.

Based on the approaches discussed above, Houlihan Lokey estimated a range of concluded enterprise values for ARL of \$873.1 million to \$1,071.0 million, a range of concluded equity net asset values for ARL of \$125.7 million to \$262.0 million and a range of per share concluded equity net asset values of \$11.05 to \$23.03.

IOT VALUATION

Based on the portfolio (market) analysis conducted by Houlihan Lokey, Houlihan Lokey estimated a range of asset value for IOT's income producing property as follows: (1) \$23.8 million to \$26.3 million for the IOT apartment portfolio and (2) \$38.1 million to \$41.9 million for the IOT office portfolio. In utilizing the "Net Asset Value" approach, Houlihan Lokey estimated a range of asset value for IOT's income producing property as follows: (1) \$21.5 million to \$22.8 million for apartment assets and (2) \$41.3 million to \$50.2 million for office assets. The estimated asset value for IOT's land assets was \$24.6 million to \$31.6 million. The estimated asset value for other assets such as investments in joint ventures, notes receivable, accounts receivable and escrow deposits, net other liabilities such as accounts payable, property taxes and security deposits was -\$0.6 million to \$0.5 million.

Based on the approaches discussed above, Houlihan Lokey estimated a range of concluded enterprise values for IOT of \$86.3 million to \$102.7 million,

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a range of concluded equity net asset values for IOT of \$27.4 million to \$37.0 million and a range of per share concluded equity net asset values of \$19.04 to \$25.71.

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TCI VALUATION

Based on the portfolio (market) analysis conducted by Houlihan Lokey, Houlihan Lokey estimated a range of asset value for TCI's income producing property as follows: (1) \$221.0 million to \$244.3 million for the TCI apartment portfolio, (2) \$200.6 million to \$220.7 million for the TCI office portfolio, (3) \$25.6 million to \$28.0 million for the TCI shopping center portfolio, (4) \$49.7 million to \$54.7 million for the TCI industrial portfolio and (5) \$13.1 million to \$15.1 million for TCI's hotel portfolio. In utilizing the "Net Asset Value" approach, Houlihan Lokey estimated a range of asset value for TCI's income producing property as follows: (1) \$270.4 million to \$296.0 million for apartment assets (2) \$17.6 million to \$18.6 million for hotel assets, (3) \$51.7 million to \$60.7 million for industrial/warehouse assets, (4) \$225.9 million to \$261.8 million for office assets and (5) \$28.0 million to \$32.5 million for retail assets. Houlihan Lokey estimated a range of asset values for TCI's land assets from \$68.0 million to \$97.0 million. The estimated asset value for other assets such as investments in joint ventures, the Signature Athletic Club, Alamo and West End parking lots, notes receivable, advances to affiliates, accounts receivable, pending purchases and escrow deposits, net other liabilities such as accounts payable, property taxes and security deposits was \$10.9 million to \$15.1 million. Houlihan Lokey estimated a range of asset value for TCI's investment in real estate securities of \$6.6 million to \$8.9 million for TCI's 24 percent ownership interest in IOT and \$7.9 million to \$16.5 million for TCI's 6.3 percent ownership interest in ARL. These estimated values were calculated based upon TCI's percentage ownership in ARL and IOT multiplied by Houlihan Lokey's concluded equity net asset values for ARL and IOT.

Based on the approaches discussed above, Houlihan Lokey estimated a range of concluded enterprise values for TCI of \$645.2 million to \$754.0 million, a range of concluded equity net asset values for TCI of \$173.6 million to \$247.1 million and a range of per share concluded equity net asset values of \$20.68 to \$29.44.

EXCHANGE RATIO ANALYSIS

Based on the foregoing valuation estimates, Houlihan Lokey notes that the indicated exchange ratios based on net asset values of IOT and TCI and the lowest estimated net asset value of ARL was 1.72 to 2.33 for IOT and 1.87 to 2.66 for TCI on an after tax basis and 1.25 to 1.82 for IOT and 1.42 to 2.11 on a before tax basis.

In conclusion, Houlihan Lokey's analyses indicated that the consideration being offered to the non-affiliated TCI stockholders and the non-affiliated IOT stockholders in connection with the mergers is fair from a financial point of view.

Houlihan Lokey's opinions are based on the business, economic, market and other conditions as they existed as of February 1, 2002, and on the projected financial information provided to Houlihan Lokey as of that date. In rendering its opinions, Houlihan Lokey has relied upon and assumed, without independent verification, that the historical and projected financial information (including the future value and estimated sale dates of the land held for sale) provided to Houlihan Lokey by the Subject Companies has been

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reasonably and accurately prepared based upon the best current available estimates of the financial results and condition of the Subject Companies. Houlihan Lokey did not independently verify the accuracy or

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completeness of the information supplied to it with respect to the Subject Companies and does not assume responsibility with respect to it. Except as set forth above, Houlihan Lokey did not make any independent appraisal of the specific properties or assets of the Subject Companies.

The summary set forth above describes the material points of more detailed analyses performed by Houlihan Lokey in arriving at its fairness opinions. The preparation of a fairness opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and application of those methods to the particular circumstances and is therefore not readily susceptible to summary description. In arriving at its opinions, Houlihan Lokey made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Houlihan Lokey believes that its analyses and summary set forth herein must be considered as a whole and that selecting portions of its analyses, without considering all analyses and factors, or portions of this summary, could create an incomplete view of the processes underlying the analyses set forth in Houlihan Lokey's fairness opinions. In its analysis, Houlihan Lokey made numerous assumptions with respect to the Subject Companies, industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of the respective entities. The estimates contained in the analyses are not necessarily indicative of actual values or predictive of future results or values, which may be more or less favorable than suggested by the analyses. However, there were no specific factors reviewed by Houlihan Lokey that did not support its opinions. Additionally, analyses relating to the value of businesses or securities are not appraisals. Accordingly, the analyses and estimates are inherently subject to substantial uncertainty.

DETERMINATION AND RECOMMENDATION OF THE TCI BOARD OF DIRECTORS

On February 1, 2002, the TCI board of directors met by telephone conference to consider the recommendation of the TCI merger, to approve the filing of documents with the SEC and to authorize the executive officers to finalize this joint proxy statement and prospectus and the related filings. At that meeting, counsel for TCI reviewed and compared the terms of the TCI merger agreement to the requirements under the Settlement Agreement. At that meeting, Houlihan Lokey made a presentation to the TCI board of directors on the financial analyses performed by Houlihan Lokey in connection with its fairness analysis. Houlihan Lokey also made a presentation concerning the fairness of the consideration to be offered to the non-affiliated TCI public stockholders in the merger and delivered their opinion that the amount of the consideration to be offered in the TCI merger was fair from a financial point of view to those non-affiliated TCI stockholders. Following the presentations, all of the TCI directors determined that the terms of the Settlement Agreement and contemplated merger were procedurally and substantively fair to the non-affiliated TCI stockholders and approved the terms of the merger and the TCI merger agreement. The TCI board of directors believe that the following helped insure the procedural fairness of the proposed TCI merger to the non-affiliated TCI stockholders, all as required by the Settlement Agreement:

- o That the TCI board of directors obtain an opinion from Houlihan Lokey that the consideration to be offered to the non-affiliated TCI public stockholders in the merger is fair

to them from a financial point of view.

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- o The procedural mechanism for approval of the TCI merger agreement requires the affirmative vote of a majority of the votes cast by non-affiliated TCI stockholders.
- o The TCI board of directors was aware that all affiliated TCI stockholders will receive ARL preferred stock in the merger rather than cash.
- o The terms of the proposed TCI merger were dictated principally from the Settlement Agreement from arm's-length negotiations between Settlement Counsel and counsel for ARL.
- o The TCI merger will afford non-affiliated TCI stockholders with the opportunity (but no obligation) to make an affirmative election to receive securities rather than cash.
- o The terms of the proposed TCI merger were not determined at a time when market prices were unusually depressed by virtue of the occurrence of any extraordinary or unique event.

On February 1 and 4, 2002, the TCI board of directors again met by telephone conference to review a revised form of opinion from Houlihan Lokey, which contained proposed revisions to the timing of the conversion period of the preferred stock available by affirmative election by the TCI stockholders. During that meeting, discussions ensued concerning the probable timing based upon potential filings by ARL depending upon the consummation of the TCI Merger. The TCI board of directors concluded that the recommended change in timing of conversion periods would be beneficial to those TCI stockholders who affirmatively elect to receive preferred stock. Following these discussions, the TCI directors reaffirmed their February 1, 2002 determination that the terms of the Settlement Agreement and contemplated merger are procedurally and substantively fair to the non-affiliated TCI stockholders as previously described.

The Houlihan Lokey opinion was rendered to the TCI board of directors for its consideration in determining whether to approve the TCI merger agreement and does not constitute a recommendation to any TCI stockholder as to how such stockholder should vote.

Based upon all of the information available to the TCI board of directors, the TCI board of directors unanimously concluded that the terms and provisions of the TCI merger and TCI merger agreement were fair to and in the best interests of the non-affiliated TCI stockholders, approved the TCI merger agreement and recommended that the TCI stockholders approve the TCI merger agreement and the transactions contemplated thereby.

DETERMINATION AND RECOMMENDATION OF THE IOT BOARD OF DIRECTORS

On February 1, 2002, the IOT board of directors met by telephone conference to consider the recommendation of the IOT merger, to approve the filing of documents with the SEC and to authorize the executive officers to finalize this joint proxy statement and prospectus and the related filings. At that meeting, counsel for IOT reviewed and compared the terms of the IOT merger agreement to the requirements under the Settlement Agreement. At that meeting, Houlihan Lokey made a presentation to the IOT board of directors on the

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financial analyses performed by Houlihan Lokey in connection with its fairness analysis.

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Houlihan Lokey also made a presentation concerning the fairness of the consideration to be offered to the non-affiliated IOT public stockholders in the IOT merger and delivered their opinion that the amount of the consideration to be offered in the IOT merger, was fair from a financial point of view to those non-affiliated IOT stockholders. Following the presentations, all of the IOT directors determined that the terms of the Settlement Agreement and contemplated IOT merger were procedurally and substantively fair to the non-affiliated IOT stockholders and approved the terms of the IOT merger and the IOT merger agreement. The IOT board of directors believe that the following helped insure the procedural fairness of the proposed IOT merger to the non-affiliated IOT stockholders, all as required by the Settlement Agreement:

- o That the IOT board of directors obtain an opinion from Houlihan Lokey that the consideration to be offered to the non-affiliated IOT public stockholders in the merger is fair to them from a financial point of view.
- o The procedural mechanism for approval of the IOT merger agreement requires the affirmative vote of a majority of the votes cast by non-affiliated IOT stockholders.
- o The IOT board of directors was aware that all affiliated IOT stockholders will receive ARL preferred stock in the merger rather than cash.
- o The terms of the proposed IOT merger were dictated principally from the Settlement Agreement from arm's-length negotiations between Settlement Counsel and counsel for ARL.
- o The IOT merger will afford non-affiliated IOT stockholders with the opportunity (but no obligation) to make an affirmative election to receive securities rather than cash.
- o The terms of the proposed IOT merger were not determined at a time when market prices were unusually depressed by virtue of the occurrence of any extraordinary or unique event.

On February 1 and 4, 2002, the IOT board of directors again met by telephone conference to review a revised form of opinion from Houlihan Lokey, which contained proposed revisions to the timing of the conversion period of the preferred stock available by affirmative election by the IOT stockholders. During that meeting, discussions ensued concerning the probable timing based upon potential filings by ARL depending upon the consummation of the IOT merger. The IOT board of directors concluded that the recommended change in timing of conversion periods would be beneficial to those IOT stockholders who affirmatively elect to receive preferred stock. Following these discussions, the IOT directors reaffirmed their February 1, 2002 determination that the terms of the Settlement Agreement and contemplated merger are procedurally and substantively fair to the non-affiliated IOT stockholders as previously described.

The Houlihan Lokey opinion was rendered to the IOT board of directors for its consideration in determining whether to approve the IOT merger agreement and does not constitute a recommendation to any IOT stockholder as to how such

stockholder should vote.

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Based upon all of the information available to the IOT board of directors, the IOT board of directors unanimously concluded that the terms and provisions of the IOT merger and IOT merger agreement were fair to and in the best interests of the non-affiliated IOT stockholders, approved the IOT merger agreement and recommended that the stockholders approve the IOT merger agreement and the transactions contemplated thereby.

EFFECTS OF THE MERGERS; ARL AFTER THE MERGERS

ARL, TCI and IOT have substantially the same management, and affiliated ownership. While the three companies operate as a group of related companies, each is a separate and distinct entity and as such, each has separate SEC reporting obligations, each files separate tax returns with the Internal Revenue Service and state tax authorities, and each entity has its own board of directors, including one or more independent directors. Each entity presently has the same contractual advisor, BCM, and each entity attempts to operate efficiently given this three entity structure by, among other things, having the same contractual advisor which results in a consolidation of the general and administrative functions of the three companies at the BCM level, and in common offices located in Dallas, Texas. However, the three entity structure does necessarily result in certain inefficiencies and higher costs. Among the detriments of the current structure to each of the three entities and their respective non-affiliated stockholders are the following:

- o the need for and costs of three separate outside audits
- o the need for and costs of filing separate SEC reports and separate tax returns for each of the three entities
- o the need for and costs of maintaining three separate boards of directors, each with at least one or more separate independent directors, and of holding separate board meetings and annual stockholder meetings for each of the three entities
- o inefficiencies resulting from the need to maintain separate books and records for three public companies, and to institute and maintain procedural safeguards to protect the interests of the separate minority interests in each of the three entities
- o a limited number of shares in the hands of the public available which results in illiquidity of the common equity of the three entities, when compared to the enhanced liquidity that should exist if substantially all of the common equity of the three entities were traded as a single common security
- o difficulties in explaining to the capital markets the business plan and strategy on a company-by-company basis, as opposed to a consolidated basis and the interrelations between the ownership, businesses and management of the three entities
- o the difficulty of matching the available assets with the available opportunities of the three companies on a company-by-company basis, as opposed to a consolidated basis.

If the mergers are consummated, TCI and IOT will each become subsidiaries of ARL. If both mergers are consummated, the current unaffiliated TCI and IOT stockholders will no longer own their shares of stock. Therefore, they will not benefit from any future earnings or growth of TCI or IOT or benefit from any increase of the value of TCI or IOT and will no longer bear the risk of any decrease in value of TCI or IOT. Instead, former stockholders will have the right to receive at consummation of the merger, \$17.50 in cash for each share of TCI common stock held, and \$19.00 in cash for each share of IOT common stock held. The benefit to the holders of the TCI common stock and the IOT common stock of the transaction is the payment of a premium, in cash, above the respective market values for such stock prior to the announcement of the merger agreements. This cash payment assures that all non-affiliated TCI and IOT stockholders will receive a specific cash amount for their respective shares rather than taking the risks associated with attempting to sell their shares in the open market. The detriment to such holders (if any) is their inability to participate as a continuing stockholder in the possible future growth of either TCI or IOT.

TCI's and IOT's common stock are each currently registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). As a result of the mergers, the TCI common stock will be delisted from the NYSE, the IOT common stock will be delisted from the AMEX, the registration of the TCI common stock and IOT common stock under the Exchange Act will be terminated, and TCI and IOT will each be relieved of the obligation to comply with the proxy rules of Regulation 14a under Section 14 of the Exchange Act. Further, TCI and IOT will no longer be subject to periodic reporting requirements of the Exchange Act and will cease filing information with the SEC. There will be cost savings attributable to TCI and IOT no longer being public companies, including legal and other fees and administrative expenses of personnel relating to the filing of public documents, and maintenance of boards of directors and committees required under the federal securities laws and the rules and regulations of the NYSE and the AMEX.

After consummation of the mergers, ARL will be the only remaining public entity of the three. The directors of ARL immediately prior to the effectiveness of the mergers will be the directors of ARL immediately after the mergers, and the three directors of TCI and IOT will join the board of directors of ARL following the mergers. The directors of TCI and IOT will not continue to be the directors of TCI and IOT after the mergers. The officers of ARL, TCI and IOT immediately prior to the effective time of the mergers will be the officers of the entities immediately after the mergers. Similarly, no change in the certificate of incorporation or bylaws of any of the entities is contemplated prior to the effective time of the mergers or after the consummation of the mergers.

ARL expects that the business and operations of all three entities will be continued substantially as they are currently conducted (except that TCI and IOT will be operated as subsidiaries of ARL) but some adjustments will be necessitated by the financing of the consideration to be paid to the non-affiliated TCI stockholders and non-affiliated IOT stockholders in connection with the mergers. Except as stated in this joint proxy statement and prospectus, management of ARL does not currently intend to dispose of any specific assets or operations of ARL, TCI or IOT other than in the ordinary course of their respective businesses. Management will, from time to time, continue to evaluate and review the businesses, operations and properties of all of the entities and make such changes as are deemed appropriate.

Other than by virtue of the mergers (and any possible tender offers described elsewhere in this joint proxy statement and prospectus), ARL, TCI, IOT and BCM have no current plans or proposals which relate to or would result in an extraordinary corporate transaction involving TCI or IOT or any of their subsidiaries, such a merger, reorganization or liquidation, or a sale or transfer of a material amount of assets involving TCI or IOT or any of their subsidiaries, or any material change in the present dividend rate or policy, or capitalization or indebtedness (except as contemplated by the financing arrangements described in this joint proxy statement and prospectus) involving TCI or IOT or any of their subsidiaries, or any change in the present board or management of TCI or IOT, or any other material change in ARL's or TCI's or IOT's corporate structure or business. However, management of ARL will review proposals or may propose the acquisition or disposition of assets or other changes in ARL and its subsidiaries' business, corporate structure, capitalization, management or dividend policy that they consider to be in the best interests of ARL and its stockholders. Neither ARL nor its management has formulated any specific plans regarding repayment of indebtedness incurred in connection with the mergers, but it is anticipated that such indebtedness will be repaid primarily with or by means of cash from operations of the businesses of ARL and its subsidiaries.

CONDUCT OF THE BUSINESS OF EITHER OR BOTH OF TCI OR IOT IF EITHER MERGER IS NOT CONSUMMATED

If either of the mergers is not consummated, the board of directors of TCI or IOT or both and current management will continue to operate each entity's business substantially as presently operated.

FEDERAL INCOME TAX CONSIDERATIONS

This section summarizes material U.S. federal income tax considerations relevant to the stockholders of TCI and IOT participating in the mergers. This discussion is based upon the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), applicable Treasury Regulations, judicial decisions and current administrative rulings and pronouncements, all as of the date of this document and any of which may be changed at any time with retroactive effect. There can be no assurance that future legislation, regulations, administrative rulings or court decisions would not alter the tax consequences set forth below. The discussion does not address all aspects of federal income taxation that may be important to particular stockholders in light of their personal investment circumstances or to stockholders subject to special treatment under the federal income tax laws (such as dealers in securities, life insurance companies, foreign persons, broker-dealers, regulated investment companies, tax-exempt entities, financial institutions, taxpayers subject to the alternative minimum tax, taxpayers who acquired their TCI or IOT stock as compensation and persons holding their stock as part of a "straddle," "hedge" or other integrated investment) and does not address any aspect of state, local or foreign taxation. For purposes of this discussion, it is assumed that the TCI and IOT stock are held by the TCI and IOT stockholders respectively, as capital assets at the time of the consummation of the mergers, within the meaning of Section 1221 of the Code. THEREFORE, STOCKHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE SPECIFIC TAX CONSEQUENCES TO THEM OF THE MERGERS AND RELATED TRANSACTIONS, INCLUDING APPLICABLE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES.

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No ruling has been or will be obtained from the Internal Revenue Service in connection with the mergers. TCI and IOT stockholders should be aware that an opinion of counsel is not binding on the Internal Revenue Service or the courts, and no assurance can be given that the Internal Revenue Service will not challenge the tax treatment of the mergers.

The following are the material United States federal income tax consequences of the mergers. The following discussion is based on and subject to the Code, the regulations promulgated thereunder, existing administrative interpretations and court decisions and any related laws, all of which are subject to change, possibly with retroactive effect. This discussion does not address all aspects of United States federal income taxation that may be important to you in light of your particular circumstances or if you are subject to special rules, such as rules relating to:

- o stockholders who are not citizens or residents of the United States
- o financial institutions
- o tax exempt organizations
- o insurance companies
- o dealers in securities

Jackson Walker L.L.P. has concluded that the mergers will not qualify as tax-free reorganizations and accordingly they will be taxable transactions. The mergers will have the following federal income tax consequences upon the TCI, IOT and ARL stockholders:

1. The TCI stockholders who receive cash in the TCI merger will recognize gain or loss equal to the difference between (i) the cash received by them; and (ii) their tax basis of their shares of TCI.
2. The TCI stockholders who receive preferred stock in the TCI merger will recognize gain or loss equal to the difference between (i) the fair market value of the preferred stock received by them; and (ii) their tax basis of their shares of TCI.
3. The IOT stockholders who receive cash in the IOT merger will recognize gain or loss equal to the difference between (i) the cash received by them; and (ii) their tax basis of their shares of IOT.
4. The IOT stockholders who receive preferred stock in the IOT mergers will recognize gain or loss equal to the difference between (i) the fair market value of the preferred stock received by them; and (ii) their tax basis of their shares of IOT.
5. The tax basis of the preferred stock received by TCI and IOT stockholders in the merger will equal the fair market value of the preferred shares at the date the TCI and IOT stockholders own the shares of preferred stock.
6. The holding period for the shares of our preferred stock received by TCI and IOT stockholders will not include the holding period of their TCI or IOT shares.

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7. ARL stockholders will not recognize gain or loss as a result of the mergers.

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The foregoing discussion is not based upon an advance ruling by the United States Treasury Department but upon an opinion of Jackson Walker L.L.P., counsel to ARL. The foregoing discussion is not intended to be a complete analysis or description of all potential United States federal income tax consequences or any other consequences of the mergers. In addition, the discussion does not address tax consequences which may vary with, or are contingent on, your individual circumstances. Moreover, this discussion does not address any non-income tax or any foreign, state or local tax consequences of the mergers. Accordingly, we strongly urge you to consult with your tax adviser to determine the particular United States federal, state, local or foreign income or other tax consequences to you of the mergers.

The above discussion addresses only the federal income tax considerations of the proposed transactions to a TCI or an IOT stockholder generally. The federal, state, local and foreign tax consequences of the proposed transactions and the ownership and disposition of stock in ARL are complex and, in some cases, uncertain. These consequences also may vary based upon the individual circumstances of each stockholder. Accordingly, TCI and IOT stockholders are urged to consult, and must rely upon, their own tax advisors as to the tax consequences to them of the acquisition, ownership and disposition of stock in ARL, including the applicability of any state, local or foreign tax laws and any pending or proposed legislation.

REGULATORY APPROVALS

At any time before or after the completion of the merger, the Antitrust Division of the Justice Department, the Federal Trade Commission or another third party could seek to enjoin or rescind the mergers on antitrust grounds.

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INTERESTS OF CERTAIN PERSONS IN THE BUSINESS COMBINATION

Some of the directors and officers of ARL have interests in the business combination that are different from, or in addition to, the interests of ARL stockholders generally, and that may present actual or potential conflicts of interest. Likewise, some of the directors and officers of TCI and IOT have interests that are different from, or in addition to, the interests of TCI and IOT stockholders generally. These interests, to the extent material, are described below. The ARL, TCI and IOT boards of directors were aware of these interests and considered them, among other matters, in approving the respective agreements and plans of merger and the business combination.

DIRECTORS AND EXECUTIVE OFFICERS

Messrs. Branigan, Corna, Endendyk, Kimbrough and Starowicz, who serve as executive officers of ARL, also serve as executive officers of TCI, IOT or BCM. Each of the individuals, as a result of their position with ARL, owe fiduciary duties to the stockholders of ARL in addition to the fiduciary duties owed to the stockholders of TCI and IOT. Additionally, TCI and IOT have the same officers and directors and, therefore, the directors owe fiduciary duties to

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both TCI and IOT. At times, each of these individuals may be confronted by issues, including the business combination, that present them with potentially conflicting interests and obligations. Furthermore, in accordance with the advisory agreements that each of ARL, TCI and IOT have with BCM (as discussed under the heading "The Advisor"), BCM will receive a fee upon the sale, if any, of the properties that may be sold to fund the payment of the cash merger consideration. For the properties available for sale as of February 1, 2002, the amount of the fee is estimated to be \$3,038,815. See "Special Factors - Financing the Business Combination."

It is currently expected that the directors and officers of ARL, TCI and IOT will remain the same after the business combination except that the three directors of TCI and IOT will become directors of ARL. As a result of these interests as well as those set forth below, the directors and officers of ARL, TCI and IOT could be more likely to vote to approve the business combination, the agreements and plans of merger and related matters than if they did not hold these interests. You should consider whether these interests may have influenced these directors and officers to support or recommend the business combination.

STOCK OWNERSHIP

Some of the executive officers and directors of ARL, TCI and IOT own stock and options of ARL, TCI and IOT. See "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT OF ARL," "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT OF TCI" and "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT OF IOT." As a result, these executive officers and directors may benefit from that ownership if the business combination is approved.

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STOCK OPTIONS

Certain members of the ARL and TCI boards of directors and management have been issued options pursuant to certain option plans of ARL and TCI. As of the record date, executive officers and directors of ARL held options to purchase a total of 80,000 shares of ARL common stock at exercise prices of between \$9.87 per share and \$18.53 per share. Directors of TCI held options to purchase a total of 50,000 shares of TCI common stock at exercise prices of between \$8.875 per share and \$16.05 per share.

OTHER AGREEMENTS AND BENEFIT PLANS

Neither ARL, TCI or IOT has any employees, employment agreements, benefit plans or other agreements with stockholders. As a result, the directors and executive officers of each company may have different interests in the business combination arising primarily from their ownership of stock in either ARL, TCI or IOT.

INDEMNIFICATION AND INSURANCE

ARL has agreed to cause TCI and IOT to maintain, for a period of three years after the completion of the business combination, the current provisions and policies regarding indemnification of officers and directors, provided that TCI or IOT may substitute policies having at least the same coverage and containing terms that are no less advantageous to the insured.

THE PLANS OF MERGER

Provided ARL has sufficient funds available to it, either from its own resources or from TCI and IOT immediately after the mergers, to pay the cash merger consideration, ARL and each of TCI and IOT will execute and deliver an agreement and plan of merger following approval of the mergers by ARL's stockholders and, in the case of TCI and IOT, approval by their respective stockholders of the mergers. The mergers will be consummated contemporaneously with or promptly following the execution and delivery of the agreements and plans of merger. The following is a discussion of the material provisions of each plan of merger. The full text of each plan of merger is attached as Appendix A and Appendix B to this joint proxy statement and prospectus and are incorporated herein by reference. We encourage you to read the applicable plan of merger in its entirety.

THE MERGER

According to the terms of the plans of merger, at the effective time of each merger, two separate recently formed wholly-owned subsidiaries of ARL will merge with TCI and IOT, respectively. The acquisitions of TCI and IOT are not dependent upon each other. If the stockholders of one company do not approve their respective merger, only the approved merger may be consummated. TCI and IOT will survive the merger.

EFFECTIVE TIME OF THE MERGER

The closing of the transactions contemplated by the merger agreements will take place contemporaneously with or as soon as practicable following the execution and delivery of each merger agreement. The closing cannot take place until after the stockholders of TCI or IOT approve their respective mergers. Additionally, the ARL board of directors has determined that the TCI and IOT mergers would not be consummated unless, in each case, sufficient cash was available to ARL, either from its own resources or from TCI or IOT immediately after the mergers, to pay the cash merger consideration due as a result of the mergers.

As soon as practicable after the closings, the articles of mergers in connection with each respective merger will be filed with the Secretary of State of the State of Nevada, as provided in the Nevada mergers and Exchanges of Interest Act. The times at which the articles of merger are filed in Nevada and the Secretary of State issues a certificate of merger is referred to as the "effective time" of each respective merger.

CONVERSION OF SHARES - EXCHANGE RATIO

If the TCI stockholders approve their merger, each share of outstanding TCI common stock will be converted into \$17.50 in cash, upon the affirmative election of the stockholder, one share of Series G preferred stock. The cash consideration shall be reduced by any dividend TCI pays on the TCI common stock after January 2, 2002. Each share of outstanding TCI common stock held by BCM and other affiliates of ARL will be converted into one share of Series G preferred stock and each outstanding share held by TCI, ARL or its subsidiaries will be cancelled.

If the IOT stockholders approve their merger, each share of outstanding IOT common stock will be converted into \$19.00 in cash, or upon the affirmative election of the stockholder,

one share of ARL Series H preferred stock. The cash consideration shall be reduced by any dividend IOT pays on the IOT common stock after January 2, 2002. Each share of outstanding IOT common stock held by BCM and other affiliates of ARL will be converted into one share of Series H preferred stock and each outstanding share held by IOT, TCI, ARL or its subsidiaries will be cancelled.

CLOSING

Contemporaneously with the execution and delivery of the merger agreements, or promptly thereafter, a closing will take place at the offices of Jackson Walker L.L.P., 901 Main Street, Suite 6000, Dallas, Texas or at such other place as ARL, TCI, IOT and the two newly formed subsidiaries mutually agree upon.

REPRESENTATIONS AND WARRANTIES

The merger agreements contain representations and warranties by ARL and its two recently formed subsidiaries relating to:

- o organization and qualification;
- o capitalization;
- o authority;
- o the absence of a breach or any violation of ARL and its two recently formed subsidiaries articles of incorporation, bylaws, or similar governing documents;
- o statutory approvals;
- o compliance with laws;
- o accuracy of information in the SEC documents;
- o accuracy of information in financial statements contained in the SEC documents;
- o absence of certain changes or events;
- o absence of litigation;
- o absence of undisclosed liabilities;
- o accuracy of information in the joint proxy statement and prospectus;
- o vote required to approve the merger;
- o accuracy of representations, warranties, and statements contained in any certificate or schedule;
- o stock option plans;
- o affiliate agreements;
- o taxes; and

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- o brokers and finders.

The respective merger agreements contain representations and warranties by TCI and IOT relating to:

- o organization and qualification;
- o capitalization;
- o authority;
- o the absence of a breach or a violation of TCI or IOT's articles of incorporation, bylaws, or similar governing documents;

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- o consents and approvals;
- o statutory approvals;
- o compliance with laws;
- o accuracy of information in the SEC documents;
- o accuracy of information in financial statements contained in the SEC documents;
- o absence of certain changes or events;
- o absence of litigation;
- o absence of undisclosed liabilities;
- o accuracy of information in the joint proxy statement and prospectus;
- o vote required to approve the merger agreement;
- o accuracy of representations, warranties, and statements contained in any certificate or schedule;
- o stock option plans;
- o affiliate agreements;
- o taxes; and
- o brokers and finders.

INDEMNIFICATION

The surviving corporations have agreed to maintain the current provisions regarding indemnification of officers and directors contained in the charter and bylaws of TCI and/or IOT and each of their respective subsidiaries and any directors, officers or employees indemnification agreements of TCI and/or IOT or their respective subsidiaries.

EXCHANGE OF CERTIFICATES

At the effective time of the mergers, all shares of TCI and IOT common

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stock will cease to be outstanding and will automatically be canceled and retired. Each certificate formerly representing TCI and IOT common stock other than those held by ARL and its subsidiaries, TCI or IOT, will represent ownership of the right to receive either cash or ARL preferred stock, as applicable, issuable in the mergers until those certificates are surrendered to the exchange agent. The exchange agent for the merger is American Stock Transfer and Trust Company.

As soon as possible after the completion of the merger, the exchange agent will mail you a form of letter of transmittal and instructions for your use in making your election and exchanging your common stock certificates for cash or ARL preferred stock certificates. When you surrender your certificates, together with a signed letter of transmittal, you will receive in exchange either cash or certificate(s) representing whole shares of ARL preferred stock to which you are entitled.

YOU SHOULD NOT SEND YOUR CERTIFICATES TO THE EXCHANGE AGENT UNTIL YOU RECEIVE A LETTER OF TRANSMITTAL.

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ACCOUNTING TREATMENT

The transaction will be accounted for under the purchase method of accounting. Accordingly, ARL will record the assets and liabilities of TCI and IOT and the consideration paid.

CONSEQUENCES UNDER FEDERAL SECURITIES LAWS; RESALE OF ARL STOCK

The sale of shares of Series G and Series H preferred stock issuable in connection with the mergers has been registered under the Securities Act. Accordingly, there will be no federal securities law restrictions upon the resale or transfer of the shares by stockholders, except for those stockholders who are considered affiliates of ARL, TCI or IOT, as that term is defined in Rule 144 and Rule 145 adopted under the Securities Act. However, there are restrictions on the resale of the ARL preferred stock as imposed by ARL's articles of incorporation. For a full discussion of these restrictions please see "Description of the Capital Stock of ARL - Description of Preferred Stock."

Series G and Series H stock received by those stockholders who are considered to be affiliates of ARL, TCI or IOT may be resold without registration only as provided for by Rule 145 or as otherwise permitted under the Securities Act. Persons who may be considered to be affiliates of ARL, TCI or IOT generally include individuals or entities that control, are controlled by or are under common control with, ARL, TCI or IOT, and may include the executive officers and directors of ARL, TCI and IOT.

MANAGEMENT AND BOARD OF DIRECTORS AFTER THE MERGERS

Following the completion of the business combination, the board of directors of ARL will consist of the current four members of the ARL board and the three current members of the TCI and IOT boards. No other changes in the directors, executive officers or management of ARL, TCI or IOT are anticipated.

During the past five years, none of ARL, TCI, IOT, BCM, Transcontinental Realty Acquisition Corporation, Income Opportunity Acquisition Corporation or any of their respective executive officers or directors was (i)

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convicted in a criminal proceeding during the past five years (excluding traffic violations or other minor offenses, if any), or (ii) a party to any judicial or administrative proceeding during the past five years (except for matters that were dismissed without sanction or settlement, if any) that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws.

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EXPENSES OF THE MERGERS

If the mergers are consummated, all fees and expenses incurred in connection with the mergers will be paid by the party incurring those fees and expenses, except for the fees and expenses for the fairness opinions, which ARL is required to pay pursuant to the Settlement Agreement. Estimated fees and expenses incurred or to be incurred in connection with the business combination are approximately as follows:

DESCRIPTION	AMOUNT
Legal fees and expenses	\$ 145,000
Accounting fees and expenses	64,751
Houlihan Lokey	400,000
Fees to BCM relating to property expected to be sold to finance the business combination	3,038,815
Printing, mailing and distribution expenses	30,000
Paying agent fees and expenses	10,000
SEC filing fees	14,071
Miscellaneous fees and expenses	10,000
Total	\$3,712,637

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COMPARISON OF OWNERSHIP OF SHARES

After the effective time of the mergers, IOT and TCI stockholders will be offered the opportunity to affirmatively elect to become stockholders of ARL. The following is a comparison of the rights of holders of the TCI common stock and IOT common stock, on the one hand, and the ARL Series G and Series H preferred stock they will be offered the opportunity to acquire, on the other. No holder of TCI or IOT common stock will be required to acquire ARL Series G or Series H preferred stock. Instead, following the mergers, if they occur, holders of the TCI and IOT common stock will be offered the opportunity to affirmatively elect to receive ARL Series G or Series H preferred stock in lieu of the cash they would otherwise receive.

SERIES G PREFERR

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TCI COMMON STOCK

IOT COMMON STOCK

SERIES H PREFERRED

MANAGEMENT

Under the Nevada Revised Statutes (the "NRS"), the business and affairs of a Nevada corporation are managed by or under the directors of its board of directors, whose members are generally elected by a majority vote.

Each share of TCI common stock entitles its holder to cast one vote on matters as to which voting is permitted or required by Nevada law, including the election of directors.

The TCI Articles of Incorporation require a minimum of 3 directors and a maximum of 12 directors on its board.

The Articles of Incorporation and Bylaws of TCI provide that any director of TCI may be removed from office at any time, for cause, by the affirmative vote of the holders of not less than 80% of the outstanding stock of TCI voting thereon.

IOT is subject to the same NRS provisions.

Each share of IOT common stock entitles its holder to cast one vote on matters as to which voting is permitted or required by Nevada law, including the election of directors.

The IOT Articles of Incorporation require a board consisting of not fewer than 3 nor more than 12 directors, the exact number to be determined by the board.

Pursuant to IOT's Articles of Incorporation, any director of IOT may be removed from office at any time, with or without cause, by the affirmative vote of the holders of not less than two-thirds (2/3) of the outstanding stock of IOT voting thereon.

The holders of Series H preferred stock are not voting for election of directors except when all or a portion of the directors on such class of preferred stock for six quarterly dividends, whether or not consecutive, shall be in arrears and unpaid in the case may be. During the period such dividends are in arrears, a number of directors constituting the majority of the directors of ARL shall be increased by two for each holder of Series H preferred stock in the case may be, voting separately as a class shall be entitled to elect two directors to fill the newly created directorships with one vote in the election for each share of the class of preferred stock held.

ARL's Restated Articles of Incorporation provide that it shall be managed by a board consisting of not fewer than 3 nor more than 12 directors, the exact number to be determined by the board.

TCI COMMON STOCK

IOT COMMON STOCK

SERIES G PREFERRED
SERIES H PREFERRED

According to ARL's Restated Articles of Incorporation, any director of ARL may be removed from office at any time, with or without cause, by the affirmative vote of the holders of not less than two-thirds (2/3) of the outstanding stock of ARL voting thereon; provided that any director elected to any particular class or series of shares may be removed only in accordance with the applicable voting rights of the holders of such class or series.

FIDUCIARY DUTIES

Under Nevada law, directors are charged with the duty to exercise their powers in good faith with a view to the interests of the corporation. Directors must use reasonable due diligence to protect corporate property.

IOT is subject to the same NRS provisions.

ARL is subject to the same NRS provisions.

VOTING RIGHTS

Each share of TCI common stock entitles its holder to cast one vote on matters as to which voting is permitted or required by Nevada law, including the election of directors, amendments to TCI's Articles of Incorporation, mergers and other extraordinary transactions.

Each share of IOT common stock entitles its holder to cast one vote on matters as to which voting is permitted or required by Nevada law, including the election of directors, amendments to IOT's articles of incorporation, mergers and other extraordinary transactions.

The holders of Series A preferred and Series B preferred stock are entitled to vote for the election of directors or other matters except: (i) otherwise provided by law, (ii) with respect to an amendment to ARL's Restated Articles of Incorporation or other matter that would materially alter or change the existing terms of any class of preferred stock as the case may be, and (iii) at any time or times for the election of two directors when any portion of the dividends on such class of preferred stock

any six quarterly dividends, whether consecutive, shall be paid in arrears and unpaid dividends, in the latter event, only during such period as that such dividends are in arrears, the number of directors constituting the board of directors of ARL shall be increased to two and the holder

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TCI COMMON STOCK

IOT COMMON STOCK

SERIES G PREFERRED
SERIES H PREFERRED

of such class of preferred stock or preferred stock, by, voting separately, shall be elected two directors to the newly created class, with each holder entitled to one vote in election for each class of preferred

In the event that preferred stock or preferred stock a vote on a matter, the approval shall to have been obtained only upon the affirmative vote of the holder a majority of the stock of such class of preferred stock outstanding

VOTING PROCEDURES
ANNUAL/SPECIAL MEETINGS

The NRS provides that a corporation is entitled to make bylaws pertaining to the calling and holding of meetings of its stockholders. The TCI Bylaws provide that the

IOT is subject to the same NRS provisions. In addition, IOT's Bylaws provide that the annual meeting of stockholders for the election of directors shall be held

The holders of Series G preferred stock and Series H preferred stock are entitled to vote for the election of directors except all or any portion of dividends on such

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annual meeting of stockholders for the election of directors and for such other business as may be stated in the notice of the meeting, shall be held at such place, either within or without the state of Nevada, and within the first eight months of each calendar year as determined by the board of directors. The TCI Articles of Incorporation and Bylaws provide that special meetings of the stockholders may only be called by the president, secretary or by resolution of the board of directors.

within the first eight months of each calendar year, or as soon as practicable thereafter. Each meeting of the stockholders shall be held at such place within the United States and at such time and date as the board of directors shall determine. The IOT Articles of Incorporation and Bylaws provide that special meetings of the stockholders may only be called by the president, secretary or by resolution of the board of directors.

No action may be taken by written consent except upon the written consent in writing by all of the stockholders of IOT voting thereon.

of preferred stock any six quarterly dividends, whether consecutive, shall accrue and unpaid dividends are in arrears and only during such period, the number of directors constituting the board of directors shall be increased to two and the holders of Series G preferred stock, as the case may be, voting separately as a class, shall be entitled to elect directors to fill newly created directorships with one vote in the election for each share of class of preferred stock held.

Such special meetings for the election of directors may be

TCI COMMON STOCK	IOT COMMON STOCK	SERIES G PREFERRED SERIES H PREFERRED
<hr/>		
called by the holder of 10% of such class of Series G Preferred or Series H preferred stock issued and outstanding.		
<hr/>		
AMENDMENTS TO CHARTER		
The NRS requires the approval of the holders of a majority of all outstanding shares voting to approve proposed amendments to a corporation's charter. The holders of the	IOT is subject to the same NRS provisions. In addition, IOT's Articles of Incorporation provide that the affirmative vote of at least 75% of the votes	The ARL Restated Articles of Incorporation contain a provision which requires the approval of the holders of a majority of all outstanding shares voting to approve proposed amendments

outstanding shares of a particular class are voting as a class on a proposed amendment if the amendment would alter or change the power, preferences or special rights of one or more series of any class so to affect them adversely.

TCI's Articles of Incorporation provide that the affirmative vote of at least 75% of the votes cast by such holders of stock voting thereon shall be required to alter, amend or repeal the provisions of TCI's Articles of Incorporation pertaining to (i) the size of the board of directors, (ii) the procedures for amending the corporation's bylaws, (iii) the provisions for obtaining written consents of the stockholders and the procedures for calling a special meeting of the stockholders, (iv) TCI's election not to be governed by the statutes contained in NRS 78.411 to 78.444 "Combinations with Interested stockholders" and the statutes contained in NRS 78.378 to 78.3793 "Acquisition of Controlling Interest", (v) TCI's requirement to obtain the approval of two-thirds (2/3) of the holders of the voting stock for certain mergers or business combinations, (vi) the procedures governing the removal of directors, or (vii) the procedures governing the board's consideration of certain mergers,

cast by such holders of stock voting thereon shall be required to alter, amend or repeal the provisions of IOT's Articles of Incorporation pertaining to (i) the size of the board of directors, (ii) the procedures for amending the corporation's bylaws, (iii) the provisions for obtaining written consents of the stockholders and the procedures for calling a special meeting of the stockholders, (iv) IOT's election not to be governed by the statutes contained in NRS 78.411 to 78.444 "Combinations with Interested stockholders" and the statutes contained in NRS 78.378 to 78.3793 "Acquisition of Controlling Interest" or (v) IOT's requirement to obtain the approval of two-thirds (2/3) of the holders of the voting stock to approve certain mergers or business combinations, or to adopt any provision inconsistent therewith; provided, however, that the requirement for such a 75% vote shall not be required for any alteration, amendment, repeal or adoption of such provision recommended by more than 50% of the entire board of directors.

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TCI COMMON STOCK

IOT COMMON STOCK

SERIES G PREFERRED
SERIES H PREFERRED

acquisitions or business combinations, or to adopt any provision inconsistent therewith; provided, however, that the requirement for such a 75% vote shall not be required for any alteration, amendment, repeal or adoption of such provision recommended by more than 50% of the entire board of directors.

AMENDMENTS TO BYLAWS

The NRS provides that subject to the restrictions set forth in a corporation's bylaws, the directors may make the bylaws of the corporation. The TCI Articles of Incorporation provide that the Bylaws may be amended by a majority of the directors or by the affirmative vote of the holders of not less than 75% of the outstanding stock of TCI voting thereon.

IOT is subject to the same NRS provisions. The IOT Articles of Incorporation provide that the Bylaws may be amended by the board of directors or the approval of no less than 75% of the holders of the voting stock of IOT voting thereon.

ARL's Restated Articles of Incorporation and Bylaws provide that the Bylaws may be amended by the board of directors or by a majority of the holders of the outstanding stock voting thereon. The holders of Series G preferred stock and Series H preferred stock are not voting for amendments to ARL's Bylaws or on any amendments, except as otherwise provided by law or such amendment to the Bylaws would materially alter or change the existing terms of the class of preferred

DIVIDENDS AND DISTRIBUTIONS

Pursuant to the NRS, distributions may be made to stockholders (i) unless TCI would not be able to pay its debts as they become due in the usual course of business, or (ii) except as otherwise specifically allowed by TCI's Articles of Incorporation, its total assets would be less than the sum of its total liabilities plus the amount that would be

IOT is subject to the same NRS provisions.

Each share of Series G preferred stock has a non-cumulative dividend rate of 10.00% per annum of the \$20.00 liquidation preference, payable quarterly in equal installments of \$5.00 and when declared by the board and to the extent permitted under the Bylaws. Dividends on the Series G preferred stock have a preference to and priority over dividends

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needed, if the corporation were to be dissolved at the time of distribution, to satisfy the preferential rights upon dissolution of stockholders whose preferential rights are superior to those receiving the distribution.

upon the ARL common stock. The Series preferred stock has a parity as to dividends and upon liquidation or dissolution or winding up with all other shares of ARL preferred stock.

Each share of Series preferred stock has a cumulative dividend rate of 10.00% per annum.

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TCI COMMON STOCK

IOT COMMON STOCK

SERIES G PREFERRED STOCK
SERIES H PREFERRED STOCK

of the \$21.50 liquidation preference, payable quarterly in equal installments of \$5.375 if and when declared by the board and to the extent permitted by the NRS. Dividends on Series H preferred stock are in preference to dividends on common stock. The Series H preferred stock has a parity as to dividends and upon liquidation, dissolution or winding up with all other shares of ARL preferred stock.

CONVERSION RIGHTS

None.

None.

During a 75 day period commencing on the day after ARL publishes its first Form F-1 with the SEC following the consummation of the TCI merger, the Series preferred stock may be converted at the option of the holder of the Series preferred stock in an amount of shares of ARL common

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REDEMPTION RIGHTS

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LIQUIDATION/DISSOLUTION

Under the NRS, a
dissolution must be
initiated by the board of
directors and approved by
the holders of a majority
of the outstanding voting
shares of the
corporation.

Upon a liquidation,
dissolution or winding up
of TCI, TCI will
distribute the remaining
assets, if any, to the
holders of TCI common
stock after paying or
adequately providing for
the payment of all of its
liabilities and
obligations.

IOT is subject to the
same NRS provisions. Upon
a liquidation,
dissolution or winding up
of IOT, IOT will
distribute the remaining
assets, if any, to the
holders of IOT common
stock after paying or
adequately providing for
the payment of all of its
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The holders of Se
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PREEMPTIVE RIGHTS

Under the NRS, the
stockholders of a
corporation organized
after October 1, 1991 do
not have a preemptive
right to acquire unissued
shares, treasury shares
or securities convertible
into such shares unless
the corporation's
articles of incorporation
provide otherwise. The
TCI Articles of

IOT is subject to the
same NRS provisions. The
IOT Articles of
Incorporation do not
contain a provision
granting the holders of
IOT common stock
preemptive rights.

No holder of Seri
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acquire any secur
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because of his ow
of such class of
preferred stock.

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Incorporation do not contain a provision granting the holders of TCI common stock preemptive rights.

TRANSFERABILITY

Shares of TCI common stock are freely transferable except for shares issued to affiliates of TCI. Transfers of shares of stock held by affiliates are restricted by federal and state securities laws. The shares are listed on the NYSE under the symbol "TCI".

Shares of IOT common stock are freely transferable except for shares issued to affiliates of IOT. Transfers of shares of stock held by affiliates are restricted by federal and state securities laws. The shares are listed on the AMEX under the symbol "IOT".

Shares of Series preferred stock a Series H preference will be freely transferred except for shares

TCI COMMON STOCK

IOT COMMON STOCK

SERIES G PREFERRED
SERIES H PREFERRED

affiliates of ARL
Transfers of shares of stock held by affiliates are restricted by federal and state securities laws.

INSPECTION RIGHT

The NRS provides that any person who has been a stockholder of record of a corporation for at least 6 months immediately preceding his demand, or any person holding, or thereunto authorized in writing by the holders of, at least 5% of all of its outstanding shares, upon at least 5 days' written demand is entitled to inspect in person or by agent or attorney, during usual business hours, a copy certified by the secretary of state of the

IOT is subject to the same NRS provisions. IOT's Bylaws provide that any stockholder of IOT may inspect and copy during usual business hours the Bylaws, minutes of the proceedings of meetings of stockholders, annual statements of its affairs and voting trust agreements on file at IOT's principal office.

In addition to the foregoing provisions the NRS, ARL's Bylaws provide that any person who has been a stockholder of record of any corporation or has been authorized by the holders of at least 15% of all of its outstanding shares is entitled to inspect and copy the corporate financial records upon at least 5 days' written notice.

corporation's articles of incorporation, as amended, a copy certified by an officer of the corporation of its bylaws, as amended, and the corporation's stock ledger and make copies therefrom.

The TCI Bylaws provide that any stockholder may inspect and copy the bylaws, stockholder minutes, annual statements of its affairs and any voting trust agreements.

 BUSINESS COMBINATIONS/MERGERS

Under the NRS, stockholders have the right, subject to certain exceptions, to vote on all mergers to which the corporation is a party. In certain circumstances, different classes of securities may be voting separately as a class with respect to mergers. Under the NRS, unless the articles of incorporation, the board of directors or the merger statutes require a greater vote, a plan of merger must be approved by a majority of the voting power of the stockholders voting thereon.

IOT is subject to the same NRS provisions. In addition, IOT's Articles of Incorporation requires the affirmative vote of not less than two-thirds (2/3) of the outstanding stock of IOT voting thereon on certain mergers or business combinations with, or proposed on behalf of any affiliate of any interested stockholder, excluding the stock held by such interested stockholder. The requirement is not be applicable in any merger or business combination if the transaction is approved by a majority of the board.

The ARL Restated of Incorporation contain any provisions requiring a supermajority vote with respect to mergers. The holders of Series G preferred stock or Series H preferred stock are not voting on mergers to which the corporation is a party, except (i) as otherwise provided by law and with respect to an amendment to ARL's Restated Articles of Incorporation or in connection with a merger that would materially alter the composition of such class of preferred stock, respectively.

Incorporation requires the affirmative vote of not less than two-thirds (2/3) of the outstanding stock of TCI voting thereon on certain mergers or business combinations with, or proposed on behalf of any affiliate of any interested stockholder, excluding the stock held by such interested stockholder. The requirement is not applicable in any merger or business combination if the transaction is approved by a majority of the board.

The approval of the surviving corporation in a merger is not required under the NRS if: (i) the articles of incorporation of the surviving domestic corporation will not differ from its articles before the merger, (ii) each stockholder holds the same number of shares in the surviving corporation immediately after the merger as prior thereto, and such shares have identical designations, preferences, limitations and relative rights, (iii) the number of voting shares in the surviving corporation immediately after the merger, plus the voting power of the shares issued in the merger, does not exceed the voting power of the shares prior to the merger by more than 20%, and (iv) the number of shares entitled to participate without limitations in distributions immediately after the merger, plus the number of shares entitled to participate without limitations in distributions shares issued in the merger,

does not exceed the number of shares entitled to participate without limitations in distributions prior to the merger by more than 20%.

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TCI COMMON STOCK

IOT COMMON STOCK

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DISSENTERS' OR APPRAISAL RIGHTS

Under the NRS, dissenting stockholders of a corporation engaged in certain major corporate transactions are entitled to appraisal rights. Appraisal rights permit a stockholder to receive cash equal to the fair market value of the stockholders' shares (as determined by agreement by the parties or by a court), in lieu of the consideration such stockholder would otherwise receive in any such transaction.

IOT is subject to the same NRS provisions.

ARL is subject to same NRS provision

Under the NRS, a stockholder is entitled to dissent from, and obtain payment for the fair value of his shares in the event of consummation of, a plan of merger or plan of exchange in which the corporation is a party and any corporate action taken pursuant to a vote of the stockholders to the extent that the articles of incorporation, bylaws or a resolution of the board of directors provides that voting or nonvoting stockholders are entitled

to dissent and obtain payment for their shares.

Notwithstanding, the NRS provides that stockholders do not have dissenters' rights of appraisal in connection with a merger or plan of exchange if their shares are securities listed on a national securities exchange or if they are designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc. or are securities held by 2,000 stockholders of record, unless (1) the articles of incorporation provide otherwise or (2) the stockholders voting thereon are required to accept

TCI COMMON STOCK

IOT COMMON STOCK

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anything except (a) cash or owners' interest in (i) the surviving corporation or (ii) an entity whose securities were listed on a national securities exchange, included on the national market system by the National Association of Securities Dealers, Inc., or held of record by at least 2,000 holders or (b) a combination thereof.

LIMITATION OF LIABILITY OF MANAGEMENT

Under the NRS, a corporation, through its

IOT's Articles of Incorporation contain

The ARL Restated of Incorporation

articles of incorporation, may limit or eliminate the personal liability of directors to the corporation and its stockholders for damages for breach of fiduciary duty. However, this provision excludes any limitation on liability for (i) acts or omissions which involve intentional misconduct, fraud or a knowing violation of law or (ii) the payment of distributions in violation of NRS Section 78.300. The TCI Articles of Incorporation contain such a provision eliminating the personal liability of directors to the corporation and its stockholders for damages for breach of fiduciary duty to the fullest extent permitted under the NRS.

such a provision eliminating the personal liability of directors to the corporation and its stockholders for damages for breach of fiduciary duty to the fullest extent permitted under the NRS.

such a provision eliminating the personal liability of directors to the corporation and its stockholders for damages for breach of fiduciary duty to the fullest extent permitted under the NRS.

THE ADVISOR - BCM

Although the boards of directors are directly responsible for managing the affairs of ARL, TCI and IOT and for setting the policies which guide each, the day-to-day operations of each entity are performed by BCM, a contractual advisor under the supervision of each board. The duties of the advisor include, among other things, locating, investigating, evaluating and recommending real estate and mortgage loan investment and sales opportunities as well as financing and refinancing sources. BCM also serves as consultant to each entity's board of directors in connection with the business plan and investment policy decisions made by the board.

BCM, an affiliate, has served as advisor to ARL since its organization in July 2000 (and to ART since February 6, 1989) and to TCI and IOT since March 1989 pursuant to separate Advisory Agreements. The Advisory Agreements are similar with the exception of the compensation provisions, which are discussed separately below. The business address of BCM is 1800 Valley View Lane, Suite 300, Dallas, Texas 75234; its telephone number of BCM is 469-522-4200.

Messrs. Branigan, Corna, Endendyk, Kimbrough and Starowicz serve as executive officers of BCM. BCM is a company indirectly owned by a trust for the benefit of the children of Mr. Phillips. Mr. Phillips serves as a representative of the trust for the benefit of his children and, in such capacity, had, until June 2000, substantial contact with the management of BCM and input with respect to BCM's performance of advisory services for ARL, TCI and IOT.

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As of February 11, 2002, BCM directly or indirectly beneficially owned 6,269,344 shares of ARL's common stock, or approximately 55.1% of the shares outstanding; 1,193,422 shares of TCI's common stock, or approximately 14.8% of the shares outstanding; and 106,802 shares of IOT's common stock or approximately 7.4% of the shares outstanding.

ARL COMPENSATION TO BCM

The ARL Advisory Agreement provides for BCM to receive monthly base compensation at the rate of 0.0625% per month (0.75% on an annualized basis) of average invested assets, which, as of September 30, 2001, are \$912,349,000.

In addition to base compensation, BCM, an affiliate of BCM, or a related party receives the following forms of additional compensation:

- o an acquisition fee for locating, leasing or purchasing real estate for ARL in an amount equal to the lesser of (i) the amount of compensation customarily charged in similar arm's-length transactions or (ii) up to 6% of the costs of acquisition, inclusive of commissions, if any, paid to non-affiliated brokers
- o a disposition fee for the sale of each equity investment in real estate in an amount equal to the lesser of (i) the amount of compensation customarily charged in similar arm's-length transactions or (ii) 3% of the sales price of each property, exclusive of fees, if any, paid to non-affiliated brokers

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- o a loan arrangement fee in an amount equal to 1% of the principal amount of any loan made to ARL arranged by BCM
- o an incentive fee equal to 10% of net income for the year in excess of a 10% return on stockholders' equity, and 10% of the excess of net capital gains over net capital losses, if any, realized from sales of assets
- o a mortgage placement fee, on mortgage loans originated or purchased, equal to 50%, measured on a cumulative basis, of the total amount of mortgage origination and placement fees on mortgage loans advanced by ARL for the fiscal year

The ARL Advisory Agreement further provides that BCM shall bear the cost of certain expenses of its employees, excluding fees paid to ARL's directors; rent and other office expenses of both BCM and ARL (unless ARL maintains office space separate from that of BCM); costs not directly identifiable to ARL's assets, liabilities, operations, business or financial affairs; and miscellaneous administrative expenses relating to the performance by BCM of its duties under the ARL Advisory Agreement.

If and to the extent that ARL shall request BCM, or any director, officer, partner or employee of BCM, to render services to ARL other than those required to be rendered by BCM under the ARL Advisory Agreement, such additional services, if performed, will be compensated separately on terms agreed upon between such party and ARL from time to time.

The ARL Advisory Agreement automatically renews from year to year

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unless terminated in accordance with its terms. ARL's management believes that the terms of the ARL Advisory Agreement are at least as fair as could be obtained from unaffiliated third parties.

Situations may develop in which the interests of ARL are in conflict with those of one or more directors or officers of BCM in their individual capacities, or of their respective affiliates. In addition to services performed for ARL, as described above, BCM actively provides similar services as agent for, and advisor to, other real estate enterprises, including persons and entities involved in real estate development and financing, including IOT and TCI. The ARL Advisory Agreement provides that BCM may also serve as advisor to other entities.

As advisor, BCM is a fiduciary of ARL's public investors. In determining to which entity a particular investment opportunity will be allocated, BCM will consider the respective investment objectives of each entity and the appropriateness of a particular investment in light of each such entity's existing mortgage note and real estate portfolios and business plan. To the extent any particular investment opportunity is appropriate to more than one such entity, such investment opportunity will be allocated to the entity that has had funds available for investment for the longest period of time, or, if appropriate, the investment may be shared among various entities. See "Certain Relationships and Related Transactions of ARL, TCI and IOT--Certain Business Relationships."

During the year ended December 31, 2001, ARL paid BCM \$20.2 million in compensation under the ARL Advisory Agreement.

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TCI AND IOT COMPENSATION TO BCM

If the TCI and IOT mergers are approved and consummated, it is contemplated that the Advisory Agreements with TCI and IOT will be terminated. The Advisory Agreements with each of TCI and IOT provide for BCM to receive an advisory fee comprised of a gross asset fee of 0.0625% per month (0.75% per annum) of the average of the gross asset value (total assets less allowance for amortization, depreciation or depletion and valuation reserves) and an annual net income fee equal to 7.5% of either TCI's or IOT's net income.

The Advisory Agreements also provide for BCM to receive an annual incentive sales fee equal to 10% of the amount, if any, by which the aggregate sales consideration for all real estate sold by either TCI or IOT during such fiscal year exceeds the sum of: (1) the cost of each such property as originally recorded in TCI's or IOT's books for tax purposes (without deduction for depreciation, amortization or reserve for losses), (2) capital improvements made to such assets during the period owned by either TCI or IOT and (3) all closing costs, (including real estate commissions) incurred in the sale of such real estate provided, however, no incentive fee shall be paid unless (a) such real estate sold in such fiscal year, in the aggregate, has produced an 8% simple annual return on the net investment including capital improvements, calculated over the holding period before depreciation and inclusive of operating income and sales consideration and (b) the aggregate net operating income from all real estate owned for each of the prior and current fiscal years shall be at least 5% higher in the current fiscal year than in the prior fiscal year.

Additionally, pursuant to the TCI and IOT Advisory Agreements, BCM or an affiliate of BCM is to receive an acquisition commission for supervising the acquisition, purchase or long-term lease of real estate equal to the lesser of

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(1) up to 1% of the cost of acquisition, inclusive of commissions, if any, paid to non-affiliated brokers or (2) the compensation customarily charged in arm's-length transactions by others rendering similar property acquisition services as an ongoing public activity in the same geographical location and for comparable property; provided that the aggregate purchase price of each property (including acquisition commissions and all real estate brokerage fees) may not exceed such property's appraised value at acquisition.

The TCI and IOT Advisory Agreements require BCM or any affiliate of BCM to pay TCI and IOT one-half of any compensation received from third parties with respect to the origination, placement or brokerage of any loan made by TCI or IOT; provided, however, that the compensation retained by BCM or any affiliate of BCM shall not exceed the lesser of (1) 2% of the amount of the loan committed or (2) a loan brokerage and commitment fee which is reasonable and fair under the circumstances.

The TCI and IOT Advisory Agreements also provide that BCM or an affiliate of BCM is to receive a mortgage or loan acquisition fee with respect to the acquisition or purchase of any existing mortgage loan by TCI or IOT equal to the lesser of (1) 1% of the amount of the loan purchased or (2) a loan brokerage or commitment fee which is reasonable and fair under the circumstances. Such fee will not be paid in connection with the origination or funding of any mortgage loan by TCI or IOT.

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Under the TCI and IOT Advisory Agreements, BCM or an affiliate of BCM is also to receive a mortgage brokerage and equity refinancing fee for obtaining loans or refinancing on properties equal to the lesser of (1) 1% of the amount of the loan or the amount refinanced or (2) a brokerage or refinancing fee which is reasonable and fair under the circumstances; provided, however, that no such fee shall be paid on loans from BCM or an affiliate of BCM without the approval of the TCI or IOT board of directors, as the case may be. No fee shall be paid on loan extensions.

Under the TCI and IOT Advisory Agreements, BCM receives reimbursement of certain expenses incurred by it in the performance of advisory services. Under the Advisory Agreements, all or a portion of the annual advisory fee must be refunded by BCM if the operating expenses of TCI or IOT (as defined in the TCI and IOT Advisory Agreements) exceed certain limits specified in the Advisory Agreement, based on the book value, net asset value and net income of TCI or IOT during the fiscal year. No refund of the annual advisory fee was required for 2000.

Additionally, if management were to request that BCM render services to TCI or IOT other than those required by the TCI and IOT Advisory Agreements, BCM or an affiliate of BCM is separately compensated for such additional services on terms to be agreed upon from time to time. TCI and IOT have hired Triad Realty Services, Ltd. ("Triad"), an affiliate of BCM, to perform property management for TCI's and IOT's properties. Also, TCI and IOT have engaged, on a non-exclusive basis, Regis Realty, Inc. ("Regis"), a related party, to perform brokerage services for TCI and IOT. BCM may only assign the TCI and IOT Advisory Agreements with the prior consent of TCI and IOT.

During the year ended December 31, 2001, TCI paid BCM \$22.9 million under the TCI Advisory Agreement and IOT paid BCM \$1.7 million under the IOT Advisory Agreement.

DIRECTORS AND PRINCIPAL OFFICERS OF ADVISOR

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The directors and principal officers of BCM are set forth below:

Name -----	Position -----
Mickey N. Phillips.....	Director*
Ryan T. Phillips.....	Director*
Mark W. Branigan.....	Executive Vice President -- Residential
Louis J. Corna.....	Executive Vice President -- Tax
Bruce A. Endendyk.....	Executive Vice President
Ronald E. Kimbrough.....	Executive Vice President and Chief Financial Officer
David W. Starowicz.....	Executive Vice President--Acquisitions, Sales and Construction
Robert A. Waldman.....	Senior Vice President, General Counsel and Secre

 * Mickey N. Phillips is the brother of Gene E. Phillips and Ryan T. Phillips is the son of Gene E. Phillips. Gene E. Phillips serves as a representative of the trust established for the benefit of his children which indirectly owns BCM and, in such capacity, had, until June 2000, substantial contact with the management of BCM and input with respect to its performance of advisory services for ARL, TCI and IOT.

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MARK W. BRANIGAN: Age 47; Director (September 2000 to June 2001), Executive Vice President and Chief Financial Officer (August 2000 to June 2001) and Executive Vice President - Residential (since June 2001) of ARL. Executive Vice President - Residential (since June 2001), Executive Vice President and Chief Financial Officer (August 2000 to June 2001), Vice President - Director of Construction (August 1999 to August 2000) and Executive Vice President - Residential Management (January 1992 to October 1997) of BCM, ART, IOT and TCI; and real estate consultant (November 1997 to July 1999).

LOUIS J. CORNA: Age 54; Executive Vice President - Tax (since October 2001), Senior Vice President - Tax Planning and Chief Financial Officer (June 2001 to October 2001) and Senior Vice President - Director of Tax (December 2000 to June 2001) of BCM, IOT, ARL and TCI; Vice President - Tax, Assistant Treasurer and Senior Tax Officer - Worldwide Operations (March 1998 to January 2000) of IMC Global, Inc., a multi-national mining and agricultural product producer; and Vice President - Tax and Senior Tax Officer - Worldwide Operations (July 1991 to February 1998) of Whitman Corporation, a multi-national company that controlled Hussmann Refrigeration, Pepsi-Cola General Bottlers and Midas Mufflers International. Mr. Corna is also a lawyer and certified public accountant.

BRUCE A. ENDENDYK: Age 53; Executive Vice President (since August 2000) of ARL. Executive Vice President (since January 1995) of BCM, ART, IOT and TCI, and (since January 1998) of NRLP Management Corp. ("NMC"), a real estate company, and the general partner of NRLP and National Operating, L. P. ("NOLP"), a wholly-owned subsidiary of ARL; and Management Consultant (November 1990 to December 1994).

RONALD E. KIMBROUGH: Age 49; Acting Principal Executive Officer (since

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February 2002) and Executive Vice President and Chief Financial Officer (since January 2002) of ARL. Executive Vice President and Chief Financial Officer (since January 2002) of BCM, TCI and IOT; Controller (September 2002 to January 2002) of BCM; Vice President and Treasurer (January 1998 to September 2000) of Syntek West, Inc., a real estate company and One Realco Corporation ("One Realco"), a real estate company.

DAVID W. STAROWICZ: Age 46; Executive Vice President - Acquisitions, Sales and Construction (since March 2001) and Executive Vice President - Commercial Asset Management (August 2000 to March 2001) of ARL. Executive Vice President - Acquisitions, Sales and Construction (since March 2001), Executive Vice President - Commercial Asset Management (September 1999 to March 2001), and Vice President (May 1992 to September 1999) of BCM, ART, IOT and TCI.

ROBERT A. WALDMAN: Age 49; Senior Vice President, Secretary and General Counsel (since August 2000) of ARL. Senior Vice President and General Counsel (since January 1995), Vice President (December 1990 to January 1995) and Secretary (December 1993 to February 1997 and since June 1999) of IOT and TCI; Senior Vice President and General Counsel (since November 1994), Vice President and Corporate Counsel (November 1989 to November 1994) and Secretary (since November 1989) of BCM; Senior Vice President and General Counsel (since January 1995), Vice President (January 1993 to January 1995) and

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Secretary (since December 1989) of ART; and Senior Vice President, Secretary and General Counsel (since January 1998) of NMC.

The business address of each director and executive officer is 1800 Valley View Lane, Suite 300, Dallas, Texas 75234. The business telephone number of each person is 469-522-4200. Each director and executive officer is a citizen of the United States.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS OF BCM, ARL, TCI AND IOT

CERTAIN BUSINESS RELATIONSHIPS

BCM, ARL's, TCI's and IOT's contractual advisor, is a company of which Messrs. Branigan, Corna, Endendyk, Kimbrough and Starowicz serve as executive officers. BCM is a company owned by a trust for the benefit of the children of Mr. Phillips.

IOT and TCI have the same relationship with BCM as does ARL.

ARL contracts with an affiliate of BCM for property management services. Currently, Triad, an affiliate, provides such property management services. The general partner of Triad is BCM. The limited partners of Triad are Mr. Phillips and GS Realty Services, Inc. ("GS Realty"), a related party. Triad subcontracts the property-level management of 12 of ARL's commercial properties (office buildings, shopping centers and a merchandise mart) and eight of its hotels to Regis, a related party, which is a company owned by GS Realty.

Regis, a related party, also provides real estate brokerage services to

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ARL and receives brokerage commissions in accordance with the advisory agreement between ARL and BCM.

ARL owns, directly or indirectly, an equity interest in each of IOT and TCI. See "Properties of ARL - Investments in Real Estate Companies and Real Estate Partnerships."

At February 11, 2002, ARL indirectly owned approximately 49.7% of TCI's outstanding common stock. At December 31, 2001, TCI owned 345,728 shares of IOT's common stock, an approximate 24% interest and 746,972 shares of ARL common stock, an approximate 6.6% interest which were primarily purchased in open market transactions in 1990 and 1991 at a total cost of \$1.6 million. The officers of TCI and IOT also serve as officers of ARL. The directors and officers of IOT also serve as directors and officers of TCI. The directors owe fiduciary duties to TCI as well as to IOT under applicable law.

RELATED PARTY TRANSACTIONS

In 2001, ARL paid BCM and its affiliates and related parties \$6.7 million in advisory fees, \$1.6 million in incentive fees, \$5.9 million in real estate brokerage commissions, \$1.1 million in loan management fees and \$2.5 million in property and construction management fees and leasing commissions, net of property management fees paid to subcontractors, other than Regis. In addition, as provided in the ARL Advisory Agreement, in 2001 BCM received cost reimbursements from ARL of \$2.4 million.

In 2000, ARL paid BCM, its affiliates and related parties \$5.0 million in advisory fees, \$6.9 million in real estate brokerage commissions, \$1.2 million in loan arrangement fees and \$3.4 million in property and construction management fees and leasing commissions, net of property management fees paid to subcontractors, other than Regis. In addition, as provided in the ARL Advisory Agreement, in 2000 BCM received cost reimbursements from ARL of \$5.3 million.

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In 2001, IOT paid BCM, its affiliates and related parties \$817,000 in advisory fees, \$300,000 in property and construction management and leasing commissions, net of property management fees paid to subcontractors, other than affiliates of BCM. In addition, as provided in the IOT Advisory Agreement, BCM received cost reimbursements of \$622,000.

In 2000, IOT paid BCM, its affiliates and related parties \$2.0 million in advisory and net income fees, \$1.5 million in property acquisition fees, \$1.3 million in real estate brokerage commissions and \$602,000 in property and construction management fees and leasing commissions, net of property management fees paid to subcontractors, other than Regis.

In 2001, TCI paid BCM, its affiliates and related parties \$4.9 million in advisory fees, \$2.9 million in incentive fees, \$3.8 million in net income fees, \$45,000 in mortgage brokerage and equity refinancing fees, \$2.4 million in property acquisition fees, \$3.7 million in real estate brokerage commissions and \$3.1 million in property and construction management fees and leasing commissions, net of property management fees paid to subcontractors, other than affiliates of BCM. In addition, as provided in the TCI Advisory Agreement, BCM received cost reimbursements of \$2.1 million.

In 2000, TCI paid BCM, its affiliates and related parties \$10.5 million in advisory and net income fees, \$464,000 in mortgage brokerage and equity refinancing fees, \$2.7 million in property acquisition fees, \$3.2 million in

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real estate brokerage commissions and \$4.3 million in property and construction management fees and leasing commissions, net of property management fees paid to subcontractors, other than affiliates of BCM. In addition, as provided in the TCI Advisory Agreement, BCM received cost reimbursements of \$2.1 million.

In October 1999, ARL funded a \$4.7 million loan to Realty Advisors, Inc., the corporate parent of BCM. The loan is secured by a pledge of 100% of Realty Advisors, Inc.'s interest in an insurance company. The loan bears interest at a variable rate, currently 10.25% per annum and matured in November 2001. In January 2000, \$100,000 of principal was collected. All remaining principal and interest were due at maturity. A three year extension of the maturity date to November 2004 has been agreed upon, pending a change in collateral.

In April 1999, ARL funded a \$2.0 million loan commitment to Lordstown, L.P. The loan is secured by a second lien on land in Ohio and Florida, by 100% of the general and limited partner interest in Partners Capital, Ltd., the limited partner of Lordstown, L.P., and a profits interest in subsequent land sales. The loan bears interest at 14.0% per annum and matured in March 2000. At December 31, 2001, the loan and \$741,000 of accrued interest remained unpaid. Settlement terms are being negotiated. A corporation controlled by Richard D. Morgan is the general partner of Lordstown, L.P. Mr. Morgan served as a director of ARL until October 2001.

Also in April 1999, ARL funded a \$2.4 million loan commitment to 261, L.P. The loan is secured by 100% of the general and limited partner interest in Partners Capital, Ltd., the limited partner of 261, L.P. and a profits interest in subsequent land sales. The loan bore interest at 14.0% per annum and matured in March 2000. In August 2000, the loan was collected in full, including accrued but unpaid interest. A corporation controlled by Richard D. Morgan, is the general partner of 261, L.P. Mr. Morgan served as a director of ARL until October 2001.

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In February 1999, a \$5.0 million unsecured line of credit was funded by ARL to One Realco which owns approximately 14.7% of the outstanding shares of ARL's common stock. Ronald E. Kimbrough, Acting Principal Executive Officer and Executive Vice President and Chief Financial Officer of ARL owns 10% of the outstanding common stock of One Realco. In March 2000, the line was modified and extended, increasing the loan commitment to \$11.0 million, and an additional \$1.2 million was funded. In exchange for the modification, the borrower paid all accrued interest and pledged collateral consisting of a \$10.0 million promissory note secured by the stock of World Trade Company, Ltd. ("World Trade"), which owns 80% of an entity that owns a hotel in Sofia, Bulgaria. In July 2000, the line was again modified, increasing the loan commitment to \$15.0 million. In September 2000, the line of credit with a then principal balance of \$14.6 million was paid in full, including accrued but unpaid interest. Subsequently, ARL acquired 100% of the stock of World Trade for \$18.0 million. In March 2001, ARL funded \$13.6 million on the unsecured line of credit to One Realco. The line of credit bears interest at 12.0% per annum. All principal and interest were due at maturity in February 2002, and the line of credit is guaranteed by BCM, ARL's advisor. A two year extension of the maturity date to February 2004 has been agreed upon and the line of credit is to be secured by 600,000 shares of ARL common stock.

In 1998, ARL funded a loan commitment of \$1.8 million to Warwick of Summit, Inc. ("Warwick"). The loan was secured by a second lien on a shopping center in Rhode Island, by 100% of the stock of the borrower and by the personal

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guarantee of the principal shareholder of the borrower. The loan bears interest at 14.0% per annum and had an extended maturity date of December 2000. All principal and interest were due at maturity. In December 1999, the borrower sold the collateral property and \$810,000 of the net proceeds were paid to ARL, of which \$386,000 was applied to interest and the remaining \$424,000 was applied to principal, reducing the principal balance to \$1.7 million. Escrowed monies of \$377,000 were to be received in 2000. However, through December 31, 2001, only \$50,000 had been received. The loan is currently unsecured. At January 2002, the loan and \$472,000 of accrued interest remained unpaid. Settlement terms are being negotiated. Richard D. Morgan, a Warwick shareholder, served as a director of ARL until October 2001.

Beginning in 1997 through January 1999, ARL funded a \$1.6 million loan commitment to Bordeaux Investments Two, L.L.C. ("Bordeaux"). The loan is secured by (1) a 100% interest in Bordeaux, which owns a shopping center in Oklahoma City, Oklahoma; (2) 100% of the stock of Bordeaux Investments One, Inc., which owns 6.5 acres of undeveloped land in Oklahoma City, Oklahoma; and (3) the personal guarantees of the Bordeaux members. The loan bears interest at 14.0% per annum. In November 1998, the loan was modified to allow payments based on monthly cash flow of the collateral property and the maturity date was extended to December 1999. In the second quarter of 1999, the loan was again modified, increasing the loan commitment to \$2.1 million and an additional \$33,000 was funded. In the third quarter of 1999, an additional \$213,000 was funded. The property has had no cash flow, therefore, interest on the loan ceased being accrued in the second quarter of 1999. In October 1999, a \$724,000 paydown was received, which was applied first to accrued interest due of \$261,000 then to principal, reducing the loan balance to \$1.4 million. In June 2000, the note was further modified, increasing the loan commitment to \$1.5 million, extending the maturity date to December 2000, and payments to net revenues of the shopping center. The loan was not repaid at maturity. At December 2002, the loan and \$471,000 of accrued interest remained unpaid. At January 2002,

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settlement terms are being negotiated. Richard D. Morgan, a Bordeaux member, served as a director of ARL until October 2001.

In 1998 and 1999, Garden Capital L.P. ("GCLP") funded \$124.4 million of a \$125.0 million loan commitment to ART. The loan was secured by second liens on six properties in Minnesota, Mississippi and Texas, by the stock of ART Holdings, Inc., a wholly-owned subsidiary that owned 3,349,535 NRLP units of limited partner interest, the stock of NMC, the general partner of NRLP, 678,475 NRLP units of limited partner interest owned by BCM, and 283,034 NRLP units of limited partner interest owned by ART. The loan bore interest at 12.0% per annum, required monthly payments of interest only and would have matured in November 2003. In February and October 1999, ART made a total of \$1.1 million in paydowns on the loan. Upon the acquisition of ART and NRLP by ARL, this loan was canceled.

In December 1998, in connection with the settlement of litigation relating to the original formation of NRLP, NMC, assumed responsibility for repayment to NRLP of the \$12.2 million paid by NRLP to settle the litigation. The loan bore interest at a variable rate and required annual payments of accrued interest plus principal payments of \$500,000 in each of the first three years, \$750,000 in each of the next three years, \$1.0 million in each of the next three years, with payment in full of the remaining balance in the tenth year. The note was guaranteed by ART. The note was to mature upon the earlier of the liquidation or dissolution of NRLP, NMC ceasing to be general partner or March 31, 2009. Upon the merger of ART and NRLP into ARL, the loan was canceled.

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In October 1997, ART entered into leases with BCM and an affiliate of BCM, for space at the One Hickory Centre Office Building, construction of which was completed in December 1998. The BCM lease, effective upon ART obtaining permanent financing of the building, was for 75,852 sq. ft. (approximately 75% of the building), had terms of ten and fifteen years and provided for annual base rent of \$19.25 per sq. ft. for the first year. In January 2001, both leases were terminated, and ARL entered into a new lease with BCM, effective October 1, 2000. The new lease is for 59,463 sq. ft. (approximately 62% of the building), has a term of three years, and provides for annual base rent of \$1.3 million or \$21.50 per sq. ft.

ARL, TCI and IOT contract with an affiliate of BCM for property management services. Currently, Triad, an affiliate, provides such property management services. The general partner of Triad is BCM. The limited partners of Triad are Mr. Phillips and GS Realty, a related party, which is a company not affiliated with either Mr. Phillips or BCM. Triad subcontracts the property-level management of 14 of ARL's commercial properties (office buildings, shopping centers and a merchandise mart) and eight of its hotels to Regis, a related party, which is a company owned by GS Realty. Triad also subcontracts the property-level management and leasing of 52 of TCI's commercial properties, its four hotels and the commercial properties owned by a real estate partnership in which TCI and IOT are partners to Regis. Additionally, Triad subcontracts the property-level management and leasing of IOT's seven office buildings.

From April 1992 to December 31, 1992, Mr. Stokely, the Chairman of the Board and a director of TCI and IOT, was employed as a paid consultant and since January 1, 1993 as a part-time unpaid consultant for Eldercare, a nonprofit corporation engaged in the acquisition of low

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income and elderly housing. Eldercare has a revolving loan commitment from Syntek West, a company owned by Mr. Phillips. The Loan Commitment expired in 1998 and was not renewed. Eldercare filed for bankruptcy protection in May 1995, and was reorganized in bankruptcy in February 1996, and has since paid all debts as directed by the Bankruptcy Court.

Regis also provides real estate brokerage services for TCI and IOT, on a non-exclusive basis, and receives brokerage commissions in accordance with the brokerage agreement.

BCM has entered into put agreements with certain holders of the Class A limited partner units of Ocean Beach Partners, L.P. The Class A units are convertible into Series D Cumulative preferred stock of ARL. The put price of the Series D preferred stock is \$20.00 per share plus accrued but unpaid dividends.

BCM has entered into put agreements with the holders of the Class A limited partner units of Valley Ranch L.P. Such Class A units are convertible into Series B Cumulative Convertible preferred stock of ARL which is further convertible into common stock of ARL. The put price for the Class A units is \$1.00 per unit and the put price for either the Series B preferred stock or ARL's common stock is 80% of the average daily closing price of ARL's common stock for the prior 20 trading days. In March 1999, ARL reached agreement with the Class A unitholders of Valley Ranch, L.P. to acquire their eight million Class A units for \$1.00 per unit. In 1999, three million units were purchased, an additional one million units were purchased in January 2000 and May 2001. ARL

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has committed to purchase the remaining two million units in May 2002.

BCM has entered into put agreements with the holders of the Class A units of ART Palm, L.P. Such Class A units are convertible into Series C Cumulative Convertible preferred stock of ARL. The put price for the Class A units is \$1.00 per unit and the put price for either the Series C preferred stock or ARL's common stock is 90% of the average daily closing price of ARL's common stock for the prior 20 trading days. In December 2001, approximately 7.2 million Class A limited partner units of ART Palm, L.P. were redeemed for \$5.8 million, including \$2.5 million in cash. ARL gave a note payable for the remaining \$3.3 million. The note bears interest at 10.0% per annum, with a payment of \$1.9 million plus accrued but unpaid interest due at maturity in December 2002. In January 2001, 2.5 million Class A limited partner units of ART Palm, L.P. were redeemed for \$2.5 million in cash. In December 2001, 7.2 million Class A limited partner units of ART Palm, L. P. were redeemed for \$5.8 million, including \$2.5 million in cash. ARI gave a note payable for the remaining \$3.3 million. The note bears interest at 10.00% per annum, with a payment of \$1.9 million plus accrued but unpaid interest due in June 2002, and the remaining principal and accrued but unpaid interest due at maturity in December 2002. At December 31, 2001, no Series C Preferred Stock was outstanding.

TCI is a 63.7% limited partner and IOT is a 36.3% general partner in the Tri-City Limited Partnership ("Tri-City") which owns the Chelsea Square Shopping Center. In February 2000, the Chelsea Square Shopping Center was financed in the amount of \$2.1 million. Tri-City received net cash of \$2.0 million after the payment of various closing costs. The mortgage bore interest at a fixed rate of 10.24% per annum until February 2001, and a variable rate thereafter, currently 10% per annum, requires monthly payments of principal and interest of \$20,601 and

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matures in February 2005. TCI received a distribution of \$1.3 million of the net financing proceeds. IOT received a distribution of \$739,000 of the net financing proceeds.

In December 2001, TCI purchased 100% of the outstanding common shares of National Melrose, Inc. ("NM"), a wholly owned subsidiary of ARL, a related party, for \$2.0 million cash. NM owns the 41,840 square foot Executive Court Office Building in Memphis, Tennessee. ARL has guaranteed that the asset shall produce at least a 12% return annually of the purchase price for a period of three years from the purchase date. If the assets fail to produce the 12% return, ARL shall pay TCI any shortfall. In addition, if the asset fails to produce the 12% return for a calendar year, TCI may require ARL to repurchase the shares of NM for the purchase price. Management has classified this related party transaction as a note receivable from ARL. Accounting has also treated this transaction as a financing.

In January 2002, TCI purchased 100% of the outstanding common shares of ART Two Hickory Corporation ("Two Hickory"), a wholly owned subsidiary of ARL, a related party, for \$4.4 million cash. Two Hickory owns the 96,217 square foot Two Hickory Center Office Building in Farmers Branch, Texas. ARL has guaranteed that the asset shall produce at least a 12% return annually of the purchase price for a period of three years from the purchase date. If the assets fail to produce the 12% return, ARL shall pay TCI any shortfall. In addition, if the asset fails to produce the 12% return for a calendar year, TCI may require ARL to repurchase the shares of Two Hickory for the purchase price. Management has classified this related party transaction as a note receivable from ARL. Accounting has also treated this transaction as a financing.

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In January 2002, IOT purchased 100% of the outstanding common shares of Rosedale Corporation ("Rosedale"), a wholly owned subsidiary of ARL, a related party, for \$5.1 million cash. Rosedale owns the 83,331 square foot Rosedale Towers Office Building in Roseville, Minnesota. ARL has guaranteed that the asset shall produce at least a 12% return annually of the purchase price for a period of three years from the purchase date. If the assets fail to produce the 12% return, ARL shall pay IOT any shortfall. In addition, if the asset fails to produce the 12% return for a calendar year, IOT may require ARL to repurchased the shares of Rosedale for the purchase price. Management has classified this related party transaction as a note receivable from ARL. Accounting has also treated this transaction as a financing.

At December 31, 2001, BCM owed TCI \$11.3 million.

At December 31, 2001 ARL owed BCM \$13.7 million.

The directors and officers of TCI also serve as directors and officers of IOT. The directors owe fiduciary duties to IOT as well as to TCI under applicable law. IOT has the same relationship with BCM as TCI. At December 31, 2001, TCI owned approximately 24% of the outstanding common shares of IOT. BCM also serves as advisor to ARL. Messrs. Branigan, Corna, Endendyk, Kimbrough and Starowicz serve as executive officers of ARL.

TCI established on April 13, 2000, the Director Stock Option Plan (the "TCI Director Plan") which became effective upon subsequent approval of the stockholders of TCI at an Annual Meeting of Stockholders held on October 10, 2000. Under the terms of the TCI Director

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Plan, successive options covering 5,000 shares of TCI common stock each were automatically granted to each director on the date of effectiveness of the TCI Director Plan, and on each January 1 of each subsequent year in which the individual served as a director of TCI. Pursuant to the TCI Director Plan, two former directors of TCI, Edward G. Zampa and R. Douglas Leonhard, each held options covering 5,000 shares at an exercise price of \$8.975 per share, and an additional 5,000 shares at an exercise price of \$14.875 per share. On January 30, 2002, TCI entered into separate agreements with Messrs. Leonhard and Zampa pursuant to which TCI repurchased all options held by each at a price based upon a \$16 per share sale price of common stock, less the aggregate amount of the exercise price under each option. As a result of the Purchase Agreements, each of Messrs. Leonhard and Zampa will receive an aggregate of \$41,225 in settlement, and the outstanding options previously held by each under the TCI Director Plan have been cancelled.

Options covering an aggregate of 40,000 shares remain outstanding at exercise prices ranging from \$8.875 per share to \$16.05 per share, by Ted Stokely (15,000 shares), Martin L. White (15,000 shares) and the Estate of Murray Shaw (10,000 shares).

INDEBTEDNESS OF MANAGEMENT

As of the record date, no director or executive officer of ARL, TCI or IOT has any indebtedness to ARL, TCI or IOT.

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CERTAIN INFORMATION REGARDING TCI COMMON STOCK AND IOT COMMON STOCK

PURCHASES OF TCI COMMON STOCK

The following sets forth for each quarter during 2000: (a) the amount of TCI Common Stock purchased by BCM, (b) the range of prices paid by BCM, and (c) the average purchase price paid by BCM.

QUARTER	NUMBER OF SHARES PURCHASED	RANGE OF PRICES PAID	AVERAGE PURCHASE PRICE
-----	-----	-----	-----
2000			
First	None		
Second	347,400	\$ 6.69 to \$13.38	\$ 9.62
Third	99,300	\$11.63 to \$14.25	\$ 12.51
Fourth	900	\$16.00 to \$16.63	\$ 16.32

On October 3, 2000, pursuant to a Stock Option Agreement dated October 3, 2000, Gotham Partners, LP and Gotham Partners III, LP (both New York limited partnerships) and Gotham Partners International, Ltd., a Canadian Island company (all collectively "Gotham") granted to ARL and IOT, jointly, an option to purchase 1,858,900 shares of TCI common stock (the "Option") at an exercise price of \$12 per share (a total price of \$22,306,800). Such Option became exercisable on January 1, 2001 through 5:00 p.m., central standard time, on April 4, 2001 (the "Option Period") and was only to be exercised as to the whole of such Option (not in part). As a fee for the Option, ARL and IOT paid to Gotham an initial option fee of \$5,576,700 (\$3 per share) at the time of execution of the Option and were obligated to pay Gotham on or before December 15, 2000, the remaining portion of the option fee of \$2,788,350 (\$1.50 per share), which was not paid but became an obligation payable at the time of exercise of such Option. On October 19, 2000, IOT assigned all of its right, title and interest in and to the Option to ARL. On April 4, 2001, ARL gave notice of exercise of the Option in accordance with the terms of the Option and paid to Gotham in cash the balance of the option fee of \$2,788,350; within three business days thereafter, Gotham delivered the 1,858,900 shares of TCI common stock to a brokerage account of EQK Holdings, Inc. ("EQK Holdings") and ARL paid the full exercise price of \$22,306,800 into the brokerage account of EQK Holdings which was then paid to Gotham. These 1,858,900 shares of TCI common stock are currently owned by EQK Holdings, an indirect, wholly-owned subsidiary of ARL.

Neither IOT or TCI purchased any shares of TCI common stock during the past two years.

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PURCHASES OF IOT COMMON STOCK

The following sets forth for each quarter during 2000: (a) the amount of IOT common stock purchased by BCM, (b) the range of prices paid by BCM, and

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(c) the average purchase price paid by BCM.

QUARTER -----	NUMBER OF SHARES PURCHASED -----	RANGE OF PRICES PAID -----	AVERAGE PURCHASE PRICE -----
First	None		
Second	6,700	\$6.63 to \$6.50	\$ 6.57
Third	None		
Fourth	None		

None of ARL, IOT or TCI purchased any shares of IOT common stock during the past two years, and BCM has not purchased any shares of IOT common stock since the end of the second quarter of 2000.

ARRANGEMENTS RELATING TO TCI COMMON STOCK AND IOT COMMON STOCK

Pursuant to the Option discussed above, Gotham agreed to a "standstill" for a period of two years from the date of the Option and agreed not to purchase directly or indirectly any security issued by ARL, TCI or IOT, provided, however, the standstill was to terminate if the additional option fee was not made or paid on or before December 15, 2000, or if the Option was not exercised prior to April 4, 2001. Such Option was exercised prior to April 4, 2001, and the additional option fee was paid. Gotham had also executed a proxy covering the shares of TCI common stock that was subject to the Option (a total of 1,858,900 shares) in favor of ARL to attend to the Annual Meeting of Stockholders of TCI on October 10, 2000, to represent, vote, execute consents and otherwise act for Gotham only in approving the four proposals set forth in TCI's Proxy Statement for such Annual Meeting dated December 11, 2000.

BCM has pledged 920,507 shares of TCI common stock to Sunset Management, LLC pursuant to a loan agreement with such lender. BCM has also pledged 36,689 shares of TCI common stock to Dynamic Finance Corporation as collateral for a guaranty of indebtedness of an affiliate of BCM under a loan agreement with such lender. The remaining 209,751 shares of TCI common stock directly owned by BCM may be deemed to be "collateral" for borrowings pursuant to margin or other account arrangements with bankers and brokerage firms relating to accounts of BCM. Such arrangements are standard arrangements involving margin securities of up to a specified percentage of the market value of the shares and bear interest at varying rates and contain only standard default and similar provisions, the operation of any of which should not give any other person immediate voting power or investment power over such securities. Such arrangements exist with the shares of TCI common stock and other securities held in such accounts, and it is impracticable at any given time to determine the amounts, if any, with respect to the shares of TCI common stock and interest costs under such arrangements vary with applicable costs and account balances.

EQK Holdings has pledged 2,601,798 shares of TCI common stock to Sunset Management, LLC pursuant to a loan agreement with such lender. Holdings has also pledged 843,111 shares of TCI common stock to Dynamic

Finance Corporation as collateral for indebtedness under a loan agreement with

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such lender. EQK Holdings has also pledged 249,191 shares of TCI common stock to Preferred Bank as collateral for a guaranty of indebtedness of ART under a loan agreement with such lender. The remaining 300,000 shares of TCI common stock owned directly by EQK Holdings may be deemed to be "collateral" for borrowings pursuant to margin or other account arrangements with bankers and brokerage firms relating to accounts of Holdings. Such arrangements are standard arrangements involving margin securities of up to a specified percentage of market value of the shares and bear interest at varying rates and contain only standard default and similar provisions, the operation of any of which should not give any other person immediate voting power or investment power over such securities. Such arrangements exist with the shares of TCI common stock and other securities held in such accounts, and it is impracticable at any given time to determine the amounts, if any, with respect to the shares of TCI common stock and interest costs under such arrangements may vary with applicable costs and account balances.

EQK Holdings has pledged 250,000 shares of IOT common stock to Beal Bank as additional collateral. An additional 153,400 shares of IOT common stock owned by EQK Holdings and 106,802 shares of IOT common stock owned by BCM may be deemed to be "collateral" for borrowings pursuant to margin or other account arrangements with bankers and brokerage firms relating to accounts of EQK Holdings and BCM, respectively. Such arrangements are standard arrangements involving margin securities of up to a specified percentage of the market value of the shares and bear interest at varying rates and contain only standard default and similar provisions, the operation of any of which should not give any person immediate voting power or investment power over such securities. Such arrangements exist with the shares of IOT common stock and other securities held in such accounts and it is impracticable at any time to determine the amounts, if any, with respect to these shares of IOT common stock and interest costs under such arrangements vary with applicable costs and account balances.

All 345,728 shares of IOT common stock owned by TCI are located at a brokerage firm in a cash account (not margin account), and do not serve as "collateral" for any borrowings pursuant to any margin account arrangement or otherwise.

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UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL INFORMATION

The unaudited pro forma combined financial statements have been prepared assuming that the non-affiliated IOT and TCI stockholders will elect to receive cash, rather than preferred stock, in exchange for their shares. As reflected in the unaudited pro forma combined financial statements, should all such stockholders elect to receive cash, ARL does not currently have the capability to effect the transaction due to insufficient proceeds. ARL is currently exploring ways in which it can raise the necessary funds, including but not limited to, selling selected properties and arranging for financing. ARL does not currently have a commitment to sell any properties or to obtain any financing. Accordingly, no assurances can be given that ARL will be able to complete the proposed transactions with either IOT or TCI.

The accompanying unaudited pro forma consolidated financial statements of ARL as of September 30, 2001 give effect to the payment of the maximum amount of cash and the issuance of shares of ARL preferred stock only to the affiliates in exchange for the TCI common stock and the IOT common stock as described in this joint proxy statement and prospectus.

The unaudited pro forma combined financial information is presented

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under three separate scenarios: (i) the acquisition by ARL of TCI and IOT; (ii) the acquisition by ARL of TCI; and (iii) the acquisition by ARL of IOT. The acquisitions of TCI and IOT are not dependent upon each other. Under each of the scenarios, the Unaudited Pro Forma Combined Financial Information is prepared using the purchase method of accounting, with ARL treated as the acquirer and as if the transactions had been completed as of January 1, 2000 for statement of operations purposes and on September 30, 2001, for balance sheet purposes.

Under the purchase method of accounting, the aggregate purchase price is allocated to assets acquired and liabilities assumed based on their estimated fair values.

The historical financial data for ARL, TCI and IOT for the year ended December 31, 2000 has been derived from the audited financial statements and notes included in each of those entity's annual reports on Form 10-K for the year ended December 31, 2000 and unaudited quarterly reports on Form 10-Q for the nine months ended September 30, 2001.

The pro forma adjustments described in the accompanying notes are based upon available information and assumptions that management believes are reasonable. In the opinion of management, all adjustments necessary to present the pro forma information have been made. The unaudited pro forma consolidated financial statements are provided for informational purposes only and do not necessarily indicate the financial results that would have occurred had the merger actually occurred on the dates specified, nor do they indicate ARL's future results. The unaudited pro forma consolidated financial information should be read together with the consolidated financial statements and notes of ARL, TCI and IOT contained in their annual reports on Form 10-K for the year ended December 31, 2000 and their quarterly reports on Form 10-Q for the nine months ended September 30, 2001.

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UNAUDITED PRO FORMA COMBINED BALANCE SHEETS
 ARL ACQUISITION OF TCI AND IOT
 September 30, 2001
 (dollars in thousands)

	Historical			Proforma Adjustments	
	ARL	TCI	IOT	TCI	IOT
Assets					
Real estate held for investment, net of accumulated depreciation	\$ 376,113	\$ 604,571	\$ 85,781	\$ (63,010) {A}	\$ (15,260) {B}
	--	--	--	879 {C}	12
	376,113	604,571	85,781	(62,131)	(15,140)
Real estate held for sale	228,476	504	--	--	--
Notes and interest receivable	31,799	14,339	505	--	--
Less-allowance for estimated losses	(2,577)	(537)	--	--	--

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	29,222	13,802	505	--	--
Pizza parlor equipment, net of accumulated depreciation	7,384	--	--	--	--
Leasehold interest - oil and gas properties, net of accumulated depreciation	4,718	--	--	--	--
Oilfield equipment, net of accumulated depreciation	344	--	--	--	--
Marketable equity securities, at market value	108	--	--	--	--
Cash and cash equivalents	5,014	35,320	3,914	(49,929) {A}	(10,95
Investment in equity investees	78,046	23,520	121	(82,617) {D}	(6,87
Intangibles, net of accumulated amortization	15,883	--	--	--	--
Other assets	35,070	31,072	2,553	--	--
	-----	-----	-----	-----	-----
	\$ 780,378	\$ 708,789	\$ 92,874	\$ (194,677)	\$ (32,96
	=====	=====	=====	=====	=====

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UNAUDITED PRO FORMA COMBINED BALANCE SHEETS
 ARL ACQUISITION OF TCI AND IOT
 September 30, 2001
 (dollars in thousands)

	Historical			Proforma Ad
	ARL	TCI	IOT	TCI
	-----	-----	-----	-----
Liabilities and Equity				
Liabilities				
Notes and interest payable	\$ 582,139	\$ 460,275	\$ 54,329	\$ --
Margin borrowings	28,703	--	--	--
Other liabilities	44,513	25,978	3,059	879{C}
	-----	-----	-----	-----
	655,355	486,253	57,388	879
Commitments and contingencies				
Minority Interest	37,634	4,225	--	--
Series B Redeemable Preferred Stock; \$.01 par value; authorized, 300,000 shares; issued and outstanding				
300,000 shares (liquidation preference \$1,500)	--	1,350	--	--

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Embedded derivative	--	150	--	--
Series F Redeemable Preferred Stock; \$2.00 par value; authorized, 4,961 shares; issued and outstanding 3,968.75 shares (liquidation preference \$3,969)	3,969	--	--	--
Stockholders' Equity				
ARL				
Preferred Stock, \$2.00 par value, authorized 50,000,000 shares, issued and outstanding				
Series A, 2,724,910 shares, (liquidation preference \$27,249)	4,850	--	--	--
Series E, 50,000 shares, (liquidation preference \$500)	100	--	--	--
Series G, 1,168,774 shares, (liquidation preference \$23,375)	--	--	--	2,338{E}
Series H, 106,802 shares, (liquidation preference \$2,296)				
Common Stock, \$.01 par value; authorized 100,000,000 shares, issued 11,830,127 shares	118	--	--	(7) {D}
Paid-in capital	112,195	--	--	21,924 {E}
Accumulated distributions in excess of accumulated earnings	(33,827)	--	--	--

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UNAUDITED PRO FORMA COMBINED BALANCE SHEETS
ARL ACQUISITION OF TCI AND IOT
September 30, 2001
(dollars in thousands)

	Historical			Proforma
	ARL	TCI	IOT	TCI
Treasury Stock at par, 1,637,000 shares	(16)	--	--	--
TCI referred Stock				
Series A; \$.01 par value; authorized, 6,000 shares; issued and outstanding 5,829 shares (liquidation preference \$583)	--	--	--	--
Common Stock, \$.01 par value; authorized, 10,000,000 shares; issued and outstanding 8,042,629 shares	--	80	--	(80)
Paid-in capital	--	268,761	--	(268,761)
Accumulated distributions in excess of accumulated earnings	--	(48,971)	--	48,971
Unrealized Gain	--	(3,059)	--	3,059

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IOT

Common Stock, \$.01 par value; authorized, 10,000,000 shares; issued and outstanding 1,438,945 shares	--	--	14	--
Paid-in capital	--	--	63,459	--
Accumulated distributions in excess of accumulated earnings	--	--	(27,987)	--
	-----	-----	-----	-----
	83,420	216,811	35,486	(192,556)
	\$ 780,378	\$ 708,789	\$ 92,874	\$ (191,677)
	=====	=====	=====	=====

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UNAUDITED PRO FORMA COMBINED BALANCE SHEETS
ARL ACQUISITION OF TCI AND IOT
September 30, 2001
(dollars in thousands)

Note A. To record allocation of purchase price to TCI's assets and liabilities as follows:

The total purchase price of TCI is calculated as follows:

Previous acquisitions by ARL for TCI	\$ 68,837
Cash required to purchase 2,853,080 non-affiliated common shares of TCI at \$17.50 per share	49,929
Issuance of 1,168,774 Series G Preferred Stock, liquidation value \$23,375	24,255

Total Consideration	\$143,021
	=====

The purchase price allocation, which is preliminary and therefore subject to change based on a final analysis, is as follows:

Real Estate held for investment	\$ 544,561
Real Estate held for sale	504
Notes and interest receivable	13,802
Cash and cash equivalents	35,320
Investment in equity investees	9,740
Other assets	31,072
Notes and interest payable	(460,275)

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Other liabilities	(25,978)
Minority Interest	(4,225)
Series B Preferred Stock	(1,500)

	\$ 143,021
	=====

Note B. To record allocation of purchase price to IOT's assets and liabilities as follows:

The total purchase price of IOT is calculated as follows:

Previous acquisitions by ARL for IOT	\$ 6,872
Cash required to purchase 576,480 non-affiliated common shares of IOT at \$19.00 per share	10,953
Issuance of 106,802 Series H Preferred Stock, liquidation value \$2,296	2,397

Total Consideration	\$20,222
	=====

The purchase price allocation, which is preliminary and therefore subject to change based on a final analysis, is as follows:

Real Estate held for investment	\$ 70,517
Notes and interest receivable	505
Cash and cash equivalents	3,914
Investment in equity investees	121
Other assets	2,553
Notes and interest payable	(54,329)
Other liabilities	(3,059)

	\$ 20,222
	=====

Note C. To record estimate of additional closing costs.

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Note D. To record the elimination TCI's investment in ARL and retire 746,972 shares of ARL and to record the elimination of ARL's investment in TCI.

Note E. To record the issuance of the Series G preferred stock to affiliated parties to purchase TCI.

Note F. To record the issuance of the Series H preferred stock to affiliated parties to purchase IOT.

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UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
 ARL ACQUISITION OF TCI AND IOT
 Nine months ended September 30, 2001
 (dollars in thousands, except per share)

	Historical			Proforma Adj
	ARL	TCI	IOT	TCI
Property Revenue				
Rents	\$ 98,748	\$ 103,464	\$ 9,759	\$ --
Property operations	71,246	60,084	5,292	--
Operating income	27,502	43,380	4,467	--
Land Operations				
Sales	41,806	--	--	--
Cost of Sales	33,546	--	--	--
Gain on land sales	8,260	--	--	--
Pizza Parlor operations				
Sales	25,282	--	--	--
Cost of Sales	20,715	--	--	--
Gross margin	4,567	--	--	--
Oil and gas operations				
Sales	97	--	--	--
Operating expenses	186	--	--	--
Gross margin	(89)	--	--	--
Other Income				
Interest and other	2,055	2,275	142	--
Equity income (loss) in equity investees	9,157	(4,529)	(27)	(5,496) {A}
Gain on sale of real estate	54,600	47,529	--	(3,864) {C}
	65,812	45,275	115	(9,360)
Other expense				
Interest	56,242	31,380	4,569	--
Depreciation	13,169	14,786	1,792	(1,096) {D}
Advisory fees to affiliate	4,971	4,208	570	(1,451) {E}
Net income fee to affiliate	638	2,075	--	941 {F}
Incentive fees to affiliate	7,477	2,903	--	757 {G}
General and administrative	9,083	7,531	849	--
Minority Interest	2,483	9	--	--

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 94,063 62,892 7,780 (849)

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UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
 ARL ACQUISITION OF TCI AND IOT
 Nine months ended September 30, 2001
 (dollars in thousands, except per share)

	Historical			Proforma A
	ARL	TCI	IOT	TCI
Net income (loss)	11,989	25,763	(3,198)	(8,511)
Preferred dividend requirement	(1,868)	(22)	--	(1,753)
Net income (loss)	\$ 10,121	\$ 25,741	\$ (3,198)	\$ (10,264)
Earnings per share				
Net income applicable to Common shares				
Basic	\$ 1.00			
Diluted	\$ 1.00			
Average Common shares used in computing earnings per share				
Basic	10,193,217			
Diluted	10,193,217			

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UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
 ARL ACQUISITION OF TCI AND IOT
 September 30, 2001

Note A. To record the elimination of ARL's equity gains from TCI and TCI's equity losses from IOT and ARL.

Note B. To record the elimination of ARL's equity losses from IOT

Note C. To record the elimination of TCI's share of gains on sales of real estate from ARL.

Note D. To record the depreciation adjustment for new real estate basis.

Note E. To record the advisor fee adjustment for new gross asset basis.

Note F. To record the net income fee adjustment for new net income.

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Note G. To record the incentive fee adjustment for TCI on ARL basis.

Note H. To record preferred stock dividends of \$1.50 per share to affiliated party on Series G preferred stock.

Note I. To record preferred stock dividends of \$1.61 per share to affiliated party on Series H preferred stock.

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UNAUDITED PRO FORMA COMBINED BALANCE SHEET
 ARL ACQUISITION OF TCI
 September 30, 2001
 (dollars in thousands)

	Historical		Proforma Adjustments
	ARL	TCI	
Assets			
Real estate held for investment, net of accumulated depreciation	\$ 376,113 -- ----- 376,113	\$ 604,571 -- ----- 604,571	\$ (66,657) {A 879 {B ----- (65,778)
Real estate held for sale	228,476	504	--
Notes and interest receivable	31,799	14,339	--
Less-allowance for estimated losses	(2,577)	(537)	--
	----- 29,222	----- 13,802	----- --
Pizza parlor equipment, net of accumulated depreciation	7,384	--	--
Leasehold interest - oil and gas properties, net of accumulated depreciation	4,718	--	--
Oilfield equipment, net of accumulated depreciation	344	--	--
Marketable equity securities, at market value	108	--	--
Cash and cash equivalents	5,014	35,320	(49,929) {C
Investment in equity investees	78,046	23,520	(10,133) {D (68,837) {E
Intangibles, net of accumulated amortization	15,883	--	--
Other assets	35,070	31,072	--
	----- \$ 780,378 =====	----- \$ 708,789 =====	----- \$ (194,677) =====

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UNAUDITED PRO FORMA COMBINED BALANCE SHEET
 ARL ACQUISITION OF TCI
 September 30, 2001
 (dollars in thousands)

	Historical		Proforma Adjustments	P C
	ARL	TCI		
Liabilities and Equity				
Liabilities				
Notes and interest payable	\$ 582,139	\$ 460,275	\$ --	\$
Margin borrowings	28,703	--	--	
Other liabilities	44,513	25,978	879 {B}	
	-----	-----	-----	-----
	655,355	486,253	879	
Commitments and contingencies				
Minority Interest	37,634	4,225	--	
Series B Redeemable Preferred Stock; \$.01 par value; authorized, 300,000 shares; issued and outstanding, 300,000 shares (liquidation preference \$1,500)	--	1,350	--	
Embedded Derivative	--	150	--	
Series F Redeemable Preferred Stock; \$2.00 par value; authorized, 4,961 shares; issued and outstanding 3,968.75 shares (liquidation preference \$3,969)	3,969	--	--	
Stockholders' Equity				
ARL				
Preferred Stock, \$2.00 par value, authorized 50,000,000 shares, issued and outstanding				
Series A, 2,724,910 shares, (liquidation preference \$27,249)	4,850	--	--	
Series E, 50,000 shares, (liquidation preference \$500)	100	--	--	
Series G, 1,168,774 shares, (liquidation preference \$23,375)	--	--	2,338 {F}	
Common Stock, \$.01 par value; authorized 100,000,000 shares, issued 11,830,127 shares	118	--	(7) {D}	
Paid-in capital	112,195	--	21,924 {F}	
Accumulated distributions in excess of accumulated earnings	(33,827)	--	--	
Treasury Stock at par, 1,637,000 shares	(16)	--	--	
TCI				
Preferred Stock				
Series A; \$.01 par value; authorized, 6,000 shares; issued and outstanding 5,829 shares (liquidation preference \$583)	--	--	--	

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Common Stock, \$.01 par value; authorized,
 10,000,000 shares; issued and outstanding
 8,042,629 shares -- 80 (80) {A}

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UNAUDITED PRO FORMA COMBINED BALANCE SHEET
 ARL ACQUISITION OF TCI
 September 30, 2001
 (dollars in thousands)

	Historical		Proforma Adjustments	P C
	ARL	TCI		
Paid-in capital	--	268,761	(268,761) {A}	
Accumulated distributions in excess of accumulated earnings	--	(48,971)	48,971 {A}	
Unrealized Gain	--	(3,059)	3,059 {A}	
	-----	-----	-----	-----
	83,420	216,811	(192,556)	
	\$ 780,378	\$ 708,789	\$ (191,677)	\$
	=====	=====	=====	=====

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UNAUDITED PRO FORMA COMBINED BALANCE SHEET
 ARL ACQUISITION OF TCI
 September 30, 2001
 (dollars in thousands)

Note A. To record allocation of purchase price to TCI's assets and liabilities as follows:

The total purchase price of TCI is calculated as follows:

Previous acquisitions by ARL for TCI	\$ 68,837
Cash required to purchase 2,853,080 non-affiliated common shares of TCI at \$17.50 per share	49,929
Issuance of 1,168,774 Series G Preferred Stock, liquidation value \$23,375	24,255
Total Consideration	\$ 143,021
	=====

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The purchase price allocation, which is preliminary and therefore subject to change based on a final analysis, is as follows:

Real Estate held for investment	\$ 540,914
Real Estate held for sale	504
Notes and interest receivable	13,802
Cash and cash equivalents	35,320
Investment in equity investees	13,387
Other assets	31,072
Notes and interest payable	(460,275)
Other liabilities	(25,978)
Minority Interest	(4,225)
Series B Preferred Stock	(1,500)

	\$ 143,021
	=====

Note B. To record estimate of additional closing costs.

Note C. To record cash required to purchase TCI

Note D. To record the elimination TCI's investment in ARL and retire 746,972 shares of ARL.

Note E. To record the elimination of ARL's investment in TCI.

Note F. To record the issuance of the Series G preferred stock to affiliated parties to purchase TCI.

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UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
 ARL ACQUISITION OF TCI
 September 30, 2001
 (dollars in thousands, except per share)

	Historical		Proforma Adjustments	Proforma Combined
	ARL	TCI		
Property Revenue				
Rents	\$ 98,748	\$ 103,464	\$ --	\$ 202,212
Property operations	71,246	60,084	--	131,330
	-----	-----	-----	-----
Operating income	27,502	43,380	--	70,882

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Land Operations				
Sales	41,806	--	--	41,806
Cost of Sales	33,546	--	--	33,546
	-----	-----	-----	-----
Gain on land sales	8,260	--	--	8,260
Pizza Parlor operations				
Sales	25,282	--	--	25,282
Cost of Sales	20,715	--	--	20,715
	-----	-----	-----	-----
Gross margin	4,567	--	--	4,567
Oil and gas operations				
Sales	97	--	--	97
Operating expenses	186	--	--	186
	-----	-----	-----	-----
Gross margin	(89)	--	--	(89)
Other Income				
Interest and other	2,055	2,275	--	4,330
Equity (loss) in equity investees	9,157	(4,529)	(10,185) {A}	(1,552)
			4,005 {B}	
Gain on sale of real estate	54,600	47,529	(3,864) {C}	98,265
	-----	-----	-----	-----
	65,812	45,275	(10,044)	101,043
Other expense				
Interest	56,242	31,380	--	87,622
Depreciation	13,169	14,786	(1,096) {D}	26,859
Advisory fee to affiliate	4,971	4,208	(1,424) {E}	7,755
Net income fee to affiliate	638	2,075	870 {F}	3,583
Incentive fees to affiliate	7,477	2,903	757 {G}	11,137
General and administrative	9,083	7,531	--	16,614
Minority Interest	2,483	9	--	2,492
	-----	-----	-----	-----
	94,063	62,892	(893)	156,062
Net income (loss)	11,989	25,763	(9,151)	28,601
Preferred dividend requirement	(1,868)	(22)	(1,753) {H}	(3,643)

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UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
 ARL ACQUISITION OF TCI
 September 30, 2001
 (dollars in thousands, except per share)

	Historical		Pr
	ARL	TCI	Adj
	-----	-----	-----
Net income (loss)	\$ 10,121	\$ 25,741	\$

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Earnings per share		
Net income applicable to Common shares		
Basic		\$
Diluted		\$
Average Common shares used in computing earnings per share		
Basic	10,193,217	
Diluted	10,193,217	

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UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
 ARL ACQUISITION OF TCI
 September 30, 2001

- Note A. To record the elimination of ARL's equity gains from TCI.
- Note B. To record the elimination of TCI's equity losses from ARL.
- Note C. To record the elimination of TCI's share of gains on sales of real estate from ARL.
- Note D. To record the depreciation adjustment for new real estate basis.
- Note E. To record the advisor fee adjustment for new gross asset basis.
- Note F. To record the net income fee adjustment for new net income.
- Note G. To record the incentive fee adjustment for TCI on ARL basis.
- Note H. To record preferred stock dividends of \$1.50 per share to affiliated party on Series G preferred stock.

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UNAUDITED PRO FORMA COMBINED BALANCE SHEET
 ARL ACQUISITION OF IOT
 September 30, 2001
 (dollars in thousands)

	Historical		Proforma Adjustments
	ARL	IOT	
Assets			
Real estate held for investment, net of accumulated depreciation	\$ 376,113	\$ 85,781	\$ (15,264) (A) 121 (B)
	376,113	85,781	(15,143)
Real estate held for sale	228,476	--	--

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Notes and interest receivable	31,799	505	--
Less-allowance for estimated losses	(2,577)	--	--
	-----	-----	-----
	29,222	505	--
Pizza parlor equipment, net of accumulated depreciation	7,384	--	--
Leasehold interest - oil and gas properties, net of accumulated depreciation	4,718	--	--
	--	--	--
Oilfield equipment, net of accumulated depreciation	344	--	--
Marketable equity securities, at market value	108	--	--
Cash and cash equivalents	5,014	3,914	(10,953) (C)
Investment in equity investees	78,046	121	(6,872) (D)
Intangibles, net of accumulated amortization	15,883	--	--
Other assets	35,070	2,553	--
	-----	-----	-----
	\$ 780,378	\$ 92,874	\$ (32,968)
	=====	=====	=====

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UNAUDITED PRO FORMA COMBINED BALANCE SHEET
 ARL ACQUISITION OF IOT
 September 30, 2001
 (dollars in thousands)

	Historical		
	ARL	IOT	A
	-----	-----	-----
Liabilities and Equity			
Liabilities			
Notes and interest payable	\$ 582,139	\$ 54,329	\$
Margin borrowings	28,703	--	
Other liabilities	44,513	3,059	
	-----	-----	
	655,355	57,388	
Commitments and contingencies			
Minority Interest	37,634	--	
Series F Redeemable Preferred Stock; \$2.00 par value; authorized, 4,961 shares; issued and outstanding 3,968.75 shares (liquidation preference \$3,969)	3,969	--	
Stockholders' Equity			
ARL			
Preferred Stock, \$2.00 par value, authorized 50,000,000 shares, issued and outstanding Series A, 2,724,910 shares, (liquidation preference \$27,249)	4,850	--	
Series E, 50,000 shares, (liquidation			

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preference \$500)	100	--	
Series H, 106,802 shares, (liquidation preference \$2,296)	--	--	
Common Stock, \$.01 par value; authorized 100,000,000 shares, issued 11,830,127 shares	118	--	
Paid-in capital	112,195	--	
Accumulated distributions in excess of accumulated earnings	(33,827)	--	
Treasury Stock at par, 1,637,000 shares	(16)	--	
IOT			
Common Stock, \$.01 par value; authorized, 10,000,000 shares; issued and outstanding 1,438,945 shares	--	14	
Paid-in capital		63,459	
Accumulated distributions in excess of accumulated earnings	--	(27,987)	
	-----	-----	
	83,420	35,486	
	\$ 780,378	\$ 92,874	\$
	=====	=====	=====

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UNAUDITED PRO FORMA COMBINED BALANCE SHEET
 ARL ACQUISITION OF IOT
 September 30, 2001
 (dollars in thousands)

Note A. To record allocation of purchase price to IOT's assets and liabilities as follows:

The total purchase price of IOT is calculated as follows:

Previous acquisitions by ARL for IOT	\$ 6,872
Cash required to purchase 576,480 non-affiliated common shares of IOT at \$19.00 per share	10,953
Issuance of 106,802 Series H Preferred Stock, liquidation value \$2,296.	2,397
Total Consideration	\$ 20,222
	=====

The purchase price allocation, which is preliminary and therefore subject to change based on a final analysis, is as follows:

Real Estate held for investment	\$ 70,517
Notes and interest receivable	505
Cash and cash equivalents	3,914
Investment in equity investees	121
Other assets	2,553
Notes and interest payable	(54,329)
Other liabilities	(3,059)

	\$ 20,222
	=====

Note C. To record cash required to purchase IOT.

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Note D. To record the elimination ARL's investment in IOT.

Note E. To record the issuance of the Series H preferred stock to affiliated parties to purchase IOT.

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UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
 ARL ACQUISITION OF IOT
 September 30, 2001
 (dollars in thousands, except per share)

	Historical		Proforma Adjustments	Prof Comb
	ARL	IOT		
Property Revenue				
Rents	\$ 98,748	\$ 9,759	\$ --	\$ 10
Property operations	71,246	5,292	--	7
Operating income	27,502	4,467	--	3
Land Operations				
Sales	41,806	--	--	4
Cost of Sales	33,546	--	--	3
Gain on land sales	8,260	--	--	
Pizza Parlor operations				
Sales	25,282	--	--	2
Cost of Sales	20,715	--	--	2
Gross margin	4,567	--	--	
Oil and gas operations				
Sales	97	--	--	
Operating expenses	186	--	--	
Gross margin	(89)	--	--	
Other Income				
Interest and other	2,055	142	--	
Equity (loss) in equity investees	9,157	(27)	867 {A}	
Gain on sale of real estate	54,600	--	--	5
	65,812	115	867	6
Other expense				
Interest	56,242	4,569	--	6
Depreciation	13,169	1,792	(382) {B}	1
Advisory fee to affiliate	4,971	570	(226) {C}	
Net income fee to affiliate	638	--	(13) {D}	
Incentive fees to affiliate	7,477	--	--	
General and administrative	9,083	849	--	
Minority Interest	2,483	--	--	

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	94,063	7,780	(621)	10
Net income (loss)	11,989	(3,198)	1,488	1
Preferred dividend requirement	(1,868)	--	(172) {E}	(
	-----	-----	-----	-----
Net income (loss)	\$ 10,121	\$ (3,198)	\$ 1,316	\$

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UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
 ARL ACQUISITION OF IOT
 September 30, 2001
 (dollars in thousands, except per share)

	Historical		Proforma Adjustments	Pr Co
	ARL	IOT		
Earnings per share				
Net income applicable to Common shares				
Basic	\$ 1.00			\$
Diluted	\$ 1.00			
Average Common shares used in computing earnings per share				
Basic	10,193,217			10,
Diluted	10,193,217			11,

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UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
 ARL ACQUISITION OF IOT
 September 30, 2001

Note A. To record the elimination of ARL's equity losses from IOT.

Note B. To record the depreciation adjustment for new real estate basis.

Note C. To record the advisor fee adjustment for new gross asset basis.

Note D. To record the net income fee adjustment for new net income.

Note E. To record preferred stock dividends of \$1.61 per share to affiliated party on Series H preferred stock.

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UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
 ARL ACQUISITION OF TCI AND IOT

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December 31, 2000
(dollars in thousands, except per share)

	Historical			Proforma Adj
	ARL	TCI	IOT	TCI
Property Revenue				
Rents	\$ 138,160	\$ 139,357	\$ 13,731	\$ --
Property operations	94,081	78,061	6,969	--
	-----	-----	-----	-----
Operating income	44,079	61,296	6,762	--
Land Operations				
Sales	119,384	--	--	--
Cost of Sales	90,383	--	--	--
	-----	-----	-----	-----
Gain on land sales	29,001	--	--	--
Pizza Parlor operations				
Sales	32,551	--	--	--
Cost of Sales	26,767	--	--	--
	-----	-----	-----	-----
Gross margin	5,784	--	--	--
Other Income				
Interest and other	2,039	2,370	319	(358) {A}
Equity (loss) in				
equity investees	5,246	(556)	(61)	(6,555) {B}
Gain on sale of real				
estate	67,727	50,550	20,878	(4,781) {D}
	-----	-----	-----	-----
	75,012	52,364	21,136	(11,694)
Other expense				
Interest	76,702	47,997	5,079	(358) {A}
Depreciation	16,879	19,702	2,450	(1,241) {F}
Advisory fee to				
affiliate	5,049	5,258	664	(1,175) {G}
Net income fee to				
affiliate	--	2,415	1,362	(519) {H}
Incentive fee to				
affiliate	1,646	--	--	2,556 {I}
General and				
administrative	17,973	8,506	1,549	--
Provision for loss	2,248	--	--	--
Minority Interest	30,700	--	--	--
	-----	-----	-----	-----
	151,197	83,878	11,104	(737)
Preferred dividend				
requirement	(2,327)	(22)	--	(2,338) {J}
	-----	-----	-----	-----
Net income (loss)	\$ 352	\$ 29,760	\$ 16,794	\$ (13,295)

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UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
 ARL ACQUISITION OF TCI AND IOT
 December 31, 2000
 (dollars in thousands, except per share)

	Historical			Proforma Adj
	ARL	TCI	IOT	TCI
Earnings per share				
Net income applicable to Common shares				
Basic	\$0.03			
Diluted	\$0.03			
Average Common shares used in computing earnings per share				
Basic				10,399,890
Diluted				10,399,890

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UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
 ARL ACQUISITION OF TCI AND IOT
 December 31, 2000

Note A. To record the elimination of TCI's interest income and ARL's interest expense from TCI's funding a loan to ARL in 2000.

Note B. To record the elimination of ARL's equity gains from TCI and TCI's equity losses from IOT.

Note C. To record the elimination of ARL's equity gains from IOT.

Note D. To record increased brokerage commissions to affiliate on sales of real estate on ARL basis and eliminate TCI's share of gains on sale of real estate from IOT.

Note E. To record increased brokerage commissions to affiliate on sales of real estate on ARL basis.

Note F. To record the depreciation adjustment for new real estate basis.

Note G. To record the advisor fee adjustment for new gross asset basis.

Note H. To record the net income fee adjustment for new net income.

Note I. To record the incentive fee adjustment on ARL basis.

Note J. To record preferred stock dividends of \$2.00 per share to affiliated party on Series G preferred stock.

Note K. To record preferred stock dividends of \$2.15 per share to affiliated

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party on Series H preferred stock.

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UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
 ARL ACQUISITION OF TCI
 December 31, 2000
 (dollars in thousands, except per share)

	Historical		Proforma Adjustments
	ARL	TCI	
Property Revenue			
Rents	\$ 138,160	\$ 139,357	\$ --
Property operations	94,081	78,061	--
Operating income	44,079	61,296	--
Land Operations			
Sales	119,384	--	--
Cost of Sales	90,383	--	--
Gain on land sales	29,001	--	--
Pizza Parlor operations			
Sales	32,551	--	--
Cost of Sales	26,767	--	--
Gross margin	5,784	--	--
Other Income			
Interest and other	2,039	2,370	(358) {A}
Equity (loss) in equity investees	5,246	(556)	(7,243) {B}
Gain on sale of real estate	67,727	50,550	(209) {C}
	75,012	52,364	(7,810)
Other expense			
Interest	76,702	47,997	(358) {A}
Depreciation	16,879	19,702	(1,241) {D}
Advisory fee to affiliate	5,049	5,258	(1,142) {E}
Net income fee to affiliate	--	2,415	(134) {F}
Incentive fee to affiliate	1,646	--	2,556 {G}
General and administrative	17,973	8,506	--
Provision for loss	2,248	--	--
Minority Interest	30,700	--	--
	151,197	83,878	(319)
Net income (loss)	2,679	29,782	(7,491)
Preferred dividend requirement	(2,327)	(22)	(2,338) {H}
Net income (loss)	\$ 352	\$ 29,760	\$ (9,829)
Earnings per share			
Net income applicable to Common shares			
Basic	\$ 0.03		

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Diluted \$ 0.03

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UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
 ARL ACQUISITION OF TCI
 December 31, 2000
 (dollars in thousands, except per share)

	Historical		Proforma Adjustments
	ARL	TCI	
Average Common shares used in computing earnings per share			
Basic	10,399,890		
Diluted	10,399,890		

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UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
 ARL ACQUISITION OF TCI
 December 31, 2000

Note A. To record the elimination of TCI's interest income and ARL's interest expense from TCI's funding a loan to ARL in 2000.

Note B. To record the elimination of ARL's equity gains from TCI.

Note C. To record increased brokerage commissions to affiliate on sales of real estate on ARL basis and eliminate TCI's share of gains on sale of real estate from IOT.

Note D. To record the depreciation adjustment for new real estate basis.

Note E. To record the advisor fee adjustment for new gross asset basis.

Note F. To record the net income fee adjustment for new net income.

Note G. To record the incentive fee adjustment for TCI on ARL basis.

Note H. To record preferred stock dividends of \$2.00 per share to affiliated party on Series G preferred stock.

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UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS
 ARL ACQUISITION OF IOT
 December 31, 2000
 (dollars in thousands, except per share)

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	Historical		Proforma Adjustments
	ARL	IOT	
Property Revenue			
Rents	\$ 138,160	\$ 13,731	\$ --
Property operations	94,081	6,969	--
Operating income	44,079	6,762	--
Land Operations			
Sales	119,384	--	--
Cost of Sales	90,383	--	--
Gain on land sales	29,001	--	--
Pizza Parlor operations			
Sales	32,551	--	--
Cost of Sales	26,767	--	--
Gross margin	5,784	--	--
Other Income			
Interest and other	2,039	319	--
Equity (loss) in equity investees	5,246	(61)	(4,871)
Gain on sale of real estate	67,727	20,878	(475)
	75,012	21,136	(5,346)
Other expense			
Interest	76,702	5,079	--
Depreciation	16,879	2,450	(349)
Advisory fee to affiliate	5,049	664	(255)
Net income fee to affiliate	--	1,362	330
Incentive fee to affiliate	1,646	--	1,848
General and administrative	17,973	1,549	--
Provision for loss	2,248	--	--
Minority Interest	30,700	--	--
	151,197	11,104	1,574
Net income (loss)	2,679	16,794	(6,920)
Preferred dividend requirement	(2,327)	--	(230)
Net income (loss)	\$ 352	\$ 16,794	\$ (7,150)
Earnings per share			
Net income applicable to Common shares			
Basic	\$ 0.03		
Diluted	\$ 0.03		

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(dollars in thousands, except per share)

	Historical		Proforma Adjustments
	ARL	IOT	
Average Common shares used in computing earnings per share			
Basic	10,399,890		
Diluted	10,399,890		

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UNAUDITED PRO FORMA COMBINED STATEMENT OF OPERATIONS ARL ACQUISITION OF IOT December 31, 2000

- Note A. To record the elimination of ARL's equity gains from IOT.
- Note B. To record increased brokerage commissions to affiliate on sales of real estate on ARL basis.
- Note C. To record the depreciation adjustment for new real estate basis.
- Note D. To record the advisor fee adjustment for new gross asset basis.
- Note E. To record the net income fee adjustment for new net income.
- Note F. To record the incentive fee adjustment for IOT on ARL basis.
- Note G. To record preferred stock dividends of \$2.15 per share to affiliated party on Series H preferred stock.

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BUSINESS OF ARL

American Realty Investors, Inc. ("ARL"), a Nevada corporation, is the successor through merger to American Realty Trust, Inc. ("ART"), a Georgia corporation and NRLP, a Delaware partnership.

On November 3, 1999, ART and NRLP jointly announced the agreement of their respective boards to combine, in a tax-free exchange, under a new company, ARL. Prior to December 31, 1998, ART accounted for its investment in NRLP under the equity method. As of December 31, 1998, upon the election of a wholly-owned subsidiary of ART as general partner of NRLP, ART began consolidation of NRLP's accounts at that date and consolidation of its operations subsequent to that date.

The merger transaction was closed on August 2, 2000. NRLP unitholders, except for ART, received one share of ARL common stock for each unit of NRLP held. ART stockholders received .91 shares of ARL common stock for each share of ART common stock held. Each share of ART preferred stock was converted into one share of preferred stock of ARL, having substantially the same rights as ART's

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preferred stock. The ART shares of common stock ceased trading on the NYSE on August 2, 2000. ARL common stock commenced trading on the NYSE on August 3, 2000. For financial reporting purposes, the merger is treated as the purchase of NRLP by ART; accordingly, the historical information presented for ARL is that of ART.

BUSINESS PLAN AND INVESTMENT POLICY

ARL's primary business is investing in equity interests in real estate (including equity securities of real estate-related entities), leases, joint venture development projects and partnerships and, to a lesser extent, financing real estate and real estate activities through investments in mortgage loans, including first, wraparound and junior mortgage loans. Information regarding the real estate and mortgage notes receivable portfolios of ARL is set forth in "Properties of ARL" and in Schedules III and IV to the ARL Consolidated Financial Statements.

ARL, through its wholly-owned subsidiary, Pizza World Supreme, Inc. ("PWSI"), operates and franchises pizza parlors featuring pizza delivery, carry-out and dine-in under the trademarks "Me-N-Ed's" and "Slices" in California and Texas. The first Me-N-Ed's pizza parlor opened in 1962. At September 30, 2001, there were 58 Me-N-Ed's pizza parlors in operation, consisting of 47 owned and 11 franchised pizza parlors. Four of the owned pizza parlors were in Texas and the remainder were in California.

ARL's businesses are not seasonal. With regard to real estate investments, ARL is seeking both current income and capital appreciation. ARL's plan of operation is to continue, to the extent its liquidity permits, to make equity investments in income producing real estate such as hotels, apartments or commercial properties or equity securities of real estate-related entities. ARL also intends to continue to pursue higher risk, higher reward investments, such as improved and unimproved land where it can obtain financing of substantially all of a property's purchase price. ARL intends to seek selected dispositions of certain of its assets, in particular, selected income producing properties in stabilized markets and certain of its land holdings where the

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prices obtainable for such assets justify their disposition. ARL has determined that it will no longer actively seek to fund or purchase mortgage loans. However, it may, in selected instances, originate mortgage loans or it may provide purchase money financing in conjunction with a property sale. See "Properties of ARL" and Schedules III and IV to the ARL Consolidated Financial Statements.

ARL's board of directors has broad authority under ARL's governing documents to make all types of investments, and may devote available assets to particular investments or types of investments, without restriction on the amount or percentage of assets that may be allocated to a single investment or to any particular type of investment, and without limit on the percentage of securities of any one issuer that may be acquired. Investment objectives and policies may be changed at any time by the board without stockholder approval.

The specific composition of ARL's real estate portfolio will depend largely on the judgment of management as to changing investment opportunities and the level of risk associated with specific investments or types of investments. Management intends to attempt to maintain a real estate portfolio diversified by location and type of property.

In addition to its equity investments in real estate, ARL has also

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invested in private and open market purchases of the equity securities of IOT and TCI, both affiliates of ARL. See "Properties of ARL -- Investments in Real Estate Companies and Real Estate Partnerships."

COMPETITION

REAL ESTATE. The real estate business is highly competitive and ARL competes with numerous entities engaged in real estate activities (including certain entities described in "Certain Relationships and Related Transactions of ARL, TCI and IOT--Related Party Transactions"), some of which have greater financial resources than ARL. Management believes that success against such competition is dependent upon the geographic location of the property, the performance of property-level managers in areas such as marketing, collections and control of operating expenses, the amount of new construction in the area and the maintenance and appearance of the property. Additional competitive factors with respect to commercial properties are the ease of access to the property, the adequacy of related facilities, such as parking, and sensitivity to market conditions in setting rent levels. With respect to apartments, competition is also based upon the design and mix of the units and the ability to provide a community atmosphere for the tenants. With respect to hotels, competition is also based upon market served, i.e., transient, commercial or group users. Management believes that beyond general economic circumstances and trends, the rate at which properties are renovated or the rate new properties are developed in the vicinity of each of ARL's properties, in particular its improved and unimproved land, are also competitive factors.

To the extent that ARL seeks to sell any of its properties, the sales prices for the properties may be affected by competition from other real estate entities and financial institutions, also attempting to sell properties in areas where ARL's properties are located, as well as aggressive buyers attempting to dominate or penetrate a particular market.

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As described above and in "Certain Relationships and Related Transactions of ARL, TCI and IOT--Related Party Transactions," the officers of ARL also serve as officers of IOT and TCI, both of which are also advised by BCM, and both of which have business objectives similar to ARL's. ARL's officers and advisor owe fiduciary duties to both IOT and TCI as well as to ARL under applicable law. In determining whether a particular investment opportunity will be allocated to ARL, IOT or TCI, management and the advisor consider the respective investment objectives of each and the appropriateness of a particular investment in light of the existing real estate and mortgage notes receivable portfolios of each. To the extent that any particular investment opportunity is appropriate to more than one of the entities, the investment opportunity will be allocated to the entity which has had funds available for investment for the longest period of time or, if appropriate, the investment may be shared among all or some of the entities.

In addition, also as described in "Certain Relationships and Related Transactions of ARL, TCI and IOT." ARL also competes with entities which are affiliates of BCM having similar investment objectives in the purchasing, selling, leasing and financing real estate and real estate-related investments. In resolving any potential conflicts of interest which may arise, BCM has informed ARL that it intends to continue to exercise its best judgment as to what is fair and reasonable under the circumstances in accordance with applicable law.

ARL is subject to all the risks incident to ownership and financing of real estate and interests therein, many of which relate to the general

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illiquidity of real estate investments. These risks include, but are not limited to, changes in general or local economic conditions, changes in interest rates and availability of permanent mortgage financing which may render the purchase, sale or refinancing of a property difficult or unattractive and which may make debt service burdensome; changes in real estate and zoning laws, increases in real estate taxes, federal or local economic or rent controls, floods, earth quakes, hurricanes and other acts of God and other factors beyond the control of management or the advisor. The illiquidity of real estate investments may also impair the ability of management to respond promptly to changing circumstances. Management believes that such risks are partially mitigated by the diversification by geographic region and property type of ARL's real estate and mortgage notes receivable portfolios. However, to the extent that property sales, new property investments, in particular improved and unimproved land, or mortgage lending are concentrated in any particular region the advantages of geographic diversification are mitigated.

Virtually all of ARL's real estate, equity security holdings in IOT and TCI and its trading portfolio of equity securities are held subject to secured indebtedness. Such borrowings increase the risk of loss because they represent a prior claim on ARL's assets and require fixed payments regardless of profitability. In the event of default, the lender may foreclose on the assets securing such indebtedness, and ARL could lose its investment in the pledged assets.

PIZZA PARLORS. The pizza parlor business is highly competitive and is affected by changes in consumer tastes and eating habits, as well as national, regional and local economic conditions, and demographic trends. The performance of an individual pizza parlor can be affected by changes in traffic patterns, demographics, and the type, number and location of competing restaurants.

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The quick-service restaurant industry is extremely competitive with respect to price, service, location and food quality. PWSI and its franchisees compete with a variety of other restaurants in the quick-service restaurant industry, including those that offer dine-in, carry-out and delivery services. These competitors include national and regional chains, franchisees of other restaurant chains and local owner-operated restaurants. Some of these competitors have been in existence longer and have an established market presence in certain geographic regions, and some have substantially greater financial, marketing and other resources than PWSI and its franchisees. PWSI competes for qualified franchisees with many other restaurant concepts, including national and regional restaurant chains. PWSI's success is largely dependent upon the efforts of its management and other key personnel. The loss of the service of one or more members of management could have an adverse effect on PWSI's operations. Significant transitions in management involve important risks, including potential loss of key personnel, difficulties in implementing changes to operational strategies and maintaining relationships with franchisees.

At September 30, 2001, PWSI owned and operated 47 and franchised 11 pizza parlors. The results achieved by PWSI's relatively small pizza parlor base may not be indicative of the results of a larger number of pizza parlors in a more geographically dispersed area. Because of PWSI's relatively small pizza parlor base, an unsuccessful pizza parlor has a more significant effect on PWSI's results of operations than would be the case in a company owning more pizza parlors. PWSI's existing pizza parlors, both owned and franchised, are located in California or Texas. At September 30, 2001, there were 54 pizza parlors in California and four in Texas. Accordingly, PWSI's results of operations may be affected by economic or other conditions in those regions.

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Also, given PWSI's present geographic concentration, publicity relating to PWSI's pizza parlors could have a more pronounced effect on PWSI's overall sales than might be the case if PWSI's pizza parlors were geographically dispersed.

All of PWSI's owned pizza parlors are operated on premises leased from third parties. Most of the pizza parlor leases provide for a minimum annual rent and additional rental payments if sales volumes exceed specified amounts. There can be no assurance that PWSI will be able to renew leases upon expiration or that the lease terms upon renewal will be as favorable as the current lease terms. In 2000, PWSI added one new franchised store and no company-owned stores, it sold one company-owned store and closed an additional three company-owned stores. In 2001, PWSI added three new company-owned stores and sold two company-owned stores to franchises. In 2002, PWSI plans to expand its franchised stores to construct and open four new company-owned stores.

PROPERTIES OF ARL

ARL's principal offices are located at 1800 Valley View Lane, Suite 300, Dallas, Texas 75234 and are in the opinion of management, suitable and adequate for ARL's present operations.

Details of ARL's real estate and mortgage notes receivable portfolios at December 31, 2000, are set forth in Schedules III and IV, respectively, to the ARL Consolidated Financial Statements. The discussions set forth below under the headings "Real Estate" and "Mortgage

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Loans" provide certain summary information concerning ARL's real estate and mortgage notes receivable portfolios.

At December 31, 2000, no single asset accounted for 10% or more of total assets. At December 31, 2000, 83% of ARL's assets consisted of real estate, 2% consisted of notes and interest receivable, 6% consisted of investments in equity investees, including IOT and TCI, and 3% consisted of pizza parlor equipment and related goodwill. The remaining 6% of ARL's assets were cash, cash equivalents, marketable equity securities and other assets. The percentage of assets invested in any one category is subject to change and no assurance can be given that the composition of ARL's assets in the future will approximate the percentages listed above.

ARL's real estate is geographically diverse. At December 31, 2000, ARL's real estate was located in all geographic regions of the continental United States, other than the Northeast region, as shown more specifically in the table under "Real Estate" below. ARL also holds mortgage notes receivable secured by real estate located in the Southeast, Southwest, Northeast and Midwest regions of the continental United States, as shown more specifically in the table under "Mortgage Loans" below.

GEOGRAPHIC REGIONS

Northeast region comprised of the states of Connecticut, Delaware, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont, and the District of Columbia. ARL has no properties in this region.

Southeast region comprised of the states of Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee and Virginia. ARL has 39 apartments, 4 commercial properties and 2 hotels in this region.

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Southwest region comprised of the states of Arizona, Arkansas, Louisiana, New Mexico, Oklahoma and Texas. ARL has 14 apartments and 7 commercial properties in this region.

Midwest region comprised of the states of Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, West Virginia and Wisconsin. ARL has 12 apartments, 2 commercial properties and 1 hotel in this region.

Mountain region comprised of the states of Colorado, Idaho, Montana, Nevada, Utah and Wyoming. ARL has 1 apartment, 2 commercial properties and 1 hotel in this region.

Pacific region comprised of the states of Alaska, California, Hawaii, Oregon and Washington. ARL has 2 commercial properties and 4 hotels in this region.

Excluded from above are 59 parcels of improved and unimproved land, a hotel in Sofia, Bulgaria and a single family residence, as described below.

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REAL ESTATE

At December 31, 2000, 89% of ARL's assets were invested in real estate and the equity securities of IOT and TCI. ARL invests in real estate located throughout the continental United States, either on a leveraged or nonleveraged basis.

ARL's real estate portfolio consists of properties held for investment, investments in partnerships, properties held for sale and investments in equity securities of IOT and TCI.

TYPES OF REAL ESTATE INVESTMENTS. ARL's real estate consists of apartments, commercial properties (office buildings, shopping centers and a merchandise mart), hotels and improved and unimproved land. In selecting real estate for investment, the location, age and type of property, gross rents, lease terms, financial and business standing of tenants, operating expenses, fixed charges, land values and physical condition are among the factors considered. Properties may be purchased subject to, or existing debt may be assumed and properties may be mortgaged, pledged or otherwise collateralized to obtain financing. The ARL board of directors may alter the types of and criteria for selecting new real estate investments and for obtaining financing without a vote of stockholders.

Although ARL has typically invested in developed real estate, it may also invest in new construction or development either directly or in partnership with non-affiliated parties or affiliates (subject to approval by the ARL board of directors). To the extent that it invests in construction and development projects, such as the Lake Shore Villas Apartments, ARL is subject to business risks, such as cost overruns and construction delays, associated with such higher risk projects. In 2000, ARL completed construction of Lake Shore Villas, a 312 unit apartment in Harris County, Texas.

In the opinion of management, the properties owned by ARL are adequately covered by insurance.

The following table sets forth the percentages, by property type and geographic region, of owned real estate (excluding 59 parcels of improved and unimproved land, a hotel in Sofia, Bulgaria and a single family residence,

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described below) at December 31, 2000.

Region	Apartments	Commercial Properties
Midwest.....	21%	35%
Mountain.....	3	2
Pacific.....	--	18
Southwest.....	43	20
Southwest.....	33	25
	---	---
	100%	100%
	===	===

The foregoing table is based solely on the number of apartment units, amount of commercial square footage and number of hotel rooms owned and does not reflect the value of

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ARL's investment in each region. See Schedule III to the ARL Consolidated Financial Statements for a detailed description of owned real estate.

Excluded from the table above, are a 145 room hotel in Sofia, Bulgaria, a single family residence in Dallas, Texas and 59 parcels of improved and unimproved land consisting of: a 46.1 acre land parcel in Las Colinas, Texas; seven parcels of land in Dallas County, Texas, totaling 402.2 acres; four parcels of land in Irving, Texas, totaling 278.5 acres; an 82.4 acre land parcel in Oceanside, California; five parcels of land in Tarrant County, Texas, totaling 770.6 acres; two parcels of land in Harris County, Texas, totaling 251.0 acres; five parcels of land in Collin County, Texas, totaling 234.6 acres; 12 parcels of land in Farmers Branch, Texas, totaling 145.3 acres; three parcels of land in Plano, Texas, totaling 87.8 acres; a 1,070.9 acre land parcel in Austin, Texas; three parcels of land in Palm Desert, California, totaling 825.6 acres; a 63.3 acre land parcel in Travis County, Texas; a 193.7 acre parcel of land in Houston, Texas; a 54.2 acre land parcel in Fort Worth, Texas; a 137.0 acre land parcel in Lewisville, Texas; a 7.6 acre land parcel in Carrollton, Texas; a 19.5 acre land parcel in Santa Clarita, California; a 138.7 acre land parcel in Nashville, Tennessee; three parcels of land in Riverside, California, totaling 1,677.8 acres; and five additional land parcels totaling approximately 84.0 acres. See Schedule III to the ARL Consolidated Financial Statements for a detailed description of ARL's real estate portfolio.

A summary of the activity in the owned real estate portfolio during 2000 is as follows:

Owned properties at January 1, 2000.....	171
Properties purchased.....	4
Properties constructed.....	1
Property obtained in exchange for a portion of a land parcel.....	1
Properties split into two land parcels.....	1
Properties sold (excluding partial sales).....	(26)

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Owned properties at December 31, 2000..... 152
 =====

PROPERTIES HELD FOR INVESTMENT. Set forth below are the properties held for investment and the monthly rental rate for apartments and the average annual rental rate for commercial properties and the average daily room rate and room revenue divided by total available rooms for hotels and occupancy at December 31, 2000, 1999 and 1998 for apartments and commercial properties and average occupancy during 2000, 1999 and 1998 for hotels:

PROPERTY -----	LOCATION -----	UNITS/SQUARE FOOTAGE -----	RENT PER SQUARE FOOT			2000 -----
			2000	1999	1998	
APARTMENTS						
Arlington Place	Pasadena, TX	230 Units/205,476 Sq. Ft.	\$.68	\$.65	\$.64	93
Ashford	Tampa FL	56 Units/42,196 Sq. Ft.	.77	.76	.74	95
Bay Anchor	Panama City, FL	12 Units/10,700 Sq. Ft.	.53	.50	.54	100

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PROPERTY -----	LOCATION -----	UNITS/SQUARE FOOTAGE -----	RENT PER SQUARE FOOT			2000 -----
			2000	1999	1998	
Bent Tree	Addison, TX	292 Units/244,480 Sq. Ft.	.74	.71	.73	96
Blackhawk	Ft. Wayne, IN	209 Units/190,520 Sq. Ft.	.57	.56	.57	94
Bridgestone	Friendswood, TX	76 Units/65,519 Sq. Ft.	.68	.68	.67	99
Carriage Park	Tampa, FL	46 Units/36,750 Sq. Ft.	.82	.79	.80	91
Chalet I	Topeka, KS	162 Units/131,791 Sq. Ft.	.66	.64	.65	90
Chalet II	Topeka, KS	72 Units/49,164 Sq. Ft.	.71	.68	.70	92
Chateau	Bellevue, NE	115 Units/99,220 Sq. Ft.	.68	.69	.71	97

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Chateau Bayou	Ocean Springs, MS	122 Units/105,536 Sq. Ft.	.65	.64	.71	89
Club Mar	Sarasota, FL	248 Units/230,180 Sq. Ft.	.67	.65	.65	99
Confederate Point	Jacksonville, FL	206 Units/277,860 Sq. Ft.	.59	.58	.58	96
Conradi House	Tallahassee, FL	98 Units/49,900 Sq. Ft.	.71	.67	.71	98
Covered Bridge	Gainesville, FL	176 Units/171,416 Sq. Ft.	.66	.66	.64	99
Crossing Church	Tampa, FL	52 Units/40,024 Sq. Ft.	.83	.73	.73	96
Daluce	Tallahassee, FL	112 Units/95,432 Sq. Ft.	.61	.59	.59	96
Falcon House	Ft. Walton, FL	82 Units/71,220 Sq. Ft.	.63	.62	.62	95
Foxwood	Memphis, TN	220 Units/212,000 Sq. Ft.	.55	.55	.57	90
Georgetown	Panama City, FL	44 Units/36,160 Sq. Ft.	.62	.60	.61	100
Governor Square	Tallahassee, FL	168 Units/146,550 Sq. Ft.	.63	.61	.60	95
Grand Lagoon	Panama City, FL	54 Units/47,460 Sq. Ft.	.74	.71	.73	93
Greenbriar	Tallahassee, FL	50 Units/36,600 Sq. Ft.	.74	.71	.70	98
Kimberly Woods	Tucson, AZ	279 Units/249,678 Sq. Ft.	.59	.57	.59	91
La Mirada	Jacksonville, FL	320 Units/341,400 Sq. Ft.	.54	.54	.52	88

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PROPERTY	LOCATION	UNITS/SQUARE FOOTAGE	RENT PER SQUARE FOOT			2000
			2000	1999	1998	
Lake Chateau	Thomasville, GA	98 Units/65,800 Sq. Ft.	.57	.55	.56	95
Lake Shore Villas	Harris	312	.89	*	*	*

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	County, TX	Units/259,176 Sq. Ft.				
Landings/marina	Pensacola, FL	52 Units/34,464 Sq. Ft.	.69	.68	.67	92
Lee Hills	Tallahassee, FL	16 Units/14,720 Sq. Ft.	.56	.52	.54	94
Mallard Lake	Greensboro, NC	336 Units/295,560 Sq. Ft.	.63	.62	.64	97
Mediterranean Villas	San Antonio, TX	140 Units/158,960 Sq. Ft.	.50	.50	.49	96
Morning Star	Tallahassee, FL	82 Units/41,000 Sq. Ft.	.81	.77	.76	99
Nora Pines	Indianapolis, IN	254 Units/254,676 Sq. Ft.	.61	.60	.60	93
Northside Villas	Tallahassee, FL	81 Units/134,000 Sq. Ft.	.61	.58	.57	97
Oak Hill	Tallahassee, FL	92 Units/81,240 Sq. Ft.	.62	.60	.60	95
Oak Tree	Grandview, MO	189 Units/160,591 Sq. Ft.	.62	.59	.60	89
Park Avenue	Tallahassee, FL	121 Units/78,979 Sq. Ft.	.83	.81	.79	98
Pheasant Ridge	Bellevue, NE	264 Units/243,960 Sq. Ft.	.61	.60	.62	94
Pinecrest	Tallahassee, FL	48 Units/46,400 Sq. Ft.	.59	.57	.57	100
Place One	Tulsa, OK	407 Units/302,263 Sq. Ft.	.59	.59	.42	92
Quail Point	Huntsville, AL	184 Units/202,602 Sq. Ft.	.46	.45	.44	90
Regency	Lincoln, NE	106 Units/111,700 Sq. Ft.	.62	.64	.67	93
Regency	Tampa, FL	78 Units/55,810 Sq. Ft.	.87	.82	.81	97
Rockborough	Denver, CO	345 Units/249,723 Sq. Ft.	.91	.82	.80	94
Rolling Hills	Tallahassee, FL	134 Units/115,730 Sq. Ft.	.63	.61	.61	96
Seville	Tallahassee, FL	62 Units/63,360 Sq. Ft.	.57	.56	.56	97
Shadowood	Addison, TX	184 Units/134,616 Sq. Ft.	.79	.76	.76	98

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PROPERTY -----	LOCATION -----	UNITS/SQUARE FOOTAGE -----	RENT PER SQUARE FOOT			2000 -----
			2000 -----	1999 -----	1998 -----	
Stonebridge	Florissant, MO	100 Units/140,576 Sq. Ft.	.47	.46	.46	97
Stonegate	Tallahassee, FL	83 Units/34,900 Sq. Ft.	.80	.77	.77	99
Sun Hollow	El Paso, TX	216 Units/156,000 Sq. Ft.	.65	.65	.66	97
Sunset	Odessa, TX	240 Units/160,400 Sq. Ft.	.41	.42	.46	85
Timber Creek	Omaha, NE	180 Units/162,252 Sq. Ft.	.66	.70	.70	88
Valley Hi	Tallahassee, FL	54 Units/27,800 Sq. Ft.	.80	.76	.71	98
Villa Del Mar	Wichita, KS	162 Units/128,004 Sq. Ft.	.56	.59	.60	91
Villager	Ft. Walton, FL	33 Units/22,840 Sq. Ft.	.73	.70	.71	91
Villas	Plano, TX	208 Units/156,632 Sq. Ft.	.85	.81	.80	94
Waters Edge III	Gulfport, MS	238 Units/212,216 Sq. Ft.	.62	.61	.59	92
Westwood	Mary Ester, FL	120 Units/93,000 Sq. Ft.	.63	.67	.67	93
Westwood Parc	Tallahassee, FL	94 Units/55,950 Sq. Ft.	.74	.70	.69	99
White Pines	Tallahassee, FL	85 Units/17,000 Sq. Ft.	.53	.74	.74	93
Whispering Pines	Topeka, KS	320 Units/299,264 Sq. Ft.	.79	.52	.51	97
Windsor Tower	Ocala, FL	64 Units/66,000 Sq. Ft.	.50	.46	.45	98
Woodhollow	San Antonio, TX	546 Units/348,692 Sq. Ft.	.65	.64	.64	89

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Woodlake	Carrollton, TX	256 Units/210,208 Sq. Ft.	.78	.77	.77	99
Woodsong II	Smyrna, GA	190 Units/207,460 Sq. Ft.	.60	.57	.56	97
Woodstock	Dallas, TX	320 Units/222,112 Sq. Ft.	.68	.65	.63	94
OFFICE BUILDINGS						
56 Expressway	Oklahoma City, OK	54,649 Sq. Ft.	11.23	7.92	9.53	77
Centura	Farmers Branch, TX	410,901 Sq. Ft.	25.01	*	*	31
Cooley Building	Farmers Branch, TX	27,000 Sq. Ft.	9.25	9.00	*	100
Encino Executive Plaza	Encino, CA	177,211 Sq. Ft.	25.17	16.85	*	78

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PROPERTY	LOCATION	UNITS/SQUARE FOOTAGE	RENT PER SQUARE FOOT			2000
			2000	1999	1998	
Executive Court	Memphis, TN	41,840 Sq. Ft.	11.04	13.22	10.64	100
Melrose Business Park	Oklahoma City, OK	124,200 Sq. Ft.	3.22	2.73	3.03	74
One Hickory Centre	Farmers Branch, TX	102,615 Sq. Ft.	19.90	*	*	72
Rosedale Towers	Minneapolis, MN	84,798 Sq. Ft.	16.84	18.89	15.48	86
Two Hickory Centre	Farmers Branch, TX	167,981 Sq. Ft.	21.07	18.71		*
University Square	Anchorage, AK	22,260 Sq. Ft.	14.07	13.26	13.83	97
SHOPPING CENTERS						
Collection	Denver, CO	267,812 Sq. Ft.	9.83	11.19	8.92	96
Cross County Mall	Mattoon, IL	304,575 Sq. Ft.	5.10	6.05	4.99	94
Cullman	Cullman, AL	92,466 Sq. Ft.	3.27	3.98	3.91	98
Oaktree Village	Lubbock, TX	45,623 Sq. Ft.	6.64	9.29	8.27	79
Regency Point	Jacksonville, FL	67,410 Sq. Ft.	12.58	12.58	12.36	97
Westwood	Tallahassee, FL	149,855 Sq. Ft.	6.74	6.68	6.77	93
MERCHANDISE MART						
Denver Mart	Denver, CO	509,008 Sq. Ft.	10.98	10.34	11.35	90

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SINGLE FAMILY RESIDENCE

Tavel Circle Dallas, TX 2,271 Sq. Ft. -- -- -- --

PROPERTY	LOCATION	ROOMS	AVERAGE ROOM RATE			OCCUPANCY %			TOTAL DEBT AS AT 2000
			2000	1999	1998	2000	1999	1998	
HOTELS									
Best Western	Virginia Beach, VA	110 Rooms	\$103.94	\$94.15	\$92.65	60	62	65	\$62.29
Grand Hotel Sofia	Sofia, Bulgaria	145 Rooms	*	*	*	*	*	*	*
Holiday Inn	Kansas City, MO	196 Rooms	70.67	64.09	65.38	72	81	79	51.18
Piccadilly Airport	Fresno, CA	185 Rooms	70.22	69.52	68.53	61	59	61	42.87
Piccadilly Chateau	Fresno, CA	78 Rooms	56.38	57.09	55.18	58	56	60	32.64
Piccadilly Shaw	Fresno, CA	194 Rooms	70.96	71.80	70.63	69	63	66	49.07
Piccadilly University	Fresno, CA	190 Rooms	67.11	68.90	67.42	55	49	59	36.83
Quality Inn	Denver, CO	161 Rooms	52.83	55.01	54.07	69	63	61	36.30
Williamsburg Hospitality House	Williamsburg, VA	296 Rooms	93.28	88.76	85.87	60	58	64	55.71

* Property was purchased or constructed in 1999 or 2000.

Occupancy presented above and throughout is without reference to whether leases in effect are at, below or above market rates.

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In 2000, ARL purchased the following properties:

PROPERTY	LOCATION	UNITS/ACRES	PURCHASE PRICE	NET CASH PAID	DEBT INCURRED
LAND					
Clark	Farmers Branch, TX	3.25 Acres	\$ 2,971	\$ --	\$ --/(1)

(DOLLARS IN THOUSANDS)

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Kelly	Collin County, TX	.75 Acres	130	20	100/(2)
Mastenbrook	Collin County, TX	157.86 Acres	3,200	704	2,400/(2)
Sladek	Travis County, TX	63.3 Acres	712	316	427/(2)
Hotel					
Grand Hotel Sofia/(3)/	Sofia, Bulgaria	145 Rooms	17,975	17,975	--

- (1) Exchanged for 19.74 acres of Frisco Bridges land.
- (2) Seller financing.
- (3) ARL purchased 100% of the outstanding stock of World Trade, owner of an 80% interest in the hotel, from One Realco, an affiliate, for \$18.0 million in cash.
- (4) Property sold in September 2000.

In 2000, ARL sold the following properties:

PROPERTY	LOCATION	UNITS/ SQ. FT./ACRES	SALES PRICE	NET CASH RECEIVED	DEBT DISCHAR
-----	-----	-----	-----	-----	-----
(DOLLARS IN THOUSANDS)					
APARTMENTS					
Candlelight Square	Lenexa, KS	119 Units	\$ 4,800	\$1,289	\$ 2,832
Fair Oaks	Eules, TX	208 Units	6,850	609	5,711
Four Seasons	Denver, CO	384 Units	16,600	6,543	9,220(1)
Hidden Valley	Grand Rapids, MI	176 Units	10,900	2,271	8,000(1)
Pines	Little Rock, AR	257 Units	4,650	1,281	3,063
Sherwood Glen	Urbandale, IA	180 Units	6,250	1,244	4,626(1)
Summerwind	Reseda, CA	172 Units	9,000	3,082	5,568(1)
Windtree	Reseda, CA	159 Units	8,350	2,911	5,063(1)
Whispering Pines	Canoga Park, CA	102 Units	5,300	1,597	3,437(1)
SHOPPING CENTER					
Harbor Plaza	Aurora, CO	45,863 Sq.Ft.	4,132	1,868	1,732
Katella Plaza	Orange, CA	62,290 Sq.Ft.	1,814	283	1,188
Preston Square	Dallas, TX	35,508 Sq.Ft.	5,820	2,761	2,576
OFFICE BUILDINGS					
Marina Playa	Santa Clara, CA	124,205 Sq.Ft.	25,750	6,082	7,766
Land					
Duchesne	Duchesne, UT	420 Acres	43	42	--
Frisco Bridges	Collin County, TX	15.00 Acres	2,675	706	2,000
Frisco Bridges	Collin County, TX	19.74 Acres	2,971	--	--(2)
Frisco Bridges	Collin County, TX	24.3 Acres	4,194	(435)	4,000
Frisco Bridges	Collin County, TX	127.4 Acres	27,500	7,411	18,570
Katy	Harris County,	0.02 Acres	2	2	--

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Keller	TX Tarrant County,	749.1 Acres	10,000	3,892	4,500
Mason/Goodrich	TX Houston, TX	1.1 Acres	129	--	116
Mason/Goodrich	Houston, TX	12.8 Acres	2,536	--	1,803
Mason/Goodrich	Houston, TX	6.8 Acres	1,198	114	991
Mason/Goodrich	Houston, TX	20.5 Acres	3,560	497	1,308
Mastenbrook	Collin County, TX	157.9 Acres	4,445	1,890	2,275
McKinney Corners II	Collin County, TX	14.6 Acres	500	(599)	1,050
McKinney Corners I, II, III, IV, V	Collin County, TX	82.0 Acres	9,150	613	8,123
Monterrey	Riverside, CA	20.67 Acres	4,300	189	4,000
Nashville	Nashville, TN	2.6 Acres	405	--	345

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PROPERTY -----	LOCATION -----	UNITS/ SQ. FT./ACRES -----	SALES PRICE -----	NET CASH RECEIVED -----	DEBT DISCHAR -----
Nashville	Nashville, TN	1.31 Acres	250	43	251
Nashville	Nashville, TN	1.78 Acres	306	21	250
Nashville	Nashville, TN	3.0 Acres	523	19	450
Pantex	Collin County, TX	182.5 Acres	8,160	2,373	4,546
Parkfield	Denver, CO	2.6 Acres	615	(1)	584
Parkfield	Denver, CO	326.8 Acres	13,164	7,969	3,279
Pioneer Crossing	Austin, TX	377.15 Acres	5,700	4,983	--
Plano Parkway	Plano, TX	4.79 Acres	543	87	400
Rasor	Plano, TX	43.01 Acres	1,850	--	1,604
Rasor	Plano, TX	5.4 Acres	915	--	915
Rasor	Plano, TX	41.1 Acres	3,779	3,587	--
Rowlett Creek	Collin County, TX	80.4 Acres	2,262	919	1,173
Salmon River	Salmon River, ID	3.0 Acres	45	44	--
Valley Ranch	Irving, TX	22.4 Acres	1,455	--	1,375
Vann Cattle	Collin County, TX	126.6 Acres	3,564	1,872	1,471
Vista Business	Travis County, TX	5.4 Acres	620	14	577
Vista Business	Travis County, TX	36.43 Acres	3,015	1,378	1,368
Wakefield	Collin County, TX	70.3 Acres	1,981	1,239	612

(1) Debt assumed by purchaser.

(2) Exchanged for 3.25 acres of Clark land.

In 2000, ARL financed/refinanced or obtained second mortgage financing on the following:

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PROPERTY	LOCATION	ACRES/ROOMS SQ. FT.	DEBT INCURRED	DEBT DISCHARGED	NET CASH RECEIVED
(dollars in thousands)					
APARTMENTS					
Bent Tree	Addison, TX	292 Units	\$ 8,900	\$ 6,685	\$ 593 / (1) /
Chateau Bayou	Ocean Springs, MS	122 Units	1,007	--	988
Confederate Point	Jacksonville, FL	206 Units	7,440	5,879	1,039
Rockborough	Denver, CO	345 Units	2,222	--	1,942
Waters Edge	Gulfport, MS	238 Units	7,532	3,993	3,447
Whispering Pines	Topeka, KS	320 Units	7,530	6,829	302
OFFICE BUILDINGS					
Centura Tower	Farmers Branch, TX	410,910 Sq.Ft.	15,000	--	14,612
LAND					
Centura, Clark and Woolley	Farmers Branch, TX	10.08 Acres	7,150	--	6,960
Frisco Bridges	Collin County, TX	127.41 Acres	18,000	11,900	6,190
Frisco Bridges	Collin County, TX	62.84 Acres	7,800	4,985	2,432
Katy	Harris County, TX	130.6 Acres	4,250	4,042	(9)
Mason/Goodrich	Houston, TX	235.00 Acres	2,250	--	1,924
Nashville	Nashville, TN	144.82 Acres	10,000	2,034	7,039
Pioneer Crossing	Austin, TX	599.78 Acres	12,500	12,021	(446)
Keller	Fort Worth, TX	30.13 Acres	8,000 / (3) /	--	7,750
Lacy Longhorn	Farmers Branch, TX	17.12 Acres	-- / (3) /	--	--
McKinney Corners	McKinney, TX	10.98 Acres	-- / (3) /	--	--
Thompson	Farmers Branch, TX	3.99 Acres	-- / (3) /	--	--
Tomlin	Farmers Branch, TX	9.00 Acres	-- / (3) /	--	--
Tree Farm	Dallas, TX	10.36 Acres	-- / (3) /	--	--

-
- (1) Net of release and prepayment fees.
 - (2) Variable interest rate.
 - (3) Single note, with all properties as collateral.
 - (4) Property sold in July 2000.
 - (5) Debt maturity date extended to July 2001.

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PROPERTIES HELD FOR SALE. Set forth below are the properties held for sale, consisting of improved and unimproved land:

PROPERTY -----	LOCATION -----	SQUARE FOOTAGE/A -----
Bonneau	Dallas County, TX	8.4
Centura Holdings.	Farmers Branch, TX	6.4
Chase Oaks.	Plano, TX	29.0
Clark	Farmers Branch, TX	3.3
Croslin	Dallas County, TX	.8
Dalho	Farmers Branch, TX	3.4
Desert Wells.	Palm Desert, CA	420.0
Eldorado Parkway.	Collin County, TX	8.5
Frisco Bridges.	Collin County, TX	46.8
FRWM Cummings	Farmers Branch, TX	6.5
Hollywood Casino.	Farmers Branch, TX	51.7
HSM	Farmers Branch, TX	6.2
Jeffries Ranch.	Oceanside, CA	82.4
JHL Connell	Carrollton, TX	7.6
Katrina	Palm Desert, CA	333.6
Katy Road	Harris County, TX	130.6
Keller.	Tarrant County, TX	30.9
Kelly	Collin County, TX	.8
Lacy Longhorn	Farmers Branch, TX	17.1
Las Colinas I	Las Colinas, TX	46.1
Leone	Irving, TX	8.2
Marine Creek.	Fort Worth, TX	54.2
Mason/Goodrich.	Houston, TX	193.7
Mastenbrook	Collin County, TX	157.9
McKinney Corners II	Collin County, TX	20.6
Mendoza	Dallas County, TX	.4
Messick	Palm Desert, CA	72.0
Monterrey	Riverside, CA	65.0
Nashville	Nashville, TN	138.7
Pioneer Crossing.	Austin, TX	1,070.9
Plano Parkway	Plano, TX	23.3
Rasor	Plano, TX	35.5
Santa Clarita	Santa Clarita, CA	19.5
Scoggins.	Tarrant County, TX	232.8
Scout	Tarrant County, TX	472.5
Sladek.	Travis County, TX	63.3
Stagliano	Farmers Branch, TX	3.2
Thompson.	Farmers Branch, TX	4.0
Thompson II	Dallas County, TX	3.5
Tomlin.	Farmers Branch, TX	9.2
Tree Farm--LBJ.	Dallas County, TX	10.4
Valley Ranch.	Irving, TX	245.4
Valley Ranch III.	Irving, TX	12.5
Valley Ranch IV	Irving, TX	12.4
Valley View 34.	Farmers Branch, TX	33.9
Valwood	Dallas County, TX	246.1
Varner Road	Riverside, CA	127.8
Vineyards	Tarrant County, TX	15.8
Vineyards II.	Tarrant County, TX	18.6
Vista Ridge	Lewisville, TX	137.0
Walker.	Dallas County, TX	132.6
Willow Springs.	Riverside, CA	1,485.0
Woolley	Farmers Branch, TX	.4
Yorktown.	Harris County, TX	120.4

Other (5 properties).

Various

84.0

MORTGAGE LOANS

In addition to real estate, a portion of ARL's assets are invested in mortgage notes receivable, secured by income-producing real estate, unimproved land and partnership interests. ARL's management expects that the percentage of ARL's assets invested in mortgage loans will continue to decline, as ARL will no longer seek to fund or acquire new mortgage loans. However, ARL may, in selected instances, originate mortgage loans or it may provide purchase money financing in conjunction with a property sale. ARL's management intends to service and hold for investment the mortgage notes currently in the portfolio. Mortgage notes receivable consist of first, wraparound and junior mortgage loans.

TYPES OF MORTGAGE ACTIVITY. In addition to originating its own mortgage loans, ARL had previously acquired existing mortgage loans either directly from builders, developers or property owners, or through mortgage banking firms, commercial banks or other qualified brokers. BCM, in its capacity as a mortgage servicer, services ARL's mortgage notes receivable.

TYPES OF PROPERTIES SUBJECT TO MORTGAGES. The types of properties securing mortgage notes receivable at December 31, 2000, consisted of apartments, an office building, unimproved land and partnership interests. The type of properties subject to mortgages in which ARL invests may be altered without a vote of stockholders.

As of December 31, 2000, the obligors on \$11.2 million or 68% of the mortgage notes receivable portfolio were affiliates of ARL. Also at that date, \$3.1 million or 19% of the mortgage notes receivable portfolio was nonperforming.

The following table sets forth the percentages (based on the outstanding mortgage loan balance at December 31, 2000), by geographic region, of the commercial properties that serve as collateral for ARL's mortgage notes receivable. Excluded are \$10.2 million of mortgage notes secured by unimproved land and other security. See Schedule IV to the ARL Consolidated Financial Statements for additional details of ARL's mortgage notes receivable portfolio.

REGION -----	COMMERCIAL PROPERTIES -----
Southwest	100% ===

A summary of the activity in the mortgage notes receivable portfolio during 2000 is as follows:

Mortgage notes receivable at January 1, 2000	19
Loans funded	6
Loans collected in full.	(13)
Loans sold	(1)

Mortgage notes receivable at December 31, 2000	11 ===

During 2000, \$4.4 million in interest and \$39.9 million in principal was collected on mortgage notes receivable.

FIRST MORTGAGE LOANS. These loans generally provide for level periodic payments of principal and interest sufficient to substantially repay the loan at or prior to maturity, but may involve interest-only payments or moderate or negative amortization of principal or all interest and a "balloon" principal payment at maturity. With respect to first mortgage loans, it is ARL's general policy to require that the borrower provide a title policy or an acceptable legal opinion of title as to the validity and the priority of ARL's mortgage lien over all other obligations, except liens arising from unpaid property taxes and other exceptions normally allowed by first mortgage lenders.

The following discussion briefly describes first mortgage loans funded in 2000, as well as events that affected previously funded first mortgage loans during 2000.

During 1998, a \$942,000 loan was funded to Ellis Development Company, Inc. The loan was secured by a 4.5 acre parcel of land in Abilene, Texas, bore interest at 14.0% per annum and had an extended maturity date of August 2000. All principal and interest were due at maturity. In March 2000, the loan was collected in full, including accrued but unpaid interest.

In June and July 1998, a \$4.2 million loan was funded to Cuchara Partners, Ltd. and Ski Rio Partners, Ltd., affiliates of JNC Enterprises, Inc. ("JNC"). The loan was secured by (1) a first lien on approximately 450 acres of land in Huerfano County, Colorado, known as Cuchara Valley Mountain Ski Resort; (2) assignment of a \$2.0 million promissory note secured by approximately 2,623 acres of land in Taos County, New Mexico, known as Ski Rio Resort; and (3) a pledge of all related partnership interests. The loan bore interest at 16.0% per annum and had an extended maturity date of March 2000. All principal and interest were due at maturity. In the fourth quarter of 1998, \$109,000 was received on the sale of 11 parcels of the collateral property in Taos, New Mexico. In August and September 1999, paydowns totaling \$2.6 million were received. In April 2000, the remainder of the loan, with a then principal balance of \$1.6 million was collected in full, including accrued but unpaid interest.

In June 1998, a \$365,000 loan was funded to RB Land & Cattle, L.L.C. The loan was secured by 7,200 acres of unimproved land near Crowell, Texas, and the personal guarantee of the owner and manager of the borrower. The loan matured in December 1998. All principal and interest were due at maturity. In January 2000, the loan was collected in full, including accrued but unpaid interest.

In July 2000, ARL sold a 749.1 acre tract of its Keller land parcel for \$10.0 million, receiving \$8.7 million in cash and providing purchase money financing of the remaining \$1.3 million of the sales price. The loan bears interest at 12.0% per annum. A payment of \$500,000 principal and interest was collected in September 2000 and all remaining principal and interest was due July 31, 2001. The loan is secured by 100% of the shares of DM Development, Inc. and an assignment of land sales proceeds. The loan had a principal balance of \$817,000 at December 31, 2000. In March 2001, \$850,000 in principal and interest was collected.

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In August 2000, ARL sold a 20.5 acre tract of its Mason Goodrich land parcel for \$3.6 million, receiving \$2.1 million in cash and providing purchase money financing of the remaining \$1.5 million of the sales price. The loan bore interest at 13.5% per annum, and matured in December 2000. All principal and interest were due at maturity. In February 2001, the loan was collected in full, including accrued but unpaid interest.

WRAPAROUND MORTGAGE LOANS. A wraparound mortgage loan, sometimes called an all-inclusive loan, is a mortgage loan having an original principal amount equal to the outstanding balance under a prior existing mortgage loan plus the amount actually advanced under the wraparound mortgage loan. Wraparound mortgage loans may provide for full, partial or no amortization of principal. ARL's policy is to make wraparound mortgage loans in amounts and on properties on which it would otherwise make a first mortgage loan.

The following discussion briefly describes wraparound mortgage loans funded in 2000.

In June 2000, the 124,322 sq. ft. Marina Playa Office Building in Santa Clara, California, was sold for \$25.8 million, ARL received \$7.0 million in cash and provided financing of \$18.8 million in the form of a wraparound mortgage note. Subsequently, ARL sold the note receivable, net of the underlying debt, for \$6.2 million, retaining a \$3.9 million participation. In August 2000, the participation was collected in full, including accrued but unpaid interest.

JUNIOR MORTGAGE LOANS. Junior mortgage loans are 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 the loans ordinarily includes the real estate which secures the loan, other collateral and personal guarantees of the borrower.

The following discussion briefly describes junior mortgage loans funded in 2000, as well as events that affected previously funded junior mortgage loans during 2000.

In August 1999, a \$2.6 million loan was funded to JNC. The loan was subsequently split into two pieces. The loans were secured by second liens on a 3.5 acre and a 1.2561 acre parcel of land in Dallas, Texas, the guarantee of the borrower and the personal guarantees of its stockholders. The loans bore interest at 16.0% per annum and matured in February 2000. All principal and interest were due at maturity. In March and April 2000, the loans were collected in full, including accrued but unpaid interest.

In October 1998, a \$2.1 million loan was funded to Frisco Panther Partners, Ltd., a JNC affiliate. The loan was secured by a second lien on 408.23 acres of land in Frisco, Texas, the guarantee of the borrower and the personal guarantees of its partners. In January 1999, a paydown of \$820,000 was received on this loan. The loan bore interest at 16.0% per annum and had an extended maturity date of March 2000. All principal and interest were due at maturity. In April 2000, the loan with a then principal balance of \$663,000 was collected in full, including accrued but unpaid interest.

In December 1998, \$3.3 million of a \$5.0 million loan commitment was funded to JNC. In January 1999, a \$1.3 million paydown was received on the loan and subsequently an additional \$3.0 million was funded, increasing the loan balance to \$5.0 million. The loan was secured by a second lien on 1,791 acres of land in Denton County, Texas and a second lien on 91

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acres of land in Collin County, Texas. The loan bore interest at 16.0% per annum and had an extended maturity date of March 2000. All principal and interest were due at maturity. In April 2000, the loan was collected in full, including accrued but unpaid interest.

OTHER. In September 1999, in conjunction with the sale of two apartments in Austin, Texas, \$2.1 million in purchase money financing was provided, secured by limited partnership interests in two limited partnerships owned by the buyer. The financing bore interest at 16.0% per annum, required monthly payments of interest only at 6.0%, beginning in February 2000 and required a \$200,000 principal paydown in December 1999, which was not received, and matured in August 2000. ARL had the option of obtaining the buyer's general and limited partnership interests in the collateral partnerships in full satisfaction of the financing. In March 2000, ARL agreed to forbear foreclosing on the collateral securing the note and released one of the partnership interests, in exchange for a payment of \$250,000 and executed deeds of trusts on certain properties owned by the buyer. In March 2000, the borrower made a \$1.1 million payment, upon receipt of which ARL returned the deeds of trust. The borrower executed a replacement promissory note for the remaining note balance of \$1.0 million, which is unsecured, non-interest bearing and matures in April 2003. In April 2000, ARL funded a \$100,000 loan to the borrower. The loan is secured by five second lien deeds of trust, is non-interest bearing and matured in September 2001. Payment was not received at maturity, and ARL began accruing default interest. In December 2001, the \$100,000 was collected in full, including accrued but unpaid interest.

In December 1999, a note with a principal balance of \$1.2 million, secured by a pledge of a partnership interest in a partnership which owns real estate in Addison, Texas, matured. The maturity date was extended to April 2000 in exchange for an increase in the interest rate to 14.0% per annum. All other terms remained the same. In February 2001, the loan amount was increased to \$1.6 million and the maturity date was extended to June 2001. At January 2002, extension terms were being negotiated.

During 1998 and 1999, \$2.1 million of a \$2.2 million loan commitment was funded to Varner Road Partners, L.L.C. The loan was secured by a 129.77 acre parcel of unimproved land in Riverside County, California and a pledge of the membership interests of the borrower. The loan matured in November 1999. Principal and accrued interest were not paid at maturity and a deed to the property was accepted in lieu of foreclosure. No loss was incurred, as the fair market value of the property, less estimated costs of sale, exceeded the carrying value of the note.

In August 1998, a \$635,000 loan was funded to La Quinta Partners, LLC. The loan was secured by interest bearing accounts prior to their being used as escrow deposits toward the purchase of 956 acres of land in La Quinta, California, and the personal guarantee of the manager of the borrower. The loan had an extended maturity date of November 1999. All principal and interest were due at maturity. In November and December 1998, \$250,000 in principal paydowns were received. In the second quarter of 1999, the loan was modified, increasing the interest rate to 15.0% per annum and extending the maturity to November 1999. Accrued but unpaid interest was added to the principal balance, increasing it by \$42,000 to \$402,000. In the fourth quarter of 1999, an additional \$2,000 was funded increasing the loan balance to \$404,000. In March 2000, \$25,000 in interest was collected and the loan's maturity

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was extended to April 2000. The borrower did not repay the loan at maturity. In March 2001, a settlement was reached, whereby ARL collected \$410,000 in full satisfaction of the note.

In 1997 and 1998, a \$3.8 million loan was funded to Stratford & Graham Developers, L.L.C. In 1999, an additional \$305,000 was funded, increasing the loan balance to \$4.1 million. The loan was secured by 1,485 acres of unimproved land in Riverside County, California, and matured in June 1999. The loan was not paid at maturity. The deed to the collateral property was accepted in December 1999, in lieu of foreclosure. No loss was incurred, as the fair market value of the collateral property, less estimated costs of sale, exceeded the carrying value of the note.

RELATED PARTY. In February 1999, ARL funded a \$5.0 million unsecured line of credit to One Realco which owns approximately 14.7% of the outstanding shares of ARL's Common Stock. All principal and interest are due at maturity in February 2002, and the line of credit is guaranteed by BCM, ARL's advisor. In March 2000, the line was modified and extended, increasing the loan commitment to \$11.0 million, and an additional \$1.2 million was funded. In exchange for the modification, the borrower paid all accrued interest and pledged collateral consisting of a \$10.0 million promissory note secured by the stock of World Trade, which owns 80% of an entity which owns a hotel in Sofia, Bulgaria. In July 2000, the line was again modified, increasing the loan commitment to \$15.0 million. In September 2000, the line of credit with a then principal balance of \$14.6 million was paid in full, including accrued but unpaid interest. Subsequently, ARL acquired 100% of the stock of World Trade for \$18.0 million. In March 2000, ARL funded \$13.6 million on the unsecured line of credit to One Realco. The line of credit bears interest at 12% per annum. All principal and interest were due at maturity in February 2002. A two year extension of the maturity date to February 2004 has been agreed upon and the line of credit is to be secured by 600,000 shares of ARL common stock.

In 1998, ARL funded a loan commitment of \$1.8 million to Warwick. The loan was secured by a second lien on a shopping center in Rhode Island, by 100% of the stock of the borrower and by the personal guarantee of the principal stockholder of the borrower. The loan bears interest at 14.0% per annum and had an extended maturity date of December 2000. All principal and interest were due at maturity. In December 1999, the borrower sold the collateral property and \$810,000 of the net proceeds were paid to ARL, of which \$386,000 was applied to interest and the remaining \$424,000 was applied to principal, reducing the principal balance to \$1.7 million. Escrowed monies of \$377,000 were to be received in 2000. However, through December 2000, only \$50,000 had been received. The loan is currently unsecured. At January 2002, the loan and \$472,000 of accrued interest remained unpaid and settlement terms were being negotiated. Richard D. Morgan, a Warwick stockholder, served as a director of ARL until October 2001.

Beginning in 1997 through January 1999, ARL funded a \$1.6 million loan commitment to Bordeaux. The loan is secured by (1) a 100% interest in Bordeaux, which owns a shopping center in Oklahoma City, Oklahoma; (2) 100% of the stock of Bordeaux, which owns 6.5 acres of undeveloped land in Oklahoma City, Oklahoma; and (3) the personal guarantees of the Bordeaux members. The loan bears interest at 14.0% per annum. In November 1998, the loan was modified to allow payments based on monthly cash flow of the collateral property and the maturity date was extended to December 1999. In the second quarter of 1999, the loan was again modified, increasing the loan commitment to \$2.1 million and an additional \$33,000 was funded.

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In the third quarter of 1999, an additional \$213,000 was funded. The property has had no cash flow, therefore, interest on the loan ceased being accrued in the second quarter of 1999. In October 1999, a \$724,000 paydown was received, which was applied first to accrued interest due of \$261,000 then to principal, reducing the loan balance to \$1.4 million. In June 2000, the note was further modified, increasing the loan commitment to \$1.5 million, extending the maturity date to December 2000, and payments to net revenues of the shopping center. The loan was not repaid at maturity. At January 2002, settlement terms were being negotiated. Richard D. Morgan, a Bordeaux member, served as a director of ARL until October 2001.

In April 1999, ARL funded a \$2.0 million loan commitment to Lordstown, L.P. The loan is secured by a second lien on land in Ohio and Florida, by 100% of the general and limited partner interest in Partners Capital, Ltd., the limited partner of Lordstown, L.P., and a profits interest in subsequent land sales. The loan bears interest at 14.0% per annum and matured in March 2000. At December 2001, the loan remained unpaid. At January 2002, settlement terms were being negotiated. A corporation controlled by Richard D. Morgan, is the general partner of Lordstown, L.P. Mr. Morgan served as a director of ARL until October 2001.

Also in April 1999, ARL funded a \$2.4 million loan commitment to 261, L.P. The loan is secured by 100% of the general and limited partner interest in Partners Capital, Ltd., the limited partner of 261, L.P. and a profits interest in subsequent land sales. The loan bore interest at 14.0% per annum and matured in March 2000. In August 2000, the loan was collected in full, including accrued but unpaid interest. A corporation controlled by Richard D. Morgan, is the general partner of 261, L.P. Mr. Morgan served as a director of ARL until October 2001.

INVESTMENTS IN REAL ESTATE COMPANIES AND REAL ESTATE PARTNERSHIPS

REAL ESTATE ENTITIES. ARL's investment in real estate entities includes the equity securities of two publicly traded real estate companies, IOT and TCI, and interests in real estate joint venture partnerships. BCM, ARL's advisor, also serves as advisor to IOT and TCI.

Since acquiring its initial investments in IOT and TCI in 1989, ARL has made additional investments in the equity securities of both entities through private and open market purchases. The cost with respect to shares of IOT and TCI at December 31, 2000 totaled \$23.3 million. The aggregate carrying value (cost plus or minus equity in income or losses and less distributions received) of the equity securities of IOT and TCI was \$38.5 million at December 31, 2000 and the aggregate market value was \$29.6 million. The aggregate investee book value of IOT and TCI based upon the December 31, 2000 financial statements of each entity was \$60.4 million. See "Certain Relationships and Related Transactions of ARL, TCI and IOT - Related Party Transactions."

The board of directors has authorized the expenditure of up to an aggregate of \$50.0 million to acquire, in open market purchases, shares of IOT and TCI, excluding private purchase transactions which are separately authorized. As of December 31, 2000, ARL had expended an aggregate of \$8.6 million to acquire shares of IOT and TCI in open market purchases, in accordance with these authorizations. ARL expects to make additional investments in the equity securities of IOT and TCI to the extent its liquidity permits. On October 3, 2000, ARL and IOT entered into a stock option agreement which provided IOT and ARL with an option to purchase

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1,858,900 shares of TCI common stock from a third party. On October 19, 2000, IOT assigned all of its rights to purchase such shares to ARL. ARL exercised the option on April 5, 2001. The total cost to purchase the TCI shares was \$30.7 million. In October 2000, ARL paid \$5.6 million of the option price. In April 2001, the remainder of the option price was paid and ARL acquired the TCI shares.

The equity securities of IOT and TCI were purchased for the purpose of investment based principally on the opinion of management that the securities of each were and are currently undervalued. The determination to purchase additional equity securities of IOT and TCI will be made on an entity-by-entity basis and will depend on the market price of each entity's equity securities relative to the value of its assets, the availability of sufficient funds and the judgment of management regarding the relative attractiveness of alternative investment opportunities. Substantially all of the equity securities of IOT and TCI are pledged as collateral for borrowings.

Pertinent information regarding ARL's investment in the equity securities of IOT and TCI at December 31, 2000, is summarized below (dollars in thousands):

INVESTEE -----	PERCENTAGE OF ARL'S OWNERSHIP AT DECEMBER 31, 2000 -----	CARRYING VALUE OF INVESTMENT AT DECEMBER 31, 2000 -----	EQUIVALENT INVESTEE BOOK VALUE AT DECEMBER 31, 2000 -----	MARKE INVE DECEMB -----
IOT	27.1%	\$ 8,052	\$10,839	\$
TCI	24.7	30,473	49,538	

IOT and TCI each own a considerable amount of real estate, much of which they have held for many years. Because of depreciation, these entities may earn substantial amounts in periods in which they sell real estate and will probably incur losses in periods in which they do not. ARL's reported income or loss attributable to these entities will differ materially from its cash flow attributable to them.

ARL does not have a controlling equity interest in either of IOT or TCI and therefore it cannot, acting by itself, determine either the individual investments or the overall investment policies of either of them. However, due to ARL's equity investments in, and the existence of common officers with, each of IOT and TCI and that IOT and TCI have the same advisor as ARL, ARL may be considered to have the ability to exercise significant influence over the operating and investing policies of IOT and TCI. ARL accounts for its investment in IOT and TCI using the equity method. Under the equity method, ARL recognizes its proportionate share of the income or loss from the operations of IOT and TCI currently, rather than when realized through dividends or on sale. The carrying value of ARL's investment in IOT and TCI, as set forth in the table above, is the original cost of investment in each adjusted for ARL's proportionate share of IOT's and TCI's income or loss and distributions received.

The following summary description of IOT and TCI is based upon information publicly reported by each entity.

IOT. IOT is a Nevada corporation which was originally organized on December 14, 1984, as a California business trust and commenced operations on

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April 10, 1985. IOT's business is investing in real estate through direct equity investments and partnerships. IOT holds equity investments in apartments and commercial properties (office buildings) in the Pacific, Southeast and Southwest regions of the continental United States with a concentration in the Southwest region. At December 31, 2000, IOT owned 16 income producing properties located in three states. These properties consisted of seven apartments comprising 777 units and seven office buildings with an aggregate of 459,549 sq. ft. In addition, IOT owned two parcels of unimproved land, totaling 205 acres.

IOT reported a net income of \$16.8 million in 2000 as compared to \$1.3 million in 1999. IOT's net income in 2000 included \$20.9 million of gains from the sale of real estate, whereas its net income in 1999 included gains on sale of real estate of \$1.5 million. IOT's cash flow from property operations was \$6.6 million in 2000. At December 31, 2000, IOT had total assets of \$96.5 million, which consisted of \$86.3 million in real estate held for investment, \$8.1 million in investments in partnerships and other assets and \$2.1 million in cash and cash equivalents.

ARL received a total of \$213,000 in dividends from IOT in 2000.

TCI. TCI is a Nevada corporation which was originally organized on September 6, 1983, as a California business trust, and commenced operations on January 31, 1984. On November 30, 1999, TCI acquired, through merger, Continental Mortgage and Equity Trust ("CMET"), both of which, at the time, were equity investees of ARL. Pursuant to the merger agreement, TCI acquired all of the outstanding CMET shares of beneficial interest in a tax-free exchange of shares, issuing 1.181 shares of its common stock for each outstanding CMET share.

TCI has investment policies similar to those of IOT. TCI holds equity investments in apartments, commercial properties (office buildings, industrial warehouses and shopping centers) and hotels throughout the continental United States with a concentration in the Southeast and Southwest regions. At December 31, 2000, TCI owned 119 income producing properties located in 18 states. These properties consisted of 60 apartments comprising 10,759 units, 37 office buildings with an aggregate of 4.5 million sq. ft., 12 industrial warehouses with an aggregate of 2.1 million sq. ft., six shopping centers with an aggregate of 622,661 sq. ft., a fitness club with 56,532 sq. ft. and four hotels with a total of 209 rooms. In addition, TCI owned 23 parcels of unimproved land, totaling 793 acres. TCI also holds mortgage notes receivable secured by real estate located in the Southeast and Southwest regions of the continental United States.

TCI reported net income of \$29.8 million in 2000 and \$30.2 million in 1999. TCI's net income in 2000 included gains from the sale of real estate of \$50.6 million, whereas its net income in 1999 included gains from the sale of real estate of \$40.5 million. TCI's cash flow from property operations was \$56.6 million in 2000. At December 31, 2000, TCI had total assets of \$731.9 million, which consisted of \$639.0 million in real estate held for investment, \$1.8 million in real estate held for sale, \$5.3 million in investments in real estate entities, \$8.2 million in notes and interest receivable, \$55.2 million in investments in marketable equity securities and other assets and \$22.3 million in cash and cash equivalents. At December 31, 2000, TCI owned 345,728 shares of IOT's common stock, approximately 22.8% of the shares then outstanding.

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In 2000, ARL received a total of \$1.6 million in dividends from TCI.

ELM FORK, L.P. In September 1997, a limited partnership, of which ARL

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was the 1% general partner and 21.5% limited partner, purchased a 422.4 acre parcel of unimproved land in Denton County, Texas, for \$16.0 million in cash. ARL contributed \$3.6 million in cash with the remaining \$12.4 million being contributed by the other limited partners. In September 1997, the partnership obtained financing of \$6.5 million secured by the land. The mortgage bears interest at 10% per annum, requires quarterly payments of interest only and matures in September 2001. The net financing proceeds were distributed to the partners, ARL receiving \$2.9 million of its initial capital contribution. The partnership agreement also provides that the limited partners receive a 12% preferred cumulative return before any sharing of partnership profits occurs. One Realco, one of the limited partners in the partnership owns approximately 12.8% of the outstanding shares of ARL's Common Stock. In June 2000, ARL sold its partnership interests for \$2.0 million in cash, retaining an option to repurchase its interests for \$2.0 million plus an amount equal to 20% times the number of days from the date of the agreement to the exercise date. On January 9, 2001, ARL exercised its repurchase option. ARL recognized neither gain nor loss on the sale and subsequent repurchase. At December 31, 2000, 267.8 acres remained unsold.

ART FLORIDA PORTFOLIO II, LTD. In June 2000, Vestavia Lakes Apartments partnership, in Orlando, Florida, in which ART Florida Portfolio II, Ltd. owned an interest, was sold. A loss was incurred on the sale, of Investments in Real Estate Companies and Real Estate Partnerships which ARL's share was \$967,000, which is included in equity income (loss) of investees in the accompanying Consolidated Statement of Operations.

EQK REALTY INVESTORS I. In October 2000, ARL acquired a 100% interest in EQK Realty Investors, I ("EQK"), a real estate investment trust for \$1.1 million in cash and \$1.21 million in Series A preferred stock (121,332 shares). At the date of acquisition, EQK's assets consisted of \$2.0 million in cash.

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SELECTED FINANCIAL DATA OF ARL

The following is a summary of financial data incorporated by reference in this joint proxy statement and prospectus. You should read the following data in conjunction with the more detailed information contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the ARL consolidated financial statements and related notes appearing elsewhere in this joint proxy statement and prospectus.

	Nine Months Ended September 30,		For the Years En		
	2001	2000	2000	1999	1998
	(unaudited)		(dollars in thousands)		
EARNINGS DATA					
Revenue	\$ 126,182	\$ 133,313	\$ 172,750	\$ 193,980	\$ 87,...
Expense	186,210	213,373	272,045	324,789	165,...
(Loss) from operations	(60,028)	(80,060)	(99,295)	(130,809)	(78,...
Equity in income of investees	9,157	2,873	5,246	11,847	37,...

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Gain on sale of real estate	62,860	78,828	96,728	129,260	17
Income (loss) before extra-ordinary gain	11,989	1,641	2,679	10,298	(22)
Extraordinary gain	--	--	--	--	
Net income (loss)	11,989	1,641	2,679	10,298	(22)
Preferred dividend requirement	(1,868)	(1,661)	(2,327)	(2,281)	(1)
Income (loss) applicable to Common shares	\$ 10,121	\$ (20)	\$ 352	\$ 8,017	\$ (23)
PER SHARE DATA					
(Loss) before extraordinary gain	\$ 1.00	\$ --	\$.03	\$.75	\$ (
Extraordinary gain	--	--	--	--	
Net income (loss) applicable to Common shares	\$ 1.00	\$ --	\$.03	\$.75	\$ (
Dividends per Common share	\$ --	\$ --	\$ --	\$.05	\$
Weighted average shares outstanding	10,141,840	10,496,364	10,399,890	10,759,416	10,695

	September 30,	December 31,		
	2001	2000	1999	1998
	(unaudited)		(dollars in thousands,	

BALANCE SHEET DATA

Real estate, net	\$604,589	\$653,744	\$771,630	\$734,907
Notes and interest receivable, net	29,222	13,831	38,604	52,053
Total assets	780,378	787,015	919,546	918,605
Notes and interest payable	582,139	616,331	706,196	768,272
Margin borrowings	28,703	13,485	33,264	35,773
Stockholders' equity	83,420	73,402	46,266	38,272
Book value per share	\$ 8.23	\$ 7.06	\$ 4.30	\$ 3.58

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INTRODUCTION

ARL's predecessor was organized in 1961 to provide investors with a professionally managed, diversified portfolio of equity real estate and mortgage loan investments selected to provide opportunities for capital appreciation as well as current income. In 2001, ARL's asset portfolio was expanded by the purchase of leasehold interests in 37 oil and gas mineral development properties. All of the oil and gas operations are in East Texas.

LIQUIDITY AND CAPITAL RESOURCES

GENERAL. Cash and cash equivalents at September 30, 2001, totaled \$5.0 million, compared with \$4.2 million at December 31, 2000. Although ARL anticipates that during the remainder of 2001 it will generate excess cash flow from property operations, as discussed below, such excess cash is not sufficient to discharge all of ARL's debt obligations as they mature. ARL will therefore continue to rely on externally generated funds, including aggressive land sales, selected sales of income producing properties, borrowings against its investments in various real estate entities, refinancing of properties and, to the extent necessary, borrowings to meet its debt service obligations, pay taxes, interest and other non-property related expenses.

At December 31, 2000, notes payable totaling \$193.4 million had either scheduled maturities or required principal reduction payments during 2000. During the first nine months of 2001, ARL either extended, refinanced, paid down, paid off or received commitments from lenders to extend or refinance \$123.3 million of the debt scheduled to mature in 2001.

Net cash used in operating activities increased to a use of \$39.2 million in the nine months ended September 30, 2001, from a use of \$33.4 million in the nine months ended September 30, 2000. Fluctuations in the components of cash flow from operations are discussed in the following paragraphs.

Net cash from property operations (rents collected less payments for property operations) decreased to \$19.1 million in the nine months ended September 30, 2001, from \$23.5 million in 2000. The decrease is primarily attributable to the sale of nine apartments in 2000 and 13 apartments in 2001. ARL expects a decrease in cash flow from property operations during the remainder of 2001. Such decrease is expected to result from the continued selective sale of income producing properties.

Net cash from pizza operations (sales less cost of sales) of \$4.3 million in the nine months ended September 30, 2001, approximated the \$4.4 million in 2000.

Net cash used in oil and gas operations (sales collected less payments for lease operating expenses) was \$175,000 in the nine months ended September 30, 2001. Operations began in June 2001.

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Interest collected decreased to \$397,000 in the nine months ended September 30, 2001, from \$4.6 million in 2000. The decrease was attributable to the collection of \$36.0 million of mortgage notes receivable in 2000 and \$4.9 million in 2001.

Interest paid decreased to \$45.7 million in the nine months ended September 30, 2001, from \$55.9 million in 2000. The decrease was attributable to the sale of all or portions of 24 land parcels and nine apartments in 2000, and all or portions of 13 land parcels, one commercial property and 13 apartments in

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2001, resulting in the payoff, paydown or assumption by the purchaser of mortgage debt.

Advisory fees paid increased to \$5.0 million in the nine months ended September 30, 2001, from the \$4.1 million in 2000. The increase is attributable to the inclusion of NRLP assets in the basis for the advisory fees, after August 2000.

Incentive fees paid were \$1.6 million in the nine months ended September 30, 2001. The fees, earned in 2000, are 10% of the excess of net capital gains over net capital losses realized from sales of assets.

General and administrative expenses paid decreased to \$9.1 million in the nine months ended September 30, 2001, from \$11.7 million in 2000. The decrease is primarily attributable to reduced consulting and partnership fees, and reduced cost reimbursements paid to the advisor.

ARL's cash flow from its investments in IOT and TCI is dependent on the ability of each of the entities to make distributions. In the fourth quarter of 2000, IOT and TCI suspended distributions. Accordingly, ARL received no current distributions in the nine months ended September 30, 2001, compared to \$1.9 million in the nine months of 2000. However, in May 2001, ARL received \$53,000 in accumulated dividends on shares of CMET that should have been exchanged for TCI common stock in 1999.

Other cash from operating activities was \$1.2 million in the nine months ended September 30, 2001 compared to \$10.1 million in 2000. The change was primarily attributable to a greater decrease in property prepaids, miscellaneous property receivables and property escrows in 2000 than in 2001.

In 2001, ARL sold the following properties:

PROPERTY -----	LOCATION -----	UNITS/ SQ.FT./ACRES -----	SALES PRICE -----	NET CASH RECEIVED -----	DEBT DISCH -----
FIRST QUARTER APARTMENTS					
Carriage Park	Tampa, FL	46 units	\$ 2,005	\$ 757	\$ 1,069
Rockborough	Denver, CO	345 units	16,675	3,654	12,215/
Shopping Center					
Regency Pointe	Jacksonville, FL	67,063 Sq.Ft.	7,350	5,126	1,500
LAND					
Frisco Bridges	Collin County, TX	27.8 Acres	\$ 4,500	\$4,130	\$ --
Katrina	Palm Desert, CA	20.0 Acres	2,831	(124)	596

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PROPERTY -----	LOCATION -----	UNITS/ SQ.FT./ACRES -----	SALES PRICE -----	NET CASH RECEIVED -----	DEBT DISCH -----
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Las Colinas	Las Colinas, TX	1.7 Acres	825	233	400
Plano Parkway	Plano, TX	11.3 Acres	1,445	312	950
Scoggins	Tarrant County, TX	232.8 Acres	2,913	892	1,800
Scout	Tarrant County, TX	408.0 Acres	5,087	1,586	3,200
Tree Farm	Dallas County, TX	10.4 Acres	2,888	(87)	2,644
SECOND QUARTER					
APARTMENTS					
Kimberly Woods	Tucson, AZ	279 Units	8,450	1,667	6,191/
Place One	Tulsa, OK	407 Units	12,935	3,310	7,539
Shadowood	Addison, TX	184 Units	7,125	1,980	4,320
Glenwood	Addison, TX	168 Units	6,650	3,166	2,549
Bent Tree	Addison, TX	292 Units	12,050	2,480	8,867
Land					
Katrina	Palm Desert, CA	20.0 Acres	2,940	78	--
Mason/Goodrich	Houston, TX	22.1 Acres	4,168	(34)	3,750
Plano Parkway	Plano, TX	12.0 Acres	740	672	--
Yorktown	Harris County, TX	120.4 Acres	5,239	(160)	4,991
THIRD QUARTER					
APARTMENTS					
Club Mar	Sarasota, FL	248 Units	8,500	1,905	6,199/
Covered Bridge	Gainesville, FL	176 Units	7,900	2,463	4,339
Crossing at Church	Tampa, FL	52 Units	1,880	750	948
Ashford	Tampa, FL	56 Units	2,145	593	1,182
Chalet I	Topeka, KS	162 Units	5,650	1,288	4,108/
Chalet II	Topeka, KS	72 Units	2,100	485	1,550/
LAND					
Elm Fork	Denton County, TX	10.0 Acres	1,002	(30)	958
Katrina	Palm Desert, CA	6.1 Acres	1,196	1,108	--
Chase Oaks	Plano, TX	22.3 Acres	2,874	663	2,027
Nashville	Nashville, TN	2.0 Acres	26	(1)	24
Nashville	Nashville, TN	1.2 Acres	8	--	4
Razor	Plano, TX	6.6 Acres	350	267	--
Katrina	Palm Desert, CA	2.2 Acres	800	(24)	737
Chase Oaks	Plano, TX	4.9 Acres	1,973	1,832	--
FOURTH QUARTER					
APARTMENTS					
Nora Pines	Indianapolis, IN	254 Units	9,850	2,548	5,574
LAND					
Katrina	Palm Desert, CA	1.4 Acres	284	(9)	253

(1) Debt assumed by purchaser.

(2) Gain deferred until ARL-provided financing is collected.

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In 2001, ARL purchased the following properties:

PROPERTY -----	LOCATION -----	UNITS/SQ. FT./ACRES -----	PURCHASE PRICE -----	NET CASH PAID -----	DEBT INCURRED -----
SECOND QUARTER					
APARTMENTS					
Glenwood	Addison, TX	168 Units	\$ 6,246	\$/ (1) /	\$2,549 / (2) /

- (1) 8.88 acres of Hollywood Casino land and 10.5 acres of Vista Ridge land given as consideration. Exchanged with a related party.
- (2) Assumed debt of seller. Exchanged with a related party.

In 2001, ARL financed/refinanced or obtained second mortgage financing on the following:

PROPERTY -----	LOCATION -----	ACRES/ROOMS SQ. FT. -----	DEBT INCURRED -----	DEBT DISCHARGED -----	NET CA RECEIV -----
FIRST QUARTER					
LAND					
Mason/Goodrich	Houston, TX	235.0 Acres	\$ 6,750	\$ --	\$ 6,3
Pioneer Crossing	Austin, TX	350.1 Acres	7,000	--	6,8
Pioneer Crossing	Austin, TX	14.5 Acres	2,500	--	2,3
SECOND QUARTER					
LAND					
Hollywood Casino	Farmers Branch, TX	51.7 Acres	2,500 / (1) /	--	1,9
Valwood	Dallas County, TX	19.4 Acres	-- / (1) /	--	
Katrina	Palm Desert, CA	300.5 Acres	22,000	15,584	4,4
Jeffries Ranch	Oceanside, CA	82.4 Acres	5,250 / (3) /	750	3,9
Willow Springs	Riverside, CA	1,485.7 Acres	-- / (3) /	--	
HOTEL					
Williamsburg Hospitality House	Williamsburg, VA / (4) /	296 Rooms	10,309	--	9,8
SHOPPING CENTER					
Cullman	Cullman, AL	92,486 Sq.Ft.	-- / (3) /	129	
THIRD QUARTER					
APARTMENTS					
Woodlake	Carrollton, TX	256 Units	-- / (5) /	--	
Sun Hollow	El Paso, TX	216 Units	-- / (5) /	--	
Waters Edge III	Gulfport, MS	238 Units	-- / (5) /	--	
Office Building Centura Tower	Farmers	410,910	28,739	28,384	(5)

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	Branch, TX	Sq.Ft.			
Rosedale Towers	Minneapolis, MN	84,798	7,500/(5)/	--	7,5
		Sq.Ft.			
LAND					
Marine Creek	Fort Worth, TX	54.2 Acres	1,500	750	7
Mercer Crossing	Carrollton, TX	31.3 Acres	2,937	1,986	4
Chase Oaks	Plano, TX	6.9 Acres	1,633	1,000	4
Vista Ridge LI	Lewisville, TX	90.3 Acres	9,085	9,119	(1
Vista Ridge MF	Lewisville, TX	23.0 Acres	1,345	1,000	2

- (1) Single note, with all properties as collateral.
- (2) Variable interest rate.
- (3) Single note, with all properties as collateral.
- (4) Also secured by 1,846,000 shares of TCI common stock.
- (5) Single note, with all properties as collateral.

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ARL has margin arrangements with various financial institutions and brokerage firms which provide for borrowing up to 50% of the market value of ARL's marketable equity securities. The borrowings under such margin arrangements are secured by equity securities of IOT and TCI and ARL's trading portfolio and bear interest rates ranging from 6.0% to 24.0%. Margin borrowing totaled \$28.7 million at September 30, 2001.

ARL's management expects that it will be necessary for ARL to sell \$219.1 million, \$51.7 million and \$6.4 million of its land holdings during each of the next three years to satisfy the debt on such land as it matures. If ARL is unable to sell at least the minimum amount of land to satisfy the debt obligations on such land as it matures, or, if it was not able to extend such debt, ARL would either sell other assets to pay such debt or return the property to the lender.

ARL's management reviews the carrying values of ARL's properties and mortgage note receivables at least annually and whenever events or a change in circumstances indicate that impairment may exist. Impairment is considered to exist if, in the case of a property, the future cash flow from the property (undiscounted and without interest) is less than the carrying amount of the property. For notes receivable impairment is considered to exist if it is probable that all amounts due under the terms of the note will not be collected. In those instances where impairment is found to exist, a provision for loss is recorded by a charge against earnings. ARL's mortgage note receivable review includes an evaluation of the collateral property securing such note. The property review generally includes selective property inspections, a review of the property's current rents compared to market rents, a review of the property's expenses, a review of maintenance requirements, a review of the property's cash flow, discussions with the manager of the property and a review of properties in the surrounding area.

COMMITMENTS AND CONTINGENCIES

In March 1999, ARL reached an agreement with the Class A unitholders of

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Valley Ranch, L.P. to acquire their eight million Class A units for \$1.00 per unit. In 1999, three million units were purchased. Additionally, one million units were purchased in January 2000 and two million units were purchased in May 2001. ARL has committed to purchase the remaining two million units in May 2002.

In April 2001, ARL reached an agreement with the Class A unitholders of ART Palm, L.P., to acquire 7,236,250 of their Class A units in December 2001 for \$5.8 million. In December 2001, the units were acquired for \$2.5 million in cash and a note payable for the remaining \$3.3 million. The note bears interest at 10.0% per annum, with a payment of \$1.9 million plus accrued but unpaid interest due in June 2002, and the remaining principal and accrued but unpaid interest due at maturity in December 2002.

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RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires the fair value of a liability for an asset retirement obligation to be recognized in the period which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived assets. SFAS No. 143 is effective for the fiscal year beginning after June 15, 2002. ARL's management believes the adoption of this statement will have no material impact on the ARL financial statements.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long Lived Assets." SFAS No. 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. Therefore discontinued operations will no longer be measured at net realizable value or include amounts for operating losses that have not yet occurred. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, is to be applied prospectively.

RESULTS OF OPERATIONS

THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO SEPTEMBER 30, 2000. For the nine months ended September 30, 2001, ARL reported net income of \$12.0 million, compared to net income of \$1.6 million for the nine months ended September 30, 2000. The primary factors contributing to ARL's net income are discussed in the following paragraphs.

Rents decreased to \$32.7 million and \$98.7 million in the three and nine months ended September 30, 2001, from \$34.7 million and \$105.2 million in 2000. Rents from commercial properties increased to \$25.6 million for the nine months ended September 30, 2001, from \$23.8 million in 2000, rent from hotels increased to \$27.7 million in the nine months ended September 30, 2001, from \$25.5 million in 2000 and rent from apartments decreased to \$44.8 million in the nine months ended September 30, 2001, from \$53.0 million in 2000. The increase in commercial property rents was primarily attributable to higher occupancy in buildings completed in late 1999 and early 2000. The increase in hotel rent was primarily due to the opening of Hotel Sofia in 2001. The decrease in apartment rent was due to the sale of nine apartments in 2000 and 13 apartments in 2001. Rental income is expected to decrease significantly in the remainder of 2001 as a result of the income producing properties sold in 2001 and 2000.

Property operations expense decreased to \$22.2 million in the three

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months ended September 30, 2001, from \$23.8 million in 2000, and increased to \$71.2 million in the nine months ended September 30, 2001, from \$70.5 million in 2000. Property operations expense for commercial properties increased to \$15.0 million in the nine months ended September 30, 2001, from \$14.8 million in 2000. For hotels, property operations expense increased to \$21.6 million in the nine months ended September 30, 2001, from \$17.8 million in 2000. For land, property operations expense decreased to \$6.8 million in the nine months ended September 30, 2001 from \$7.1 million in 2000. For apartments, property operations expense decreased to \$27.8 million in the nine months ended September 30, 2001, from \$30.7 million in 2000. The increase in hotel property operations expense was primarily due to the opening of Hotel Sofia in 2001. The

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decrease in land operating expenses was primarily due to the 13 land parcels sold in 2000. The decrease in property operations expense for apartments was due to the sale of nine apartments in 2000 and 13 apartments in 2001. Property operations expense is expected to decrease significantly in the remainder of 2001 as a result of the properties sold in 2000 and 2001.

Pizza parlor sales and cost of sales were \$8.7 million and \$7.2 million, respectively, in the three months ended September 30, 2001 and \$25.3 million and \$20.7 million for the nine months ended September 30, 2001 compared to \$8.1 million and \$6.8 million, respectively, for the three months ended September 30, 2000 and \$24.4 million and \$20.1 million for the nine months ended September 30, 2000. The increased sales were primarily attributable to the effects of a more aggressive marketing and advertising strategy.

Interest income from notes receivable increased to \$837,000 in the three months ended September 30, 2001 from \$283,000 in 2000, and decreased to \$2.0 million in the nine months ended September 30, 2001, from \$3.3 million in 2000. The three month increase is due to new loans funded in 2001. The nine month decrease is due to the collection of mortgage notes receivable and related interest at maturity in 2000 and 2001.

Oil and gas sales were \$97,000 in the three and nine months ended September 30, 2001, representing start-up production from six wells. Oil and gas operating expenses were \$186,000 in the three and nine months ended September 30, 2001. Operating expenses include lifting costs and repairs and maintenance.

Other income decreased to a loss of \$19,000 and income of \$58,000 in the three and nine months ended September 30, 2001, from \$606,000 and \$419,000 in 2000. ARL recognized an unrealized decrease in market value of its trading portfolio securities of \$43,000 in the nine months ended September 30, 2001 compared to \$267,000 in 2000. See Note 6. "Marketable Equity Securities - Trading Portfolio."

Interest expense decreased to \$19.1 million and \$56.2 million in the three and nine months ended September 30, 2001, from \$19.6 million and \$60.2 million in 2000. The decrease was attributable to the sale of 13 apartments, one commercial property and 19 parcels of land in 2001 and nine apartments, four commercial properties and 36 parcels of land in 2000. In the remainder of 2001, interest expense is expected to continue to decrease due to the properties sold in 2000 and 2001.

Depreciation, depletion and amortization expense increased to \$4.5 million and \$13.2 million in the three and nine months ended September 30, 2001, from the \$4.0 million and \$12.9 million in 2000. This increase was due to the Hotel Sofia opening in 2001.

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General and administrative expenses increased to \$4.6 million and decreased to \$9.1 million in the three and nine months ended September 30, 2001, from \$2.9 million and \$11.7 million in 2000. The three month increase is primarily due to increases in legal and audit fees while the nine month decrease is primarily due to reduced consulting and partnership fees, and reduced cost reimbursements paid to the advisor.

Advisory fees of \$1.4 million for the three months ended September 30, 2001 approximated the \$1.5 million for the same period in 2000 and increased to \$5.0 million for the

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nine months ended September 30, 2001 from \$4.1 million in 2000. The increase is due to the addition of the NRLP assets to the advisory fees basis, after August 2000.

Net income fee to affiliate was