

AMERICAN REALTY INVESTORS INC
Form 10-K
March 30, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2015

OR

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

Commission File Number 001-15663

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer

(Do not check if smaller reporting company)

Accelerated filer

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

The aggregate market value of the shares of voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the closing price at which the common equity was last sold which was the sales price of the Common stock on the New York Stock Exchange as of June 30, 2015 (the last business day of the Registrant's most recently completed second fiscal quarter) was \$9,793,299 based upon a total of 2,019,327 shares held as of June 30, 2015 by persons believed to be non-affiliates of the Registrant. The basis of the calculation does not constitute a determination by the Registrant as defined in Rule 405 of the Securities Act of 1933, as amended, such calculation, if made as of a date within sixty days of this filing, would yield a different value.

As of March 18, 2016, there were 15,514,360 shares of common stock outstanding.

Documents Incorporated By Reference:

Consolidated Financial Statements of Income Opportunity Realty Investors, Inc.; Commission File No. 001-14784

Consolidated Financial Statements of Transcontinental Realty Investors, Inc.; Commission File No. 001-09240

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FORWARD-LOOKING STATEMENTS

Certain Statements in this Form 10-K are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. The words “estimate,” “plan,” “intend,” “expect,” “anticipate,” “believe,” and similar expressions are intended to identify forward-looking statements. The forward-looking statements are found at various places throughout this Report and in the documents incorporated herein by reference. The Company disclaims any intention or obligations to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Although we believe that our expectations are based upon reasonable assumptions, we can give no assurance that our goals will be achieved. Important factors that could cause our actual results to differ from estimates or projections contained in any forward-looking statements are described in Part I, Item 1A. “Risk Factors”.

PART I

ITEM 1. *BUSINESS*

General

As used herein, the terms “ARL,” “the Company,” “We,” “Our,” or “Us” refer to American Realty Investors, Inc., a Nevada corporation, which was formed in 1999.

The Company is headquartered in Dallas, Texas and its common stock is listed and trades on the New York Stock Exchange (“NYSE”) under the symbol (“ARL”). Approximately 86.7% of ARL’s stock is owned by related parties. Subsidiaries of ARL own approximately 80.9% of the outstanding shares of common stock of Transcontinental Realty Investors, Inc. (“TCI”), a Nevada corporation, which has its common stock listed and traded on the NYSE under the symbol (“TCI”). Accordingly, TCI’s financial results are consolidated with those of ARL. In 2012, May Realty Holdings, Inc. (“MRHI”) subsidiaries acquired more than 80% of ARL stock and as a result, ARL is included in the MRHI consolidated group for federal income tax reporting. We have no employees.

TCI, a subsidiary of ARL, owns approximately 81.1% of the common stock of Income Opportunity Realty Investors, Inc. (“IOT”). IOT’s financial results are consolidated with those of TCI and its subsidiaries. Shares of IOT are listed and traded on the NYSE MKT under the symbol (“IOT”).

ARL's Board of Directors is responsible for directing the overall affairs of ARL and for setting the strategic policies that guide the Company. As of April 30, 2011, the Board of Directors delegated the day-to-day management of the Company to Pillar Income Asset Management, Inc. ("Pillar"), a Nevada corporation, under a written Advisory Agreement that is reviewed annually by ARL's Board of Directors. The directors of ARL are also directors of TCI and IOT. The Chairman of the Board of Directors of ARL also serves as the Chairman of the Board of Directors of TCI and IOT. The officers of ARL also serve as officers of TCI, IOT and Pillar.

Pillar, the sole shareholder of which is Realty Advisors, LLC, a Nevada limited liability company, the sole member of which is Realty Advisors, Inc. ("RAI"), a Nevada corporation, the sole shareholder of which is May Realty Holdings, Inc. ("MRHI", formerly known as Realty Advisors Management, Inc.), a Nevada corporation, the sole shareholder of which is a trust known as the May Trust, became the Company's external Advisor and Cash Manager. Pillar's duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities. Pillar also arranges, for the Company's benefit, debt and equity financing with third party lenders and investors. Pillar also serves as an Advisor and Cash Manager to TCI and IOT. As the contractual advisor, Pillar is compensated by ARL under an Advisory Agreement that is more fully described in Part III, Item 10. "Directors, Executive Officers and Corporate Governance – The Advisor". ARL has no employees. Employees of Pillar render services to ARL in accordance with the terms of the Advisory Agreement.

Regis Realty Prime, LLC, dba Regis Property Management, LLC ("Regis"), manages our commercial properties and provides brokerage services. Regis receives property management fees, construction management fees and leasing commissions in accordance with the terms of its property-level management agreement. Regis is also entitled to receive real estate brokerage commissions in accordance with the terms of a non-exclusive brokerage agreement. See Part III, Item 10. "Directors, Executive Officers and Corporate Governance – Property Management and Real Estate Brokerage". ARL engages third-party companies to lease and manage its apartment properties.

On January 1, 2012, the Company's subsidiary, TCI, entered into a development agreement with Unified Housing Foundation, Inc. ("UHF") a non-profit corporation that provides management services for the development of residential apartment projects in the future. This development agreement was terminated December 31, 2013. The Company has also invested in surplus cash notes receivables from UHF and has sold several residential apartment properties to UHF in prior years. Due to this ongoing relationship and the significant investment in the performance of the collateral secured under the notes receivable, UHF has been determined to be a related party.

ARL through subsidiaries invests in real estate through direct ownership, leases, and partnerships and also invests in mortgage loans on real estate. Our primary business is the acquisition, development and ownership of income-producing residential and commercial real estate. In addition, we opportunistically acquire land for future development in in-fill or high-growth suburban markets. From time to time and when we believe it appropriate to do so, we will also sell land and income-producing properties. We generate revenues by leasing apartment units to residents; leasing office, industrial and retail space to various for-profit businesses as well as certain local, state and federal agencies.

At December 31, 2015, our income-producing properties consisted of:

- Nine commercial properties consisting of five office buildings, three retail properties and one industrial warehouse, comprising in aggregate approximately 2.2 million square feet;

- A golf course comprising approximately 96.09 acres;

- 48 residential apartment communities comprising 7,983 units, excluding apartments being developed.

The following table sets forth the location of our real estate held for investment (income-producing properties only) by asset type as of December 31, 2015:

Location	Apartments		Commercial	
	No.	Units	No.	SF
Alabama	1	168	—	—
Arkansas	4	678	—	—
Colorado	2	260	—	—
Florida	2	153	1	6,722
Illinois	—	—	1	306,609
Kansas	1	320	—	—
Louisiana	2	384	—	—
Mississippi	8	728	—	—
Oklahoma	—	—	—	—
Tennessee	4	708	—	—
Texas-Greater Dallas-Ft Worth	12	2,122	5	1,651,017
Texas-Greater Houston	2	416	1	94,075
Texas-San Antonio	2	468	—	—
Texas-Other	8	1,578	—	—
Wisconsin	—	—	1	122,205
Total	48	7,983	9	2,180,628

We finance our acquisitions primarily through operating cash flow, proceeds from the sale of land and income-producing properties and debt financing primarily in the form of property-specific, first-lien mortgage loans from commercial banks and institutional lenders. We finance our development projects principally with short-term, variable-rate construction loans that are refinanced with the proceeds of long-term, fixed-rate amortizing mortgages when the development has been completed and occupancy has been stabilized. When we sell properties, we may carry a portion of the sales price generally in the form of a short-term, interest bearing seller-financed note receivable, secured by the property being sold. We may also from time to time enter into partnerships or joint ventures with various investors to acquire land or income-producing properties or to sell interests in certain of our properties.

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

At December 31, 2015, our apartment projects in development included (dollars in thousands):

Property	Location	No. of Units	Costs to Date ⁽¹⁾	Total Projected Costs ⁽¹⁾
Eagle Crossing	Dallas, TX	150	\$5,255	\$ 21,000
Parc at Mansfield II	Mansfield, TX	99	11,323	11,797
Terra Lago	Rowlett, TX	451	3,329	66,360
Total		700	\$19,907	\$ 99,157

(1) Costs include construction hard costs, construction soft costs and loan borrowing costs.

We have made investments in a number of large tracts of undeveloped and partially developed land and intend to a) continue to improve these tracts of land for our own development purposes or b) make the improvements necessary to ready the land for sale to other developers.

At December 31, 2015, our investments in undeveloped and partially developed land consisted of the following (dollars in thousands):

Location	Date(s) Acquired	Acres	Cost	Primary Intended Use
McKinney, TX	1997-2008	54	9,085	Mixed use
Dallas, TX	1996-2013	192	20,562	Mixed use
Kaufman County, TX	2008	25	2,547	Multi-family residential
Farmers Branch, TX	2008	240	23,429	Mixed use
Kaufman County, TX ⁽¹⁾	2006	2,932	46,611	Mixed use
Various	1990-2008	369	44,711	Various
Total Land Holdings		3,812	\$146,945	

(1) Windmill Farms Land was acquired by a subsidiary of ARL in 2006 and 2,900 acres were subsequently sold to TCI in 2011.

Significant Real Estate Acquisitions/Dispositions and Financings

A summary of some of the significant transactions for the year ended December 31, 2015 are discussed below:

Purchases

For the year ended December 31, 2015, the Company acquired five income-producing apartment complexes from third parties in the states of Texas (3), Tennessee (1) and Alabama (1), increasing the total number of units by 990, for a combined purchase price of \$82.9 million. In addition, the Company acquired six income-producing apartment complexes from related parties in the states of Texas (2), Florida (2), Tennessee (1) and Mississippi (1) increasing the total number of units by 835, for a combined purchase price of \$29.3 million. The Company also purchased a commercial office building in Texas, comprised of 92,723 square feet, for \$16.8 million.

Sales

For the year ended December 31, 2015, the Company sold approximately 595 acres of land located in Texas to independent third parties for a total sales price of \$107.3 million. We recorded a total gain of \$18.9 million from the sales. In addition we recognized \$2.7 million in deferred gain from prior years land sales. In November 2015, the Company sold approximately 88 acres of land located in the U.S. Virgin Islands to an unrelated party. The sale represents most of the development land owned by the Company in the U.S. Virgin Islands. Total cash consideration for the sale was \$33.9 million. We recorded a gain of \$12.0 million related to the transaction.

In November 2015, the Company entered into a sales contract with an unrelated party. The contract was for most of the developable land owned by the Company in the Mercer Crossing Development located in Farmers Branch, Texas. In addition, TCI, IOT and RAI also sold land in this transaction. Total consideration for the sale was \$75 million. The ultimate allocation of sales proceeds to the parties involved is yet to be determined and will be complete when the final use of the land, certain development commitments are completed and the note is collected. The agreement between TCI and the other parties related to this transaction provides for TCI to hold the subordinated note from the buyer in the amount of \$50 million. At the closing, the note payable to related parties of \$16.1 million was paid off. Due to an inadequate down payment from the buyer and the level of seller financing involved, the transaction is being accounted for under the deposit method. Under the deposit method, no revenue is recognized and the asset sold remains on the books until the criteria for full revenue recognition are met.

In addition, one income-producing apartment complex consisting of 200 units located in Ohio was foreclosed upon. The Company recorded a gain of \$0.7 million related to the extinguishment of debt.

As of December 31, 2015, the Company has approximately 91 acres of land, at various locations that were sold to related parties in multiple transactions. These transactions are treated as “subject to sales contract” on the Consolidated Balance Sheets. Due to the related party nature of the transactions TCI has deferred the recording of the sales in accordance with ASC 360-20.

We continue to invest in the development of apartment projects. For the twelve months ended December 31, 2015, we have expended \$16.7 million related to the construction or predevelopment of various apartment complexes and capitalized \$0.2 million of interest costs.

Business Plan and Investment Policy

Our business objective is to maximize long-term value for our stockholders by investing in residential and commercial real estate through the acquisition, development and ownership of apartments, commercial properties, and land. We intend to achieve this objective through acquiring and developing properties in multiple markets and operating as an industry-leading landlord. We believe this objective will provide the benefits of enhanced investment opportunities, economies of scale and risk diversification, both in terms of geographic market and real estate product type. We believe our objective will also result in continuing access to favorably priced debt and equity capital. In pursuing our business objective, we seek to achieve a combination of internal and external growth while maintaining a strong balance sheet and employing a strategy of financial flexibility. We maximize the value of our apartments and commercial properties by maintaining high occupancy levels while charging competitive rental rates, controlling costs and focusing on tenant retention. We also pursue attractive development opportunities either directly or in partnership with other investors.

For our portfolio of commercial properties, we generate increased operating cash flow through annual contractual increases in rental rates under existing leases. We also seek to identify best practices within our industry and across our business units in order to enhance cost savings and gain operating efficiencies. We employ capital improvement and preventive maintenance programs specifically designed to reduce operating costs and increase the long-term value of our real estate investments.

We seek to acquire properties consistent with our business objectives and strategies. We execute our acquisition strategy by purchasing properties which management believes will create stockholder value over the long-term. We will also sell properties when management believes value has been maximized or when a property is no longer considered an investment to be held long-term.

We are continuously in various stages of discussions and negotiations with respect to development, acquisition, and disposition projects. The consummation of any current or future development, acquisition, or disposition, if any, and the pace at which any may be completed cannot be assured or predicted.

Substantially all of our properties are owned by subsidiary companies, many of which are single-asset entities. This ownership structure permits greater access to financing for individual properties and permits flexibility in negotiating a sale of either the asset or the equity interests in the entity owning the asset. From time-to-time, our subsidiaries have invested in joint ventures with other investors, creating the possibility of risks that do not exist with properties solely owned by an ARL subsidiary. In those instances where other investors are involved, those other investors may have business, economic, or other objectives that are inconsistent with our objectives, which may in turn require us to make investment decisions different from those if we were the sole owner.

Real estate generally cannot be sold quickly. We may not be able to promptly dispose of properties in response to economic or other conditions. To offset this challenge, selective dispositions have been a part of our strategy to maintain an efficient investment portfolio and to provide additional sources of capital. We finance acquisitions through mortgages, internally generated funds, and, to a lesser extent, property sales. Those sources provide the bulk of funds for future acquisitions. We may purchase properties by assuming existing loans secured by the acquired property. When properties are acquired in such a manner, we customarily seek to refinance the asset in order to properly leverage the asset in a manner consistent with our investment objectives.

Our businesses are not generally seasonal with regard to real estate investments. Our investment strategy seeks both current income and capital appreciation. Our plan of operation is to continue, to the extent our liquidity permits, to make equity investments in income-producing real estate such as apartments, and commercial properties. We may also invest in the debt or equity securities of real estate-related entities. We intend to pursue higher risk, higher reward investments, such as improved and unimproved land where we can obtain reasonably-priced financing for substantially all of a property's purchase price. We intend to continue the development of apartment properties in selected markets in Texas and in other locations where we believe adequate levels of demand exist. We intend to pursue sales opportunities for properties in stabilized real estate markets where we believe our properties' value has been maximized. We also intend to be an opportunistic seller of properties in markets where demand exceeds current supply. Although we no longer actively seek to fund or purchase mortgage loans, we may, in selected instances, originate mortgage loans or we may provide purchase money financing in conjunction with a property sale.

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

The specific composition from time-to-time of our real estate portfolio owned by ARL directly and through our subsidiaries depends largely on the judgment of management to changing investment opportunities and the level of risk associated with specific investments or types of investments. We intend to maintain a real estate portfolio that is diversified by both location and type of property.

Competition

The real estate business is highly competitive and we compete with numerous companies engaged in real estate activities (including certain entities described in Part III, Item 13. "Certain Relationships and Related Transactions, and Director Independence"), some of which have greater financial resources than ARL. We believe that success against such competition is dependent upon the geographic location of a property, the performance of property-level managers in areas such as leasing and marketing, collection of rents and control of operating expenses, the amount of new

construction in the area and the maintenance and appearance of the property. Additional competitive factors include ease of access to a property, the adequacy of related facilities such as parking and other amenities, and sensitivity to market conditions in determining rent levels. With respect to apartments, competition is also based upon the design and mix of the units and the ability to provide a community atmosphere for the residents. We believe that beyond general economic circumstances and trends, the degree to which properties are renovated or new properties are developed in the competing submarket are also competitive factors. See also Part I, Item 1A. "Risk Factors".

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

As described above and in Part III, Item 13. "Certain Relationships and Related Transactions, and Director Independence", the officers and directors of ARL serve as officers and directors of TCI and IOT. TCI and IOT have business objectives similar to those of ARL. ARL's officers and directors owe fiduciary duties to both IOT and TCI as well as to ARL under applicable law. In determining whether a particular investment opportunity will be allocated to ARL, IOT, or TCI, management considers the respective investment objectives of each Company and the appropriateness of a particular investment in light of each Company's existing real estate and mortgage notes receivable portfolio. To the extent that any particular investment opportunity is appropriate to more than one of the entities, the investment opportunity may be allocated to the entity which has had funds available for investment for the longest period of time, or, if appropriate, the investment may be shared among all three or two of the entities.

In addition, as described in Part III, Item 13. "Certain Relationships and Related Transactions, and Director Independence", ARL competes with related parties of Pillar having similar investment objectives related to the acquisition, development, disposition, leasing and financing of real estate and real estate-related investments. In resolving any potential conflicts of interest which may arise, Pillar has informed ARL that it intends to exercise its best judgment as to what is fair and reasonable under the circumstances in accordance with applicable law.

We have historically engaged in and will continue to engage in certain business transactions with related parties, including but not limited to asset acquisitions 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 interests of the Company.

Available Information

ARL maintains an Internet site at <http://www.amrealtytrust.com>. Available through the website, free of charge, are Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, reports filed pursuant to Section 16, and amendments to those reports, as soon as reasonably practicable after they are electronically filed or furnished to the Securities and Exchange Commission. In addition, we have posted the charters for the Audit Committee, Compensation Committee, and Governance and Nominating Committee, as well as the Code of Business Conduct and Ethics, Corporate Governance Guidelines on Director Independence, and other information on the website. These charters and principles are not incorporated in this report by reference. We will also provide a copy of these documents free of charge to stockholders upon written request. The Company issues Annual Reports containing audited financial statements to its common shareholders.

ITEM 1A. RISK FACTORS

An investment in our securities involves various risks. All investors should carefully consider the following risk factors in conjunction with the other information in this report before trading our securities.

Risk Factors Related to our Business

Adverse events concerning our existing tenants or negative market conditions affecting our existing tenants could have an adverse impact on our ability to attract new tenants, release space, collect rent or renew leases, and thus could adversely affect cash flow from operations and inhibit growth.

Cash flow from operations depends in part on the ability to lease space to tenants on economically favorable terms. We could be adversely affected by various facts and events over which the Company has limited or no control, such as:

- lack of demand for space in areas where the properties are located;
- inability to retain existing tenants and attract new tenants;
- oversupply of or reduced demand for space and changes in market rental rates;

defaults by tenants or failure to pay rent on a timely basis;

the need to periodically renovate and repair marketable space;

physical damage to properties;

economic or physical decline of the areas where properties are located; and

potential risk of functional obsolescence of properties over time.

At any time, any tenant may experience a downturn in its business that may weaken its financial condition. As a result, a tenant may delay lease commencement, fail to make rental payments when due, decline to extend a lease upon its expiration, become insolvent or declare bankruptcy. Any tenant bankruptcy or insolvency, leasing delay or failure to make rental payments when due could result in the termination of the tenant's lease and material losses to the Company.

If tenants do not renew their leases as they expire, we may not be able to rent the space. Furthermore, leases that are renewed, and some new leases for space that is re-let, may have terms that are less economically favorable than expiring lease terms, or may require us to incur significant costs, such as renovations, tenant improvements or lease transaction costs. Any of these events could adversely affect cash flow from operations and our ability to make distributions to shareholders and service indebtedness. A significant portion of the costs of owning property, such as real estate taxes, insurance, and debt service payments, are not necessarily reduced when circumstances cause a decrease in rental income from the properties.

We may not be able to compete successfully with other entities that operate in our industry.

We experience a great deal of competition in attracting tenants for the properties and in locating land to develop and properties to acquire.

In our effort to lease properties, we compete for tenants with a broad spectrum of other landlords in each of the markets. These competitors include, among others, publicly-held REITs, privately-held entities, individual property owners and tenants who wish to sublease their space. Some of these competitors may be able to offer prospective tenants more attractive financial terms than we are able to offer.

If the availability of land or high quality properties in our markets diminishes, operating results could be adversely affected.

We may experience increased operating costs which could adversely affect our financial results and the value of our properties.

Our properties are subject to increases in operating expenses such as insurance, cleaning, electricity, heating, ventilation and air conditioning, administrative costs and other costs associated with security, landscaping, repairs, and maintenance of the properties. While some current tenants are obligated by their leases to reimburse us for a portion of these costs, there is no assurance that these tenants will make such payments or agree to pay these costs upon renewal or new tenants will agree to pay these costs. If operating expenses increase in our markets, we may not be able to increase rents or reimbursements in all of these markets to offset the increased expenses, without at the same time decreasing occupancy rates. If this occurs, our ability to make distributions to shareholders and service indebtedness could be adversely affected.

Our ability to achieve growth in operating income depends in part on its ability to develop additional properties.

We intend to continue to develop properties where warranted by market conditions. We have a number of ongoing development and land projects being readied for commencement.

Additionally, general construction and development activities include the following risks:

- construction and leasing of a property may not be completed on schedule, which could result in increased expenses and construction costs, and would result in reduced profitability for that property;

- construction costs may exceed original estimates due to increases in interest rates and increased cost of materials, labor or other costs, possibly making the property less profitable because of inability to increase rents to compensate for the increase in construction costs;

- some developments may fail to achieve expectations, possibly making them less profitable;

- we may be unable to obtain, or face delays in obtaining, required zoning, land-use, building, occupancy, and other governmental permits and authorizations, which could result in increased costs and could require us to abandon our activities entirely with respect to a project;

- we may abandon development opportunities after the initial exploration, which may result in failure to recover costs already incurred. If we determine to alter or discontinue its development efforts, future costs

of the investment may be expensed as incurred rather than capitalized and we may determine the investment is impaired resulting in a loss;

- we may expend funds on and devote management's time to projects which will not be completed; and

occupancy rates and rents at newly-completed properties may fluctuate depending on various factors including market and economic conditions, and may result in lower than projected rental rates and reduced income from operations.

We face risks associated with property acquisitions.

We acquire individual properties and various portfolios of properties and intend to continue to do so. Acquisition activities are subject to the following risks:

· when we are able to locate a desired property, competition from other real estate investors may significantly increase the seller's offering price;

· acquired properties may fail to perform as expected;

- the actual costs of repositioning or redeveloping acquired properties may be higher than original estimates;

· acquired properties may be located in new markets where we face risks associated with an incomplete knowledge or understanding of the local market, a limited number of established business relationships in the area and a relative unfamiliarity with local governmental and permitting procedures; and

· we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into existing operations, and results of operations and financial condition could be adversely affected.

We may acquire properties subject to liabilities and without any recourse, or with limited recourse, with respect to unknown liabilities. However, if an unknown liability was later asserted against the acquired properties, we might be required to pay substantial sums to settle it, which could adversely affect cash flow.

Many of our properties are concentrated in our primary markets and the Company may suffer economic harm as a result of adverse conditions in those markets.

Our properties are located principally in specific geographic areas in the southwestern, southeastern, and mid-western United States. The Company's overall performance is largely dependent on economic conditions in those regions.

We are leveraged and may not be able to meet our debt service obligations.

We had total indebtedness at December 31, 2015 of approximately \$821.5 million. Substantially all assets have been pledged to secure debt. These borrowings increase the risk of loss because they represent a prior claim on assets and most require fixed payments regardless of profitability. Our leveraged position makes us vulnerable to declines in the general economy and may limit the Company's ability to pursue other business opportunities in the future.

We may not be able to access financial markets to obtain capital on a timely basis, or on acceptable terms.

We rely on proceeds from property dispositions and third party capital sources for a portion of our capital needs, including capital for acquisitions and development. The public debt and equity markets are also among the sources upon which the Company relies. There is no guarantee that we will be able to access these markets or any other source of capital. The ability to access the public debt and equity markets depends on a variety of factors, including:

- general economic conditions affecting these markets;
- our own financial structure and performance;
- the market's opinion of real estate companies in general; and
- the market's opinion of real estate companies that own similar properties.

We may suffer adverse effects as a result of terms and covenants relating to the Company's indebtedness.

Required payments on our indebtedness generally are not reduced if the economic performance of the portfolio declines. If the economic performance declines, net income, cash flow from operations and cash available for distribution to stockholders may be reduced. If payments on debt cannot be made, we could sustain a loss or suffer judgments, or in the case of mortgages, suffer foreclosures by mortgagees. Further, some obligations contain cross-default and/or cross-acceleration provisions, which means that a default on one obligation may constitute a default on other obligations.

We anticipate only a small portion of the principal of our debt will be repaid prior to maturity. Therefore, we are likely to refinance a portion of our outstanding debt as it matures. There is a risk that we may not be able to refinance existing debt or the terms of any refinancing will not be as favorable as the terms of the maturing debt. If principal balances due at maturity cannot be refinanced, extended, or repaid with proceeds from other sources, such as the proceeds of sales of assets or new equity capital, cash flow may not be sufficient to repay all maturing debt in years when significant “balloon” payments come due.

Our credit facilities and unsecured debt contain customary restrictions, requirements and other limitations on the ability to incur indebtedness, including total debt to asset ratios, secured debt to total asset ratios, debt service coverage ratios, and minimum ratios of unencumbered assets to unsecured debt. Our continued ability to borrow is subject to compliance with financial and other covenants. In addition, failure to comply with such covenants could cause a default under credit facilities, and we may then be required to repay such debt with capital from other sources. Under those circumstances, other sources of capital may not be available, or be available only on terms that are detrimental to the Company.

Our degree of leverage could limit our ability to obtain additional financing or affect the market price of our common stock.

The degree of leverage could affect our ability to obtain additional financing for working capital, capital expenditures, acquisitions, development or other general corporate purposes. The degree of leverage could also make us more vulnerable to a downturn in business or the general economy.

An increase in interest rates would increase interest costs on variable rate debt and could adversely impact the ability to refinance existing debt.

We currently have, and may incur more, indebtedness that bears interest at variable rates. Accordingly, if interest rates increase, so will the interest costs, which could adversely affect cash flow and the ability to pay principal and interest on our debt and the ability to make distributions to shareholders. Further, rising interest rates could limit our ability to refinance existing debt when it matures.

Unbudgeted capital expenditures or cost overruns could adversely affect business operations and cash flow.

If capital expenditures for ongoing or planned development projects or renovations exceed expectations, the additional cost of these expenditures could have an adverse effect on business operations and cash flow. In addition, we might not have access to funds on a timely basis to pay for the unexpected expenditures.

Construction costs are funded in large part through construction financing, which the Company may guarantee. The Company's obligation to pay interest on this financing continues until the rental project is completed, leased-up and permanent financing is obtained, or the project is sold, or the construction loan is otherwise paid. Unexpected delays in completion of one or more ongoing projects could also have a significant adverse impact on business operations and cash flow.

We may need to sell properties from time to time for cash flow purposes.

Because of the lack of liquidity of real estate investments generally, our ability to respond to changing circumstances may be limited. Real estate investments generally cannot be sold quickly. In the event that we must sell assets to generate cash flow, we cannot predict whether there will be a market for those assets in the time period desired, or whether we will be able to sell the assets at a price that will allow the Company to fully recoup its investment. We may not be able to realize the full potential value of the assets and may incur costs related to the early extinguishment of the debt secured by such assets.

We intend to devote resources to the development of new projects.

We plan to continue developing new projects as opportunities arise in the future. Development and construction activities entail a number of risks, including but not limited to the following:

- we may abandon a project after spending time and money determining its feasibility;
- construction costs may materially exceed original estimates;
- the revenue from a new project may not be enough to make it profitable or generate a positive cash flow;
- we may not be able to obtain financing on favorable terms for development of a property, if at all;
- we may not complete construction and lease-ups on schedule, resulting in increased development or carrying costs; and
- we may not be able to obtain, or may be delayed in obtaining, necessary governmental permits.

The overall business is subject to all of the risks associated with the real estate industry.

We are subject to all risks incident to investment in real estate, many of which relate to the general lack of liquidity of real estate investments, including, but not limited to:

our real estate assets are concentrated primarily in the southwest and any deterioration in the general economic conditions of this region could have an adverse effect;

- changes in interest rates may make the ability to satisfy overall debt service requirements more burdensome;

lack of availability of financing may render the purchase, sale or refinancing of a property more difficult or unattractive;

- changes in real estate and zoning laws;

- increases in real estate taxes and insurance costs;

- federal or local regulations or rent controls;

- acts of terrorism, and

- hurricanes, tornadoes, floods, earthquakes and other similar natural disasters.

Our performance and value are subject to risks associated with our real estate assets and with the real estate industry.

Our economic performance and the value of our real estate assets, and consequently the value of our securities, are subject to the risk that if our properties do not generate revenues sufficient to meet our operating expenses, including debt service and capital expenditures, our cash flow will be adversely affected. The following factors, among others, may adversely affect the income generated by our properties:

- downturns in the national, regional and local economic conditions (particularly increases in unemployment);

- competition from other office, apartment and commercial buildings;

local real estate market conditions, such as oversupply or reduction in demand for office, apartments or other commercial space;

- changes in interest rates and availability of financing;

- vacancies, changes in market rental rates and the need to periodically repair, renovate and re-let space;

increased operating costs, including insurance expense, utilities, real estate taxes, state and local taxes and heightened security costs;

civil disturbances, earthquakes and other natural disasters, or terrorist acts or acts of war which may result in uninsured or underinsured losses;

significant expenditures associated with each investment, such as debt service payments, real estate taxes, insurance and maintenance costs which are generally not reduced when circumstances cause a reduction in revenues from a property;

declines in the financial condition of our tenants and our ability to collect rents from our tenants; and

decreases in the underlying value of our real estate.

Adverse economic and geopolitical conditions and dislocations in the credit markets could have a material adverse effect on our results of operations, and financial condition.

Our business may be affected by market and economic challenges experienced by the U.S. economy or real estate industry as a whole or by the local economic conditions in the markets in which our properties are located, including the current dislocations in the credit markets and general global economic recession. These current conditions, or similar conditions existing in the future, may adversely affect our results of operations, and financial condition as a result of the following, among other potential consequences:

the financial condition of our tenants may be adversely affected which may result in tenant defaults under leases due to bankruptcy, lack of liquidity, operational failures or for other reasons;

significant job losses within our tenants may occur, which may decrease demand for our office space, causing market rental rates and property values to be negatively impacted;

our ability to borrow on terms and conditions that we find acceptable, or at all, may be limited, which could reduce our ability to pursue acquisition and development opportunities and refinance existing debt, reduce our returns from our acquisition and development activities and increase our future interest expense;

reduced values of our properties may limit our ability to dispose of assets at attractive prices or to obtain debt financing secured by our properties and may reduce the availability of unsecured loans; and

one or more lenders could refuse to fund their financing commitment to us or could fail and we may not be able to replace the financing commitment of any such lenders on favorable terms, or at all.

Real estate investments are illiquid, and the Company may not be able to sell properties if and when it is appropriate to do so.

Real estate generally cannot be sold quickly. We may not be able to dispose of properties promptly in response to economic or other conditions. In addition, provisions of the Internal Revenue Code may limit our ability to sell properties (without incurring significant tax costs) in some situations when it may be otherwise economically advantageous to do so, thereby adversely affecting returns to stockholders and adversely impacting our ability to meet our obligations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

On December 31, 2015, our portfolio consisted of 58 income producing properties consisting of 48 apartments totaling 7,983 units, nine commercial properties consisting of five office buildings, three retail centers and one industrial warehouse; and a golf course. In addition, we own or control 3,812 acres of improved and unimproved land held for future development or sale. The average annual rental and other property revenue dollar per square foot is \$9.97 for the Company's residential apartment portfolio and \$11.93 for the commercial portfolio. The table below shows information relating to those properties in which we own or have an ownership interest:

Residential Apartments	Location	Units	Occupancy	
Anderson Estates	Oxford, MS	48	91.70	%
Blue Lake Villas I	Waxahachie, TX	186	98.40	%
Blue Lake Villas II	Waxahachie, TX	70	100.00	%
Breakwater Bay	Beaumont, TX	176	96.60	%
Bridgewood Ranch	Kaufman, TX	106	98.10	%
Capitol Hill	Little Rock, AR	156	94.90	%
Centennial	Oak Ridge TN	252	92.10	%
Crossing at Opelika	Opelika AL	168	98.80	%
Curtis Moore Estates	Greenwood, MS	104	82.70	%
Dakota Arms	Lubbock, TX	208	90.40	%
David Jordan Phase II	Greenwood, MS	32	81.30	%
David Jordan Phase III	Greenwood, MS	40	82.50	%
Desoto Ranch	DeSoto, TX	248	96.80	%
Falcon Lakes	Arlington, TX	248	98.80	%
Heather Creek	Mesquite, TX	200	97.50	%
Holland Lake	Weatherford TX	208	99.00	%
Lake Forest	Houston, TX	240	97.50	%
Legacy at Pleasant Grove	Texarkana, TX	208	93.80	%
Lodge at Pecan Creek	Denton, TX	192	93.20	%
Mansions of Mansfield	Mansfield, TX	208	97.10	%
Mission Oaks	San Antonio, TX	228	89.90	%
Monticello Estate	Monticello, AR	32	87.50	%
Northside on Travis	Sherman, TX	200	98.00	%
Oak Hollow	Seguin TX	160	91.30	%
Overlook @ Allensville	Sevierville TN	144	97.90	%
Parc at Clarksville	Clarksville, TN	168	96.40	%
Parc at Denham Springs	Denham Springs, LA	224	92.00	%
Parc at Maumelle	Little Rock, AR	240	95.00	%
Parc at Metro Center	Nashville, TN	144	99.30	%
Parc at Rogers	Rogers, AR	250	98.40	%
Preserve at Pecan Creek	Denton, TX	192	92.70	%
Preserve at Prairie Point	Lubbock, TX	184	96.20	%
Riverwalk Phase I	Greenville, MS	32	87.50	%
Riverwalk Phase II	Greenville, MS	72	84.70	%
Sonoma Court	Rockwall, TX	124	98.40	%
Sugar Mill	Baton Rouge, LA	160	100.00	%
Toulon	Gautier, MS	240	96.70	%
Tradewinds	Midland TX	214	95.30	%
Treehouse	Irving, TX	160	98.80	%
Villager Apts	Fort Walton FL	33	93.90	%
Villas at Park West I	Pueblo, CO	148	95.30	%
Villas at Park West II	Pueblo, CO	112	89.30	%
Vista Ridge	Tupelo MS	160	98.80	%
Vistas of Vance Jackson	San Antonio, TX	240	94.60	%
Waterford Apts	Rosenberg TX	196	93.90	%
Westwood Apts	Mary Ester FL	120	95.00	%

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Whispering Pines Apts	Topeka KS	320	95.60	%
Windsong	Fort Worth, TX	188	97.30	%
	<i>Total Apartments/Average Occupancy rate</i>	7,983	94.39	%

Office Buildings	Location	SqFt	Occupancy	
600 Las Colinas	Las Colinas, TX	511,902	78.26	%
770 South Post Oak	Houston, TX	94,075	93.68	%
Browning Place (Park West I)	Farmers Branch, TX	625,264	60.50	%
Senlac (VHP)	Farmers Branch, TX	2,812	100.00	%
Stanford Center	Dallas, TX	333,234	93.54	%
	Total Office Buildings	1,567,287		
Retail Centers	Location	SqFt	Occupancy	
Bridgeview Plaza	LaCrosse, WI	122,205	92.28	%
Cross County Mall	Matoon, IL	306,609	58.76	%
Fruitland Park	Fruitland Park, FL	6,722	100.00	%
	Total Retail Centers	435,536		
Industrial Warehouses	Location	SqFt	Occupancy	
Thermalloy	Farmers Branch, TX	177,805	100.00	%
	Total Industrial Warehouses	177,805		
	 Total Commercial	 2,180,628		
Golf Course	Location	Acres		
Mahogany Run Golf Course	St. Thomas, U.S. Virgin Islands	96.09		
	Total Golf Course	96.09		

Lease Expirations

The table below shows the lease expirations of the commercial properties over a nine-year period and thereafter:

Year of Lease Expiration	Rentable Square Feet Subject to Expiring Leases	Current Annualized (1) Contractual Rent Under Expiring Leases	Current Annualized (1) Contractual Rent Under Expiring Leases (P.S.F.)	Percentage of Total Square Feet		Percentage of Gross Rentals	
2016	317,873	\$2,341,020	\$ 7.36	17.8	%	10.3	%
2017	123,635	1,039,657	8.41	6.9	%	4.6	%
2018	248,090	2,718,074	10.96	13.9	%	12.0	%
2019	258,919	3,575,317	13.81	14.5	%	15.8	%
2020	103,550	1,767,748	17.07	5.8	%	7.8	%
2021	105,507	1,990,258	18.86	5.9	%	8.8	%

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2022	165,769	4,235,995	25.55	9.3	%	18.7	%
2023	158,856	1,981,877	12.48	8.9	%	8.7	%
2024	40,322	599,950	14.88	2.3	%	2.6	%
Thereafter	121,440	2,441,745	20.11	6.8	%	10.7	%
Total	1,643,961	\$ 22,691,641		92.1	%	100	%

Represents the monthly contractual base rent and recoveries from tenants under existing leases as of December 31, (1)2015, multiplied by twelve. This amount reflects total rent before any rent abatements and includes expense reimbursements which may be estimates as of such date.

Land	Location	Acres
2427 Valley View Ln	Farmers Branch, TX	0.31
Audubon	Adams County, MS	48.20
Bonneau Land	Farmers Branch, TX	8.39
Cooks Lane	Fort Worth, TX	23.24
Dedeaux	Gulfport, MS	10.00
Denham Springs	Denham Springs, LA	4.38
Gautier	Gautier, MS	3.46
GNB	Farmers Branch, TX	45.00
Hollywood Casino Tract II	Farmers Branch, TX	13.85
Lacy Longhorn	Farmers Branch, TX	5.08
Lake Shore Villas	Humble, TX	19.51
Lubbock	Lubbock, TX	2.86
Luna Ventures	Farmers Branch, TX	26.71
Manhattan	Farmers Branch, TX	32.02
McKinney 36	Collin County, TX	17.99
McKinney Ranch	McKinney, TX	35.92
Meloy/Portage	Kent, OH	52.95
Mininvest	Dallas, TX	0.23
Nashville	Nashville, TN	11.87
Nicholson Croslin	Dallas, TX	0.80
Nicholson Mendoza	Dallas, TX	0.35
Ocean Estates	Gulfport, MS	12.00
Senlac	Farmers Branch, TX	8.49
Texas Plaza	Irving, TX	10.33
Travis Ranch	Kaufman County, TX	16.80
Travis Ranch Retail	Kaufman County, TX	8.13
Union Pacific Railroad	Dallas, TX	0.04
Valley View 34 (Mercer Crossing)	Farmers Branch, TX	2.19
Waco Swanson	Waco, TX	21.58
Willowick	Pensacola, FL	39.78
Windmills Farm	Kaufman County, TX	2,932.00
	Total Land/Development	3,414.46

Land Subject to Sales Contract	Location	Acres
Dominion Tract	Dallas, TX	10.59
Hollywood Casino Tract I	Farmers Branch, TX	15.52
LaDue	Farmers Branch, TX	8.01
Three Hickory	Farmers Branch, TX	6.60
Travelers	Farmers Branch, TX	193.17
Valwood land	Farmers Branch, TX	16.87
Walker/Cummings	Dallas County, TX	82.59
Whorton	Bentonville, AR	64.44
	Total Land Subject to Sales Contract	397.79

Total Land **3,812.25**

ITEM 3. LEGAL PROCEEDINGS

ART and ART Midwest, Inc.

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

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

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

As a result of a final Memorandum Opinion and Order issued by the court on January 25, 2016 all claims against the officers and directors of the Company were dismissed.

Management believes that the Company has no liability for any ultimate judgment in the proceeding involving the Clapper Parties; however, Management of the Company has serious reservations about the current collectability of

the \$10 million note and, accordingly, has reserved the full amount of the note.

Port Olpenitz

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

Dynex Capital, Inc.

On July 20, 2015, the 68th Judicial District Court in Dallas County, Texas issued its Final Judgment in Cause No. DC-03-00675, styled Basic Capital Management, Inc., American Realty Trust, Inc., Transcontinental Realty Investors, Inc., Continental Poydras Corp., Continental Common, Inc. and Continental Baronne, Inc. v. Dynex Commercial, Inc. The case, which was litigated for more than a decade, had its origin with Dynex Commercial making loans to Continental Poydras Corp., Continental Common, Inc. and Continental Baronne, Inc. (subsidiaries of Continental Mortgage & Equity Trust (“CMET”), an entity which merged into TCI in 1999 after the original suit was filed). Under the original loan commitment, \$160 million in loans were to be made to the entities. The loans were conditioned on the execution of a commitment between Dynex Commercial and Basic Capital Management, Inc. (“Basic”).

An original trial in 2004, which also included Dynex Capital, Inc. as a defendant, resulted in a jury awarding damages in favor of Basic for “lost opportunity,” as well as damages in favor of ART and in favor of TCI and its subsidiaries for “increased costs” and “lost opportunity.” The original Trial Court judge ignored the jury’s findings, however, and entered a “Judgment Notwithstanding the Verdict” (“JNOV”) in favor of the Dynex entities (the judge held the Plaintiffs were not entitled to any damages from the Dynex entities). After numerous appeals by all parties, Dynex Capital, Inc. was ultimately dismissed from the case and the remaining claims against Dynex Commercial were remanded to the Trial Court for a new judgment consistent with the jury’s findings. The Court entered the new Final Judgment against Dynex Commercial, Inc. on July 20, 2015.

The Final Judgment entered against Dynex Commercial, Inc. on July 20, 2015 awarded Basic \$.256 million in damages, plus pre-judgment interest of \$.192 million for a total amount of \$.448 million. The Judgment awarded ART \$14.2 million in damages, plus pre-judgment interest of \$10.6 million for a total amount of \$24.8 million. The Judgment awarded TCI \$11.1 million, plus pre-judgment interest of \$8.4 million for a total amount of \$19.5 million. The Judgment also awarded Basic, ART, and TCI post-judgment interest at the rate of 5% per annum from April 25, 2014 until the date their respective damages are paid. Lastly, the Judgment awarded Basic, ART, and TCI \$1.6 million collectively in attorneys’ fees from Dynex Commercial, Inc.

The Company is reviewing the Final Judgment with counsel to determine the appropriate steps moving forward now that they have obtained this Final Judgment against Dynex Commercial, Inc.

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

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

ITEM 4. *MINE SAFETY DISCLOSURES*

Not applicable.

PART II**ITEM MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. ISSUER PURCHASES OF EQUITY SECURITIES**

ARL's common stock is listed and traded on the NYSE under the symbol "ARL". The following table sets forth the high and low sales prices as reported in the consolidated reporting system of the NYSE for the quarters ended:

	2015		2014	
	High	Low	High	Low
First Quarter	\$5.90	\$4.26	\$10.99	\$4.33
Second Quarter	\$5.95	\$4.66	\$9.99	\$5.61
Third Quarter	\$7.49	\$4.09	\$7.07	\$5.09
Fourth Quarter	\$7.19	\$4.75	\$6.40	\$4.85

On March 11, 2016, the closing market price of ARL's common stock on the NYSE \$4.11 per share, and was held by approximately 2,129 stockholders of record.

ARL's Board of Directors has established a policy that dividend declarations on common stock would be determined on an annual basis following the end of each year. In accordance with that policy, the Board determined not to pay any dividends on common stock in 2015, 2014 or 2013. Future distributions to common stockholders will be determined by the Board of Directors in light of conditions then existing, including the Company's financial condition and requirements, future prospects, restrictions in financing agreements, business conditions and other factors deemed relevant by the Board.

Under ARL's Amended Articles of Incorporation, 15,000,000 shares of Series A 10.0% Cumulative Convertible Preferred Stock are authorized with a par value of \$2.00 per share and a liquidation preference of \$10.00 per share plus accrued and unpaid dividends. Dividends are payable at the annual rate of \$1.00 per share, or \$.25 per share quarterly, to stockholders of record on the last day of each March, June, September, and December, when and as declared by the Board of Directors. The Series A Preferred Stock may be converted into common stock at 90.0% of the average daily closing price of ARL's common stock for the prior 20 trading days. At December 31, 2015, 2,000,614 shares of Series A Preferred Stock were outstanding. Of the outstanding shares, 900,000 are held by ARL. Dividends are not paid on the shares owned by ARL.

Under ARL's Amended Articles of Incorporation, 91,000 shares of Series D 9.50% Cumulative Preferred Stock are authorized with a par value of \$2.00 per share, and a liquidation preference of \$20.00 per share. Dividends are payable at the annual rate of \$1.90 per year or \$0.475 per quarter to stockholders of record on the last day of each March, June, September and December when and as declared by the Board of Directors. The Series D Preferred Stock is reserved for the conversion of the Class A limited partner units of Ocean Beach Partners, L.P. The Class A units may be exchanged for Series D Preferred Stock at the rate of 20 Class A units for each share of Series D Preferred Stock. There are no outstanding shares of Series D Preferred Stock.

Under ARL's Amended Articles of Incorporation, 500,000 shares of Series E 6.0% Cumulative Preferred Stock are authorized with a par value \$2.00 per share and a liquidation preference of \$10.00 per share. Dividends are payable at the annual rate of \$0.60 per share or \$0.15 per quarter to stockholders of record on the last day of each March, June, September and December when and as declared by the Board of Directors. There are no Series E Preferred Stock outstanding. As an instrument amendatory to ARL's Amended Articles of Incorporation, 100,000 shares of Series J 8% Cumulative Convertible Preferred Stock have been designated pursuant to a Certificate of Designation filed March 16, 2006, with a par value of \$2.00 per share, and a liquidation preference of \$1,000 per share. Dividends are payable at the annual rate of \$80 per share, or \$20 per quarter, to stockholders of record on the last day of each of March, June, September and December, when and as declared by the Board of Directors. Although the Series J 8% Cumulative Convertible Preferred Stock has been designated, no shares have been issued.

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

On September 1, 2000, the Board of Directors approved a share repurchase program authorizing the repurchase of up to a total of 1,000,000 shares of ARL common stock. This repurchase program has no termination date. In August 2010, the Board of Directors approved an increase in the share repurchase program for up to an additional 250,000 shares of common stock which results in a total authorization under the repurchase program for up to 1,250,000 shares. There were no shares repurchased during the year ended December 31, 2015.

ITEM 6. SELECTED FINANCIAL DATA**AMERICAN REALTY INVESTORS, INC.**

	For the Years Ended December 31,				
	2015	2014	2013	2012	2011
	(dollars in thousands, except share and per share amounts)				
EARNINGS DATA					
Rental and other property revenues	\$ 104,188	\$ 79,412	\$ 80,750	\$ 81,849	\$ 73,029
Total operating expenses	97,880	82,611	96,426	73,602	120,471
Operating income (loss)	6,308	(3,199)	(15,676)	8,247	(47,442)
Other expenses	(31,622)	(15,511)	(35,264)	(20,021)	(18,580)
Income (loss) before gain on land sales, non-controlling interest, and taxes	(25,314)	(18,710)	(50,940)	(11,774)	(66,022)
Gain (loss) on land sales	21,648	561	(455)	5,475	34,206
Income tax benefit (expense)	(517)	20,413	40,513	(144)	8,781
Net income (loss) from continuing operations	(4,183)	2,264	(10,882)	(6,443)	(23,035)
Net income (loss) from discontinuing operations	896	37,909	62,606	(268)	16,308
Net income (loss)	(3,287)	40,173	51,724	(6,711)	(6,727)
Net income (loss) attributable to non-controlling interest	1,327	(9,288)	(10,448)	1,126	7,017
Net income (loss) attributable to American Realty Investors, Inc.	(1,960)	30,885	41,276	(5,585)	290
Preferred dividend requirement	(1,216)	(2,043)	(2,452)	(2,452)	(2,456)
Net income (loss) applicable to common shares	\$(3,176)	\$28,842	\$38,824	\$(8,037)	\$(2,166)
PER SHARE DATA					
Earnings per share - basic					
Income (loss) from continuing operations	\$(0.27)	\$(0.71)	\$(2.07)	\$(0.67)	\$(1.60)
Income (loss) from discontinued operations	0.06	2.99	5.43	(0.02)	1.42
Net income (loss) applicable to common shares	\$(0.21)	\$2.28	\$3.36	\$(0.69)	\$(0.18)
Weighted average common shares used in computing earnings per share	15,111,107	12,683,956	11,525,389	11,525,389	11,517,431
Earnings per share - diluted					
Income (loss) from continuing operations	\$(0.27)	\$(0.71)	\$(2.07)	\$(0.67)	\$(1.60)
Income (loss) from discontinued operations	0.06	2.99	5.43	(0.02)	1.42
Net income (loss) applicable to common shares	\$(0.21)	\$2.28	\$3.36	\$(0.69)	\$(0.18)
Weighted average common shares used in computing diluted earnings per share	15,111,107	12,683,956	11,525,389	11,525,389	11,517,431

BALANCE SHEET DATA

Real estate, net	\$853,507	\$699,763	\$700,294	\$930,433	\$1,026,630
Notes and interest receivable, net	120,243	134,366	136,815	103,469	101,540
Total assets	1,117,368	965,498	943,322	1,135,345	1,235,471
Notes and interest payables	804,760	659,059	659,042	869,857	940,863
Shareholders' equity	176,889	179,588	134,861	85,104	95,257
Book value per share	11.71	14.16	11.70	7.38	8.27

ITEM 7. 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 Annual Report on Form 10-K 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 relate solely to historical matters are intended to identify forward-looking statements. These statements are subject to risks, uncertainties, and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties, and factors, that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. We caution you that, while forward-looking statements reflect our good faith beliefs when we make them, they are not guarantees of future performance and are impacted by actual events when they occur after we make such statements. We expressly disclaim any responsibility to update our forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

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

- general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew leases, dependence on tenants' financial condition, and competition from other developers, owners and operators of real estate);
- risks associated with the availability and terms of financing and the use of debt to fund acquisitions and developments;
- failure to manage effectively our growth and expansion into new markets or to integrate acquisitions successfully;
- risks and uncertainties affecting property development and construction (including, without limitation, construction delays, cost overruns, inability to obtain necessary permits and public opposition to such activities);

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

- costs of compliance with the Americans with Disabilities Act and other similar laws and regulations;
- potential liability for uninsured losses and environmental contamination;
- risks associated with our dependence on key personnel whose continued service is not guaranteed; and
- the other risk factors identified in this Form 10-K, including those described under the caption “Risk Factors.”

The risks included here are not exhaustive. Other sections of this report, including Part I, Item 1A. “Risk Factors,” include additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Investors should also refer to our quarterly reports on Form 10-Q for future periods and current reports on Form 8-K as we file them with the SEC, and to other materials we may furnish to the public from time to time through Forms 8-K or otherwise.

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 and during 2015 we acquired \$129 million and sold \$118 million of land and income producing properties. As of December 31, 2015, we owned 7,983 units in 48 residential apartment communities, nine commercial properties comprising approximately \$2.2 million rentable square feet, and a golf course. In addition, we own 3,812 acres of land held for development. The Company currently owns income-producing properties and land in eleven states as well as in the U.S. Virgin Islands.

We finance our acquisitions primarily through operating cash flow, proceeds from the sale of land and income-producing properties and debt financing primarily in the form of property-specific first-lien mortgage loans from commercial banks and institutional lenders. We finance our development projects principally with short-term, variable interest rate construction loans that are converted to long-term, fixed rate amortizing mortgages when the development project is completed and occupancy has been stabilized. We will, from time to time, also enter into partnerships with various investors to acquire income-producing properties or land and to sell interests in certain of our wholly owned properties. When we sell assets, we may carry a portion of the sales price generally in the form of a short-term, interest bearing seller-financed note receivable. We generate operating revenues primarily by leasing apartment units to residents and leasing office, retail and industrial space to commercial tenants.

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

Since April 30, 2011, Pillar is the Company's external Advisor and Cash Manager under a contractual arrangement that is reviewed annually by our Board of Directors. Pillar's duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities. Pillar also arranges, for ARL's benefit, debt and equity financing with third party lenders and investors. Pillar also serves as an Advisor and Cash Manager to TCI and IOT. As the contractual Advisor, Pillar is compensated by ARL under an Advisory Agreement that is more fully described in Part III, Item 10. "Directors, Executive Officers and Corporate Governance – The Advisor". ARL has no employees. Employees of Pillar render services to ARL in accordance with the terms of the Advisory Agreement.

Effective since January 1, 2011, Regis manages our commercial properties and provides brokerage services. Regis is entitled to receive a fee for its property management and brokerage services. See Part III, Item 10. "Directors, Executive Officers and Corporate Governance – Property Management and Real Estate Brokerage". The Company contracts with third-party companies to lease and manage our apartment communities.

Critical Accounting Policies

We present our financial statements in accordance with generally accepted accounting principles in the United States ("GAAP"). The accompanying Consolidated Financial Statements include our accounts, our subsidiaries, generally all of which are wholly-owned, and all entities in which we have a controlling interest. Arrangements that are not controlled through voting or similar rights are accounted for as a Variable Interest Entity (VIE), in accordance with the provisions and guidance of ASC Topic 810 "Consolidation", whereby we have determined that we are a primary beneficiary of the VIE and meet certain criteria of a sole general partner or managing member as identified in

accordance with Emerging Issues Task Force (“EITF”) Issue 04-5, Investor’s Accounting for an Investment in a Limited Partnership when the Investor is the Sole General Partner and the Limited Partners have Certain Rights (“EITF 04-5”). VIEs are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders as a group lack adequate decision making ability, the obligation to absorb expected losses or residual returns of the entity, or have voting rights that are not proportional to their economic interests. The primary beneficiary generally is the entity that provides financial support and bears a majority of the financial risks, authorizes certain capital transactions, or makes operating decisions that materially affect the entity’s financial results. All significant intercompany balances and transactions have been eliminated in consolidation.

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

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

The Company in accordance with the VIE guidance in ASC 810 “Consolidations” consolidates 48 and 36 multifamily residential properties located throughout the United States at December 31, 2015 and 2014, respectively, ranging from 32 units to 320 units. Assets totaling \$384.5 million and \$363.5 million at December 31, 2015 and 2014, respectively, are consolidated and included in “Real estate, at cost” on the balance sheet and are all collateral for their respective mortgage notes payable, none of which are recourse to the partnership in which they are in or to the Company.

Real Estate

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

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

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

Other intangible assets acquired include amounts for in-place lease values that are based on our evaluation of the specific characteristics of each tenant’s lease. Factors to be considered include estimates of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, we consider leasing commissions, legal and other related expenses.

Depreciation and Impairment

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

A variety of costs are incurred in the acquisition, development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. Our capitalization policy on development properties is guided by ASC Topic 835-20 “Interest – Capitalization of Interest” and ASC Topic 970 “Real Estate - General”. The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We 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.

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. Fair value is determined by a recent appraisal, comparable based upon prices for similar assets, executed sales contract, a present value and/or a valuation technique based upon a multiple of earnings or revenue. 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. If we determine that impairment has occurred, the affected assets must be reduced to their face value.

ASC Topic 360 “Property, Plant and Equipment” requires that qualifying assets and liabilities and the results of operations that have been sold, or otherwise qualify as “held for sale”, be presented as discontinued operations in all periods presented if the property operations are expected to be eliminated and we will not have significant continuing involvement following the sale. The components of the property’s net income that is reflected as discontinued operations include the net gain (or loss) upon the disposition of the property “held for sale”, operating results, depreciation and interest expense (if the property is subject to a secured loan). We generally consider assets to be “held for sale” when the transaction has been approved by our Board of Directors, or a committee thereof, and there are no known significant contingencies relating to the sale, such that the property sale within one year is considered probable. Following the classification of a property as “held for sale”, no further depreciation is recorded on the assets.

Any properties that are treated as “subject to sales contract” on the Consolidated Balance Sheets and are listed in detail in Schedule III, “Real Estate and Accumulated Depreciation” are those in which we have not recognized the legal sale according to the guidance in ASC 360-20 due to various factors, disclosed in each sale transaction under Item 1 Significant Real Estate Acquisitions/Dispositions and Financing. Any sale transaction that did not meet the requirements according to ASC 360-20 to record the sale, the asset involved in the transaction, including the debt and property operations, remained on the books of the Company. We continue to charge depreciation to expense as a period costs for the property until such time as the property has been classified as held for sale in accordance with guidance reflected in ASC 360-10-45 “Impairment or Disposal of Long-Lived Assets”.

Investment in Unconsolidated Real Estate Ventures

Except for ownership interests in variable interest entities, we account for our investments in unconsolidated real estate ventures under the equity method of accounting because we exercise significant influence over, but do not control, these entities. These investments are recorded initially at cost, as investments in unconsolidated real estate ventures, and subsequently adjusted for equity in earnings and cash contributions and distributions. Any difference between the carrying amount of these investments on our balance sheet and the underlying equity in net assets is amortized as an adjustment to equity in earnings of unconsolidated real estate ventures over the life of the related asset. Under the equity method of accounting, our net equity is reflected within the Consolidated Balance Sheets, and our share of net income or loss from the joint ventures is included within the Consolidated Statements of Operations. The joint venture agreements may designate different percentage allocations among investors for profits and losses; however, our recognition of joint venture income or loss generally follows the joint venture’s distribution priorities, which may change upon the achievement of certain investment return thresholds. For ownership interests in variable interest entities, we consolidate those in which we are the primary beneficiary.

Recognition of Rental Income

Rental income for commercial property leases is recognized on a straight-line basis over the respective lease terms. In accordance with ASC Topic 805 “Business Combinations”, we recognize rental revenue of acquired in-place

“above-market” and “below-market” leases at their fair values over the terms of the respective leases. On our Consolidated Balance Sheets, we include as a receivable the excess of rental income recognized over rental payments actually received pursuant to the terms of the individual commercial lease agreements.

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

Rental income for residential property leases is recorded when due from residents and is recognized monthly as earned, which is not materially different than on a straight-line basis as lease terms are generally for periods of one year or less. An allowance for doubtful accounts is recorded for all past due rents and operating expense reimbursements considered to be uncollectible.

Revenue Recognition on the Sale of Real Estate

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

Non-performing Notes Receivable

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

Interest Recognition on Notes Receivable

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

Allowance for Estimated Losses

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

Fair Value of Financial Instruments

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

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

Level 1 ~~U~~nadjusted quoted prices for identical and unrestricted assets or liabilities in active markets.

Level 2 ~~U~~ Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 ~~U~~nobservable inputs that are significant to the fair value measurement.

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

Related parties

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

Results of Operations

The discussion of our results of operations is based on management's review of operations, which is based on our segments. Our segments consist of apartments, commercial buildings, hotels, land and other. For discussion purposes, we break these segments down into the following sub-categories; same property portfolio, acquired properties, and developed properties in the lease-up phase. The same property portfolio consists of properties that were held by us for the entire period for both years being compared. The acquired property portfolio consists of properties that we acquired but have not held for the entire period for both periods being compared. Developed properties in the lease-up phase consist of completed projects that are being leased-up. As we complete each phase of the project, we lease-up that phase and include those revenues in our continued operations. Once a developed property becomes leased-up (80% or more) and is held the entire period for both years under comparison, it is considered to be included in the same property portfolio. Income producing properties that we have sold during the year are reclassified to discontinuing operations for all periods presented. The other segment consists of revenue and operating expenses related to the notes receivable and corporate entities.

The following discussion is based on our Consolidated Statements of Operations for the twelve months ended December 31, 2015, 2014, and 2013 as included in Part II, Item 8. “Consolidated Financial Statements and Supplementary Data”. The prior year’s property portfolios have been adjusted for subsequent sales. Continued operations relates to income producing properties that were held during those years as adjusted for sales in the subsequent years.

At December 31, 2015, 2014, and 2013, we owned or had interests in a portfolio of 58, 47, and 47 income producing properties, respectively. The total property portfolio represents all income-producing properties held as of December 31 for the year presented. Sales subsequent to year end represent properties that were held as of yearend for the years presented, but sold in subsequent years. Continued operations represents all properties that have not been reclassified to discontinued operations as of December 31, 2015 for the year presented. The table below shows the number of income producing properties held by year.

	2015	2014	2013
Continued operations	58	46	43
Sales subsequent to year end	—	1	4
Total property portfolio	58	47	47

Comparison of the year ended December 31, 2015 to the same year ended 2014:

For the twelve months ended December 31, 2015, we reported a net loss applicable to common shares of (\$3.2) million or (\$0.21) per diluted earnings per share, as compared to a net income applicable to common shares of \$28.8 million or \$2.28 per diluted earnings per share for the same year ended 2014. The current year net loss applicable to common shares of (\$3.2) million includes gain on land sales of \$21.6 million, provisions on the impairment of notes receivable and real estate assets of \$5.3 million and net income from discontinued operations of \$0.9 million, as compared to the prior year net income applicable to common shares of \$28.8 million, which includes a gain on land sales of \$0.6 million, and net income from discontinued operations of \$37.9 million.

Revenues

Rental and other property revenues were \$104.2 million for the twelve months ended December 31, 2015. This represents an increase of \$24.8 million, as compared to the prior year revenues of \$79.4 million. This change, by segment, is an increase in the apartment portfolio of \$14.7 million, an increase in the commercial portfolio of \$10.1 million. The increase in the apartment and commercial portfolios is mainly due to the acquisition of new properties. Our apartment portfolio continues to excel in the current economic conditions with occupancies averaging over 94%

and increasing rental rates. We have been able to surpass expectations due to the high-quality product offered, strength of our management team and our commitment to our tenants. The increase in the commercial segment is also due to a high rise in the occupancy rate of the commercial complexes, in 2015 the average occupancy rate was over 86%. Our commercial portfolio is performing significantly better than in previous periods and we anticipate that it will continue to improve as the Company has been successful in attracting high-quality tenants and expects to continue to see the benefits of those new leases in the future. We continue to work aggressively to attract new tenants and strive for continuous improvement of our properties in order to maintain our existing tenants.

Expenses

Property operating expenses were \$54.0 million for the twelve months ended December 31, 2015. This represents an increase of \$11.9 million, as compared to the prior year operating expenses of \$42.1 million. This change, by segment, is an increase in the apartment portfolio of \$7.4 million, an increase in the commercial portfolio of \$4.7 million. Within the apartment portfolio there was an increase of \$5.9 million in the acquired properties portfolio, and an increase \$1.5 million in the same property portfolio. Within the commercial portfolio there was an increase of \$3.6 million in the acquired properties portfolio and an increase of \$1.1 million in the same store properties. The increase in the apartment portfolio was due to the acquisition of new properties throughout the year. The increase in the commercial portfolio was due to an acquisition of a property within the year and an increase in real estate taxes.

Depreciation and amortization expenses were \$21.4 million for the twelve months ended December 31, 2015. This represents an increase of \$3.8 million as compared to prior year depreciation of \$17.6 million. Within the apartment and commercial portfolios, the majority of this change is due to the acquisition of new properties and an increase in tenant improvements and repairs projects.

General and administrative expenses were \$6.9 million dollars for the twelve months ended December 31, 2015. This represents a decrease of \$3.4 million, as compared to the prior year general and administrative expenses of \$10.3 million. The majority of this change is due to decreases in legal expenses and franchise taxes in the current year.

The provision for impairment of notes receivable, investment in real estate partnerships, and real estate assets was \$5.3 million for the year ended December 31, 2015. There was no provision for impairment expense in the prior year. For the year ended the Company provided an impairment of \$5.3 million for the golf course and related assets located in the U.S. Virgin Islands. This impairment relates to the decision to sell the development parcels in the U.S. Virgin Islands and the resultant decrease in the estimated fair value of the remaining assets.

Net income fee was \$0.5 million for the twelve months ended December 31, 2015. This represents a decrease of \$3.2 million, as compared to the prior year net income fee of \$3.7 million. The net income fee paid to Pillar is calculated at 7.5% of net income.

Advisory fees were \$9.8 million for the twelve months ended December 31, 2015. This represents an increase of \$0.9 million, as compared to the prior year advisory fees of \$8.9 million. Advisory fees are computed based on a gross asset fee of 0.0625% per month (0.75% per annum) of the average of the gross asset value.

Other income (expense)

Interest income was \$16.7 million for the twelve months ending December 31, 2015. This represents a decrease of \$3.4 million, as compared to the prior year interest income of \$20.1 million dollars. The majority of this decrease is due to the recognition of uncollectable interest in the prior year on notes receivable.

Other income was \$4.1 million for the twelve months ending December 31, 2015. This represents an increase of \$2.7 million as compared to the prior year other income of \$1.4 million. The increase is primarily due to a property with a negotiated settlement of a debt with the lender.

Mortgage and loan interest expense was \$47.5 million for the twelve months ended December 31, 2015. This represents an increase of \$9.5 million, as compared to the prior year expense of \$38.0 million. This change by segment, is an increase in the apartment portfolio of \$2.0 million, an increase in the commercial portfolio of \$0.9 million, and an increase in the other portfolio of \$6.6 million. Within the apartment and commercial portfolios, the majority of the increase is due to the acquisition of new properties, offset by loan refinancings at lower rates. Within the other portfolio, the majority of the increase is due to incurring new mezzanine debt obligations.

Loan charges and prepayment penalties were \$5.0 million for the twelve months ended December 31, 2015. This represents an increase of \$2.1 million, as compared to the prior year expense of \$2.9 million. This change is mainly due to refinancing and prepayment penalties made on some of our existing loans.

Litigation settlement expenses were \$0.4 million for the twelve months ended December 31, 2015. This represents an increase of \$3.9 million, as compared to the prior year credit of \$3.6 million. This variance is due to the settlement of a debt resulting in a gain of \$3.5 million in the prior year.

Gain on land sales was \$21.6 million for the twelve months ended December 31, 2015. In the current year we sold approximately 595 acres of land in eleven transactions for a sales price of \$107.3 million and recorded a gain of \$18.9 million. In addition, we recognized \$2.7 million in deferred gain from prior years land sales.

Discontinued Operations

Prior to January 1, 2015, we applied the provisions of ASC 360, "Property, Plant and Equipment", which 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.

Effective January 1, 2015, the Company adopted the provisions of ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity", which changes the criteria of ASC 360 related to determining which disposals qualify to be accounted for as discontinued operations and modifies related reporting and disclosure requirements.

Disposals representing a strategic shift in operations that have a major effect on a company's operations and financial results will be presented as discontinued operations. Companies will be required to expand their disclosures about discontinued operations to provide more information on the assets, liabilities, income and expenses of the discontinued operations. The new standard was effective January 1, 2015. Adoption of this standard will result in substantially fewer of the Company's dispositions meeting the discontinued operations criteria.

Amounts included in discontinued operations represent the residual amounts from sales classified as discontinued operations prior to January 1, 2015. There were no sales in 2015 that qualified as discontinued operations.

Discontinued operations prior to January 2015 relate to properties that were either sold or held for sale as of the respective year end. The gains on sale of the properties sold are also included in the discontinued operations for those years as shown in the table below (dollars in thousands):

	For the Years Ended December 31, 2015 2014	
Revenues:		
Rental and other property revenues	\$355	\$5,612
	355	5,612
Expenses:		
Property operating expenses	(345)	2,350
Depreciation	—	751
General and administrative	99	451
Total operating expenses	\$(246)	\$3,552
Other income (expense):		
Other income (expense)	45	(507)
Mortgage and loan interest	(2)	(3,204)
Loan charges and prepayment penalties	—	(1,656)
Litigation settlement	—	(250)
Total other expenses	\$43	\$(5,617)
Income (loss) from discontinued operations before gain on sale of real estate and taxes	644	(3,557)
Gain (loss) on sale of real estate from discontinued operations	735	61,879
Income tax benefit (expense)	(483)	(20,413)
Income (loss) from discontinued operations	\$896	\$37,909

Comparison of the year ended December 31, 2014 to the same year ended 2013:

For the twelve months ended December 31, 2014, we reported net income applicable to common shares of \$28.8 million or \$2.50 per diluted earnings per share, as compared to a net income applicable to common shares of \$38.8 million or \$3.36 per diluted earnings per share for the same year ended 2013. The current year net income applicable to common shares of \$28.8 million includes gain on land sales of \$0.6 million and net income from discontinued operations of \$37.9 million, as compared to the prior year net income applicable to common shares of \$38.8 million, which includes a loss on land sales of \$0.5 million, provisions on the impairment of notes receivable and real estate assets of \$19.0 million, and net income from discontinued operations of \$62.6 million.

Revenues

Rental and other property revenues were \$79.4 million for the twelve months ended December 31, 2014. This represents a decrease of \$1.4 million, as compared to the prior year revenues of \$80.8 million. This change, by segment, is an increase in the apartment portfolio of \$2.5 million, offset by a decrease in the commercial portfolio of \$3.8 million and a decrease in the other portfolio of \$0.1 million. Our apartment portfolio continues to excel in the current economic conditions with occupancies averaging over 94% and increasing rental rates. We have been able to surpass expectations due to the high-quality product offered, strength of our management team and our commitment to our tenants. The decrease in the commercial segment is due to a lease termination fee received in the prior year. Our commercial portfolio expects to improve as the Company has been diligent in our actions to re-lease vacant space and has been successful in attracting high-quality tenants and expects to see the benefits of those new leases over the next twelve months. We continue to work aggressively to attract new tenants and strive for continuous improvement of our properties in order to maintain our existing tenants.

Expenses

Property operating expenses were \$42.1 million for the twelve months ended December 31, 2014. This represents an increase of \$2.8 million, as compared to the prior year operating expenses of \$39.3 million. This change, by segment, is an increase in the apartment portfolio of \$1.3 million, and an increase in the commercial portfolio of \$1.5 million. Within the apartment portfolio, the majority of the increase was due to tax refunds received for several properties in the prior year, an increase in the current year real estate taxes, as well as some non-recurring repair projects completed in the current year. In the commercial segment, the increase is due to an increase in occupancy as well as tax refunds received in the prior year.

Depreciation and amortization expenses were \$17.6 million for the twelve months ended December 31, 2014. This represents an increase of \$1.6 million as compared to prior year depreciation of \$16.0 million. The majority of this change is in the commercial portfolio related to an increase in tenant improvements.

General and administrative expenses were \$10.3 million dollars for the twelve months ended December 31, 2014. This represents an increase of \$2.4 million, as compared to the prior year general and administrative expenses of \$7.9 million. The majority of this change is in the other portfolio due to professional fees and franchise taxes.

There was no provision for impairment of notes receivable, investment in real estate partnerships, and real estate assets for the year ended December 31, 2014. This was a decrease of \$19.0 million as compared to the prior year expense of \$19.0 million. In the prior year impairment was recorded as an additional loss in the commercial and land portfolios. In our commercial portfolio, an impairment reserve of \$9.6 million was taken to adjust for the appraised

value of the building. In our land portfolio, an impairment reserve of \$7.5 million was taken due to a potential sale of land at a value lower than book basis as well as disposal of another property due to bankruptcy. The remaining \$1.9 million was related to provisions for losses taken on our notes receivable.

Net income fee was \$3.7 million for the twelve months ended December 31, 2014. This represents a decrease of \$0.4 million, as compared to the prior year net income fee of \$4.1 million. The net income fee paid to Pillar is calculated at 7.5% of net income.

Advisory fees were \$8.9 million for the twelve months ended December 31, 2014. This represents a decrease of \$1.3 million, as compared to the prior year advisory fees of \$10.2 million. Advisory fees are computed based on a gross asset fee of 0.0625% per month (0.75% per annum) of the average of the gross asset value.

Other income (expense)

Interest income was \$20.1 million for the twelve months ending December 31, 2014. This represents an increase of \$0.7 million, as compared to the prior year interest income of \$19.4 million dollars. The majority of this increase is due to the purchase of new notes from UHF.

Other income was \$1.4 million for the twelve months ending December 31, 2014. This represents a decrease of \$8.8 million as compared to the prior year other income of \$10.2 million. The decrease is primarily due to the December 30, 2013 Mercer/Travelers land mortgage note buyout, which was paid off at a discounted rate, as well as income recognized in the prior year relating to a released contingency on a sold commercial property.

Mortgage and loan interest expense was \$35.4 million for the twelve months ended December 31, 2014. This represents a decrease of \$0.8 million, as compared to the prior year expense of \$36.2 million. This change by segment, is a decrease in the apartment portfolio of \$1.0 million and a decrease in the land portfolio of \$1.8 million, offset by an increase in the other portfolio of \$1.9 million and an increase in the commercial portfolio of \$0.1 million. Within the apartment portfolio, the majority of the decrease is due to the refinances closed with long-term, low interest rates. The decrease in the land portfolio relates to principal payments made during the prior years, thereby requiring less future interest to be paid on debt obligations. Within the other portfolio, the majority of the increase is due to the securing of a new loan in the current year, offset by a decrease in the interest owed to our Advisor.

Loan charges and prepayment penalties were \$2.9 million for the twelve months ended December 31, 2014. This represents a decrease of \$2.7 million, as compared to the prior year expense of \$5.6 million. There were fewer refinances completed in the current year than in the prior year.

Litigation settlement expenses were a credit of \$3.6 million for the twelve months ended December 31, 2014. This represents a decrease of \$23.9 million, as compared to the prior year expense of \$20.3 million. The majority of the credit to the current year litigation expense is due to the settlement with the lender relating to a commercial property in which the balance in the amount of \$3.5 million was forgiven. Matters were settled in the prior year in order to avoid future litigation and legal expenses.

Gain on land sales was \$0.6 million for the twelve months ended December 31, 2014. In the current year we sold 76.3 acres of land in six transactions for a sales price of \$8.1 million and recorded a gain of \$0.6 million.

Discontinued Operations

Discontinued operations relates to properties that were either sold or held for sale as of the respective year end. Included in discontinued operations are a total of 5 and 15 income-producing properties as of 2014 and 2013, respectively. In 2014 we sold three apartment complexes and two commercial properties. In 2013, we sold 11 apartment complexes and four commercial properties, the operations related to these properties sold are reclassified to prior years discontinued operations. The gains on sale of the properties sold were also included in discontinued operations for those years as shown in the table below (dollars in thousands):

	For the Years Ended December 31,	
	2014	2013
Revenues:		
Rental and other property revenues	\$5,612	\$34,922
	5,612	34,922
Expenses:		
Property operating expenses	2,350	16,479
Depreciation	751	5,563
General and administrative	451	966
Total operating expenses	\$3,552	\$23,008
Other income (expense):		
Other income (expense)	(507)	45
Mortgage and loan interest	(3,204)	(11,097)

Loan charges and prepayment penalties	(1,656)	(3,246)
Litigation settlement	(250)	(250)
Total other expenses	\$(5,617)	\$(14,548)
Income (loss) from discontinued operations before gain on sale of real estate and taxes	(3,557)	(2,634)
Gain (loss) on sale of real estate from discontinued operations	61,879	98,951
Income tax benefit (expense)	(20,413)	(33,711)
Income (loss) from discontinued operations	\$37,909	\$62,606

Liquidity and Capital Resources

General

Our principal liquidity needs are:

· fund normal recurring expenses;

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

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

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

It is important to realize that the current status of the banking industry has had a significant effect on our industry. The banks' willingness and/or ability to originate loans affects our ability to buy and sell property, and refinance existing debt. We are unable to foresee the extent and length of this down-turn. A continued and extended decline could materially impact our cash flows. We draw on multiple financing sources to fund our long-term capital needs. We generally fund our development projects with construction loans, which are converted to traditional mortgages upon completion of the project.

We may also issue additional equity securities, including common stock and preferred stock. Management anticipates that our cash at December 31, 2015, along with cash that will be generated in 2016 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 borrowings secured by real estate to meet its liquidity requirements. Although the past cannot predict the future, historically, management has been successful at refinancing and extending a portion of the Company's current maturity obligations and selling assets as necessary to meet current obligations.

Management reviews the carrying values of ARL's properties 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. 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. 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.

Cash Flow Summary

The following summary discussion of our cash flows is based on the Consolidated Statements of Cash Flows in Part II, Item 8. "Consolidated Financial Statements and Supplementary Data" and is not meant to be an all-inclusive discussion of the changes in our cash flows for the periods presented below (dollars in thousands):

	2015	2014	Variance
Net cash used in operating activities	\$(34,509)	\$(37,968)	\$3,459
Net cash provided by (used in) investing activities	\$(130,348)	\$38,485	\$(168,833)
Net cash provided by (used in) financing activities	\$167,790	\$(4,655)	\$172,445

The primary use of cash for operations is daily operating costs, general and administrative expenses, advisory fees and land holding costs. Our primary source of cash from operating activities is from rental income on properties.

Our primary cash outlays for investing activities are for construction and development, acquisition of land and income producing properties, and capital improvements to existing properties. Our primary sources of cash from investing activities are from the proceeds on the sale of land and income-producing properties. We received more proceeds from land sales in the current period than in the prior period. In addition, we acquired 11 residential properties and one

commercial property.

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Our primary sources of cash from financing activities are from proceeds on notes payables. Our primary cash outlays are for recurring debt payments and payments on maturing notes payable. The proceeds from new financings in the current period allowed us to pay down more debt, as compared to the prior period. Additionally, proceeds from land sales were used to retire debt obligations.

Equity Investments.

ARL has from time to time purchased shares of IOT and TCI. The Company may purchase additional equity securities of IOT and TCI through open market and negotiated transactions to the extent ARL's liquidity permits.

Equity securities of TCI held by ARL (and of IOT held by TCI) may be deemed "restricted securities" under Rule 144 of the Securities Act of 1933 ("Securities Act"). Accordingly, ARL may be unable to sell such equity securities other than in a registered public offering or pursuant to an exemption under the Securities Act for a one-year period after they are acquired. Such restrictions may reduce ARL's ability to realize the full fair value of such investments if ARL attempted to dispose of such securities in a short period of time.

Contractual Obligations

We have contractual obligations and commitments primarily with regards to the payment of mortgages. The following table aggregates our expected contractual obligations and commitments and includes items not accrued, per GAAP, through the term of the obligation such as interest expense and operating leases. Our aggregate obligations subsequent to December 31, 2014 are shown in the table below (dollars in thousands):

	Total	2016	2017	2018-2020	Thereafter
Long-term debt obligation ⁽¹⁾	\$1,267,424	\$131,834	\$64,169	\$290,736	\$780,685
Capital lease obligation	—	—	—	—	—
Operating lease obligation	18,059	278	284	887	16,610
Purchase obligation	—	—	—	—	—
Other long-term debt liabilities reflected on the Registrant's Balance Sheet under GAAP	—	—	—	—	—
Total	\$1,285,483	\$132,112	\$64,453	\$291,623	\$797,295

⁽¹⁾ ARL's long-term debt may contain financial covenants that, if certain thresholds are not met, could allow the lender to accelerate principal payments or cause the note to become due immediately.

Environmental Matters

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

Management is not aware of any environmental liability relating to the above matters that would have a material adverse effect on 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.

ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.*

ARL's primary market risk exposure consists of changes in interest rates on borrowings under our debt instruments that bear interest at variable rates that fluctuate with market interest rates and maturing debt that has to be refinanced. ARL's future operations, cash flow and fair values of financial instruments are also partially dependent on the then existing market interest rates and market equity prices.

As of December 31, 2015, our \$821.5 million debt portfolio consisted of approximately \$780.4 million of fixed-rate debt and approximately \$41.1 million of variable-rate debt with interest rates ranging from 4.75% to 6.50%. Our overall weighted average interest rate at December 31, 2015 and 2014 was 4.66% and 4.88%, respectively.

ARL's interest rate sensitivity position is managed by the capital markets department. Interest rate sensitivity is the relationship between changes in market interest rates and the fair value of market rate sensitive assets and liabilities. ARL's earnings are affected as changes in short-term interest rates affect its cost of variable-rate debt and maturing fixed-rate debt.

If market interest rates for variable-rate debt average 100 basis points more in 2016 than they did during 2015, ARL's interest expense would increase and net income would decrease by \$0.4 million. This amount is determined by considering the impact of hypothetical interest rates on ARL's borrowing cost. The analysis does not consider the effects of the reduced level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, management would likely take actions to further mitigate its exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no change in ARL's financial structure.

The following table contains only those exposures that existed at December 31, 2015. Anticipation of exposures of risk on positions that could possibly arise was not considered. ARL's ultimate interest rate risk and its effect on operations will depend on future capital market exposures, which cannot be anticipated with a probable assurance level (dollars are in thousands):

	2016	2017	2018	2019	2020	Thereafter	Total
Assets							
Market securities at fair value	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Note Receivable							
Variable interest rate - fair value							
Instrument's maturities	—	—	—	—	—	—	—
Instrument's amortization	—	—	—	—	—	—	—
Interest	—	—	—	—	—	—	—
Average Rate	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	0.00 %	
Fixed interest rate - fair value	\$—	\$—	\$—	\$—	\$—	\$—	\$129,059
Instrument's maturities	26,047	12,314	14,310	496	5,907	69,985	129,059
Instrument's amortization	—	—	—	—	—	—	—
Interest	12,582	11,335	10,809	9,156	8,429	100,779	153,090
Average Rate	9.75 %	11.00 %	11.92 %	11.99 %	11.11 %	12.00 %	
	2016	2017	2018	2019	2020	Thereafter	Total
Notes Payable							

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Variable interest rate - fair value												\$41,064
Instrument's maturities	\$1,290	\$2,178	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$3,468
Instrument's amortization	34,878	2,718	—	—	—	—	—	—	—	—	—	37,596
Interest	1,015	106	—	—	—	—	—	—	—	—	—	1,121
Average Rate	5.68	%	6.19	%	0.00	%	0.00	%	0.00	%	0.00	%
Fixed interest rate - fair value												\$780,446
Instrument's maturities	\$18,377	\$8,536	\$29,594	\$20,313	\$115,495	\$36,150	\$36,150	\$36,150	\$36,150	\$36,150	\$36,150	\$228,465
Instrument's amortization	41,989	17,803	14,296	14,310	11,875	451,708	451,708	451,708	451,708	451,708	451,708	551,981
Interest	34,285	32,828	31,546	29,424	23,883	292,827	292,827	292,827	292,827	292,827	292,827	444,793
Average Rate	6.85	%	6.92	%	6.39	%	6.52	%	5.68	%	3.72	%

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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All other schedules are omitted because they are not required, are not applicable, or the information required is included in the Consolidated Financial Statements or the notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors of and
Stockholders of American Realty Investors, Inc.

Dallas, Texas

We have audited the accompanying consolidated balance sheets of American Realty Investors, Inc. and Subsidiaries as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2015. American Realty Investors, Inc.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 16, American Realty Investors, Inc.'s management intends to sell land and income producing properties and refinance or extend debt secured by real estate to meet the Company's liquidity needs.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of American Realty Investors, Inc. as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2015, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. Schedules III and IV are presented for the purpose of complying with the Securities and Exchange Commission's rules and are not a required part of the basic consolidated financial statements. These schedules have

been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

Farmer, Fuqua & Huff, PC

Richardson, Texas

March 30, 2016

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AMERICAN REALTY INVESTORS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2015	December 31, 2014
	(dollars in thousands, except share and par value amounts)	
Assets		
Real estate, at cost	\$954,390	\$810,214
Real estate subject to sales contracts at cost, net of depreciation (\$0 in 2015 and \$2,300 in 2014)	49,155	19,026
Less accumulated depreciation	(150,038)	(129,477)
Total real estate	853,507	699,763
Notes and interest receivable		
Performing (including \$125,915 in 2015 and \$139,466 in 2014 from related parties)	137,280	149,484
Non-performing	—	3,161
Less allowance for estimated losses (including \$15,537 in 2015 and \$15,537 in 2014 from related parties)	(17,037)	(18,279)
Total notes and interest receivable	120,243	134,366
Cash and cash equivalents	15,232	12,299
Restricted cash	45,711	49,266
Investments in unconsolidated subsidiaries and investees	8,365	4,279
Receivable from related party	28,147	21,414
Other assets	46,163	44,111
Total assets	\$1,117,368	\$965,498
Liabilities and Shareholders' Equity		
Liabilities:		
Notes and interest payable	\$797,962	\$638,891
Notes related to assets held for sale	376	1,552
Notes related to assets subject to sales contracts	6,422	18,616
Deferred revenue (including \$70,892 in 2015 and \$72,564 in 2014 from sales to related parties)	91,336	74,409
Accounts payable and other liabilities (including \$7,236 in 2015 and \$11,024 in 2014 to related parties)	44,383	52,442
	940,479	785,910
Shareholders' equity:		
Preferred stock, Series A: \$2.00 par value, authorized 15,000,000 shares, issued and outstanding 2,000,614 and 2,461,252 shares in 2015 and 2014, respectively (liquidation preference \$10 per share), including 900,000 shares in 2015 and 2014 held by ARL.	2,205	3,126
	156	141

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Common stock, \$0.01 par value, authorized 100,000,000 shares; issued 15,930,145 and 14,443,404 shares and outstanding 15,514,360 and 14,027,619 shares in 2015 and 2014, respectively; including 140,000 shares held by TCI (consolidated) in 2015 and 2014.		
Treasury stock at cost; 415,785 shares in 2015 and 2014, and 140,000 shares held by TCI (consolidated) as of 2015 and 2014.	(6,395)	(6,395)
Paid-in capital	109,861	108,378
Retained earnings	17,130	19,090
Total American Realty Investors, Inc. shareholders' equity	122,957	124,340
Non-controlling interest	53,932	55,248
Total equity	176,889	179,588
Total liabilities and equity	\$1,117,368	\$965,498

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

AMERICAN REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31,		
	2015	2014	2013
	(dollars in thousands, except per share amounts)		
Revenues:			
Rental and other property revenues (including \$726, \$701 and \$670 for the year ended 2015, 2014 and 2013, respectively, from related parties)	\$ 104,188	\$ 79,412	\$ 80,750
Expenses:			
Property operating expenses (including \$770, \$645 and \$699 for the year ended 2015, 2014 and 2013, respectively, from related parties)	54,002	42,124	39,318
Depreciation	21,418	17,593	15,954
General and administrative (including \$3,855, \$3,628 and \$3,646 for the year ended 2015, 2014 and 2013, respectively, from related parties)	6,893	10,282	7,919
Provision on impairment of notes receivable and real estate assets	5,300	—	18,980
Net income fee to related party	492	3,669	4,089
Advisory fee to related party	9,775	8,943	10,166
Total operating expenses	97,880	82,611	96,426
Operating income (loss)	6,308	(3,199)	(15,676)
Other income (expense):			
Interest income (including \$15,859, \$19,029 and \$19,110 for the year ended 2015, 2014 and 2013, respectively, from related parties)	16,674	20,054	19,445
Other income	4,106	1,415	10,163
Mortgage and loan interest (including \$3,774, \$3,660 and \$3,927 for the year ended 2015, 2014 and 2013, respectively, from related parties)	(47,512)	(37,972)	(39,110)
Loan charges and prepayment penalties	(4,965)	(2,854)	(5,557)
Loss on the sale of investments	(1)	(92)	(283)
Earnings from unconsolidated subsidiaries and investees	428	347	391
Litigation settlement	(352)	3,591	(20,313)
Total other expenses	(31,622)	(15,511)	(35,264)
Loss before gain (loss) on land sales, non-controlling interest, and taxes	(25,314)	(18,710)	(50,940)
Gain (loss) on land sales	21,648	561	(455)
Loss from continuing operations before tax	(3,666)	(18,149)	(51,395)
Income tax benefit (expense)	(517)	20,413	40,513
Net income (loss) from continuing operations	(4,183)	2,264	(10,882)
Discontinued operations:			
Income (loss) from discontinued operations	644	(3,557)	(2,634)
Gain on sale of real estate from discontinued operations	735	61,879	98,951
Income tax benefit (expense) from discontinued operations	(483)	(20,413)	(33,711)

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Net income (loss) from discontinued operations	896	37,909	62,606
Net income (loss)	(3,287)) 40,173	51,724
Net income (loss) attributable to non-controlling interests	1,327	(9,288)	) (10,448)
Net income (loss) attributable to American Realty Investors, Inc.	(1,960)	) 30,885	41,276
Preferred dividend requirement	(1,216)	) (2,043)	) (2,452)
Net income (loss) applicable to common shares	\$(3,176)	) \$28,842	\$38,824
Earnings per share - basic			
Loss from continuing operations	\$(0.27)	) \$(0.71)	) \$(2.07)
Income (loss) from discontinued operations	0.06	2.99	5.43
Net income (loss) applicable to common shares	\$(0.21)	) \$2.28	\$3.36
Earnings per share - diluted			
Loss from continuing operations	\$(0.27)	) \$(0.71)	) \$(2.07)
Income (loss) from discontinued operations	0.06	2.99	5.43
Net income (loss) applicable to common shares	\$(0.21)	) \$2.28	\$3.36
Weighted average common shares used in computing earnings per share	15,111,107	12,683,956	11,525,389
Weighted average common shares used in computing diluted earnings per share	15,111,107	12,683,956	11,525,389
Amounts attributable to American Realty Investors, Inc.			
Loss from continuing operations	\$(2,856)	) \$(7,024)	) \$(21,330)
Income (loss) from discontinued operations	896	37,909	62,606
Net income (loss)	\$(1,960)	) \$30,885	\$41,276

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

AMERICAN REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Three Years Ended December 31, 2015
(dollars in thousands)

	Total Capital	Comprehensive Loss	Preferred Stock	Common Shares	Stock Amount	Treasury Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest
Balance, December 31, 2012	\$85,104	\$(144,151)	\$4,908	11,941,174	\$115	\$(6,395)	\$105,700	\$(53,071)	\$(786)	\$34,633
Net income (loss)	51,724	51,724	—	—	—	—	—	41,276	—	10,448
Distribution to non-controlling interests	(345)	—	—	—	—	—	(330)	—	—	(15)
Sale of controlling interest	56	—	—	—	—	—	56	—	—	—
Sale of non-controlling interests	774	(786)	—	—	—	—	—	—	786	(12)
Series A preferred stock cash dividend (\$1.00 per share)	(2,452)	—	—	—	—	—	(2,452)	—	—	—
Balance, December 31, 2013	\$134,861	\$(93,213)	\$4,908	11,941,174	\$115	\$(6,395)	\$102,974	\$(11,795)	\$—	\$45,054
Net income (loss)	40,173	40,173	—	—	—	—	—	30,885	—	9,288
Distribution to non-controlling interests	(333)	—	—	—	—	—	(302)	—	—	(31)
Sale of non-controlling interests	(289)	—	—	—	—	—	(289)	—	—	—
Conversion of preferred stock into common stock	7,219	—	(1,782)	2,502,230	26	—	8,038	—	—	937
	(2,043)	—	—	—	—	—	(2,043)	—	—	—

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Series A preferred stock cash dividend (\$1.00 per share) Balance, December 31, 2014	\$179,588	\$(53,040)	\$3,126	14,443,404	\$141	\$(6,395)	\$108,378	\$19,090	\$—	\$55,248
Net income (loss)	(3,287)	(3,287)	—	—	—	—	—	(1,960)	—	(1,327)
Contributions from non-controlling interest	11	—	—	—	—	—	—	—	—	11
Assumption of non-controlling interests	(470)	—	—	—	—	—	(470)	—	—	—
Conversion of preferred stock into common stock	2,263	—	(921)	1,486,741	15	—	3,169	—	—	—
Series A preferred stock cash dividend (\$1.00 per share) Balance, December 31, 2015	(1,216)	—	—	—	—	—	(1,216)	—	—	—
	\$176,889	\$(56,327)	\$2,205	15,930,145	\$156	\$(6,395)	\$109,861	\$17,130	\$—	\$53,932

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

AMERICAN REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2015	2014	2013
	(dollars in thousands)		
Cash Flow From Operating Activities:			
Net income (loss)	\$(3,287)	\$40,173	\$51,724
Adjustments to reconcile net income (loss) applicable to common shares to net cash used in operating activities:			
(Gain) loss on sale of land	(21,648)	(561)	455
Gain on sale of income producing properties	(735)	(61,879)	(98,951)
Depreciation and amortization	21,418	18,345	21,518
Provision on impairment of notes receivable and real estate assets	5,300	—	18,980
Amortization of deferred borrowing costs	2,842	4,017	1,442
(Earnings) losses from unconsolidated subsidiaries and investees	1,327	54	(391)
(Increase) decrease in assets:			
Accrued interest receivable	(1,242)	10,095	(12,895)
Other assets	2,683	2,034	(2,242)
Prepaid expense	(13,851)	(2,071)	(1,722)
Escrow	(1,261)	(17,232)	3,532
Earnest money	(1,193)	180	(535)
Rent receivables	(2,168)	(1,384)	3,807
Increase (decrease) in liabilities:			
Accrued interest payable	(255)	157	(5,116)
Related party payables	(11,027)	(7,329)	(25,008)
Other liabilities	(11,412)	(22,567)	3,240
Net cash used in operating activities	(34,509)	(37,968)	(42,162)
Cash Flow From Investing Activities:			
Proceeds from notes receivables	14,744	27,767	2,855
Origination of notes receivables	(18,055)	(34,092)	(21,202)
Acquisition of land held for development	—	(5,936)	(83)
Acquisition of income producing properties	(207,313)	(78,557)	—
Proceeds from sale of income producing properties	—	132,917	259,115
Proceeds from sale of land	108,356	8,391	14,806
Investment in unconsolidated real estate entities	4,086	(544)	4,770
Improvement of land held for development	(6,158)	(3,137)	(399)
Improvement of income producing properties	(8,955)	(5,019)	(7,681)
Acquisition of non-controlling interest	—	—	(75)
Sale of non-controlling interest	(336)	(289)	774
Sale of controlling interest	—	—	50
Construction and development of new properties	(16,717)	(3,016)	(1,153)
Net cash provided by (used in) investing activities	(130,348)	38,485	251,777
Cash Flow From Financing Activities:			

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Proceeds from notes payable	412,326	183,766	203,885
Recurring amortization of principal on notes payable	(26,668)	(22,243)	(18,232)
Payments on maturing notes payable	(195,549)	(163,494)	(390,941)
Debt assumption by buyer	(16,688)	—	—
Deferred financing costs	(6,734)	(6,959)	1,837
Stock-secured borrowings	—	(568)	(411)
Distributions to non-controlling interests	11	(333)	(263)
Preferred stock dividends - Series A	(1,216)	(2,043)	(2,452)
Conversion of preferred stock into common stock	2,308	7,219	—
Net cash provided by (used in) financing activities	167,790	(4,655)	(206,577)
Net increase (decrease) in cash and cash equivalents	2,933	(4,138)	3,038
Cash and cash equivalents, beginning of period	12,299	16,437	13,399
Cash and cash equivalents, end of period	\$ 15,232	\$ 12,299	\$ 16,437
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$44,672	\$37,158	\$44,240

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

AMERICAN REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Three Years Ended December 31,

	2015	2014	2013
	(dollars in thousands)		
Net income (loss)	\$(3,287)	\$40,173	\$51,724
Other comprehensive loss			
Unrealized income (loss) on foreign currency translation	—	—	786
Total other comprehensive loss	—	—	786
Comprehensive income (loss)	(3,287)	40,173	52,510
Comprehensive income (loss) attributable to non-controlling interest	1,327	(9,288)	(10,448)
Comprehensive income (loss) attributable to American Realty Investors, Inc.	\$(1,960)	\$30,885	\$42,062

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

AMERICAN REALTY INVESTORS, INC.

NOTES TO FINANCIAL STATEMENTS

The accompanying Consolidated Financial Statements of American Realty Investors, Inc. (“ARL”) and consolidated entities have been prepared in conformity with accounting principles generally accepted in the United States of America, the most significant of which are described in Note 1. “Organization and Summary of Significant Accounting Policies.” The Notes to Consolidated Financial Statements are an integral part of the Consolidated Financial Statements. The data presented in the Notes to Consolidated Financial Statements are as of December 31 of each year and for the year then ended, unless otherwise indicated. Dollar amounts in tables are in thousands, except per share amounts.

Certain balances for 2014 and 2013 have been reclassified to conform to the 2015 presentation.

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and business.

The Company, a Nevada corporation that was formed in 1999, is headquartered in Dallas, Texas and its common stock trades on the New York Stock Exchange (“NYSE”) under the symbol (“ARL”). Approximately 86.7% of ARL’s stock is owned by related party entities. ARL subsidiaries own approximately 80.9% of the outstanding shares of common stock of Transcontinental Realty Investors, Inc. (“TCI”), a Nevada corporation, whose common stock is traded on the NYSE under the symbol (“TCI”).

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

ARL’s Board of Directors is responsible for directing the overall affairs of ARL and for setting the strategic policies that guide the Company. As of April 30, 2011, the Board of Directors delegated the day-to-day management of the Company to Pillar Income Asset Management, Inc. (“Pillar”), a Nevada corporation, under a written Advisory

Agreement that is reviewed annually by ARL's Board of Directors. The directors of ARL are also directors of TCI and IOT. The Chairman of the Board of Directors of ARL also serves as the Chairman of the Board of Directors of TCI and IOT. The officers of ARL also serve as officers of TCI, IOT and Pillar.

Since April 30, 2011, Pillar, the sole shareholder of which is Realty Advisors, LLC, a Nevada limited liability company, the sole member of which is Realty Advisors, Inc. ("RAI"), a Nevada corporation, the sole shareholder of which is May Realty Holdings, Inc. ("MRHI", formerly known as Realty Advisors Management, Inc. "RAMI", effective August 7, 2014), a Nevada corporation, the sole shareholder of which is a trust known as the May Trust, became the Company's external Advisor and Cash Manager. Pillar's duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities. Pillar also arranges, for the Company's benefit, debt and equity financing with third party lenders and investors. Pillar also serves as an Advisor and Cash Manager to TCI and IOT. As the contractual advisor, Pillar is compensated by ARL under an Advisory Agreement that is more fully described in Part III, Item 10. "Directors, Executive Officers and Corporate Governance – The Advisor". ARL has no employees. Employees of Pillar render services to ARL in accordance with the terms of the Advisory Agreement.

Regis Realty Prime, LLC, dba Regis Property Management, LLC ("Regis"), the sole member of which is Realty Advisors, LLC, manages our commercial and provides brokerage services. Regis receives property management fees and leasing commissions in accordance with the terms of its property-level management agreement. Regis is also entitled to receive real estate brokerage commissions in accordance with the terms of a non-exclusive brokerage agreement. See Part III, Item 10. "Directors, Executive Officers and Corporate Governance – Property Management and Real Estate Brokerage". ARL engages third-party companies to lease and manage its apartment properties.

On January 1, 2012, the Company's subsidiary, TCI, entered into a development agreement with Unified Housing Foundation, Inc. ("UHF") a non-profit corporation that provides management services for the development of residential apartment projects in the future. This development agreement was terminated December 31, 2013. The Company has also invested in surplus cash notes receivables from UHF and has sold several residential apartment properties to UHF in prior years. Due to this ongoing relationship and the significant investment in the performance of the collateral secured under the notes receivable, UHF has been determined to be a related party.

Our primary business is the acquisition, development and ownership of income-producing residential and commercial real estate properties. In addition, we opportunistically acquire land for future development in in-fill or high-growth suburban markets. From time to time and when we believe it appropriate to do so, we will also sell land and income-producing properties. We generate revenues by leasing apartment units to residents, and leasing office, industrial and retail space to various for-profit businesses as well as certain local, state and federal agencies. We also generate revenues from gains on sales of income-producing properties and land. At December 31, 2015, we owned 48 residential apartment communities comprising of 7,983 units, nine commercial properties comprising an aggregate of approximately 2.2 million rentable square feet, and an investment in 3,812 acres of undeveloped and partially developed land, and a golf course comprising of approximately 96 acres.

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

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

For entities in which we have less than a controlling financial interest or entities where it is not deemed to be the primary beneficiary, the entities are accounted for using the equity method of accounting. Accordingly, our share of the net earnings or losses of these entities is included in consolidated net income. Our investment in Gruppo Florentina, LLC is accounted for under the equity method. Our investments in LK-Four Hickory, LLC was accounted for under the equity method until January 17, 2012, when the investment was sold.

The Company in accordance with the VIE guidance in ASC 810 “Consolidations” consolidates 48 and 36 multifamily residential properties located throughout the United States at December 31, 2015 and 2014, respectively, ranging from 32 units to 320 units. Assets totaling \$384.5 million and \$363.5 million at December 31, 2015 and 2014, respectively, are consolidated and included in “Real estate, at cost” on the balance sheet and are all collateral for their respective mortgage notes payable, none of which are recourse to the partnership in which they are in or to the Company.

Real estate, depreciation, and impairment. Real estate assets are stated at the lower of depreciated cost or fair value, if deemed impaired. Major replacements and betterments are capitalized and depreciated over their estimated useful lives. Depreciation is computed on a straight-line basis over the useful lives of the properties (buildings and

improvements—10-40 years; furniture, fixtures and equipment—5-10 years). We continually evaluate the recoverability of the carrying value of its real estate assets using the methodology prescribed in ASC Topic 360, “Property, Plant and Equipment.” Factors considered by management in evaluating impairment of its existing real estate assets held for investment include significant declines in property operating profits, annually recurring property operating losses and other significant adverse changes in general market conditions that are considered permanent in nature. Under ASC Topic 360, a real estate asset held for investment is not considered impaired if the undiscounted, estimated future cash flows of an asset (both the annual estimated cash flow from future operations and the estimated cash flow from the theoretical sale of the asset) over its estimated holding period are in excess of the asset’s net book value at the balance sheet date. If any real estate asset held for investment is considered impaired, a loss is provided to reduce the carrying value of the asset to its estimated fair value.

Any properties that are treated as “subject to sales contract” on the Consolidated Balance Sheets and are listed in detail in Schedule III, “Real Estate and Accumulated Depreciation” are those in which we have not recognized the legal sale according to the guidance in ASC 360-20 due to various factors, disclosed in each sale transaction under Item 1 Significant Real Estate Acquisitions/Dispositions and Financing. Any sale transaction where the guidance reflects that a sale had not occurred, the asset involved in the transaction, including the debt and property operations, remained on the books of the Company. We continue to charge depreciation to expense as a period costs for the property until such time as the property has been classified as held for sale in accordance with guidance reflected in ASC 360-10-45 “Impairment or Disposal of Long-Lived Assets”.

Real estate held for sale. We periodically classify real estate assets as held for sale. An asset is classified as held for sale after the approval of the Company's board of directors and after an active program to sell the asset has commenced. Upon the classification of a real estate asset as held for sale, the carrying value of the asset is reduced to the lower of its net book value or its estimated fair value, less costs to sell the asset. Subsequent to the classification of assets as held for sale, no further depreciation expense is recorded. Real estate assets held for sale are stated separately on the accompanying consolidated balance sheets. Upon a decision to no longer market as an asset for sale, the asset is classified as an operating asset and depreciation expense is reinstated. The operating results of real estate assets held for sale and sold are reported as discontinued operations in the accompanying statements of operations. Income from discontinued operations includes the revenues and expenses, including depreciation and interest expense, associated with the assets. This classification of operating results as discontinued operations applies retroactively for all periods presented. Additionally, gains and losses on assets designated as held for sale are classified as part of discontinued operations.

Cost capitalization. The cost of buildings and improvements includes the purchase price of property, legal fees and other acquisition costs. Costs directly related to planning, developing, initial leasing and constructing a property are capitalized and classified as Real Estate in the Consolidated Balance Sheets. Capitalized development costs include interest, property taxes, insurance, and other direct project costs incurred during the period of development.

A variety of costs are incurred in the acquisition, development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. Our capitalization policy on development properties is guided by ASC Topic 835-20 "Interest – Capitalization of Interest" and ASC Topic 970 "Real Estate - General". The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We 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.

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

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

active markets (Level 1 measurements) and the lowest priority to unobservable data (Level 3 measurements), such as the reporting entity's own data.

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

Level 1 – Unadjusted quoted prices for identical and unrestricted assets or liabilities in active markets.

Level 2 – Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Unobservable inputs that are significant to the fair value measurement.

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

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

Recognition of revenue. Our revenues, which are composed largely of rental income, include rents reported on a straight-line basis over the lease term. In accordance with ASC 805 "Business Combinations", we recognize rental revenue of acquired in-place "above-" and "below-market" leases at their fair values over the terms of the respective leases.

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.

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

Foreign currency translation. Foreign currency denominated assets and liabilities of subsidiaries with local functional currencies are translated to United States dollars at year-end exchange rates. The effects of translation are recorded in the cumulative translation component of shareholders’ equity. Subsidiaries with a United States dollar functional currency re-measure monetary assets and liabilities at year-end exchange rates and non-monetary assets and liabilities at historical exchange rates. The effects of re-measurement are included in income. Exchange gains and losses arising from transactions denominated in foreign currencies are translated at average exchange rates.

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

Interest recognition on notes receivable. We record interest income as earned in accordance with the terms of the related loan agreements.

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

Cash equivalents. For purposes of the Consolidated Statements of Cash Flows, all highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents. Restricted cash consists of cash reserved primarily for specific uses such as insurance, property taxes and replacement reserves.

Concentration of credit risk. The Company maintains its cash balances at commercial banks and through investment companies, the deposits of which are insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2015 and 2014, the Company maintained balances in excess of the insured amount.

Earnings per share. Income (loss) per share is presented in accordance with ASC 620 "Earnings per Share". Income (loss) per share is computed based upon the weighted average number of shares of common stock outstanding during each year.

Use of estimates. In the preparation of Consolidated Financial Statements in conformity with GAAP, it is necessary for management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expense for the year ended. Actual results could differ from those estimates.

Income taxes. The Company is a "C" corporation for U.S. federal income tax purposes. For tax periods ending before August 31, 2012, the Company filed an annual consolidated income tax return with TCI and IOT and their subsidiaries. ARL was the common parent for the consolidated group. After that date, the Company and the rest of the ARL group joined the MRHI consolidated group for tax purposes. The income tax expense (benefit) for the 2012 tax period in the accompanying financial statement was calculated under a tax sharing and compensating agreement between ARL, TCI and IOT. That agreement continued until August 31, 2012, at which time a new tax sharing and compensating agreement was entered into by ARL, TCI, IOT and MRHI for the remainder of 2012 and subsequent years. The agreement specifies the manner in which the group will share the consolidated tax liability and also how certain tax attributes are to be treated among members of the group.

Recent accounting pronouncements.

In April 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-08, “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity”, which changes the criteria for determining which disposals qualify to be accounted for as discontinued operations and modifies related reporting and disclosure requirements.

Disposals representing a strategic shift in operations, such as a change in a major line of business, a major geographical area or major equity investment, that have a major effect on a company’s operations and financial results will be presented as discontinued operations. If the disposal does qualify as a discontinued operation under ASU 2014-08, the Company will be required to expand their disclosures about discontinued operations to provide more information on the assets, liabilities, income and expenses of the disposed component.

The classification of operating results as discontinued operations are applied retroactively for all periods presented. The new standard was effective January 1, 2015. We adopted ASU 2014-08 as of January 1, 2015 and believe future sales of our individual operating properties will no longer qualify as discontinued operations. Adoption of this standard has resulted in substantially fewer of the Company’s dispositions meeting the discontinued operations criteria. See Note 8 below.

In May 2014, Accounting Standards Update (“ASU”) No. 2014-09 (“ASU 2014-09”), “Revenue from Contracts with Customers,” was issued. This new guidance established a new single comprehensive revenue recognition model and provides for enhanced disclosures. Under the new policy, the nature, timing and amount of revenue recognized for certain transactions could differ from those recognized under existing accounting guidance. This new standard does not affect revenue recognized under lease contracts. ASU 2014-09 is effective for reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact the adoption of this guidance has on its financial position and results of operations, if any.

In April 2015, the FASB issued ASU 2015-03, “Simplifying the Presentation of Debt Issuance Costs” (“ASU 2015-03”). ASU 2015-03 requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. Prior to the issuance of the standard, debt issuance costs were required to be presented in the balance sheet as an asset. The Company has adopted this standard effective June 30, 2015. The accompanying financials have been reclassified to reflect the adoption.

In February 2016, Accounting Standards Update No. 2016-02 (“ASU 2016-02”), “Leases” was issued. This new guidance establishes a new model for accounting for leases and provides for enhanced disclosures. ASU 2016-02 is effective for reporting periods beginning after December 15, 2018. The Company is currently evaluating the impact the adoption of this guidance, if any, on its financial position and results of operations.

NOTE 2. REAL ESTATE

A summary of our real estate owned as of the end of the year is listed below (dollars in thousands):

	2015	2014
Apartments	\$622,761	\$455,602
Apartments under construction	18,230	1,512
Commercial properties	215,609	193,197
Land held for development	97,790	159,903
Real estate held for sale	—	—
Real estate subject to sales contract	49,155	21,326
Total real estate, at cost, less impairment	1,003,545	831,540
Less accumulated depreciation	(150,038)	(131,777)
Total real estate, net of depreciation	\$853,507	\$699,763

Expenditures for repairs and maintenance are charged to operations as incurred. Significant betterments are capitalized. When assets are sold or retired, their costs and related accumulated depreciation are removed from the accounts with the resulting gains or losses reflected in net income or loss for the period.

Depreciation is computed on a straight line basis over the estimated useful lives of the assets as follows:

Land improvements	25 to 40 years
Buildings and improvements	10 to 40 years
Tenant improvements	Shorter of useful life or terms of related lease
Furniture, fixtures and equipment	3 to 7 years

Provision for Impairment Losses

For the year ended December 31, 2015, the Company provided an impairment of \$5.3 million for the golf course and related assets located in the U.S. Virgin Islands. This impairment relates to the decision to sell the development parcels in the U.S. Virgin Islands and the resultant decrease in the estimated fair value of the remaining assets. There was no provision for impairment for the year ended December 31, 2014. In 2013, impairment was recorded as an additional loss in the commercial portfolio of \$9.6 million, the land portfolio of \$1.6 million and the remaining \$7.8 million was related to a provision for losses taken on our notes receivable. A recent appraisal done during the refinance of an office building in Dallas, Texas, resulted in a fair value lower than book basis. The impairment in our land portfolio was due to a potential sale of land at a value lower than the book basis as well as a disposal of another property due to bankruptcy.

Fair Value Measurement

The Company applies the guidance in ASC Topic 820, "Fair Value Measurements and Disclosures," to the valuation of real estate assets. The Company is required to assess the fair value of its consolidated real estate assets with indicators of impairment. The value of impaired real estate assets is determined using widely accepted valuation techniques, including discounted cash flow analyses on the expected cash flow of each asset, as well as the income capitalization approach, which considers prevailing market capitalization rates, analyses of recent comparable sales transactions, information from actual sales negotiations and bona fide purchase offers received from third parties. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurements used in these evaluations are considered to be Level 2 and 3 valuations within the fair value hierarchy in the accounting rules, as there are significant observable (Level 2) and unobservable inputs (Level 3). Examples of Level 2 inputs the Company utilizes in its fair value calculations are appraisals and bona fide purchase offers from third parties. Examples of Level 3 inputs the Company utilizes in its fair value calculations are discount rates, market capitalization rates, expected lease rental rates, timing of new leases, an estimate of future sales

prices and comparable sales prices of similar assets, if available. All of the impairment charges outlined above were recorded in the statements of operations, either in continuing operations or discontinued operations.

		Fair Value Measurements Using (dollars in thousands):		
December 31, 2015	Fair Value	Level 1	Level 2	Level 3
Commercial	\$3,000	\$—	\$ ---	\$3,000

A commercial property (golf course) with a carrying value of approximately \$8.3 million was written down to its fair value of \$3.0 million resulting in an impairment charge of \$5.3 million. The method used to determine fair value was an analysis of the discounted cash flow of the asset.

There was no provision for impairment for the year ended December 31, 2014

		Fair Value Measurements Using (dollars in thousands):		
December 31, 2013	Fair Value	Level 1	Level 2	Level 3
Land	\$4,899	\$—	\$4,899	\$ ---
Commercial	\$26,194	\$—	\$26,194	\$ —

Land with a carrying amount of \$6.5 million was written down to its fair value of \$4.9 million resulting in an impairment charge of \$1.6 million in 2013. Level 2 inputs used to determine the fair values above included third party appraisals and taking the debt balance on the collateralized acres plus the book value of the uncollateralized acres.

A commercial building with a carrying amount of \$35.8 million was written down to its fair value of \$26.2 million resulting in an impairment charge of \$9.6 million in 2013. The Level 2 input used to determine the fair value above was a third party appraisal.

The following is a brief description of the more significant property acquisitions and sales in 2015:

Purchases

For the year ended December 31, 2015, the Company acquired five income-producing apartment complexes from third parties in the states of Texas (3), Tennessee (1) and Alabama (1), increasing the total number of units by 990, for a combined purchase price of \$82.9 million. In addition, the Company acquired six income-producing apartment complexes from related parties in the states of Texas (2) Florida (2), Tennessee (1) and Mississippi (1) increasing the total number of units by 835, for a combined purchase price of \$29.3 million. The Company also purchased a commercial office building in Texas, comprised of 92,723 square feet, for \$16.8 million.

Sales

For the year ended December 31, 2015, the Company sold approximately 595 acres of land located in Texas to independent third parties for a total sales price of \$107.3 million. We recorded a total gain of \$18.9 million from the sales. In addition we recognized \$2.7 million in deferred gain from prior years land sales. In November 2015, the Company sold approximately 88 acres of land located in the U.S. Virgin Islands to an unrelated party. The sales represents most of the development land owned by the Company in the U.S. Virgin Islands. Total cash consideration for the sale was \$33.9 million. We recorded a gain of \$12.0 million related to the transaction.

In November 2015, the Company entered into a sales contract with an unrelated party. The contract was for most of the developable land owned by the Company in the Mercer Crossing Development located in Farmers Branch, Texas. In addition, TCI, IOT and RAI also sold land in this transaction. Total consideration for the sale was \$75 million. The ultimate allocation of sales proceeds to the parties involved is yet to be determined and will be complete when the final use of the land, certain development commitments are completed and the note is collected. The agreement between TCI and the other parties related to this transaction provides for TCI to hold the subordinated note from the buyer in the amount of \$50 million. At the closing, the note payable to related parties of \$16.1 million was paid off.

Due to an inadequate down payment from the buyer and the level of seller financing involved, the transaction is being accounted for under the deposit method. Under the deposit method, no revenue is recognized and the asset sold remains on the books until the criteria for full revenue recognition is met.

In addition, one income-producing apartment complex consisting of 200 units located in Ohio was foreclosed upon. The Company recorded a gain of \$0.7 million related to the extinguishment of debt.

As of December 31, 2015, the Company has approximately 91 acres of land, at various locations that were sold to related parties in multiple transactions. These transactions are treated as “subject to sales contract” on the Consolidated Balance Sheets. Due to the related party nature of the transactions TCI has deferred the recording of the sales in accordance with ASC 360-20.

NOTE 3. NOTES AND INTEREST RECEIVABLE

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

Borrower	Maturity Date	Interest Rate	Amount	Security
Performing loans:				
H198, LLC (Las Vegas Land)	01/20	12.00%	5,907	Secured
Leman Development, Ltd ⁽²⁾	N/A	0.00%	1,500	Unsecured
One Realco Corporation ^(1,2)	01/17	3.00%	7,000	Unsecured
Realty Advisors Management, Inc. ⁽¹⁾	12/16	2.28%	20,387	Unsecured
Unified Housing Foundation, Inc. (Cliffs of El Dorado) ⁽¹⁾	12/32	12.00%	2,097	Secured
Unified Housing Foundation, Inc. (Echo Station) ⁽¹⁾	12/32	12.00%	1,481	Secured
Unified Housing Foundation, Inc. (Inwood on the Park) ⁽¹⁾	12/32	12.00%	5,059	Secured
Unified Housing Foundation, Inc. (Kensington Park) ⁽¹⁾	12/32	12.00%	3,933	Secured
Unified Housing Foundation, Inc. (Lakeshore Villas) ⁽¹⁾	12/32	12.00%	2,000	Secured
Unified Housing Foundation, Inc. (Lakeshore Villas) ⁽¹⁾	12/32	12.00%	9,100	Secured
Unified Housing Foundation, Inc. (Limestone Canyon) ⁽¹⁾	12/32	12.00%	2,653	Secured
Unified Housing Foundation, Inc. (Limestone Canyon) ⁽¹⁾	12/32	12.00%	4,640	Secured
Unified Housing Foundation, Inc. (Limestone Ranch) ⁽¹⁾	12/32	12.00%	1,953	Secured
Unified Housing Foundation, Inc. (Limestone Ranch) ⁽¹⁾	12/32	12.00%	6,000	Secured
Unified Housing Foundation, Inc. (Parkside Crossing) ⁽¹⁾	12/32	12.00%	2,272	Secured
Unified Housing Foundation, Inc. (Reserve at White Rock Phase I) ⁽¹⁾	12/32	12.00%	2,485	Secured
Unified Housing Foundation, Inc. (Reserve at White Rock Phase II) ⁽¹⁾	12/32	12.00%	2,555	Secured
Unified Housing Foundation, Inc. (Sendero Ridge) ⁽¹⁾	12/32	12.00%	4,491	Secured
Unified Housing Foundation, Inc. (Sendero Ridge) ⁽¹⁾	12/32	12.00%	4,812	Secured
Unified Housing Foundation, Inc. (Timbers of Terrell) ⁽¹⁾	12/32	12.00%	1,323	Secured
Unified Housing Foundation, Inc. (Tivoli) ⁽¹⁾	12/32	12.00%	7,966	Secured
Unified Housing Foundation, Inc. (Trails at White Rock) ⁽¹⁾	12/32	12.00%	3,815	Secured
Unified Housing Foundation, Inc. ⁽¹⁾	06/17	12.00%	1,261	Unsecured
Unified Housing Foundation, Inc. ⁽¹⁾	12/17	12.00%	1,207	Unsecured
Unified Housing Foundation, Inc. ⁽¹⁾	12/18	12.00%	3,994	Unsecured
Unified Housing Foundation, Inc. ⁽¹⁾	12/18	12.00%	6,407	Unsecured
Unified Housing Foundation, Inc. ⁽¹⁾	12/15	12.00%	2,665	Unsecured
Unified Housing Foundation, Inc. ⁽¹⁾	12/16	12.00%	3,657	Unsecured
Other related party notes	Various	Various	1,349	Various secured interests
Other related party notes	Various	Various	1,420	Various unsecured interests
Other non-related party notes	Various	Various	3,166	Various secured interests
Other non-related party notes	Various	Various	503	Various unsecured interests
Accrued interest			8,222	
Total Performing			\$137,280	
Allowance for estimated losses			(17,037)	
Total			\$120,243	

(1) Related party notes

(2) An allowance was taken for estimated losses at full value of note.

As of December 31, 2015, the obligors on \$118 million or 91.4% of the mortgage notes receivable portfolio were due from related parties. The Company recognized \$10.9 million of interest income from these related party notes receivables.

As of December 31, 2015 none of the mortgage notes receivable portfolio were non-performing.

The Company has various notes receivable from Unified Housing foundation, Inc. (“UHF”). UHF is determined to be a related party due to our significant investment in the performance of the collateral secured under the notes receivable. Payments are due from surplus cash flow from operations, sale or refinancing of the underlying properties. These notes are cross collateralized to the extent that any surplus cash available from any of the properties underlying these notes will be used to repay outstanding interest and principal for the remaining notes. Furthermore, any surplus cash available from any of the properties UHF owns, besides the properties underlying these notes, can be used to repay outstanding interest and principal for these notes. The allowance on the notes was a purchase allowance that was netted against the notes when acquired.

NOTE 4. ALLOWANCE FOR ESTIMATED LOSSES

The allowance account for receivables was reviewed and decreased in 2015. The decrease was due to a note that was paid off, and a note that was written off, both of which were fully reserved. The decrease in 2014 was due to a note that was paid off, and a note that was written off, both of which were fully reserved. The decrease in 2013 was due to an allowance amount on a fully reserved note that was adjusted by the amount of a payment received. This decrease was offset by a reserve amount taken on a related party note receivable due to questionable recovery. The table below shows our allowance for estimated losses (dollars in thousands):

	2015	2014	2013
Balance January 1,	\$18,279	\$19,600	\$21,704
Increase (decrease) in provision	(1,242)	(1,321)	(2,104)
Balance December 31,	\$17,037	\$18,279	\$19,600

NOTE 5. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND INVESTEEES

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.

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

	Percentage ownership as of December 31,		
	2015	2014	2013
Gruppa Fiorentina, LLC ⁽¹⁾	20.00%	20.00%	20.00%

(1) Other investees.

The market values, other than unconsolidated subsidiaries, as of the year ended December 31, 2015, 2014 and 2013 were not determinable as there were no readily traded markets for these entities. The following is a summary of the financial position and results of operations from our investees (dollars in thousands):

	For the Twelve Months Ended December 31,		
	2015	2014	2013
Other Investees			
Real estate, net of accumulated depreciation	\$13,899	\$11,647	\$10,823
Notes receivable	8,457	7,326	6,526
Other assets	30,834	30,291	32,131
Notes payable	(10,883)	(10,429)	(11,022)
Other liabilities	(7,967)	(7,192)	(8,134)
Shareholders' equity/partners capital	(34,340)	(31,643)	(30,324)
Revenue	\$51,650	\$48,893	\$46,276
Depreciation	(1,150)	(1,151)	(1,166)
Operating expenses	(47,143)	(45,590)	(42,330)
Interest expense	(805)	(901)	(1,022)
Income (loss) from continuing operations	\$2,552	\$1,251	\$1,758
Income (loss) from discontinued operations	—	—	—
Net income (loss)	\$2,552	\$1,251	\$1,758
Company's proportionate share of earnings ⁽¹⁾	\$510	\$250	\$352

(1)Earnings represent continued and discontinued operations

NOTE 6. NOTES AND INTEREST PAYABLE

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

	Notes Payable	Accrued Interest	Total Debt
Apartments	\$507,498	\$ 1,499	\$508,997
Apartment under construction	11,139	—	11,139
Commercial	109,269	509	109,778
Land held for development	44,417	116	44,533
Real estate subject to sales contract	5,953	469	6,422
Mezzanine financing	122,900	—	122,900

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Other	20,334	727	21,061
Total	\$821,510	\$ 3,320	\$824,830
Unamortized deferred borrowing costs	(20,070)	—	(20,070)
Total	801,440	3,320	804,760

The following table schedules the principal payments on the notes payable for the next five years and thereafter (dollars in thousands):

Year	Amount
2016	\$96,535
2017	31,236
2018	43,890
2019	34,623
2020	127,370
Thereafter	487,856
Total	\$821,510

Interest payable at December 31, 2015, was \$3.6 million. Interest accrues at rates ranging from 2.5% to 12.0% per annum, and mature between 2016 and 2055. The mortgages were collateralized by deeds of trust on real estate having a net carrying value of \$678 million.

During the year the Company refinanced or modified ten loans with a total principal balance of \$136 million. The refinancing resulted in lower interest rates and the extension of the term of the loan. The modifications resulted in lower interest rates. The transactions provide for lower monthly payments over the term of the loans.

On May 28, 2015, the Company secured additional financing of \$120.0 million from an independent third party. At closing \$84.4 million was advanced to the Company. The financing can be used for general corporate purposes, acquisition of multi-family apartment complexes and to reduce debt. The note has a term of five years at an interest rate of 30 day Libor plus 10.75%. The note is interest only, payable monthly, with the principal due at the end of the five years. The loan is secured by various equity interests in certain residential apartments. In November 2015 the note was amended to cap the loan amount at \$84.4 million in order to allow for a construction loan of \$50 million on an apartment complex being developed in Rowlett, Texas. All other terms and conditions of the loan remained the same.

The note contains customary restrictions, representations, covenants, corporate and officer guarantees, events of default and require the Company to meet certain financial covenants. The Company believes it is in compliance with these financial covenants at December 31, 2015.

Simultaneous with the closing of the above financing, the Company amended its existing financing of \$40.0 million from an independent third party. The note has a term of five years at an interest rate of 12.0%. The note is interest only for the first year with quarterly principal payments due of \$0.5 million starting April 1, 2015. As of December 31, 2015, the outstanding balance on the loan was \$38.5 million. The loan is secured by various equity interests in residential apartments and can be prepaid at a penalty rate of 4% for year 1 with the penalty declining by 1% each year thereafter. The note contains customary restrictions, representations, covenants, corporate and officer guarantees, events of default and require the Company to meet certain financial covenants. The Company believes it is in

compliance with these financial covenants at December 31, 2015.

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

In conjunction with the development of various apartment projects and other developments, we drew down \$9.9 million in construction loans during the twelve months ended December 31, 2015.

NOTE 7. RELATED PARTY TRANSACTIONS AND FEES

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

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 our best interest.

Since April 30, 2011, Pillar, the sole shareholder of which is Realty Advisors, LLC, a Nevada limited liability company, the sole member of which is RAI, a Nevada corporation, the sole shareholder of which is MRHI, a Nevada corporation, the sole shareholder of which is a trust known as the May Trust, became the Company's external Advisor and Cash Manager. Pillar's duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities. Pillar also arranges, for the Company's benefit, debt and equity financing with third party lenders and investors. Pillar also serves as an Advisor and Cash Manager to TCI and IOT. As the contractual advisor, Pillar is compensated by ARL under an Advisory Agreement that is more fully described in Part III, Item 10. "Directors, Executive Officers and Corporate Governance – The Advisor". ARL has no employees. Employees of Pillar render services to ARL in accordance with the terms of the Advisory Agreement.

Regis Realty Prime, LLC, dba Regis Property Management, LLC ("Regis"), the sole member of which is Realty Advisors, LLC, manages our commercial and provides brokerage services. Regis receives property management fees and leasing commissions in accordance with the terms of its property-level management agreement. Regis is also entitled to receive real estate brokerage commissions in accordance with the terms of a non-exclusive brokerage agreement. See Part III, Item 10. "Directors, Executive Officers and Corporate Governance – Property Management and Real Estate Brokerage". Regis Hotel I, LLC, managed the Company's hotel investments. ARL engages third-party companies to lease and manage its apartment properties.

Below is a description of the related party transactions and fees between Pillar and Regis:

Fees, expenses, and revenue paid to and/or received from our advisor:

	2015	2014	2013
	(dollars in thousands)		
Fees:			
Advisory	\$9,775	\$8,943	\$10,166
Mortgage brokerage and equity refinancing	1,612	1,152	1,878
Net income	492	3,669	4,089
Property acquisition and sales	921	177	—
	\$12,800	\$13,941	\$16,133
Other Expense:			
Cost reimbursements	\$3,675	\$3,449	\$3,466
Interest paid (received)	(1,233)	(1,043)	431
	\$2,442	\$2,406	\$3,897
Revenue:			
Rental	\$726	\$701	\$670

Fees paid to Regis and related parties:

2015	2014	2013
(dollars in thousands)		

Fees:

Property acquisition	\$1,932	\$348	\$—
Property management, construction management and leasing commissions	717	583	474
Real estate brokerage	1,105	2,848	4,081
	\$3,754	\$3,779	\$4,555

The Company received rental revenue of \$0.7 million in 2015, \$0.7 million in 2014, and \$0.7 million in 2013 from Pillar and its related parties for properties owned by the Company.

As of December 31, 2015, the Company had notes and interest receivables, net of allowances, of \$102.5 million and \$7.9 million, respectively, due from UHF, a related party. See Part 2, Item 8. Note 3. “Notes and Interest Receivable”. During the current period, the Company recognized interest income of \$10.9 million, originated \$11.6 million, received principal payments of \$4.7 million and received interest payments of \$11.8 million from these related party notes receivables.

On January 1, 2012, the Company's subsidiary, TCI, entered into a development agreement with UHF, a non-profit corporation that provides management services for the development of residential apartment projects in the future. This development agreement was terminated December 31, 2013. The Company has also invested in surplus cash notes receivables from UHF and has sold several residential apartment properties to UHF in prior years. Due to this ongoing relationship and the significant investment in the performance of the collateral secured under the notes receivable, UHF has been determined to be a related party.

The Company is the primary guarantor, on a \$60.35 million mezzanine loan between UHF and a lender. In addition, ARL, and an officer of the Company are limited recourse guarantors of the loan. As of December 31, 2015 UHF was in compliance with the covenants to the loan agreement.

The Company is part of a tax sharing and compensating agreement with respect to federal income taxes between ARL, TCI and IOT and their subsidiaries that was entered into in July of 2009. The expense (benefit) in each year was calculated based on the amount of losses absorbed by taxable income multiplied by the maximum statutory tax rate of 35%.

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

	Pillar
Related party receivable, December 31, 2014	\$21,414
Cash transfers	66,824
Advisory fees	(9,775)
Net income fee	(492)
Cost reimbursements	(3,675)
Interest income	1,233
Notes receivable purchased	(18,221)
Fees and commissions	(5,571)
Expenses paid by Advisor	(6,302)
Financing (mortgage payments)	(1,831)
Sales/purchases transactions	(15,457)
Related party receivable, December 31, 2015	\$28,147

Below are transactions that involve a related party:

As of December 31, 2015, the Company has approximately 91 acres of land, at various locations that were sold to related parties in multiple transactions. These transactions are treated as "subject to sales contract" on the Consolidated Balance Sheets. Due to the related party nature of the transactions TCI has deferred the recording of the sales in

accordance with ASC 360-20.

NOTE 8. *DIVIDENDS*

ARL's Board of Directors established a policy that dividend declarations on common stock would be determined on an annual basis following the end of each year. In accordance with that policy, no dividends on ARL's common stock were declared for 2015, 2014, or 2013. Future distributions to common stockholders will be determined by the Board of Directors in light of conditions then existing, including the Company's financial condition and requirements, future prospects, restrictions in financing agreements, business conditions and other factors deemed relevant by the Board.

NOTE 9. *PREFERRED STOCK*

There are 15,000,000 shares of Series A 10.0% Cumulative Convertible Preferred Stock authorized, with a par value of \$2.00 per share and liquidation preference of \$10.00 per share plus accrued and unpaid dividends. Dividends are payable at the annual rate of \$1.00 per share or \$.25 per share quarterly to stockholders of record on the last day of each March, June, September and December when and as declared by the Board of Directors. The Series A Preferred Stock may be converted into ARL common stock at 90.0% of the average daily closing price of ARL's common stock for the prior 20 trading days. At December 31, 2015, 2,000,614 shares of Series A Preferred Stock were outstanding. Of the outstanding shares, 900,000 are held by ARL. Dividends are not paid on the shares owned by ARL.

Prior to July 17, 2014, RAI owned 2,451,435 shares of the outstanding Series A 10.0.0% convertible preferred stock and had accrued dividends unpaid of \$15.1 million. On July 17, 2014, RAI converted 890,797 shares, including \$6.3 million in accumulated dividends unpaid for these shares, into the requisite number of shares of common stock. This conversion resulted in the issuance of 2,502,230 new shares of ARL common stock. On April 9, 2015, RAI converted 460,638 shares including \$2.3 million in accumulated dividends unpaid for these shares, into the requisite number of shares of common stock. This conversion resulted in the issuance of 1,486,741 new shares of ARL common stock. As of December 31, 2015, RAI owns 1,100,000 shares of the outstanding Series A convertible preferred stock and has accrued dividends unpaid of \$8.6 million.

There are 91,000 shares of Series D 9.50% Cumulative Preferred Stock authorized, with a par value of \$2.00 per share, and a liquidation preference of \$20.00 per share. Dividends are payable at the annual rate of \$1.90 per year or \$.475 per quarter to stockholders of record on the last day of each March, June, September and December when and as declared by the Board of Directors. The Series D Preferred Stock is reserved for the conversion of the Class A limited partner units of Ocean Beach Partners, L.P. The Class A units may be exchanged for Series D Preferred Stock at the rate of 20 Class A units for each share of Series D Preferred Stock. Between June 1, 2001 and May 31, 2006, all unexchanged Class A units are exchangeable. At December 31, 2015, no shares of Series D Preferred Stock were outstanding.

There are 500,000 shares of Series E 6.0% Cumulative Preferred Stock authorized, with a par value \$2.00 per share and a liquidation preference of \$10.00 per share. Dividends are payable at the annual rate of \$0.60 per share or \$0.15 per quarter to stockholders of record on the last day of each March, June, September and December when and as declared by the Board of Directors. At December 31, 2015, no shares of Series E Preferred Stock were outstanding.

100,000 shares of Series J 8% Cumulative Convertible Preferred Stock have been designated pursuant to a Certificate of Designation filed March 16, 2006, as an instrument amendatory to ARL's Amended Articles of Incorporation, with a par value of \$2.00 per share, and a liquidation preference of \$1,000 per share. Dividends are payable at the annual rate of \$80 per share, or \$20 per quarter, to stockholders of record on the last day of each of March, June, September and December, when and as declared by the Board of Directors. Although the Series J 8% Cumulative Convertible Preferred Stock has been designated, no shares have been issued as of December 31, 2015.

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

NOTE 10. STOCK OPTIONS

In January 1999, stockholders approved the Director’s Stock Option Plan (the “Director’s Plan”) which provided for options to purchase up to 40,000 shares of common stock. In December 2005, the Director’s Plan was terminated. Options granted pursuant to the Director’s Plan were immediately exercisable and expire on the earlier of the first anniversary of the date on which a Director ceases to be a Director or ten years from the date of grant. Each Independent Director was granted an option to purchase 1,000 common shares. As of December 31, 2014, there were 1,000 shares of stock options outstanding which were exercisable at \$9.70 per share. These options expired unexercised January 1, 2015.

NOTE 11. INCOME TAXES

For 2015 ARL, TCI, and IOT all had taxable income. For 2014 ARL, TCI and IOT had a combined net taxable loss and ARL recorded no current tax (benefit) or expense. For 2013 ARL consolidated with TCI and IOT had a net taxable loss resulting in a tax (benefit) to ARL. The expense (benefit) in each year was calculated based on the amount of losses absorbed by taxable income multiplied by the maximum statutory rate of 35%.

Current expense (benefit) is attributable to (dollars in thousands):

	2015	2014	2013
Income (loss) from continuing operations	\$517	\$(1,169)	\$(24,217)
Income (loss) from discontinued operations	483	1,169	17,415
The full 2013 tax (benefit) to ARL comes from MRHI	\$1,000	\$—	\$(6,802)

The Federal income tax expense differs from the amount computed by applying the corporate tax rate of 35% to the income before income taxes as follows (dollars in thousands):

	2015	2014	2013
Computed "expected" income tax (benefit) expense	\$1,465	\$14,061	\$15,684
Book to tax differences in gains on sale of property	(12,463)	(2,350)	(20,373)
Book to tax differences from entities not consolidated for tax purposes	13,721	(23,900)	(33,565)
Book to tax differences of depreciation and amortization	(490)	1,415	1,250
Valuation allowance against current net operating loss benefit	20,615	20,125	17,415
Other book to tax differences	(22,498)	(9,351)	17,208
Total	\$350	\$—	\$(2,381)
Alternative minimum tax	\$—	\$—	\$—

Deferred income taxes reflect the tax effects of temporary timing differences between carrying amounts of assets and liabilities reflected on the financial statements and the amounts used for income tax purposes. ARL's tax basis in its net assets differs from the amount at which its net assets are reported for financial statement purposes, principally due to the accounting for gains and losses on property sales, and depreciation on owned properties. The tax effects of temporary differences and net operating loss carry forwards that give rise to the deferred tax assets are presented below (amounts in thousands):

	2015	2014	2013
Net operating losses	\$67,112	\$74,357	\$88,486
AMT credits	2,751	2,201	2,201
Basis difference of:			
Real estate holdings and equipment	(11,197)	10,337	11,959
Notes receivable	6,475	6,946	7,448
Investments	(14,966)	(14,950)	(14,960)
Notes payable	3,455	8,189	13,360
Deferred gains	19,868	18,086	18,746
Total	\$73,498	\$105,166	\$127,240
Deferred tax valuation allowance	(73,498)	(105,166)	(127,240)
Net deferred tax asset	\$—	\$—	\$—

At December 31, 2015, 2014 and 2013 ARL had a net deferred tax asset due to tax deductions available to it in future years. However, as management could not determine that it was more likely than not that ARL would realize the benefit of the deferred tax asset, a 100% valuation allowance was established.

ARL has prior tax net operating losses and capital loss carryforwards of approximately \$54.0 million expiring through the year 2033. The alternative minimum tax credit balance increased in 2015 to approximately \$2.8 million. The credit has no expiration date..

ARL is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any tax periods. Management believes ARL is no longer subject to income tax examinations for years prior to 2012.

NOTE 12. FUTURE MINIMUM RENTAL INCOME UNDER OPERATING LEASES

ARL's operations include the leasing of commercial properties (office buildings, industrial warehouses and retail centers). The leases, thereon, expire at various dates through 2025. The following is a schedule of minimum future rents due to ARL under non-cancelable operating leases as of December 31, 2015 (dollars in thousands):

Year	Amount
2016	\$23,448
2017	21,350
2018	19,418
2019	14,727
2020	11,212
Thereafter	24,717
Total	\$114,872

NOTE 13. OPERATING SEGMENTS

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

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

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

Presented below is the operating income of each operating segment and each segment's assets for 2015, 2014 and 2013 (dollars in thousands):

For the Twelve Months Ended December 31, 2015	Commercial				Total
	Properties	Apartments	Land	Other	
Operating revenue	\$ 30,540	\$ 73,543	\$—	\$105	\$104,188
Operating expenses	(17,761)	(34,955)	(1,029)	(257)	(54,002)
Depreciation and amortization	(8,993)	(12,498)	—	73	(21,418)
Mortgage and loan interest	(6,919)	(18,767)	(4,694)	(17,132)	(47,512)
Loan charges and prepayment penalties		(4,932)		(33)	(4,965)
Interest income				16,674	16,674
Gain on land sales			21,648		21,648
Segment operating income (loss)	\$ (3,133)	\$ 2,391	\$15,925	\$(570)	\$14,613
Capital expenditures	8,133	506	2,621	—	11,260
Assets	155,147	551,415	146,945	—	853,507
Property Sales					
Sales price	\$ —	\$ 11,129	\$107,298	\$—	\$118,427
Cost of sale	—	(10,394)	(88,387)	—	(98,781)
Recognized prior deferred gain	—	—	2,737	—	2,737
Gain on sale	\$ —	\$ 735	\$21,648	\$—	\$22,383

For the Twelve Months Ended December 31, 2014	Commercial				Total
	Properties	Apartments	Land	Other	
Operating revenue	\$ 20,476	\$ 58,882	\$ 1	\$ 53	\$ 79,412
Operating expenses	(13,127)	(27,588)	(1,397)	(12)	(42,124)
Depreciation and amortization	(7,413)	(10,270)	—	90	(17,593)
Mortgage and loan interest	(6,026)	(16,778)	(4,618)	(10,550)	(37,972)
Loan charges and prepayment penalties	(113)	(2,625)	(66)	(50)	(2,854)
Interest income	—	—	—	20,054	20,054
Gain on land sales	—	—	561	—	561
Segment operating income (loss)	\$ (6,203)	\$ 1,621	\$ (5,519)	\$ 9,585	\$ (516)
Capital expenditures	4,874	320	2,436	—	7,630
Assets	142,118	390,366	167,279	—	699,763
Property Sales					
Sales price	\$ 19,182	\$ 115,273	\$ 8,091	\$—	\$ 142,546
Cost of sale	(9,168)	(63,408)	(7,530)	—	(80,106)
Deferred current gain	—	—	—	—	—
Recognized prior deferred gain	—	—	—	—	—
Gain on sale	\$ 10,014	\$ 51,865	\$ 561	\$—	\$ 62,440

For the Twelve Months Ended December 31, 2013	Commercial				Total
	Properties	Apartments	Land	Other	
Operating revenue	\$ 24,215	\$ 56,369	\$ 39	\$ 127	\$ 80,750
Operating expenses	(11,623)	(26,223)	(1,431)	(41)	(39,318)
Depreciation and amortization	(5,938)	(10,188)	—	172	(15,954)
Mortgage and loan interest	(5,865)	(18,474)	(6,412)	(8,359)	(39,110)
Loan charges and prepayment penalties	(150)	(3,937)	(1,080)	(390)	(5,557)
Interest income	—	—	—	19,445	19,445
Loss on land sales	—	—	(455)	—	(455)
Segment operating income (loss)	\$ 639	\$ (2,453)	\$ (9,339)	\$ 10,954	\$ (199)
Capital expenditures	6,964	315	387	—	7,666
Assets	141,200	394,397	164,697	—	700,294
Property Sales					
Sales price	\$ 26,974	\$ 239,676	\$ 7,186	\$—	\$ 273,836
Cost of sale	(14,914)	(152,785)	(7,641)	—	(175,340)
Deferred current gain	—	—	—	—	—
Recognized prior deferred gain	—	—	—	—	—
Gain (loss) on sale	\$ 12,060	\$ 86,891	\$ (455)	\$—	\$ 98,496

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

	For Twelve Months Ended December 31,		
	2015	2014	2013
Segment operating income (loss)	\$14,613	\$(516)	\$(199)
Other non-segment items of income (expense)			
General and administrative	(6,893)	(10,282)	(7,919)
Provision on impairment of notes receivable and real estate assets	(5,300)	—	(18,980)
Net income fee to related party	(492)	(3,669)	(4,089)
Advisory fee to related party	(9,775)	(8,943)	(10,166)
Other income	4,106	1,415	10,163
Loss on sale of investments	(1)	(92)	(283)
Earnings from unconsolidated joint ventures and investees	428	347	391
Litigation settlement	(352)	3,591	(20,313)
Income tax benefit (expense)	(517)	20,413	40,513
Gain (loss) from continuing operations	\$(4,183)	\$2,264	\$(10,882)

SEGMENT ASSET RECONCILIATION TO TOTAL ASSETS

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

	For the Years Ended December 31,		
	2015	2014	2013
Segment assets	\$853,507	\$699,763	\$700,294
Investments in unconsolidated subsidiaries and investees	8,365	4,279	3,789
Notes and interest receivable	120,243	134,366	136,815
Other assets and receivables	135,253	127,090	102,424
Total assets	\$1,117,368	\$965,498	\$943,322

NOTE 14. *DISCONTINUED OPERATIONS*

Prior to January 1, 2015, we applied the provisions of ASC 360, "Property, Plant and Equipment", which 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.

Effective January 1, 2015, the Company adopted the provisions of ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity", which changes the criteria of ASC 360 related to determining which disposals qualify to be accounted for as discontinued operations and modifies related reporting and disclosure requirements.

Disposals representing a strategic shift in operations that have a major effect on a company's operations and financial results will be presented as discontinued operations. Companies will be required to expand their disclosures about discontinued operations to provide more information on the assets, liabilities, income and expenses of the discontinued operations. The new standard was effective January 1, 2015. Adoption of this standard will result in substantially fewer of the Company's dispositions meeting the discontinued operations criteria.

Amounts included in discontinued operations represent the residual amounts from sales classified as discontinued operations prior to January 1, 2015.

Discontinued operations relates to properties that were either sold or repositioned as held for sale as of the year ended 2014 and 2013. Income from discontinued operations relates to 5 and 19 properties that were sold or repositioned in 2014 and 2013, respectively. The following table summarizes revenue and expense information for these properties sold and held for sale (dollars in thousands):

	For the Years Ended December 31,		
	2015	2014	2013
Revenues:			
Rental and other property revenues	\$355	\$5,612	\$34,922
	355	5,612	34,922
Expenses:			
Property operating expenses	(345)	2,350	16,479
Depreciation	—	751	5,563
General and administrative	99	451	966
Total operating expenses	\$(246)	\$3,552	\$23,008
Other income (expense):			
Other income (expense)	45	(507)	45
Mortgage and loan interest	(2)	(3,204)	(11,097)
Loan charges and prepayment penalties	—	(1,656)	(3,246)
Litigation settlement	—	(250)	(250)
Total other expenses	\$43	\$(5,617)	\$(14,548)
Loss from discontinued operations before gain on sale of real estate and taxes	644	(3,557)	(2,634)
Gain on sale of real estate from discontinued operations	735	61,879	98,951
Income tax benefit (expense)	(483)	(20,413)	(33,711)
Income (loss) from discontinued operations	\$896	\$37,909	\$62,606

The Company's application of ASC Topic 360 in 2014 and 2013 results in the presentation of the net operating results of these qualifying properties sold or held for sale during 2014 and 2013 as income from discontinued operations. The application of ASC Topic 360 does not have an impact on net income available to common shareholders. ASC Topic 360 only impacts the presentation of these properties within the Consolidated Statements of Operations.

NOTE 15. QUARTERLY RESULTS OF OPERATIONS

The following is a tabulation of quarterly results of operations for the years 2015, 2014, and 2013. Quarterly results presented differ from those previously reported in ARL's Form 10-Q due to the reclassification of the operations of properties sold or held for sale to discontinued operations in accordance with ASC topic 360:

	Three Months Ended 2015			
	March 31,	June 30,	September 30,	December 31,
	(dollars in thousands, except share and per share amounts)			
2015				
Total operating revenues	\$23,156	\$24,241	\$27,826	\$28,965
Total operating expenses	21,155	20,388	25,741	30,596
Operating income (loss)	2,001	3,853	2,085	(1,631)
Other expense	(2,338)	(5,139)	(11,152)	(12,993)
Loss before gain on land sales, non-controlling interest, and taxes	(337)	(1,286)	(9,067)	(14,624)
Gain (loss) on land sales	2,876	3,027	1,958	13,787
Income tax benefit (expense)	103	(12)	274	(882)
Net income (loss) from continued operations	2,642	1,729	(6,835)	(1,719)
Net income from discontinued operations	190	(22)	508	220
Net income (loss)	2,832	1,707	(6,327)	(1,499)
Less: net income (loss) attributable to non-controlling interest	508	(540)	1,164	195
Preferred dividend requirement	(390)	(275)	(275)	(276)
Net income (loss) applicable to common shares	\$2,950	\$892	\$(5,438)	\$(1,580)
PER SHARE DATA				
Earnings per share - basic				
Loss from continued operations	\$0.20	\$0.06	\$(0.38)	\$(0.12)
Income from discontinued operations	0.01	—	0.03	0.01
Net income (loss) applicable to common shares	\$0.21	\$0.06	\$(0.35)	\$(0.11)
Weighted average common shares used in computing earnings per share	14,027,619	15,367,320	15,514,360	15,514,360
Earnings per share - diluted				
Loss from continued operations	\$0.16	\$0.05	\$(0.38)	\$(0.12)
Income from discontinued operations	0.01	—	0.03	0.01
Net income (loss) applicable to common shares	\$0.17	\$0.05	\$(0.35)	\$(0.11)
Weighted average common shares used in computing diluted earnings per share	17,426,707	17,844,339	15,514,360	15,514,360

	Three Months Ended 2014			
	March 31,	June 30,	September 30,	December 31,
	(dollars in thousands, except share and per share amounts)			
2014				
Total operating revenues	\$ 19,159	\$ 19,500	\$ 19,326	\$ 21,427
Total operating expenses	18,957	19,914	18,858	24,882
Operating income (loss)	202	(414)	468	(3,455)
Other expense	(2,440)	(3,630)	(4,274)	(5,167)
Loss before gain on land sales, non-controlling interest, and taxes	(2,238)	(4,044)	(3,806)	(8,622)
Gain (loss) on land sales	753	(159)	40	(73)
Income tax benefit	2,049	2,195	786	15,383
Net income (loss) from continued operations	564	(2,008)	(2,980)	6,688)
Net income from discontinued operations	3,805	4,077	1,461	28,566
Net income (loss)	4,369	2,069	(1,519)	35,254)
Less: net income (loss) attributable to non-controlling interest	(819)	(551)	200	(8,118)
Preferred dividend requirement	(613)	(613)	(427)	(390)
Net income (loss) applicable to common shares	\$ 2,937	\$ 905	\$ (1,746)	\$ 26,746)
PER SHARE DATA				
Earnings per share - basic				
Loss from continued operations	\$(0.08)	\$(0.28)	\$(0.24)	\$(0.13)
Income from discontinued operations	0.33	0.35	0.11	2.04
Net income (loss) applicable to common shares	\$ 0.25	\$ 0.07	\$ (0.13)	\$ 1.91)
Weighted average common shares used in computing earnings per share	11,525,389	11,525,389	13,619,647	14,027,618
Earnings per share - diluted				
Loss from continued operations	\$(0.08)	\$(0.28)	\$(0.24)	\$(0.13)
Income from discontinued operations	0.33	0.35	0.11	2.04
Net income (loss) applicable to common shares	\$ 0.25	\$ 0.07	\$ (0.13)	\$ 1.91)
Weighted average common shares used in computing diluted earnings per share	11,525,389	11,525,389	13,619,647	14,027,618

	Three Months Ended 2013			
	March 31,	June 30,	September 30,	December 31,
	(dollars in thousands, except share and per share amounts)			
2013				
Total operating revenues	\$ 19,088	\$ 19,193	\$ 19,530	\$ 22,939
Total operating expenses	17,838	18,640	20,071	39,877
Operating income (loss)	1,250	553	(541)	(16,938)
Other expense	(9,245)	(5,401)	(8,533)	(12,085)
Loss before gain on land sales, non-controlling interest, and taxes	(7,995)	(4,848)	(9,074)	(29,023)
Gain (loss) on land sales	(35)	—	598	(1,018)
Income tax benefit	2,807	5,352	402	31,952
Net income (loss) from continued operations	(5,223)	504	(8,074)	1,911
Net income from discontinued operations	5,212	9,940	745	46,709
Net income (loss)	(11)	10,444	(7,329)	48,620
Less: net income (loss) attributable to non-controlling interest	385	(2,090)	903	(9,646)
Preferred dividend requirement	(613)	(613)	(613)	(613)
Net income (loss) applicable to common shares	\$(239)	\$7,741	\$(7,039)	\$38,361
PER SHARE DATA				
Earnings per share - basic				
Loss from continued operations	\$(0.47)	\$(0.19)	\$(0.68)	\$(0.72)
Income from discontinued operations	0.45	0.86	0.06	4.05
Net income (loss) applicable to common shares	\$(0.02)	\$0.67	\$(0.62)	\$3.33
Weighted average common shares used in computing earnings per share	11,525,389	11,525,389	11,525,389	11,525,389
Earnings per share - diluted				
Loss from continued operations	\$(0.47)	\$(0.19)	\$(0.68)	\$(0.72)
Income from discontinued operations	0.45	0.86	0.06	4.05
Net income (loss) applicable to common shares	\$(0.02)	\$0.67	\$(0.62)	\$3.33
Weighted average common shares used in computing diluted earnings per share	11,525,389	11,525,389	11,525,389	11,525,389

NOTE 16. COMMITMENTS, CONTINGENCIES, AND LIQUIDITY

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

of the Company have active lease agreements with LK-Four Hickory, LLC and the Company has since guaranteed amounts related to certain of these leases.

On December 17, 2007, both Limkwang Nevada, Inc., the majority owner of LK-Four Hickory, LLC, and ARL unconditionally guaranteed the punctual payment when due, whether at stated maturity, by acceleration or hereafter, including all fees and expenses incurred by the bank on collection of a \$28.0 million note payable for LK-Four Hickory, LLC, which has a current outstanding balance of \$21.5 million.

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

Liquidity. Management believes that ARL will generate excess cash flow from property operations in 2016, such excess however, will not be sufficient to discharge all of ARL's obligations as they became due. Management intends to sell land and income producing real estate, refinance real estate and obtain additional borrowings primarily secured by real estate to meet its liquidity requirements.

Guarantees. TCI is a primary guarantor, on a \$60.35 million mezzanine loan between UHF and a lender. In addition, ARL, and an officer of the Company are limited recourse guarantors of the loan. As of December 31, 2015 UHF was in compliance with the covenants to the loan agreement.

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

ART and ART Midwest, Inc.

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

In 2005, ART filed suit against a major national law firm over the initial transaction. That action has been abated, while the principle case with the Clapper Parties was pending, but it is likely that the action against the law firm will now continue in the near future. The only defendants in the litigation involving the Clapper Parties are ART and ART Midwest, Inc., which, together, had total assets and net worth, as of December 31, 2012, of approximately \$10 million. In January 2012, the Company sold all of the issued and outstanding stock of ART to an unrelated party for a promissory note in the amount of \$10 million. At December 31, 2012, the Company fully reserved and valued such note at zero.

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

As a result of a final Memorandum Opinion and Order issued by the court on January 25, 2016 all claims against the officers and directors of the Company were dismissed.

Management believes that the Company has no liability for any ultimate judgment in the proceeding involving the Clapper Parties; however, Management of the Company has serious reservations about the current collectability of the \$10 million note and, accordingly, has reserved the full amount of the note.

Port Olpenitz

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

Dynex Capital, Inc.

On July 20, 2015, the 68th Judicial District Court in Dallas County, Texas issued its Final Judgment in Cause No. DC-03-00675, styled Basic Capital Management, Inc., American Realty Trust, Inc., Transcontinental Realty Investors, Inc., Continental Poydras Corp., Continental Common, Inc. and Continental Baronne, Inc. v. Dynex Commercial, Inc. The case, which was litigated for more than a decade, had its origin with Dynex Commercial making loans to Continental Poydras Corp., Continental Common, Inc. and Continental Baronne, Inc. (subsidiaries of Continental Mortgage & Equity Trust ("CMET"), an entity which merged into TCI in 1999 after the original suit was filed). Under the original loan commitment, \$160 million in loans were to be made to the entities. The loans were conditioned on the execution of a commitment between Dynex Commercial and Basic Capital Management, Inc. ("Basic").

An original trial in 2004, which also included Dynex Capital, Inc. as a defendant, resulted in a jury awarding damages in favor of Basic for "lost opportunity," as well as damages in favor of ART and in favor of TCI and its subsidiaries for "increased costs" and "lost opportunity." The original Trial Court judge ignored the jury's findings, however, and entered a "Judgment Notwithstanding the Verdict" ("JNOV") in favor of the Dynex entities (the judge held the Plaintiffs were not entitled to any damages from the Dynex entities). After numerous appeals by all parties, Dynex Capital, Inc. was ultimately dismissed from the case and the remaining claims against Dynex Commercial were remanded to the Trial Court for a new judgment consistent with the jury's findings. The Court entered the new Final Judgment against Dynex Commercial, Inc. on July 20, 2015.

The Final Judgment entered against Dynex Commercial, Inc. on July 20, 2015 awarded Basic \$.256 million in damages, plus pre-judgment interest of \$.192 million for a total amount of \$.448 million. The Judgment awarded ART \$14.2 million in damages, plus pre-judgment interest of \$10.6 million for a total amount of \$24.8 million. The Judgment awarded TCI \$11.1 million, plus pre-judgment interest of \$8.4 million for a total amount of \$19.5 million. The Judgment also awarded Basic, ART, and TCI post-judgment interest at the rate of 5% per annum from April 25, 2014 until the date their respective damages are paid. Lastly, the Judgment awarded Basic, ART, and TCI \$1.6 million collectively in attorneys' fees from Dynex Commercial, Inc.

The Company is reviewing the Final Judgment with counsel to determine the appropriate steps moving forward now that they have obtained this Final Judgment against Dynex Commercial, Inc.

ARL is also involved in various other lawsuits arising in the ordinary course of business. Management is of the opinion that the outcome of these lawsuits will have no material impact on ARL's financial condition, results of operations or liquidity.

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

NOTE 17. EARNINGS PER SHARE

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

As of December 31, 2015, we have 2,000,614 shares of Series A 10.0% cumulative convertible preferred stock, which are outstanding. These shares may be converted into common stock at 90% of the average daily closing price of the common stock for the prior 20 trading days. These are considered in the computation of diluted earnings per share if the effect of applying the if-converted method is dilutive. Of the outstanding 2,000,614 shares, 900,000 are held by ARL. Dividends are not paid on the shares owned by ARL.

Prior to July 17, 2014, RAI owned 2,451,435 shares of the outstanding Series A 10.0% convertible preferred stock and had accrued dividends unpaid of \$15.1 million. On July 17, 2014, RAI converted 890,797 shares, including \$6.3 million in accumulated dividends unpaid for these shares, into the requisite number of shares of common stock. This conversion resulted in the issuance of 2,502,230 new shares of ARL common stock. On April 9, 2015, RAI converted 460,638 shares including \$2.3 million in accumulated dividends unpaid for these shares, into the requisite number of shares of common stock. This conversion resulted in the issuance of 1,486,741 new shares of ARL common stock. As of December 31, 2015, RAI owns 1,100,000 shares of the outstanding Series A convertible preferred stock and has accrued dividends unpaid of \$8.6 million.

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

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

As of December 31, 2015, the Series A convertible preferred stock and the stock options were anti-dilutive and therefore not included in the EPS calculation.

NOTE 18. *SUBSEQUENT EVENTS*

The date to which events occurring after December 31, 2015, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is March 30, 2016, which is the date on which the financial statements were available to be issued.

The Company has determined that there are no subsequent events that need to be reported.

Schedule III

AMERICAN REALTY INVESTORS, INC.
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2015

Property/Location	Initial Cost		Cost Capitalized			Gross Amounts of Which		Accumulated Depreciation	Date of Construction	Date Acquired	
	Land	Building & Improvements	Subsequent to Acquisition	Impairment	Asset	Carried at End of Year	Carried at End of Year				
(dollars in thousands)											
Properties Held for Investment											
Apartments											
Anderson Estates, Oxford, MS	822	378	2,683	313	—	378	2,996	3,373	665	2003	01/06
Blue Lake Villas I, Waxahachie, TX	10,725	526	10,784	(601)	—	526	10,184	10,710	3,274	2003	01/02
Blue Lake Villas II, Waxahachie, TX	3,894	287	4,451	45	—	287	4,496	4,783	907	2004	01/04
Breakwater Bay, Beaumont, TX	9,427	740	10,435	63	—	740	10,498	11,238	2,856	2004	05/03
Bridgewood Ranch, Kaufman, TX	6,444	762	6,856	9	—	762	6,865	7,627	1,377	2007	04/08
Capitol Hill, Little Rock, AR	9,043	1,860	7,948	55	—	1,860	8,002	9,862	2,300	2003	03/03
Centennial, Oak Ridge, TN	21,061	2,570	22,588	—	—	2,570	22,588	25,159	235	2011	07/14
Curtis Moore Estates, Greenwood, MS	1,486	186	5,733	886	—	186	6,618	6,805	1,606	2003	01/06
Crossing at Opelika, Opelika,	13,790	1,579	14,215	—	—	1,579	14,215	15,794	—	2015	12/15

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AL												
Dakota Arms, Lubbock, TX	12,514	921	12,644	231	—	921	12,875	13,796	3,538	2004	01/04	
David Jordan Phase II, Greenwood, MS	574	51	1,521	269	—	51	1,790	1,841	417	1999	01/06	
David Jordan Phase III, Greenwood, MS	588	83	2,115	420	—	83	2,535	2,618	530	2003	01/06	
Desoto Ranch, DeSoto, TX	15,352	1,472	17,856	(1,130)	—	1,472	16,725	18,197	4,977	2002	05/02	
Falcon Lakes, Arlington, TX	12,739	1,438	15,094	(836)	—	1,438	14,258	15,696	4,860	2001	10/01	
Heather Creek, Mesquite, TX	11,342	1,326	12,015	69	—	1,326	12,084	13,410	3,321	2003	03/03	
Holland Lake, Weatherford, TX	11,823	1,449	14,612	—	—	1,449	14,612	16,061	244	2004	05/14	
Lake Forest, Houston, TX	12,199	335	12,267	1,553	—	335	13,820	14,155	3,568	2004	01/04	
Legacy at Pleasant Grove, Texarkana, TX	15,009	2,005	17,892	—	—	2,005	17,892	19,897	485	2006	12/14	
Lodge at Pecan Creek, Denton, TX	16,383	1,349	16,180	—	—	1,349	16,180	17,529	1,685	2011	10/05	
Mansions of Mansfield, Mansfield, TX	15,604	977	17,799	54	—	977	17,853	18,829	3,014	2009	09/05	
Mission Oaks, San Antonio, TX	14,900	1,266	16,627	212	—	1,266	16,839	18,105	3,659	2005	05/05	
Monticello Estate, Monticello, AR	458	36	1,493	263	—	36	1,756	1,793	385	2001	01/06	
Northside on Travis, Sherman, TX	13,319	1,301	14,560	—	—	1,301	14,560	15,861	2,305	2009	10/07	
Oak Hollow, Sequin, TX	10,885	1,435	12,405	—	—	1,435	12,405	13,840	155	2011	07/14	
Overlook at Allensville, Sevierville, TN	11,487	1,228	12,297	—	—	1,228	12,297	13,524	252	2012	10/15	
Parc at Clarksville, Clarksville, TN	12,869	571	14,300	118	—	571	14,419	14,990	2,658	2007	06/02	
Parc at Denham Springs, Denham Springs, LA	18,780	1,022	20,188	8	—	1,022	20,195	21,218	2,506	2011	07/07	
Parc at Maumelle, Little Rock, AR	15,942	1,153	17,688	542	—	1,153	18,230	19,383	4,252	2006	12/04	
Parc at Metro Center, Nashville, TN	10,478	960	12,226	543	—	960	12,769	13,729	3,047	2006	05/05	
Parc at Rogers, Rogers, AR	20,750	1,482	22,993	286	(3,180)	1,482	20,100	21,582	3,823	2007	04/04	
	14,489	885	16,626	59	—	885	16,685	17,570	3,054	2008	10/05	

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Preserve at Pecan Creek, Denton, TX												
Preserve at Prairie Pointe, Lubbock, TX	10,181	1,074	10,603	178		1,074	10,782	11,856	182	2005	04/15	
Riverwalk Phase I, Greenville, MS	292	23	1,537	180	—	23	1,718	1,741	425	2003	01/06	
Riverwalk Phase II, Greenville, MS	1,123	52	4,007	376	—	52	4,383	4,435	1,364	2003	01/06	
Sonoma Court, Rockwall, TX	10,754	941	11,074		—	941	11,074	12,014	1,223	2011	07/10	
Sugar Mill, Baton Rouge, LA	11,396	1,437	13,367	160	—	1,437	13,527	14,964	2,160	2009	08/08	
Toulon, Gautier, MS	20,600	1,621	20,107	372	—	1,621	20,479	22,099	2,262	2011	09/09	
Tradewinds, Midland, TX	15,601	3,542	19,939			3,542	19,939	23,481	249	2015	06/15	
Treehouse, Irving, TX	5,642	312	2,807	286	—	312	3,093	3,405	831	1974	05/04	
Villager, Ft. Walton, FL	753	156	1,408			156	1,408	1,564	21	1972	06/15	
Villas at Park West I, Pueblo, CO	10,565	1,171	10,453		—	1,171	10,453	11,624	283	2005	12/14	
Villas at Park West II, Pueblo, CO	9,554	1,463	13,060	—	—	1,463	13,060	14,523	354	2010	12/14	
Vista Ridge, Tupelo, MS	10,786	1,339	13,398			1,339	13,398	14,737	501	2009	10/15	
Vistas of Vance Jackson, San Antonio, TX	15,310	1,265	16,540	189	—	1,265	16,728	17,993	4,308	2004	01/04	
Waterford, Roseberg, TX	16,069	2,349	20,880			2,349	20,880	23,229	261	2013	06/14	
Westwood, Mary Ester, FL	4,244	692	6,650			692	6,650	7,343	97	1972	06/15	
Whispering Pines, Topeka, KS	8,720	289	4,831	1,274		289	6,105	6,393	5,674	1974	04/15	
Windsong, Fort Worth, TX	10,734	790	11,526	69	—	790	11,595	12,385	3,429	2002	07/03	
Total Apartments Held for Investment	\$507,498	\$50,150	\$569,276	\$6,515	\$(3,180)	\$50,150	\$572,611	\$622,761	\$89,576			
Apartments Under Construction												
Parc at Mansfield, Mansfield, TX	9,544	543	—	10,457	—	543	10,457	11,001	—	—	12/14	
Terra Lago, Rowlett, TX	136	(1,142)		3,329		(1,142)	3,329	2,186		—	11/15	
Eagle Crossing, Dallas, TX	1,459	4,380		663		4,380	663	5,043		—	11/15	

Total Apartments Under Construction	\$11,139	\$3,781	\$—	\$14,449	\$—	\$3,781	\$14,449	\$18,230	\$—
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Schedule III

AMERICAN REALTY INVESTORS, INC.
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2015

Property/Location	Initial Cost		Cost Capitalized			Gross Amounts of Which		Accumulated Depreciation	Date of Construction	Date Acquired	
	Encumbrances	Assets	Improvements	Improvements	Impairments	Carried at End of Year	Carried at End of Year				
	(dollars in thousands)		Building & Improvements	Asset Impairments	Hand	Building & Improvements	Total				
Commercial											
600 Las Colinas, Las Colinas, TX	39,836	5,751	51,759	15,149	—	5,751	66,908	72,659	20,869	1984	08/05
770 South Post Oak, Houston, TX	12,700	1,755	15,834	26	—	1,755	15,860	17,615	233	1970	07/15
Bridgeview Plaza, LaCrosse, WI	5,813	—	—	976	—	—	976	976	437	1979	03/03
Browning Place (Park West I), Farmers Branch, TX	22,459	5,096	45,868	13,228	—	5,096	59,096	64,192	18,754	1984	04/05
Cross County Mall, Mattoon, IL	—	608	4,891	8,549	—	608	13,440	14,048	12,165	1971	08/79
Mahogany Run Golf Course, US Virgin Islands	43	7,168	5,942	5	(5,300)	7,168	647	7,815	173	1981	11/14
Fruitland Plaza, Fruitland Park, FL	—	23	—	77	—	23	77	100	37	—	05/92
Senlac VHP, Farmers Branch, TX	—	622	—	142	—	622	142	765	128	—	08/05
Stanford Center, Dallas, TX	28,000	3,878	34,862	6,447	(9,600)	3,878	31,709	35,587	7,464	—	06/08
Thermalloy, Farmers Branch,	42	791	1,061	—	—	791	1,061	1,852	201	—	05/08

TX
Total Commercial
Held for **\$108,893** **\$25,693** **\$160,217** **\$44,600** **\$(14,900)** **\$25,693** **\$189,916** **\$215,609** **\$60,462**
Investment

Land

2427 Valley View Ln, Farmers Branch, TX	—	76	—	—	76	—	76	—	—	07/12
Audubon, Adams County, MS	—	519	—	297	—	815	—	815	—	03/07
Bonneau Land, Farmers Branch, TX	—	1,309	—	—	—	1,309	—	1,309	—	12/14
Cooks Lane, Fort Worth, TX	604	1,094	—	—	—	1,094	—	1,094	—	06/04
Dedeaux, Gulfport, MS	—	1,612	—	46	(38)	1,620	—	1,620	—	10/06
Denham Springs, Denham Springs, LA	234	339	—	—	—	339	—	339	—	08/08
Gautier Land, Gautier, MS	—	202	—	—	—	202	—	202	—	07/98
GNB Land, Farmers Branch, TX	8,695	4,385	—	32	—	4,418	—	4,418	—	07/06
Hollywood Casino Land Tract II, Farmers Branch, TX	2,814	3,192	—	1,024	—	4,217	—	4,217	—	03/08
Lacy Longhorn Land, Farmers Branch, TX	—	1,169	—	(760)	—	408	—	408	—	06/04
Lake Shore Villas, Humble, TX	—	81	—	3	—	84	—	84	—	03/02
Lubbock Land, Lubbock, TX	—	234	—	—	—	234	—	234	—	01/04
Luna Ventures, Farmers Branch TX	—	2,934	—	—	—	2,934	—	2,934	—	04/08
Mandahl Bay Land	—	667	—	—	—	667	—	667	—	01/05
Manhattan Land, Farmers Branch, TX	—	4,799	—	5,703	—	10,502	—	10,502	—	02/00
McKinney 36, Collin County, TX	1,523	1,564	—	123	(46)	1,641	—	1,641	—	01/98
McKinney Ranch Land, McKinney, TX	—	8,537	—	271	(1,363)	7,445	—	7,445	—	12/05
	1,160	5,119	—	—	(1,069)	4,050	—	4,050	—	02/04

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Meloy/Portage Land, Kent OH											
Minivest Land, Dallas, TX	—	7	—	—	—	7	—	7	—	—	04/13
Mira Lago, Farmers Branch, TX	—	59	—	8	—	68	—	68	—	—	05/01
Nakash, Malden, MO	—	113	—	(10)	—	103	—	103	—	—	01/93
Nashville, Nashville, TN	—	1,256	—	(271)	—	986	—	986	—	—	06/02
Nicholson Croslin, Dallas, TX	—	184	—	(118)	—	66	—	66	—	—	10/98
Nicholson Mendoza, Dallas, TX	—	80	—	(51)	—	29	—	29	—	—	10/98
Ocean Estates, Gulfport, MS	—	1,418	—	390	—	1,808	—	1,808	—	—	10/07
Senlac Land Tract II, Farmers Branch, TX	—	656	—	—	—	656	—	656	—	—	08/05
Sugar Mill Land, Baton Rouge, LA	178	445	—	242	—	687	—	687	—	—	08/13
Texas Plaza Land, Irving, TX	—	1,738	—	—	(238)	1,500	—	1,500	—	—	12/06
Travis Ranch Land, Kaufman County, TX	757	1,030	—	—	—	1,030	—	1,030	—	—	08/08
Travis Ranch Retail, Kaufman City, TX	—	1,517	—	—	—	1,517	—	1,517	—	—	08/08
Union Pacific Railroad Land, Dallas, TX	—	130	—	—	—	130	—	130	—	—	03/04
Valley View 34 (Mercer Crossing), Farmers Branch, TX	—	1,173	—	(945)	—	228	—	228	—	—	08/08
Waco Swanson, Waco, TX	—	173	—	—	—	173	—	173	—	—	08/06
Willowick Land, Pensacola, FL	—	137	—	—	—	137	—	137	—	—	01/95
Windmill Farms Land, Kaufman County, TX	26,732	50,428	—	17,192	(21,009)	46,611	—	46,611	—	—	11/11
Total Land Held for Investment	\$42,698	\$98,377	\$—	\$23,176	\$(23,763)	\$97,790	\$—	\$97,790	\$—		

Schedule III

AMERICAN REALTY INVESTORS, INC.
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2015

Property/Location	Initial Cost		Cost Capitalized			Gross Amounts of Which Carried at End of Year			
	Encumbrances	Land	Building & Improvements	Improvements	Asset Impairment	Hand Carried	Building & Improvements	Land	Accumulated Depreciation
Corporate Departments/Investments/Misc.									
TCI - Corporate	130,170	—	—	—	—	—	—	—	—
ARI - Corporate	13,064	—	—	—	—	—	—	—	—
Total Corporate Debt	\$143,234	—	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Total Properties Held for Investment/Corporate Debt	\$813,462	\$178,001	\$729,492	\$88,740	\$(41,843)	\$177,414	\$776,976	\$954,391	\$150,000
Properties Held for Sale									
Commercial									
Dunes Plaza, Michigan City, IN	376	—	—	—	—	—	—	—	—
Total Commercial Held for Sale	\$376	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Total Properties Held for Sale	\$376	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Properties Subject to Sales Contract Apartments									
Total Apartments Subject to Sales Contract	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Commercial									

Total Commercial Subject to Sales Contract	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—
Land									
Dominion Tract, Dallas, TX	\$3,419	\$2,440	\$—	\$(304)	(133)	\$2,003	\$—	\$2,003	\$—
Hollywood Casino Tract I, Farmers Branch, TX	1,502	3,350	—	(866)	(176)	\$2,308	—	\$2,308	—
LaDue Land, Farmers Branch, TX	—	1,845	—	—	—	\$1,845	—	\$1,845	—
Three Hickory Land, Farmers Branch, TX	—	1,202	—	—	—	\$1,202	—	\$1,202	—
Travelers Land, Farmers Branch, TX	—	21,511	—	4	—	\$21,515	—	\$21,515	—