

AMERICAN REALTY INVESTORS INC
Form 10-Q
August 14, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

or

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

For the transition period from _____ to _____

Commission File Number 001-15663

AMERICAN REALTY INVESTORS, INC.

(Exact Name of Registrant as Specified in Its Charter)

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Nevada
(State or Other Jurisdiction of) 75-2847135
(I.R.S. Employer)

Incorporation or Organization) Identification No.)
1800 Valley View Lane, Suite 300, Dallas, Texas 75234

(Address of principal executive offices)

(Zip Code)

(469) 522-4200

(Registrant's telephone number, including area code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a Smaller reporting Company. See definition of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

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

Common Stock, \$.01 par value	11,237,066
(Class)	(Outstanding at August 5, 2009)

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AMERICAN REALTY INVESTORS, INC.

FORM 10-Q

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****AMERICAN REALTY INVESTORS, INC.****CONSOLIDATED BALANCE SHEETS****(unaudited)**

	June 30, 2009	December 31, 2008
	(dollars in thousands, except share and par value amounts)	
Assets		
Real estate, at cost	\$ 1,700,896	\$ 1,712,506
Real estate held for sale at cost, net of depreciation (\$0 for 2009 and \$640 for 2008)	-	10,333
Real estate subject to sales contracts at cost, net of depreciation (\$13,105 for 2009 and \$12,226 for 2008)	54,220	55,100
Less accumulated depreciation	(178,930)	(164,537)
Total real estate	1,576,186	1,613,402
Notes and interest receivable		
Performing (including \$49,461 in 2009 and \$38,384 in 2008 from affiliates and related parties)	79,596	68,845
Non-performing (including \$0 in 2009 and \$12,837 in 2008 from affiliates and related parties)	3,262	20,032
Less allowance for estimated losses	(10,044)	(11,874)
Total notes and interest receivable	72,814	77,003
Cash and cash equivalents	3,764	6,042
Restricted cash	-	271
Investments in securities	-	2,775
Investments in unconsolidated subsidiaries and investees	26,941	27,113
Other assets (including \$5,609 in 2009 and \$526 in 2008 from affiliates and related parties)	108,156	115,547
Total assets	\$ 1,787,861	\$ 1,842,153
Liabilities and Shareholders Equity		
Liabilities:		
Notes and interest payable (including \$9,386 in 2009 and \$9,103 in 2008 to affiliates and related parties)	\$1,324,289	\$1,311,935
Notes related to assets held-for-sale	-	7,722
Notes related to subject to sales contracts	62,155	62,972
Stock-secured notes payable	14,020	14,026
Accounts payable and other liabilities (including \$28,042 in 2009 and \$23,018 in 2008 to affiliates and related parties)	136,723	147,920
	1,537,187	1,544,575

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Commitments and contingencies:

Shareholders' equity:		
Preferred Stock, \$2.00 par value, authorized 15,000,000 shares, issued and outstanding Series A, 3,390,913 shares in 2009 and in 2008 (liquidation preference \$33,909), including 900,000 shares in 2009 and 2008 held by subsidiaries		
	4,979	4,979
Common Stock, \$.01 par value, authorized 100,000,000 shares; issued 11,874,138 shares in 2009 and in 2008		
	114	114
Treasury stock at cost; 637,072 shares in 2009 and 2008, which includes 276,972 shares held by TCI (consolidated) as of 2009 and 2008.		
	(5,954)	(5,954)
Paid-in capital	91,946	92,609
Retained earnings	83,465	119,599
Accumulated other comprehensive income	2,185	4,331
Total American Realty Investors shareholders' equity	176,735	215,678
Non-controlling interest	73,939	81,900
Total equity	250,674	297,578
Total liabilities and equity	\$ 1,787,861	1,842,153

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

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

	For the Three Months Ended		For the Six Months Ended	
	2009	June 30, 2008	2009	June 30, 2008
(dollars in thousands, except share and per share amounts)				
Revenues:				
Rental and other property revenues (including \$1,019 and \$111 for three months and \$2,108 and \$369 for six months 2009 and 2008 respectively from affiliates and related parties)	\$ 46,340	\$ 45,388	\$ 93,471	\$ 89,610
Expenses:				
Property operating expenses (including \$2,162 and \$2,117 for three months and \$4,300 and \$4,335 for six months 2009 and 2008 respectively from affiliates and related parties)	23,660	28,221	54,039	58,602
Depreciation and amortization	8,209	6,664	16,001	13,494
General and administrative (including \$1,230 and \$874 for three months and \$2,643 and \$1,985 for six months 2009 and 2008 respectively from affiliates and related parties)	2,120	3,701	5,262	7,610
Advisory fee to affiliate	3,838	3,921	7,685	7,895
Total operating expenses	37,827	42,507	82,987	87,601
Operating income	8,513	2,881	10,484	2,009
Other income (expense):				
Interest income (including \$(995) and \$1,840 for three months and \$526 and \$3,013 for six months 2009 and 2008 respectively from affiliates and related parties)	(64)	1,619	2,265	3,719
Other income (including \$366 and \$81 for three months and \$679 and \$958 for six months 2009 and 2008 respectively from affiliates and related parties)	493	2,054	5,036	3,782
Mortgage and loan interest including \$765 and \$287 for three months and \$1,418 and \$545 for six months 2009 and 2008 respectively from affiliates and related parties)	(23,009)	(22,187)	(44,087)	(44,773)
Earnings (loss) from unconsolidated subsidiaries and investees	(197)	(416)	(197)	4,970
Gain on foreign currency translation	604	-	78	-
Provision on impairment of note receivables and real estate assets	(30,260)	-	(30,639)	(12,000)
Litigation settlement	301	4	301	-
Total other expenses	(52,132)	(18,926)	(67,243)	(44,302)

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Loss before gain on land sales, non-controlling interest, and taxes	(43,619)	(16,045)	(56,759)	(42,293)
Gain on land sales	8,040	2,890	8,208	4,165
Loss from continuing operations before tax	(35,579)	(13,155)	(48,551)	(38,128)
Income tax benefit (expense)	684	(541)	2,230	33,507
Net loss from continuing operations	(34,895)	(13,696)	(46,321)	(4,621)
Discontinued operations:				
Loss from discontinued operations	(206)	(5,591)	(150)	(19,684)
Gain on sale of real estate from discontinued operations	2,161	3,764	6,932	115,134
Income tax benefit (expense) from discontinued operations	(684)	640	(2,374)	(33,408)
Net income (loss)	(33,624)	(14,883)	(41,913)	57,421
Less: net income (loss) attributable to non-controlling interests	5,338	2,417	7,023	(9,460)
Net income (loss) attributable to American Realty Investors, Inc.	(28,286)	(12,466)	(34,890)	47,961
Preferred dividend requirement	(622)	(623)	(1,244)	(1,246)
Net income (loss) applicable to common shares	\$ (28,908)	\$ (13,089)	\$ (36,134)	\$ 46,715
Earnings per share - basic				
Loss from continuing operations	\$ (2.69)	\$ (1.14)	\$ (3.60)	\$ (0.56)
Discontinued operations	0.12	(0.11)	0.38	5.02
Net income (loss) applicable to common shares	\$ (2.57)	\$ (1.25)	\$ (3.22)	\$ 4.46
Earnings per share - diluted				
Loss from continuing operations	\$ (2.69)	\$ (1.14)	\$ (3.60)	\$ (0.56)
Discontinued operations	0.12	(0.11)	0.38	5.02
Net income (loss) applicable to common shares	\$ (2.57)	\$ (1.25)	\$ (3.22)	\$ 4.46
Weighted average common share used in computing earnings per share	11,237,066	10,443,041	11,237,066	10,447,041
Weighted average common share used in computing diluted earnings per share	11,237,066	10,443,041	11,237,066	10,447,041
Amounts attributable to American Realty Investors, Inc.				
Loss from continuing operations	\$ (29,658)	\$ (11,279)	\$ (39,197)	\$ (4,614)
Income (loss) from discontinued operations	1,372	(1,187)	4,307	52,575
Net income (loss)	\$ (28,286)	\$ (12,466)	\$ (34,890)	\$ 47,961

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

Table of Contents**AMERICAN REALTY INVESTORS, INC.****CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY**

For the Six Months Ended June 30, 2009

(unaudited)

(dollars in thousands)

	Total Capital	Comprehensive Loss	Series A Preferred Stock	Common Stock Shares	Common Stock Amount	Treasury Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interests
Balance, December 31, 2008	\$ 297,578	\$ -	\$ 4,979	11,874,138	\$ 114	\$ (5,954)	\$ 92,609	\$ 119,599	\$ 4,331	\$ 8,115
Realized loss on investment securities	(2,575)	(2,575)	-	-	-	-	-	-	(2,146)	-
Net loss	(41,913)	(41,913)	-	-	-	-	-	(34,890)	-	(7,023)
Disposition of controlling interest	(1,172)	-	-	-	-	-	(663)	-	-	-
Series A preferred stock dividend (\$0.05 per share)	(1,244)	-	-	-	-	-	-	(1,244)	-	-
Other comprehensive income		(44,488)	-	-	-	-	-	-	-	-
Balance, June 30, 2009	\$ 250,674	\$ -	\$ 4,979	11,874,138	\$ 114	\$ (5,954)	\$ 91,946	\$ 83,465	\$ 2,185	\$ 11,092

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

Table of Contents**AMERICAN REALTY ADVISORS, INC****STATEMENT OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)****For Six Months Ended June 30, 2009****(unaudited)**

	2009	2008
Net income (loss)	\$ (41,913)	\$ 57,421
Other comprehensive income (loss)		
Unrealized gain on foreign currency translation	-	9,685
Unrealized loss on investment securities	(2,146)	(6,952)
Total other comprehensive income (loss)	(2,146)	2,733
Comprehensive income (loss)	(44,059)	60,154
Comprehensive income attributable to non-controlling interest	7,023	-
Comprehensive income (loss) attributable to American Realty Investors, Inc.	\$ (37,036)	\$ 60,154

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

Table of Contents**AMERICAN REALTY INVESTORS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)**

	For the Six Months Ended June 30,	
	2009	2008
	(dollars in thousands)	
Cash Flow From Operating Activities:		
Net income (loss) applicable to common shares	\$ (36,134)	\$ 46,715
Adjustments to reconcile net loss applicable to common shares to net cash used in operating activities:		
Gain on sale of land	(8,208)	(4,165)
Depreciation and amortization	16,035	13,832
Provision on impairment of note receivables and real estate assets	30,639	12,000
Amortization of deferred borrowing costs	3,153	4,505
Earnings from unconsolidated subsidiaries and investees	197	(4,396)
Change in non-controlling interest	(7,023)	-
Loss on foreign currency translation	(78)	-
Gain on sale of income producing properties	(6,932)	(115,134)
(Increase) decrease in assets:		
Accrued interest receivable	(328)	581
Restricted cash	271	1,280
Other assets	(4,181)	1,928
Prepaid expense	583	80
Escrow	12,276	(14,093)
Earnest money	(2,614)	(5,255)
Rent receivables	(277)	(6,913)
Increase (decrease) in liabilities:		
Accrued interest payable	183	(2,212)
Intercompany change	4,082	60,694
Other liabilities	(15,279)	(19,142)
Net cash used in operating activities	(13,635)	(29,695)
Cash Flow From Investing Activities:		
Proceeds from notes receivables (\$3,077 in 2009, \$0 in 2008 from affiliates)	4,517	6,783
Acquisition of land held for development	(650)	(15,214)
Proceeds from sales of income producing properties	13,750	156,483
Proceeds from sale of land	16,253	12,197
Investment in unconsolidated real estate entities	172	(8,550)
Improvement of land held for development	(2,578)	(1,680)
Improvement of income producing properties	(1,684)	(4,713)
Investment in marketable securities	2,775	11,752
Acquisition of income producing properties	-	(63,227)
Acquisition of uncontrollable interest	(3,088)	-
Construction and development of new properties	(23,670)	(66,860)
Net cash provided by investing activities	5,797	26,971
Cash Flow From Financing Activities:		
Proceeds from notes payable	32,760	157,162
Recurring amortization of principal on notes payable	(12,432)	(11,150)

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Payments on maturing notes payable	(16,321)	(154,171)
Deferred financing costs	1,559	3,587
Stock-secured borrowings	(6)	(3,903)
Repurchase/sale of treasury stock	-	(314)
Net cash provided (used) by financing activities	5,560	(8,789)
Net decrease in cash and cash equivalents	(2,278)	(11,513)
Cash and cash equivalents, beginning of period	6,042	11,560
Cash and cash equivalents, end of period	\$ 3,764	\$ 47

Supplemental disclosures of cash flow information:

Cash paid for interest	\$ 44,728	\$ 50,558
Cash paid for income taxes, net of refunds	\$ 985	\$ -

Schedule of noncash investing and financing activities:

Unrealized foreign currency translation gain	\$ -	\$ 9,685
Unrealized loss on marketable securities	\$ (2,575)	\$ (6,952)
Note receivable allowance	\$ -	\$ (1,500)
Note receivable received from affiliate	\$ 2,341	\$ -
Note receivable from sale of real estate	\$ 2,700	\$ -

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

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

The Company is headquartered in Dallas, Texas and its common stock trades on the New York Stock Exchange under the symbol ARL . Approximately 82% of ARL 's stock is owned by affiliated entities. ARL owns approximately 83% of the outstanding shares of common stock of Transcontinental Realty Investors, Inc., (TCI) a Nevada corporation which has its common stock listed and traded on the New York Stock Exchange, Inc. under the symbol TCI . The ownership of the TCI shares was achieved through a series of transactions, including a cash tender offer completed March 19, 2003, an exchange by certain ARL subsidiaries of securities with Basic Capital Management, Inc. (BCM) and a sale of a participating interest in a line of credit receivable from One Realco Corporation (One Realco) to BCM, as well as certain open market purchases of TCI shares in December 2003. ARL has consolidated TCI 's accounts and operations since March 2003. As of June 30, 2009, TCI owned approximately 24.9% of the outstanding common stock of Income Opportunity Realty Investors, Inc., (IOT), a public company whose shares are listed and traded on the American Stock Exchange.

Properties

The Company owns or had interests in a total property portfolio of 99 income producing properties as of June 30, 2009. The commercial properties aggregate approximately 5.8 million net rentable square feet as of June 30, 2009.

At June 30, 2009, the properties consisted of:

33 commercial buildings, which consists of 20 office buildings, eight commercial warehouses, and five retail centers;

five hotels;

61 apartment communities inclusive of one developed property in the lease up phase, excluding apartments being developed; and

12,548 acres of developed and undeveloped land.

The Company is involved in the construction of three development projects as of June 30, 2009. In addition, the Company invests in several tracts of land and is at several stages of predevelopment on many of these properties. The Company partners with various third-party developers to construct residential projects. The third-party developer typically takes a general partner interest in the development partnership while the Company takes a limited partner (and majority) interest. The Company is required to fund the equity contributions. The third-party developer is responsible for obtaining financing, hiring a general contractor and for the overall management and delivery of the project, and is compensated with a fee equal to a certain percentage of the construction costs.

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

Newly issued accounting standards

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

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retrospectively. Other than the change in presentation of non-controlling interests, the adoption of SFAS No. 160 had no impact on the Financial Statements.

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

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

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

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

NOTE 2. REAL ESTATE ACTIVITY

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

In January 2009, we sold 9.3 acres of land Known as Woodmont Schiff-Park Forest land for a sales price of \$7.7 million. We received \$3.9 million in cash after paying off the existing note of \$3.2 million, closing costs and commissions. In addition, we booked a \$2.1 million receivable. There was no gain or loss on the sale of the property.

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

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In April 2009, we sold the Cullman Shopping Center, a 92,500 square foot facility located in Cullman, Alabama for a sales price of \$4.0 million. We recorded a deferred gain on sale of \$1.9 million after paying off the existing debt of \$0.9 million and closing costs.

In April 2009, we sold 3.02 acres of land known as West End land, for a sales price of \$8.5 million. We recorded a gain on sale of \$4.9 million after paying off the existing debt of \$3.4 million and closing costs.

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In April 2009, we sold 3.13 acres of land known as Verandas at City View land, for a sales price of \$1.3 million. We recorded a gain of \$0.7 million after paying off the existing debt of \$1.3 million and closing costs.

In June 2009, we sold 3.96 acres of land known as Teleport land, for a sales price of \$1.1 million. We recorded a gain of \$0.4 million after paying off the existing debt of \$0.14 million and closing costs.

In June 2009, we sold the Bridgestone apartments, for a sales price of \$2.9 million. We recorded a gain of \$2.2 million after paying off the existing debt of \$1.9 million and closing costs.

In June 2009, we sold 8.23 acres of land known as Leone land, for a sales price of \$3.2 million. We recorded a gain of \$1.5 million after paying off the existing debt of \$1.2 million and closing costs.

We continue to invest in the development of apartments and various projects. During the six months ended June 30, 2009, we have expended \$18.4 million on construction and development and capitalized \$5.3 million of interest costs.

NOTE 3. NOTES AND INTEREST RECEIVABLE

The table below shows our notes receivables as of June 30, 2009 (dollars in thousands).

Borrower	Maturity Date	Interest Rate	Amount	Security
Performing loans:				
3334Z Apts, LP	04/12	6.50%	\$ 1,875	100% Interest in 3334Z Apts Industrial building, Arlington, TX
Basic Capital Management ⁽¹⁾	10/11	Prime + 2%	1,253	Retail building, Cary, NC
Basic Capital Management ⁽¹⁾	10/11	Prime + 2%	1,523	Unsecured
CTMGT Travis Ranch, LLC	08/14	6.00%	5,488	Assignment of partnership interests
Dallas Fund XVII LP	10/09	9.00%	6,000	Excess cash flow from partnership
Garden Centura LP ⁽¹⁾	N/A	7.00%	3,518	335900 Shares of Stock (11.25 per share)
International Health Product ⁽¹⁾	08/10	Prime + 1%	3,779	Various security interests
Miscellaneous non-related party notes	Various	Various	4,153	Various security interests
Miscellaneous related party notes ⁽¹⁾	Various	Various	3,767	33 acres undeveloped land, Austin, TX
Pioneer Austin Development	10/08 ⁽²⁾	18.00%	2,407	850 shares of ARI stock owned by BCM
Realty Advisors ⁽¹⁾	11/11	7.00%	12,999	Unsecured
Syntek Acquisition Corp ⁽¹⁾	08/10	Prime + 1%	3,354	Unsecured
Thornwood Wrap Note, ICC Surfwood	07/09	Prime + 1.5%	1,638	Unsecured
Unified Housing of Harvest Hill ⁽¹⁾	10/13	12.00%	8,783	100% Interest in UHF Harvest Hill
HFS of Humble LLC ⁽¹⁾	12/09	12.00%	2,630	100% Interest in HFS Humble
UHF Inwood ⁽¹⁾	12/09	12.00%	4,974	100% Interest in UHF
UHF Kensington ⁽¹⁾	03/14	12.00%	5,099	100% Interest in UHF Kensington
UHF McKinney ⁽¹⁾	12/13	12.00%	2,375	100% Interest in UHF McKinney
Accrued interest			3,981	

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Total Performing				\$ 79,596	
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Non-Performing
loans:

	Tracy Suttles	12/11	0.00%	1,077	Unsecured
	Windmill Farms	07/09	7.00%	2,185	Unsecured

Total Non-Performing				\$ 3,262	
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Total				82,858	
	Allowance for estimated losses			(10,044)	

Total				\$ 72,814	
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(1) Related party notes

(2) Renegotiating note

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

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

		Percentage ownership	
		at June 30, 2009	at June 30, 2008
ARL	LK Four Hickory	(2)	29%
ARL/TCI	Income Opportunity Investors, Inc.	(1)	25%
ARL/TCI	Garden Centura, LP	(2)	5%
ARL	Gruppa Florentina, LLC	(2)	20%

(1) Unconsolidated subsidiary

(2) Other investees

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

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

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

For the six months ended June 30, 2009

	Unconsolidated Subsidiaries	Other Investees	Total
Real estate, net of accumulated depreciation	\$ 36,884	\$ 128,112	\$ 164,996
Notes Receivable	37,246	3,641	40,887
Other assets	38,761	43,746	82,507
Notes payable	(42,056)	(95,419)	(137,475)
Other liabilities	(815)	(8,825)	(9,640)
Shareholders equity/partners capital	\$ (70,020)	\$ (71,255)	(141,275)
	-	-	-
Revenue	\$ 1,466	\$ 26,867	28,333
Depreciation	(123)	(3,116)	(3,239)
Operating expenses	(811)	(20,146)	(20,957)
Gain on land sales	-	-	-
Interest expense	(1,286)	(3,073)	(4,359)
Income from continuing operations	(754)	532	(222)

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Income from discontinued operations	-	-	-
Net income (loss)	\$ (754)	\$ 532	(222)
Companys proportionate share of earnings	\$ (188)	\$ 134	(54)

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For the six months ended June 30, 2008	Unconsolidated Subsidiaries	Other Investees	Total
Real estate, net of accumulated depreciation	\$ 37,141	\$ 132,548	\$ 169,689
Notes Receivable	28,000	3,047	31,047
Other assets	47,028	43,051	90,079
Notes payable	(43,423)	(98,385)	(141,808)
Other liabilities	(4,844)	(9,584)	(14,428)
Shareholders equity/partners capital	\$ (63,902)	\$ (70,677)	(134,579)
	-	-	-
Revenue	\$ 2,393	\$ 28,676	31,069
Depreciation	(123)	(2,949)	(3,072)
Operating expenses	5,492	(22,029)	(16,537)
Gain on land sales	-	-	-
Interest expense	(1,863)	(3,052)	(4,915)
Income from continuing operations	5,899	646	6,545
Income from discontinued operations	13,938	-	13,938
Net income	\$ 19,837	\$ 646	20,483
Companys proportionate share of earnings	\$ 4,943	\$ 23	4,966

NOTE 5. INVESTMENTS IN SECURITIES

Our investments in securities which consisted of our investment in Realty Korea CR-REIT, Ltd. were completely disposed of in the current year.

NOTE 6. NOTES PAYABLE

In conjunction with the development of various apartment projects and other developments, we drew down \$15.7 million in construction loans during the six months ended June 30, 2009.

NOTE 7. STOCK-SECURED NOTES PAYABLE

The Company has margin arrangements with various financial institutions and brokerage firms, which provide for borrowings of up to 50.0% of the market value of marketable equity securities. The Company also has other notes payable secured by stock. The borrowings under such margin arrangements and notes are secured by the equity securities of IOT and TCI, and ARL's trading portfolio securities and bear interest rates ranging from 3.50% to 13.00% per annum. Stock-secured notes payable and margin borrowings were \$55.8 million at June 30, 2009.

NOTE 8. RELATED PARTY TRANSACTIONS

The following table reconciles the beginning and ending balances of accounts receivable from and (accounts payable) to affiliates as of June 30, 2009 (dollars in thousands).

Balance, December 31, 2008	\$ (23,018)
Cash transfers	46,299
Cash repayments	(43,606)
Fees and commissions payable to affiliate	(12,191)
Advances due to financing proceeds	6,197
Payments through affiliates	(781)

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Balance, June 30, 2009	\$	(27,100)
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During the ordinary course of business, we have related party transactions that include, but are not limited to rent income, interest income, interest expense, general and administrative costs, commissions, management fees, and property expenses. In addition, we have assets and liabilities that include related party amounts. The affiliated amounts included in assets and liabilities, and the affiliated revenues and expenses received/paid are shown on the face of the financial statements.

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NOTE 9. IMPAIRMENT INVESTMENTS AND REAL ESTATE ASSETS

During the course of the Company's review of the carrying value of its investment and ownership of real estate assets, it was determined that an impairment charge of \$30.6 million was required during the six months ended June 30, 2009.

In June 2009, eight partnerships in which a subsidiary of the company had ownership interests filed for Chapter Eleven bankruptcy protection. ARL's investment in the real estate partnerships was approximately \$40.0 million. Based upon the company's estimates of the fair market value of the investments, impairments were recorded resulting in a loss in the investment portfolio of \$18.0 million. Based upon ARL's estimates of fair market value of its real estate assets, impairments of \$1.8 million were recorded for a commercial property, and \$7.3 million in land we currently hold. Further, the Company incurred a \$3.5 million loss for land that was sold in the third quarter. As of June 30, 2009, the land that was sold was impaired to reflect the reduced value.

NOTE 10. OPERATING SEGMENTS

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

Presented below are the Company's reportable segments' operating incomes for the three and six months ended June 30, 2009 and 2008, including segment assets and expenditures (dollars in thousands):

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	Commercial Properties		Apartments	Hotels	Land	Other	Total					
For the Three Months Ended June 30, 2009												
Operating revenue	\$	17,652	\$	24,375	\$	3,866	\$	87	\$	360	\$	46,340
Operating expenses		9,932		10,650		2,969		109		-		23,660
Depreciation and amortization		3,436		4,489		284		-		-		8,209
Mortgage and loan interest		4,660		10,960		800		4,947		1,642		23,009
Interest income		-		-		-		-		(64)		(64)
Gain on land sales		-		-		-		8,040		-		8,040
Segment operating income (loss)	\$	(376)	\$	(1,724)	\$	(187)	\$	3,071	\$	(1,346)	\$	(562)
Capital expenditures		1,336		15		66		-		-		1,417
Assets		335,598		667,080		26,959		517,262		(24,933)		1,521,966
Property Sales												
Sales price	\$	2,850	\$	-	\$	-	\$	15,148	\$	-	\$	17,998
Cost of sale		689		-		-		7,108		-		7,797
Deferred current gain		-		-		-		-		-		-
Recognized prior deferred gain		-		-		-		-		-		-
Gain on sale	\$	2,161	\$	-	\$	-	\$	8,040	\$	-	\$	10,201

	Commercial Properties		Apartments	Hotels	Land	Other	Total					
For the Three Months Ended June 30, 2008												
Operating revenue	\$	17,896	\$	21,439	\$	4,329	\$	599	\$	1,125	\$	45,388
Operating expenses		10,589		13,190		3,618		824		-		28,221
Depreciation and amortization		2,907		3,434		269		1		53		6,664
Mortgage and loan interest		4,900		9,225		785		4,207		3,070		22,187
Interest income		-		-		-		-		1,619		1,619
Gain on land sales		-		-		-		2,890		-		2,890
Segment operating loss	\$	(500)	\$	(4,410)	\$	(343)	\$	(1,543)	\$	(379)	\$	(7,175)
Capital expenditures		-		-		-		-		-		-
Assets		366,940		604,934		27,651		356,784		77,133		1,433,442
Property Sales												
Sales price	\$	-	\$	3,650	\$	-	\$	10,203	\$	-	\$	13,853
Cost of sale		-		1,736		-		7,163		-		8,899
Deferred current gain		-		-		-		150		-		150
Recognized prior deferred gain		-		1,850		-		-		-		1,850
Gain on sale	\$	-	\$	3,764	\$	-	\$	2,890	\$	-	\$	6,654

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

	For the Three Months Ended June 30,	
	2009	2008
Segment operating loss	\$ (562)	\$ (7,175)

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Other non-segment items of income (expense)		
General and administrative	(2,120)	(3,701)
Advisory fees	(3,838)	(3,921)
Litigation settlement	301	4
Provision on impairment of note receivables and real estate assets		
	(30,260)	-
Other income	493	2,054
Gain on foreign translation	604	-
Equity in earnings of investees	(197)	(416)
Deferred tax benefit (expense)	684	(541)
Loss from continuing operations	\$ (34,895)	\$ (13,696)

SEGMENT ASSET RECONCILIATION TO TOTAL ASSETS

	For the Three Months Ended June 30,	
	2009	2008
Segment assets	\$ 1,521,966	\$ 1,433,442
Investments in real estate partnerships	26,941	36,417
Other assets and receivables	184,734	185,174
Assets held for sale	54,220	94,563
Total assets	\$ 1,787,861	\$ 1,749,596

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For the Six Months Ended June 30, 2009	Commercial Properties	Apartments	Hotels	Land	Other	Total
Operating revenue	\$ 37,935	\$ 47,410	\$ 7,540	\$ 198	\$ 388	\$ 93,471
Operating expenses	20,881	26,858	5,777	523	-	54,039
Depreciation and amortization	6,820	8,614	567	-	-	16,001
Mortgage and loan interest	9,391	20,177	1,641	9,170	3,708	44,087
Interest income	-	-	-	-	2,265	2,265
Gain on land sales	-	-	-	8,208	-	8,208
Segment operating income (loss)	\$ 843	\$ (8,239)	\$ (445)	\$ (1,287)	\$ (1,055)	\$ (10,183)
Capital expenditures	1,336	15	66	-	-	1,417
Assets	335,598	667,080	26,959	517,262	(24,933)	1,521,966
Property Sales						
Sales price	\$ 9,750	\$ -	\$ -	\$ 23,327	\$ -	\$ 33,077
Cost of sale	3,350	-	-	15,119	-	18,469
Deferred current gain	-	-	-	-	-	-
Recognized prior deferred gain	-	-	-	-	532	532
Gain on sale	\$ 6,400	\$ -	\$ -	\$ 8,208	\$ 532	\$ 15,140

For the Six Months Ended June 30, 2008	Commercial Properties	Apartments	Hotels	Land	Other	Total
Operating revenue	\$ 36,166	\$ 41,492	\$ 9,810	\$ 1,241	\$ 901	\$ 89,610
Operating expenses	22,474	26,131	7,096	2,901	-	58,602
Depreciation and amortization	5,979	6,900	611	2	2	13,494
Mortgage and loan interest	10,076	18,998	1,539	9,007	5,153	44,773
Interest income	-	-	-	-	3,719	3,719
Gain on land sales	-	-	-	4,165	-	4,165
Segment operating income (loss)	\$ (2,363)	\$ (10,537)	\$ 564	\$ (6,504)	\$ (535)	\$ (19,375)
Capital expenditures	-	-	-	-	-	-
Assets	366,940	604,934	27,651	356,784	77,133	1,433,442
Property Sales						
Sales price	\$ 35,797	\$ 120,687	\$ 11,749	\$ 13,077	\$ -	\$ 181,310
Cost of sale	16,949	33,977	4,023	8,762	-	63,711
Deferred current gain	-	-	-	150	-	150
Recognized prior deferred gain	-	1,850	-	-	-	1,850
Gain on sale	\$ 18,848	\$ 88,560	\$ 7,726	\$ 4,165	\$ -	\$ 119,299

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

**For the Six Months Ended
June 30,**

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	2009	2008
Segment operating loss	\$ (10,183)	\$ (19,375)
Other non-segment items of income (expense)		
General and administrative	(5,262)	(7,610)
Advisory fees	(7,685)	(7,895)
Litigation settlement	301	-
Provision on impairment of note receivables and real estate assets	(30,639)	(12,000)
Other income	5,036	3,782
Gain on foreign translation	78	-
Equity in earnings of investees	(197)	4,970
Deferred tax benefit	2,230	33,507
Loss from continuing operations	\$ (46,321)	\$ (4,621)

SEGMENT ASSET RECONCILIATION TO TOTAL ASSETS

	For the Six Months Ended June 30,	
	2009	2008
Segment assets	\$ 1,521,966	\$ 1,433,442
Investments in real estate partnerships	26,941	36,417
Other assets and receivables	184,734	185,174
Assets held for sale	54,220	94,563
Total assets	\$ 1,787,861	\$ 1,749,596

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The Company applies the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 requires that long-lived assets that are to be disposed of by sale be measured at the lesser of (1) book value or (2) fair value less cost to sell. In addition, it requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions.

Discontinued operations for 2009 relates to three properties consisting of the Chateau Bayou apartments sold in January 2009, Bridgestone apartments and Cullman Shopping Center sold second quarter 2009. The gain from the sale of Chateau Bayou, Bridgestone and Cullman are included in the 2009 discontinued operations. The discontinued operations for 2008 relates to 30 income producing properties of which 27 were sold in 2008 consisting of 20 apartments, three commercial buildings, four hotels, two apartments and one commercial property sold during 2009 (dollars in thousands).

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
Revenue				
Rental	\$ 148	\$ 969	\$ 515	\$ 5,203
Property operations	250	486	473	2,966
	(102)	483	42	2,237
Expenses				
Interest	(58)	(635)	(131)	(6,251)
General and administrative	(41)	(769)	(27)	(835)
Depreciation	(5)	(84)	(34)	(338)
	(104)	(1,488)	(192)	(7,424)
Net loss from discontinued operations before gains on sale of real estate, taxes, and fees	(206)	(1,005)	(150)	(5,187)
Gain on sale of discontinued operations	2,161	3,764	6,932	115,134
Net income/sales fee to affiliate	-	(4,586)	-	(13,923)
Equity of investees gain on sale	-	-	-	(574)
Income (loss) from discontinued operations before tax	1,955	(1,827)	6,782	95,450
Tax benefit (expense)	(684)	640	(2,374)	(33,408)
Income (loss) from discontinued operations	\$ 1,271	\$ (1,187)	\$ 4,408	\$ 62,042

The Company's application of SFAS No. 144 results in the presentation of the net operating results of these qualifying properties sold or held for sale during 2008 as income from discontinued operations. The application of SFAS No. 144 does not have an impact on net income available to common shareholders. SFAS No. 144 only impacts the presentation of these properties within the Consolidated Statements of Operations.

NOTE 12. COMMITMENTS AND CONTINGENCIES

Partnership Obligations. ARL is the limited partner in several partnerships that are currently constructing residential properties. As permitted in the respective partnership agreements, ARL presently intends to purchase the interests of the general and any other limited partners in these partnerships subsequent to the final completion of these construction projects. The amounts paid to buyout the non-affiliated partners are limited to development fees earned by the non-affiliated partners, and are set forth in the respective partnership agreements.

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Liquidity. ARL's principal liquidity needs are funding normal recurring expenses, meeting debt service requirements, funding capital expenditures, funding development costs not otherwise covered by construction loans and funding new property acquisitions not otherwise covered by acquisition financing. In 2009, ARL will rely on land sales, selected income producing property sales and, to the extent necessary, additional borrowings to meet its cash requirement.

Litigation. ARL is involved in various lawsuits arising in the ordinary course of business. In the opinion of management, the outcome of these lawsuits will not have a material impact on ARL's financial condition, results of operations, or liquidity.

NOTE 13. EARNINGS PER SHARE

Earnings per share, EPS, have been computed pursuant to the provisions of SFAS No. 128 *Earnings Per Share*. The computation of basic EPS is calculated by dividing net income available to common shareholders from continuing operations, adjusted for preferred dividends, by the weighted-average number of common shares outstanding during the period. Shares issued during the period shall be weighted for the portion of the period that they were outstanding. We have 3,390,913 shares of Series A 10.0% Cumulative Convertible Preferred Stock, which are outstanding. These shares may be converted into common stock at 90.0% of the average daily closing price of the common stock for the prior 20 trading days. These are considered in the computation of diluted earnings per share if the effect of applying the if-converted method is dilutive. We have 2,000 options outstanding. These are

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considered in the computation of diluted earnings per share if the effect of applying the treasury stock method is dilutive. As of June 30, 2009, the preferred stock and the stock options were anti-dilutive and thus not included in the EPS calculation.

NOTE 14. SUBSEQUENT EVENTS

On July 2, 2009, ARL sold 29.53 acres of Hines Meridian land and 807.90 acres of Travis Ranch land into a joint venture that ARL retains 50% of future cash flow. At June 30, 2009, ARL recorded a \$4.8 million loss due to impairment value and will carry ARL's investment in this unconsolidated joint venture at \$4.0 million.

In second quarter 2009, ARL impaired land with a carrying value of \$34.9 million by \$3.8 million. On July 31, 2009, the land was sold for the revised carrying value.

On July 17, 2009, TCI, a subsidiary of ARL, acquired from Syntek West, Inc., (SWI), 2,518,934 shares of common stock, par value \$0.01 per share of Income Opportunity Realty Investors, Inc. (IOT) at an aggregate price of \$17,884,431 (approximately \$7.10 per share), the full amount of which was paid by TCI through an assumption of an aggregate amount of indebtedness of \$17,884,431 on the outstanding balance owed by SWI to IOT. The 2,518,934 shares of IOT common stock acquired by TCI constituted approximately 60.4% of the issued and outstanding common stock of IOT. TCI has owned for several years an aggregate of 1,037,184 shares of common stock of IOT (approximately 25% of the issued and outstanding). After giving effect to the transaction on July 17, 2009, TCI owns an aggregate of 3,556,118 shares of IOT common stock which constitutes approximately 85.3% of the shares of common stock of IOT outstanding (which is a total of 4,168,214 shares). Shares of IOT are traded on the American Stock Exchange.

With TCI's acquisition of the additional shares on July 17, 2009, which increased the aggregate ownership to in excess of 80%, beginning in July 2009, IOT's results of operations will now be consolidated with those of TCI for tax and financial reporting purposes.

On July 17, 2009, the Advisory Agreement dated as of July 1, 2003 between IOT and SWI was terminated by mutual agreement. SWI had served as IOT's advisor since July 1, 2003. On July 17, 2009, IOT entered into an Advisory Agreement with Prime Income Asset Management, LLC (Prime). Prime also serves as a contractual advisor to TCI and ARL.

At July 17, 2009, IOT owned the following real estate assets:

Commercial	Location	Square feet
2010 Valley View (office building)	Farmers Branch, TX	40,666
Parkway Center (shopping center)	Dallas, TX	28,374
Total		69,040

Land	Location	Acres
Eagle Crest (industrial warehouse) ¹	Farmers Branch, TX	23
Three Hickory Centre	Farmers Branch, TX	9
Travelers Land	Farmers Branch, TX	202
Total		234

¹ Includes a 133,000 square foot warehouse

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

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report.

This Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws, principally, but not only, under the captions Business, Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations. We caution investors that any forward-looking statements in this report, or which management may make orally or in writing from time to time, are based on management's beliefs and on assumptions made by, and information currently available to, management. When used, the words anticipate, believe, expect, intend, may, might, plan, estimate, project, should, will, result and similar expressions which refer to historical matters are intended to identify forward-looking statements. These statements are subject to risks, uncertainties, and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties, and factors, that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. We caution you that, while forward-looking statements reflect our good faith beliefs when we make them, they are not guarantees of future performance and are impacted by actual events when they occur after we make such statements. We expressly disclaim any responsibility to update our forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends. Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following:

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

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

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

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

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

failure to manage effectively our growth and expansion into new markets or to integrate acquisitions successfully;

risks and uncertainties affecting property development and construction (including, without limitation, construction delays, cost overruns, inability to obtain necessary permits and public opposition to such activities);

risks associated with downturns in the national and local economies, increases in interest rates, and volatility in the securities markets;

costs of compliance with the Americans with Disabilities Act and other similar laws and regulations;

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potential liability for uninsured losses and environmental contamination;

risks associated with our dependence on key personnel whose continued service is not guaranteed; and

the other risk factors identified in this Form 10-Q, including those described under the caption Risk Factors.

The risks included here are not exhaustive. Some of the risks and uncertainties that may cause our actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements, include among others, the factors listed and described at Item 1A Risk Factors in the Company's Annual Report on Form 10-K, which investors should review. There have been no changes from the risk factors previously described in the Company's Form 10-K for the fiscal year ended December 31, 2008 (the Form 10-K).

Other sections of this report may also include suggested factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time-to-time and it is not possible for management to predict all such matters: nor can we assess the impact of all such matter on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these uncertainties, investors should not place undue reliance on forward-looking statements as prediction of actual results. Investors should also refer to our quarterly reports on Form 10-Q for future periods and to other materials we may furnish to the public from time to time through Forms 8-K or otherwise as we file them with the SEC.

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Overview

We are an externally advised and managed real estate investment company that owns a diverse portfolio of income-producing properties and land held for development. Our portfolio of income-producing properties includes residential apartment communities, office buildings, hotels, and other commercial properties. Our investment strategy includes acquiring existing income-producing properties as well as developing new properties on land already owned or acquired for a specific development project. We acquire land primarily in urban in-fill locations or high-growth suburban markets. We are an active buyer and seller of real estate. We have acquired \$0.7 million of land and sold for a sales price of \$16.3 million of land and \$13.8 million of income-producing properties during the six months ended June 30, 2009.

We expect the impact of the current state of the economy, including rising unemployment, constrained capital and the dramatic de-leveraging of the financial system, to have a significant impact on the fundamentals of our business, including but not limited to: overall market occupancy, leasing rates, leasing renewals, purchases and dispositions of assets. The continuing loss of market liquidity is affecting all classes of debt securities, and has translated into a decline of funding availability and increased borrowing costs. Historically, we have been well positioned to reduce our exposure to down turns in the economy. Although historical results cannot be relied upon to project future results, we anticipate the diversity within our asset portfolio, the continued development of our apartment projects, and continued efforts to obtain non-traditional financing will allow us to proactively manage our assets.

As of June 30, 2009, we owned 11,871 units in 60 residential apartment communities and one town house, 33 commercial properties comprising 5.8 million rentable square feet and five hotels containing a total of 808 rooms. In addition, at June 30, 2009, we owned 12,548 acres of land held for development and had three projects under construction. We finance our acquisitions primarily through proceeds from the sale of land and income-producing properties and debt financing primarily in the form of property-specific first-lien mortgage loans from commercial banks and institutional lenders. We finance our development projects principally with short-term, variable interest rate construction loans that are converted to long-term, fixed rate amortizing mortgages when the development project is completed and occupancy has been stabilized. The Company will, from time to time, also enter into partnerships with various investors to acquire income-producing properties or land and to sell interests in certain of its wholly owned properties. When we sell assets, we may carry a portion of the sales price generally in the form of a short-term, interest bearing seller-financed note receivable. The Company generates operating revenues primarily by leasing apartment units to residents; leasing office, retail and industrial space to commercial tenants; and renting hotel rooms to guests. The Company is advised by Prime under a contractual arrangement that is reviewed annually by our Board of Directors. Our commercial properties are managed by Regis Realty I, LLC, while the Company's hotels are managed by Regis Hotel I, LLC. The Company currently contracts with affiliated entities to manage the Company's apartment communities. Approximately 88.6% of ARL's common stock is owned by affiliated entities. ARL is a C Corporation for U.S. federal income tax purposes and files an annual consolidated income tax return with TCI. ARL does not qualify as a Real Estate Investment Trust (REIT) for federal income tax purposes primarily due to ARL's majority ownership of the Company.

At June 30, 2009, ARL subsidiaries owned 82.8% of the outstanding shares of common stock of Transcontinental Realty Investors, Inc., a Nevada corporation (TCI), which has its common stock listed and traded on the New York Stock Exchange, Inc. (NYSE). The ownership of the TCI shares was achieved through a series of transactions, including a cash tender offer completed March 19, 2003. ARL has consolidated TCI's accounts and operations since March 2003. At June 30, 2009, TCI owned approximately 24.9% of the outstanding common stock of Income Opportunity Realty Investors, Inc., (IOT), a public company whose shares are listed and traded on the American Stock Exchange.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, requires management to use judgment in the application of accounting policies, including making estimates and assumptions. We base our estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied resulting in a different presentation of our financial statements. From time to time, we evaluate our estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect information that is more current. Below is a discussion of accounting policies that we consider critical in that they may require complex judgment in their application or require estimates about matters that are inherently uncertain.

Real Estate

Upon acquisitions of real estate, ARL assesses the fair value of acquired tangible and intangible assets, including land, buildings, tenant improvements, above-market and below-market leases, origination costs, acquired in-place leases, other identified intangible assets and assumed liabilities in accordance with Statement of Financial Accounting Standards (SFAS) No. 141, Business Combinations. and allocates the purchase

price to the acquired assets and assumed liabilities, including land at appraised value and buildings at replacement cost.

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

We record acquired above-market and below-market leases at their fair values (using a discount rate which reflects the risks associated with the leases acquired) equal to the difference between (1) the contractual amounts to be paid pursuant to each in-place lease and (2) management's estimate of fair market lease rates for each corresponding in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market fixed rate renewal options for below-market leases.

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

Management reviews its long-lived assets used in operations for impairment when there is an event or change in circumstances that indicates impairment in value. An impairment loss is recognized if the carrying amount of its assets is not recoverable and exceeds its fair value. If such impairment is present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods.

SFAS No. 144 requires that qualifying assets and liabilities and the results of operations that have been sold, or otherwise qualify as held for sale, be presented as discontinued operations in all periods presented if the property operations are expected to be eliminated and the Company will not have significant continuing involvement following the sale. The components of the property's net income that is reflected as discontinued operations include the net gain (or loss) upon the disposition of the property held for sale, operating results, depreciation and interest expense (if the property is subject to a secured loan). We generally consider assets to be held for sale when the transaction has been approved by our Board of Directors, or a committee thereof, and there are no known significant contingencies relating to the sale, such that the property sale within one year is considered probable. Following the classification of a property as held for sale, no further depreciation is recorded on the assets.

A variety of costs are incurred in the acquisition, development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. Our capitalization policy on development properties is guided by SFAS No. 34 Capitalization of Interest Cost and SFAS No. 67 Accounting for Costs and the Initial Rental Operations of Real Estate Properties. The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We consider a construction project as substantially completed and held available for occupancy upon the receipt of certificates of occupancy, but no later than one year from cessation of major construction activity. We cease capitalization on the portion (1) substantially completed and (2) occupied or held available for occupancy, and we capitalize only those costs associated with the portion under construction.

Impairment of Notes Receivable and Real Estate Assets

Management reviews the carrying values of ARL's properties, investments in real estate partnerships, and mortgage notes receivable 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. If impairment is found to exist, a provision for loss is recorded by a charge against earnings to the extent that the investment in the note exceeds management's estimate of the fair value of the collateral securing such note. The mortgage note receivable review includes an evaluation of the collateral property securing each note. The property review generally includes: (1) selective property inspections, (2) a review of the property's current rents compared to market rents, (3) a review of the property's expenses, (4) a review of maintenance requirements, (5) a review of the property's cash flow, (6) discussions with the manager of the property, and (7) a review of properties in the surrounding area.

Investments in Unconsolidated Real Estate Ventures

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Except for ownership interests in variable interest entities, ARL accounts for our investments in unconsolidated real estate ventures under the equity method of accounting because the Company exercises significant influence over, but does not control, these entities. These investments are recorded initially at cost, as investments in unconsolidated real estate ventures, and subsequently adjusted for equity in earnings and cash contributions and distributions. Any difference between the carrying amount of these investments on the

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

Recognition of Rental Income

Rental income for commercial property leases is recognized on a straight-line basis over the respective lease terms. In accordance with SFAS No. 141, we recognize rental revenue of acquired in-place above-market and below-market leases at their fair values over the terms of the respective leases. On our Consolidated Balance Sheets, we include as a receivable the excess of rental income recognized over rental payments actually received pursuant to the terms of the individual commercial lease agreements.

Reimbursements of operating costs, as allowed under most of our commercial tenant leases, consist of amounts due from tenants for common area maintenance, real estate taxes and other recoverable costs, and are recognized as revenue in the period in which the recoverable expenses are incurred. We record these reimbursements on a gross basis, since we generally are the primary obligor with respect to purchasing goods and services from third-party suppliers, have discretion in selecting the supplier and have the credit risk with respect to paying the supplier.

Rental income for residential property leases is recorded when due from residents and is recognized monthly as earned, which is not materially different than on a straight-line basis as lease terms are generally for periods of one year or less.

For hotel properties, revenues for room sales and guest services are recognized as rooms are occupied and services are rendered.

An allowance for doubtful accounts is recorded for all past due rents and operating expense reimbursements considered to be uncollectible.

Revenue Recognition on the Sale of Real Estate

Sales of real estate are recognized when and to the extent permitted by Statement of Financial Accounting Standards No. 66, Accounting for Sales of Real Estate. (SFAS No. 66), as amended by SFAS No. 144. Until the requirements of SFAS No. 66 for full profit recognition have been met, transactions are accounted for using the deposit, installment, cost recovery or financing method, whichever is appropriate. When ARL provides seller financing, gain is not recognized at the time of sale unless the buyer's initial investment and continuing investment are deemed to be adequate as determined by SFAS No. 66 guidelines.

Non-performing Notes Receivable

Notes receivable are considered to be non-performing when the payee is not in compliance with the terms and conditions of the note agreement or is in default. On a quarterly basis, performing notes are reviewed for compliance and non-performing notes are reviewed to determine if the default has been cured. The note will be classified either performing or non-performing depending on the status of the note receivable upon review. In addition, any note repositioned from performing to non-performing is reviewed for possible impairment.

Interest Recognition on Notes Receivable

Interest income is accrued when due, except for cash flow notes. With respect to cash flow notes accrued but unpaid interest income is only recognized to the extent that cash is received.

Related Party Transactions

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

Allowance for Estimated Losses

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A valuation allowance is provided for estimated losses on notes receivable considered to be impaired. Impairment is considered to exist when it is probable that all amounts due under the terms of the note will not be collected. Valuation allowances are provided for estimated losses on notes receivable to the extent that the investment in the note exceeds management's estimate of fair value of the collateral securing such note.

Table of Contents**Fair Value of Financial Instruments**

The following assumptions were used in estimating the fair value of ARL's notes receivable, marketable equity securities and notes payable. For performing notes receivable, the fair value was estimated by discounting future cash flows using current interest rates for similar loans. For non-performing notes receivable, the estimated fair value of ARL's interest in the collateral property was used. For marketable equity securities, fair value was based on the year-end closing market price of each security. For notes payable, the fair value was estimated using current rates for mortgages with similar terms and maturities.

Results of Operations

The following discussion is based on our Consolidated Statements of Operations for the six months ended June 30, 2009 and 2008 as included in Part 1, Item 1 Financial Statements of this report. The total property portfolio represents all income producing properties held as of June 30 for the period presented. Sales subsequent to quarter end represent properties that were held as of period end for the periods presented, but subsequently sold. Continuing operations represents all properties that have not been reclassified to discontinued operations as of June 30, 2009 for the period presented. The table below shows the number of income producing properties held at the quarter ended June 30:

	2009	2008
Continued operations	99	89
Sales subsequent to year end	-	5
Total property portfolio	99	94

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

Comparison of the three months ended June 30, 2009 as compared to the same period ended 2008

For the three months ended June 30, 2009, we reported a net loss applicable to common shares of (\$28.9) million or (\$2.57) per diluted earnings per share, as compared to a net income applicable to common shares of (\$13.1) million or (\$1.25) per diluted earnings per share for the same period ended 2008.

Revenues

Rental and other property revenues increased by \$1.0 million as compared to the prior year period which by segment was an increase in the apartment portfolio of \$2.9 million, offset by a decrease in the commercial portfolio of \$0.2 million, a decrease in the hotel portfolio of \$0.5 million, a decrease in the land portfolio of \$0.5 million and a decrease in the other portfolio of \$0.7 million. Within the apartment portfolio, the \$3.5 million increase was due to developed properties in the lease up phase and \$0.2 million from newly acquired properties, offset by a \$0.8 million decrease in the same property portfolio. Within the commercial portfolio, the \$1.0 million increase was due to newly acquired properties and a \$1.2 million decrease from the same properties.

Expenses

Property operating expenses decreased by \$4.6 million as compared to prior year period which by segment is a decrease in the apartment portfolios of \$2.4 million, commercial properties of \$0.7 million, hotel portfolio of \$0.6 million and land and other portfolio of \$0.9 million. Within the apartment portfolio, decreases came from same properties which decreased \$2.9 million, and developed properties increased by \$0.5 million. Within the commercial properties the same properties decreased \$1.0 million and the acquired properties increased \$0.3 million.

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Depreciation and amortization increased \$1.5 million as compared to the prior year period which by segment was an increase in the apartment portfolio of \$1.0 million and an increase in the commercial portfolio of \$0.5 million. Within the apartment portfolio, the developed properties increased \$1.0 million. Within the commercial portfolio, the same properties increased \$0.1 million and the acquired properties increased \$0.4 million.

General and administrative costs decreased \$1.6 million as compared to the prior year period due to decrease in office rent space expense, cost reimbursements and miscellaneous expenses not needed in 2009.

Table of Contents**Other Income (Expense)**

Other income decreased \$1.6 million as compared to the prior year period. We had \$0.5 million of nonrecurring miscellaneous income.

Mortgage and loan interest expense increased \$0.8 million as compared to the prior year period which by segment is an increase in the apartment portfolio of \$1.7 million, a decrease in the commercial portfolio of \$0.2 million, an increase in the land portfolio of \$0.7 million and a decrease in the other portfolio of \$1.4 million. Within the apartment portfolio, the same properties decreased \$0.4 million, offset by an increase in the developed properties of \$2.1 million. Within the commercial portfolio, the same properties increased \$0.1 million and the acquired properties increased \$0.1 million.

Earnings from unconsolidated subsidiaries increased \$0.2 million as compared to prior year period. The increase is attributable to the lack of activity within the entities. In the prior year period, these entities had large non-recurring gains from the sale of properties.

Provision on impairment of notes receivable, investments in real estate partnerships, and real estate assets increased by \$30.3 million as compared to prior year period. Impairment was recorded as an additional loss in the investment portfolio of \$18.0 million, impairment of \$1.8 million of a commercial property, \$7.3 million in land we currently hold and \$3.2 million in land that was sold in the third quarter for a loss. As of June 30, 2009, properties were impaired to reflect reduced value. There was no impairment booked in the prior year quarter.

Gain on land sales increased by \$5.2 million as compared to the prior year period. The increase was due to recording a gain of \$4.9 million on the sale of 3.02 acres of land known as West End land in the current period. In addition, we sold 3.13 acres of Verandas at City View land for a gain of \$0.7 million, sold 3.96 acres of land known as Teleport land for a gain of \$0.4 million, sold interest in Southwood land for a gain of \$0.5 million and sold 8.23 acres of land known as Leone land for a gain on \$1.5 million. There were no other land sales during the quarter. In the prior year period, we sold 67.1 acres of land for a gain of \$2.8 million.

Discontinued operations for 2009 relates to three properties consisting of the Chateau Bayou apartments sold in January 2009, Bridgestone apartments and Cullman Shopping Center sold in the second quarter 2009. The gain from the sale of Chateau Bayou, Cullman and Bridgestone are included in the 2009 discontinued operations. The discontinued operations for 2008 relates to 30 income producing properties of which 27 were sold in 2008 consisting of 20 apartments, three commercial buildings, four hotels, two apartments and one commercial property sold during 2009 (dollars in thousands):

	For the Three Months Ended June 30,	
	2009	2008
Revenue		
Rental	\$ 148	\$ 969
Property operations	250	486
	(102)	483
Expenses		
Interest	(58)	(635)
General and administrative	(41)	(769)
Depreciation	(5)	(84)
	(104)	(1,488)
Net loss from discontinued operations before gains on sale of real estate, taxes, and fees	(206)	(1,005)
Gain on sale of discontinued operations	2,161	3,764
Net income/sales fee to affiliate	-	(4,586)
Equity of investees gain on sale	-	-
	1,955	(1,827)

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Income (loss) from discontinued operations before tax

Tax benefit (expense)	(684)	640
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Income (loss) from discontinued operations	\$	1,271	\$	(1,187)
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Comparison of the six months ended June 30, 2009 as compared to the same period ended 2008

For the six months ended June 30, 2009, we reported a net loss applicable to common shares of (\$36.1) million or (\$3.22) per diluted earnings per share, as compared to a net income applicable to common shares of \$46.7 million or \$4.46 per diluted earnings per share for the same period ended 2008.

Revenues

Rental and other property revenues increased by \$3.9 million as compared to the prior year period which by segment was an increase in the apartment portfolio of \$5.9 million and an increase in the commercial portfolio of \$1.8 million, offset by a decrease in the hotel portfolio of \$2.3 million, a decrease in the land portfolio of \$1.0 million and a decrease in the other portfolio of \$0.5 million. Within

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the apartment portfolio the increase was attributable to a \$7.1 million from developed properties in the lease up phase and \$0.8 million from newly acquired properties, offset by a \$2.0 million decrease in the same property portfolio. Within the commercial portfolio the increase was attributable to a \$2.7 million increase from newly acquired properties and a \$0.9 million decrease from the same properties.

Expenses

Property operating expenses decreased by \$4.6 million as compared to the prior year period which by segment is an increase in the apartment portfolios of \$0.7 million, a decrease in the commercial properties of \$1.6 million, hotel portfolio of \$1.3 million and land and other portfolio of \$2.4 million. Within the apartment portfolio, increases came from developed properties which increased by \$0.7 million. Within the commercial properties the same properties decreased \$1.7 million and the acquired properties increased \$0.1 million.

Depreciation and amortization increased \$2.5 million as compared to the prior year period which by segment was an increase in the apartment portfolio of \$1.7 million and an increase in the commercial portfolio of \$0.8 million. Within the apartment portfolio, the developed properties increased \$1.7 million. Within the commercial portfolio the acquired properties increased \$0.8 million.

General and administrative expenses decreased \$2.3 million as compared to the prior year period due to decrease in office rent space expense, cost reimbursements and miscellaneous expenses not needed in 2009.

Other Income (Expense)

Other income increased \$1.3 million as compared to the prior year period. The majority of the increase is from the gains on our disposition of our investment in the Korean REIT.

Mortgage and loan interest expense decreased \$0.7 million as compared to the prior year period which by segment is an increase in the apartment portfolio of \$1.2 million, a decrease in the commercial portfolio of \$0.7 million, an increase in the land portfolio of \$0.2 million, a decrease in the other portfolio of \$1.5 million, and an increase in the hotel portfolio of \$0.1 million. Within the apartment portfolio, the same properties increased \$2.2 million, offset by a decrease in the developed properties of \$1.0 million. Within the commercial portfolio, the acquired properties decreased \$0.7 million.

Earnings from unconsolidated subsidiaries decreased \$5.2 million as compared to prior year period. The decrease is attributable to the lack of activity within the entities. In the prior year period, these entities had large non-recurring gains from the sale of properties.

Provision on impairment of notes receivable, investment in real estate partnerships, and real estate assets increased by \$18.6 million as compared to prior year period. Impairment was recorded as an additional loss in the investment portfolio of \$18.0 million, impairment of \$1.8 million of a commercial property, \$7.3 million in land we currently hold and \$3.5 million in land that was sold in the third quarter for a loss. As of June 30, 2009, properties were impaired to reflect reduced value. In the prior year period, we posted a provision for doubtful collections on our receivables of \$5.0 million and a \$7.0 million reserve for certain investments within our portfolio.

Gain on land sales increased by \$4.0 million as compared to the prior year period. The increase was due to recording a gain of \$4.7 million on the sale of 3 acres of land known as West End land in the current period. In addition, we sold 3.13 acres of Verandas at City View land for a gain of \$0.7 million, sold 3.96 acres of land known as Teleport land for a gain of \$0.4 million, sold interest in Southwood land for a gain of \$0.5 million, sold .91 acres of land known as JHL Connell land for a gain of \$0.4 million and sold 8.23 acres of land known as Leone land for a gain on \$1.5 million. We sold 9.2 acres of land known as Woodmont Schiff-Park Forest land at break even. There were no other land sales during the quarter. In the prior year period, we sold 80.99 acres of land for a gain of \$4.2 million.

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Discontinued operations for 2009 relates to three properties consisting of the Chateau Bayou apartments sold January 2009, Bridgestone apartments and Cullman Shopping Center sold second quarter 2009. The gain from the sale of Chateau Bayou, Bridgestone and Cullman are included in the 2009 discontinued operations. The discontinued operations for 2008 relates to 30 income producing properties of which 27 were sold in 2008 consisting of 20 apartments, three commercial buildings, four hotels, and two apartments and one commercial property sold during 2009 (dollars in thousands):

	For the Six Months Ended June 30,	
	2009	2008
Revenue		
Rental	\$ 515	\$ 5,203
Property operations	473	2,966
	42	2,237
Expenses		
Interest	(131)	(6,251)
General and administrative	(27)	(835)
Depreciation	(34)	(338)
	(192)	(7,424)
Net loss from discontinued operations before gains on sale of real estate, taxes, and fees	(150)	(5,187)
Gain on sale of discontinued operations	6,932	115,134
Net income/sales fee to affiliate	-	(13,923)
Equity of investees gain on sale	-	(574)
Income from discontinued operations before tax	6,782	95,450
Tax expense	(2,374)	(33,408)
Income from discontinued operations	\$ 4,408	\$ 62,042

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Liquidity and Capital Resources

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

property operations;

proceeds from land and income-producing property sales;

the collection of mortgage notes receivable;

the collection of receivables from affiliated companies;

refinancing of existing mortgage notes payable; and

additional borrowing, including mortgage notes payable and lines of credit.

Our principal liquidity needs over the next twelve months include:

funding of normal recurring expenses and obligations;

funding current development costs not covered by construction loans;

meeting debt service requirements including loan maturities;

funding capital expenditures; and

funding acquisition costs for land and income-producing properties not covered by acquisition financing.

We draw on multiple financing sources to fund our long-term capital needs. We generally fund our development projects with construction loans.

Management anticipates that our available cash from property operations may not be sufficient to meet all of our cash requirements. Management intends to selectively sell land and income producing assets, refinance or extend real estate debt and seek additional borrowing secured by real estate to meet its liquidity requirements. Historically, management has been successful at extending a portion of the Company's current maturity obligations. Management also anticipates funding ongoing real estate development projects and the acquisition of new real estate from cash generated by sales of land and income-producing properties, debt refinancings or extensions and additional borrowings.

Cash flow summary

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

	June 30,		
	2009	2008	Variance
Net cash used in operating activities	(13,635)	(29,695)	16,060
Net cash provided by investing activities	5,797	26,971	(21,174)
Net cash provided by (used in) financing activities	5,560	(8,789)	14,349

Our cash used in operating activities decreased as compared to the prior year period. Our primary use of cash for operations is daily operating costs, general and administrative, advisory fees, and land holding costs. Our primary source of cash from operating activities is rental income on properties. In the prior year period, we incurred additional sales fees associated with the sale of the properties.

Our cash provided by investing activities decreased as compared to the prior year period. The decrease is primarily due to the decreased cash inflow from the sales of land and income producing properties. Cash from sales of properties decreased \$138.7 million as compared to the prior year period. This was offset by a decrease in cash outflows for acquisitions of land and income producing properties as compared to the prior year period. In addition, we have decreased our cash outflows for construction and development of new properties as compared to the prior year period.

Our cash provided by or used in financing activities has increased primarily due to a decrease in cash used to pay off mortgages related to the sale of properties. In the prior year period, we paid off \$154.2 million in mortgages as compared to \$16.3 million in 2009. This was offset by a \$124.4 million decrease in proceeds from notes payable. In the current period, our ability to obtain new mortgages for acquisitions has been limited. In addition, we have slowed down on our construction and development projects, effectively decreasing our proceeds from constructions loans by \$43.2 million.

Table of Contents**Environmental Matters**

Under various federal, state and local environmental laws, ordinances and regulations, the Company may be potentially liable for removal or remediation costs, as well as certain other potential costs relating to hazardous or toxic substances (including governmental fines and injuries to persons and property) where property-level managers have arranged for the removal, disposal or treatment of hazardous or toxic substances. In addition, certain environmental laws impose liability for release of asbestos-containing materials into the air, and third parties may seek recovery for personal injury associated with such materials.

The Company is not aware of any environmental liability relating to the above matters that would have a material adverse effect on ARL's business, assets or results of operations.

Inflation

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

Tax Matters

Financial statement income varies from taxable income principally due to the accounting for income and losses of investees, gains and losses from asset sales, depreciation on owned properties, amortization of discounts on notes receivable and payable and the difference in the allowance for estimated losses. ARL had a loss after net operating losses for federal income tax purposes in the first six months of 2009 and a loss in 2008; therefore, it recorded no provision for income taxes.

At June 30, 2009, ARL had a net deferred tax asset of \$93.3 million due to tax deductions available to it in future years. However, as management cannot determine that it is more likely than not that ARL will realize the benefit of the deferred tax assets, a 100% valuation allowance has been established.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

At June 30, 2009, ARL's exposure to a change in interest rates on its debt is as follows (dollars in thousands except per share):

	Balance	Weighted Average Interest Rate	Effect of 1% Increase In Base Rates
Notes payable:			
Variable rate	\$418,471	5.80%	\$ 4,185
Total decrease in ARL's annual net income			4,185
Per share			\$ 0.37

ITEM 4T. CONTROLS AND PROCEDURES

- (a) As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Principal Executive Officer and Chief Financial Officer per the Company's disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based upon that evaluation, the Company's

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Principal Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.

- (b) There have been no changes in the Company's internal controls over financial reporting during the quarter ended June 30, 2009, which have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The following table sets forth a summary by month for the quarter for repurchases made, and the specified number of shares that may yet be repurchased under the repurchase program as specified below:

Period	Total Number of Shares Purchased	Average Price Paid per share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet be Purchased Under the Program ^(a)
Balance at March 31, 2009			931,665	68,335
April 30, 2009	-	-	931,665	68,335
May 31, 2009	-	-	931,665	68,335
June 30, 2009	-	-	931,665	68,335
Total	-			

- (a) In September 2000, the ARL Board of Directors approved a share repurchase program for up to 1,000,000 shares of our common stock. This repurchase program has no termination date.

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ITEM 6. EXHIBITS

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

Exhibit Number	Description of Exhibit
3.0	Certificate of Restatement of Articles of Incorporation of American Realty Investors, Inc. dated August 3, 2000 (incorporated by reference to Exhibit 3.0 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
3.1	Certificate of Correction of Restated Articles of Incorporation of American Realty Investors, Inc. dated August 29, 2000 (incorporated by reference to Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q dated September 30, 2000).
3.2	Articles of Amendment to the Restated Articles of Incorporation of American Realty Investors, Inc. decreasing the number of authorized shares of and eliminating Series B Cumulative Convertible Preferred Stock dated August 23, 2003 (incorporated by reference to Exhibit 3.3 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
3.3	Articles of Amendment to the Restated Articles of Incorporation of American Realty Investors, Inc., decreasing the number of authorized shares of and eliminating Series I Cumulative Preferred Stock dated October 1, 2003 (incorporated by reference to Exhibit 3.4 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003).
3.4	Bylaws of American Realty Investors, Inc. (incorporated by reference to Exhibit 3.2 to Registrant's Registration Statement on Form S-4 filed December 30, 1999).
4.1	Certificate of Designations, Preferences and Relative Participating or Optional or Other Special Rights, and Qualifications, Limitations or Restrictions Thereof of Series F Redeemable Preferred Stock of American Realty Investors, Inc., dated June 11, 2001 (incorporated by reference to Exhibit 4.1 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001).
4.2	Certificate of Withdrawal of Preferred Stock, Decreasing the Number of Authorized Shares of and Eliminating Series F Redeemable Preferred Stock, dated June 18, 2002 (incorporated by reference to Exhibit 3.0 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
4.3	Certificate of Designation, Preferences and Rights of the Series I Cumulative Preferred Stock of American Realty Investors, Inc., dated February 3, 2003 (incorporated by reference to Exhibit 4.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).
4.4	Certificate of Designation for Nevada Profit Corporations designating the Series J 8% Cumulative Convertible Preferred Stock as filed with the Secretary of State of Nevada on March 16, 2006 (incorporated by reference to Registrant current report on Form 8-K for event of March 16, 2006).
10.1	Advisory Agreement between American Realty Investors, Inc. and Prime Income Asset Management, LLC, dated October 1, 2003 (incorporated by reference to Exhibit 10.0 to the Registrant's Current Report on Form 8-K, dated October 1, 2003).
10.2	Second Amendment to Modification of Stipulation of Settlement dated October 17, 2001 (incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-4, dated February 24, 2002).
31.1*	Certification by the President and Chief Operating Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
31.2*	Certification by the Chief Accounting Officer and Principal Financial Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
32.1*	Certification pursuant to 18 U.S.C. 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith

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SIGNATURES

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

AMERICAN REALTY INVESTORS, INC.

Date: August 14, 2009

By: /s/ Daniel J. Moos
Daniel J. Moos
President and Chief Operating Officer

(Principal Executive Officer)

Date: August 14, 2009

By: /s/ Gene S. Bertcher
Gene S. Bertcher
Executive Vice President and Chief Accounting Officer

(Principal Financial Officer)

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AMERICAN REALTY INVESTORS, INC.

EXHIBITS TO

QUARTERLY REPORT ON FORM 10-Q

For the Quarter ended June 30, 2009

Exhibit

Number	Description of Exhibits
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31.2*	Certification by the Chief Accounting Officer and Principal Financial Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
32.1*	Certification pursuant to 18 U.S.C. 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith