

AMERICAN REALTY INVESTORS INC  
Form 8-K  
October 25, 2004

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**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 8-K**

**CURRENT REPORT**

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

October 25, 2004 (October 19, 2004)

Date of Report (Date of Earliest Event Reported)

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**AMERICAN REALTY INVESTORS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

Nevada  
(State or Other Jurisdiction of Incorporation or  
Organization)

1-15663  
(Commission File No.)

75-2847135  
(I.R.S. Employer Identification No.)

1800 Valley View Lane, Suite 300, Dallas, Texas  
(Address of Principal Executive Office)

75234  
(Zip Code)

(469) 522-4200

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(Registrant's Telephone Number, Including Area Code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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ITEM 2.01 COMPLETION OF ACQUISITION OR DISPOSITION OF ASSETS

In 2004, American Realty Investors, Inc. ( ARI ) and its subsidiaries, including Transcontinental Realty Investors, Inc. ( TCI ), sold a significant amount of its assets (in excess of 10% of total assets at December 31, 2003), the last sale of which was completed on October 19, 2004. The nature and amount of consideration given principally involved cash received, seller financing provided by ARI, and/or debt assumed by purchaser, and the principle followed in determining the amount of such consideration was negotiations between seller and purchaser.

Although ARI seeks to maximize long-term profitability for its stockholders through the development, acquisition, and disposition of properties, ARI intends to continue to pursue its development, acquisition, and disposition strategies in the ordinary course of the business of ARI and its subsidiaries, including TCI. ARI and its subsidiaries at all times, and currently, are in various stages of discussions and negotiations with respect to development, acquisition, and disposition projects. Selective dispositions have been a part of ARI's strategy to create an efficient portfolio and provide additional sources of capital for future use.

Properties sold by TCI and its subsidiaries are identified in the table below with (T). The properties sold are as follows:

| <b>Date of Completion or Sale Date</b> | <b>Description of Asset or Property</b> | <b>Location</b>  | <b>Units/Sq. Ft. / Acres</b> | <b>Sales Price (in thousands)</b> | <b>Gain/(Loss) on Sale (in thousands)</b> | <b>% of ARI's Consolidated Assets</b> | <b>Purchaser</b>                                |
|--|---|------------------|------------------------------|-----------------------------------|---|---------------------------------------|---|
| 03/03/04                               | Tiberon Trails                          | Merrillville, IN | 376 Units                    | \$ 10,325                         | \$ 49                                     | 0.96%                                 | Tiberon Trails, LLC                             |
| 05/15/04                               | Sandstone (T)                           | Mesa, AZ         | 238 Units                    | 8,650                             | 1,688                                     | 0.54%                                 | Palm Desert Villas, L.P.                        |
| 05/21/04                               | Cliffs of El Dorado (T)                 | McKinney, TX     | 208 Units                    | 13,442                            |   | 0.88%                                 | Unified Housing of McKinney, LLC <sup>(1)</sup> |
| 06/04/04                               | Park Avenue                             | Tallahassee, FL  | 121 Units                    | 6,225                             | 3,922                                     | 0.13%                                 | Park Avenue Villas, LLC                         |
| 08/18/04                               | Falcon House                            | Ft. Walton, FL   | 82 Units                     | 3,330                             | 1,209                                     | 0.16%                                 | First American Exchange Corp.                   |
| 10/15/04                               | In the Pines (T)                        | Gainesville, FL  | 242 Units                    | 11,300                            | 5,525                                     | 0.35%                                 | In the Pines Florida, LLC                       |
| 02/04/04                               | Plaza on Bachman Creek                  | Dallas, TX       | 80,278 Sq. Ft.               | 7,850                             | 3,682                                     | 0.27%                                 | Ameriton Properties Incorporated                |
| 02/17/04                               | Countryside Harmon (T)                  | Sterling, VA     | 5,000 Sq. Ft.                | 2,650                             | 1,861                                     | 0.06%                                 | Saul Holdings L.P.                              |
| 02/17/04                               | Countryside Retail (T)                  | Sterling, VA     | 133,422 Sq. Ft.              | 27,100                            | 6,807                                     | 1.45%                                 | Saul Holdings L.P.                              |
| 02/26/04                               | Ogden Industrial (T)                    | Ogden, UT        | 107,112 Sq. Ft.              | 2,600                             | 1,474                                     | 0.08%                                 | Flying Colors Group, L.P.                       |
| 02/27/04                               | Brandeis (T)                            | Omaha, NE        | 319,234 Sq. Ft.              |                                   | (92)                                      | 0.63%                                 | Mack-Cali Sub XV Trust                          |
| 03/01/04                               | K-Mart (T)                              | Cary, NC         | 92,033 Sq. Ft.               | 3,200                             |   | 0.19%                                 | Basic Capital Management, Inc. <sup>(2)</sup>   |
| 03/01/04                               | Texstar Warehouse (T)                   | Arlington, TX    | 97,846 Sq. Ft.               | 2,400                             |   | 0.10%                                 | Basic Capital Management, Inc.                  |

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|          |                                 |                   |                 |           |                |           | (2)   |               |
|----------|---------------------------------|-------------------|-----------------|-----------|----------------|-----------|---|---------------|
| 03/29/04 | Kelly Warehouse (Pinewood) (T)  | Dallas, TX        | 100,000 Sq. Ft. | 1,650     | 153            | 0.11%     | BHP Sale Builders Hardware Ltd.   |               |
| 05/07/04 | Atrium (T)                      | Palm Beach, FL    | 74,603 Sq. Ft.  | 5,775     | 708            | 0.39%     | Hayden Properties, LLC  |               |
| 06/04/04 | 4135 Beltline (T)               | Addison, TX       | 90,000 Sq. Ft.  | 4,900     | 337            | 0.35%     | Beltline Realty Partners, Ltd.; Three Rivers Title Co., Inc.; & First American Exchange Corporation |               |
| 07/09/04 | Kelly Warehouse (Cash Road) (T) | Dallas, TX        | 97,150 Sq. Ft.  | 1,500     | 448            | 0.08%     | Larson Group, L.P.  |               |
| 09/30/04 | The Collection                  | Denver, CO        | 267,812 Sq. Ft. | 21,200    | 3,314          | 1.39%     | Center Street, LLC; JSF Collections (Sun Terrace), LLC; & Denver Collection, LLC                    |               |
| 10/19/04 | One Steeplechase (T)            | Sterling, VA      | 103,376 Sq. Ft. | 11,900    | 6,259          | 0.40%     | 21700 Atlantic, LLC   |               |
| 01/30/04 | Red Cross (T)                   | Dallas, TX        | 2.9 Acres       | 8,500     |                | 0.56%     | Shafer Property Company   |               |
| 02/27/04 | Mason Goodrich                  | Houston, TX       | 5.7 Acres       | 686       | 379            | 0.02%     | KMC Phase III, LP   |               |
| 03/27/04 | Mason Goodrich                  | Houston, TX       | 8.0 Acres       | 1,045     | 617            | 0.03%     | Mason Creek, LP   |               |
| 03/29/04 | Allen (T)                       | Collin County, TX | 492.5 Acres     | 19,962    | 2,756          | 0.88%     | Blue Star Land, L.P.  |               |
| 08/09/04 | Rasor (T)                       | Plano, TX         | 24.5 Acres      | 2,600     | 220            | 0.19%     | Donald C. Carter  |               |
| 09/17/04 | Vista Ridge                     | Lewisville, TX    | 1.3 Acres       | 310       | 131            | 0.01%     | Texas Gurukul, LLC  |               |
| 10/12/04 | Mason Goodrich                  | Houston, TX       | 4.0 Acres       | 523       | 306            | 0.01%     | Ginter Family Investments, Ltd.   |               |
|          |                                 |                   |                 | <u>\$</u> | <u>179,623</u> | <u>\$</u> | <u>41,753</u>   | <u>10.22%</u> |

(1) Ted P. Stokely, the General Manager of Unified Housing Foundation, Inc., the manager of Unified Housing of McKinney, LLC, is a Director of ARI and TCI.

(2) Basic Capital Management, Inc. is an affiliate of ARI.

ITEM 9.01 FINANCIAL STATEMENTS AND EXHIBITS

The unaudited pro forma statements of operations are presented for the six months ended June 30, 2004 and the year ended December 31, 2003. The unaudited pro forma statements of operations present ARI's operations as if the transactions described above had occurred at January 1 of each of the periods presented. An unaudited pro forma balance sheet as of June 30, 2004, is also presented. The unaudited pro forma balance sheet presents the property sales described above, as if they had occurred at January 1, 2004.

The unaudited pro forma condensed combined financial statements should be read in conjunction with ARI's financial statements and related notes included in ARI's Report on Form 10-Q for the quarter ended June 30, 2004 and the Report on Form 10-K for the year ended December 31, 2003 filed with the Securities and Exchange Commission.

## AMERICAN REALTY INVESTORS, INC.

## PRO FORMA COMBINED CONSOLIDATED BALANCE SHEET

JUNE 30, 2004

(Dollars in thousands)

| Assets   | Actual <sup>(1)</sup> | Kelley                     | Falcon               | Vista                | The                  | Mason                     | In the                  | One                  | Totals            |                             |
|--|-----------------------|----------------------------|----------------------|----------------------|----------------------|---------------------------|-------------------------|----------------------|-------------------|-----------------------------|
|  |                       | (Cash Road) <sup>(2)</sup> | Rasor <sup>(2)</sup> | House <sup>(2)</sup> | Ridge <sup>(2)</sup> | Collection <sup>(2)</sup> | Goodrich <sup>(2)</sup> | Pines <sup>(2)</sup> |                   | Steeplechase <sup>(2)</sup> |
| Real estate held for investment                    | \$ 1,086,948          | \$                         | \$ (2,380)           | \$ (2,036)           | \$                   | \$ (20,701)               | \$                      | \$ (5,564)           | \$ (8,967)        | \$ 1,047,300                |
| Less accumulated depreciation                      | (180,959)             |                            |                      | 119                  |                      | 3,823                     |                         | 1,234                | 4,117             | (171,666)                   |
|  | 905,989               |                            | (2,380)              | (1,917)              |                      | 16,878                    |                         | (4,330)              | (4,850)           | 875,634                     |
| Real estate held for sale                          | 149,014               | (981)                      |                      |                      | (134)                |                           |                         | (179)                |                   | 147,720                     |
| Notes and interest receivable                      |                       |                            |                      |                      |                      |                           |                         |                      |                   |                             |
| Performing   | 69,875                |                            |                      |                      |                      |                           |                         |                      |                   | 69,875                      |
| Nonperforming                                      | 10,932                |                            |                      |                      |                      |                           |                         |                      |                   | 10,932                      |
|  | 80,807                |                            |                      |                      |                      |                           |                         |                      |                   | 80,807                      |
| Less-allowance for estimated losses                | (4,633)               |                            |                      |                      |                      |                           |                         |                      |                   | (4,633)                     |
|  | 76,174                |                            |                      |                      |                      |                           |                         |                      |                   | 76,174                      |
| Net pizza parlor equipment                         | 6,937                 |                            |                      |                      |                      |                           |                         |                      |                   | 6,937                       |
| Marketable equity securities, at market value      | 5,439                 |                            |                      |                      |                      |                           |                         |                      |                   | 5,439                       |
| Cash and cash equivalents                          | 7,003                 | 1,128                      | 2,600                | 1,178                | 259                  | 350                       | 33                      | 3,518                | 4,041             | 20,110                      |
| Investments in equity investees                    | 4,981                 |                            |                      |                      |                      |                           |                         |                      |                   | 4,981                       |
| Goodwill, net of accumulated amortization          | 11,858                |                            |                      |                      |                      |                           |                         |                      |                   | 11,858                      |
| Other intangibles, net of accumulated amortization | 1,504                 |                            |                      |                      |                      |                           |                         |                      |                   | 1,504                       |
| Other assets                                       | 61,714                | (288)                      | (13)                 | (60)                 |                      | 6,093                     | (8)                     | (1,493)              | (1,864)           | 64,081                      |
| <b>Total Assets</b>                                | <b>\$ 1,230,613</b>   | <b>\$ (141)</b>            | <b>\$ 207</b>        | <b>\$ (799)</b>      | <b>\$ 125</b>        | <b>\$ (10,435)</b>        | <b>\$ (154)</b>         | <b>\$ (2,305)</b>    | <b>\$ (2,673)</b> | <b>\$ 1,214,438</b>         |
| <b>Liabilities and Equity</b>                      |                       |                            |                      |                      |                      |                           |                         |                      |                   |                             |
| Notes and interest payable                         | \$ 889,146            | \$                         | \$ (1,260)           | \$ (1,963)           | \$                   | \$ (13,153)               | \$ (436)                | \$ (5,246)           | \$ (7,682)        | \$ 859,406                  |
| Liabilities related to assets held for sale        | 108,197               | (465)                      |                      |                      |                      |                           |                         |                      |                   | 107,732                     |
| Margin borrowings                                  | 21,509                |                            |                      |                      |                      |                           |                         |                      |                   | 21,509                      |
| Accounts payable and other liabilities             | 85,294                | (2,181)                    | (1,514)              | (43)                 | (6)                  | (149)                     | (16)                    | (197)                | (171)             | 81,017                      |
|  | 1,104,146             | (2,646)                    | (2,774)              | (2,006)              | (6)                  | (13,302)                  | (452)                   | (5,443)              | (7,853)           | 1,069,664                   |
| Minority Interest                                  | 57,310                |                            |                      |                      |                      |                           |                         |                      |                   | 57,310                      |
| Stockholders Equity                                |                       |                            |                      |                      |                      |                           |                         |                      |                   |                             |
| Preferred Stock                                    | 5,251                 |                            |                      |                      |                      |                           |                         |                      |                   | 5,251                       |
| Common Stock                                       | 114                   |                            |                      |                      |                      |                           |                         |                      |                   | 114                         |
| Paid-in capital                                    | 93,164                |                            |                      |                      |                      |                           |                         |                      |                   | 93,164                      |
| Accumulated (deficit)                              | (10,259)              | 2,505                      | 2,981                | 1,207                | 131                  | 2,867                     | 298                     | 3,138                | 5,180             | 8,048                       |

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|  |              |          |        |          |        |             |          |            |            |              |
|--|--------------|----------|--------|----------|--------|-------------|----------|------------|------------|--------------|
| Treasury stock                         | (18,458)     |          |        |          |        |             |          |            |            | (18,458)     |
| Accumulated other comprehensive income | (655)        |          |        |          |        |             |          |            |            | (655)        |
| Total Stockholders Equity              | 69,157       | 2,505    | 2,981  | 1,207    | 131    | 2,867       | 298      | 3,138      | 5,180      | 87,464       |
| Total Liabilities and Equity           | \$ 1,230,613 | \$ (141) | \$ 207 | \$ (799) | \$ 125 | \$ (10,435) | \$ (154) | \$ (2,305) | \$ (2,673) | \$ 1,214,438 |

(1) Includes properties sold prior to June 30, 2004.

(2) Assumes sale by ARI on January 1, 2004

## AMERICAN REALTY INVESTORS, INC.

PRO FORMA COMBINED STATEMENT OF OPERATIONS <sup>(1) (2)</sup>

SIX MONTHS ENDED JUNE 30, 2004

(Dollars in thousands, except per share)

|  | <u>Actual</u>      | <u>Apartments<sup>(3)</sup></u> | <u>Commercial<sup>(4)</sup></u> | <u>Land<sup>(5)</sup></u> | <u>Pro Forma</u>   |
|--|--------------------|---------------------------------|---------------------------------|---------------------------|--------------------|
| <b>Revenue:</b>  |                    |                                 |                                 |                           |                    |
| Rents  | \$ 96,729          | \$ (2,210)                      | \$ (3,555)                      | \$                        | \$ 90,964          |
| Property operations  | 68,835             | (1,517)                         | (1,577)                         | (20)                      | 65,721             |
|  | <u>27,894</u>      | <u>(693)</u>                    | <u>(1,978)</u>                  | <u>20</u>                 | <u>25,243</u>      |
| <b>Land Operations:</b>  |                    |                                 |                                 |                           |                    |
| Sales  | 30,194             |                                 |                                 | 3,433                     | 33,627             |
| Cost of sales  | 21,283             |                                 |                                 | 2,776                     | 24,059             |
| Deferral of gains on current period sales                                  | 5,159              |                                 |                                 |                           | 5,159              |
|  | <u>3,752</u>       |                                 |                                 | <u>657</u>                | <u>4,409</u>       |
| <b>Pizza Parlor Operations:</b>  |                    |                                 |                                 |                           |                    |
| Sales  | 16,992             |                                 |                                 |                           | 16,992             |
| Cost of sales  | 13,137             |                                 |                                 |                           | 13,137             |
|  | <u>3,855</u>       |                                 |                                 |                           | <u>3,855</u>       |
| Income from Operations:  | 35,501             | (693)                           | (1,978)                         | 677                       | 33,507             |
| <b>Other Income:</b>   |                    |                                 |                                 |                           |                    |
| Interest and other   | 2,450              |                                 |                                 |                           | 2,450              |
| Equity in loss of equity investees   | (201)              |                                 |                                 |                           | (201)              |
| Gain on foreign currency transaction                                       | 1,249              |                                 |                                 |                           | 1,249              |
|  | <u>3,498</u>       |                                 |                                 |                           | <u>3,498</u>       |
| <b>Other Expense:</b>  |                    |                                 |                                 |                           |                    |
| Interest   | 37,228             | (554)                           | (1,544)                         | (65)                      | 35,065             |
| Depreciation   | 14,585             | (180)                           | (704)                           |                           | 13,701             |
| Discount on sale of notes receivable                                       | 398                |                                 |                                 |                           | 398                |
| Advisory fees  | 5,228              | (77)                            | (203)                           | (26)                      | 4,922              |
| General and administrative   | 8,892              |                                 |                                 |                           | 8,892              |
| Minority interest  | 1,629              |                                 |                                 |                           | 1,629              |
|  | <u>67,960</u>      | <u>(811)</u>                    | <u>(2,451)</u>                  | <u>(91)</u>               | <u>64,607</u>      |
| Net income (loss) from continuing operations                               | <u>\$ (28,961)</u> | <u>\$ 118</u>                   | <u>\$ 473</u>                   | <u>\$ 768</u>             | <u>\$ (27,602)</u> |
| <b>Basic and Diluted Earnings Per Share:</b>                               |                    |                                 |                                 |                           |                    |
| Net Loss from Continuing Operations  | <u>\$ (2.72)</u>   |                                 |                                 |                           | <u>\$ (2.60)</u>   |
| <b>Weighted Average Common Shares Used in Computing Earnings Per Share</b> |                    |                                 |                                 |                           |                    |
|  | 10,629,307         |                                 |                                 |                           | 10,629,307         |



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- (1) The Pro Forma Combined Statement of Operations assumes that each property was sold by ARI on January 1, 2004.
- (2) Operating results for properties are their actual operating results from January 1 to their respective dates of sale. Rents, property operations, interest expense and depreciation for non-land properties sold prior to August 15, 2004 were already excluded from the actual results of continuing operations in ARI's Report on Form 10-Q for the quarter ended June 30, 2004.
- (3) Includes the Tiberon Trails Apartments sold in March 2004, the Cliffs of El Dorado and Sandstone Apartments sold in May 2004, the Park Avenue Apartments sold in June 2004, the Falcon House Apartments sold in August 2004, and the In the Pines Apartments sold in October 2004.
- (4) Includes Plaza on Bachman, Countryside Retail and Harmon, Brandeis, and Odgen Industrial sold in February 2004; K-Mart, Texstar Warehouse, and the Pinewood Warehouse (Kelly) sold in March 2004; the Atrium sold in May 2004; 4135 Beltline sold in June 2004; the Cash Road Warehouse (Kelly) sold in July 2004; The Collection sold in September 2004; and One Steeplechase sold in October 2004.
- (5) Includes Red Cross sold in January 2004, Mason Goodrich sold in February 2004, Allen and Mason Goodrich sold in March 2004, Rasor sold in August 2004, Vista Ridge sold in September 2004, and Mason Goodrich sold in October 2004.

## AMERICAN REALTY INVESTORS, INC.

PRO FORMA COMBINED STATEMENT OF OPERATIONS <sup>(1) (2)</sup>

YEAR ENDED DECEMBER 31, 2003

(Dollars in thousands, except per share)

|  | <u>Actual</u>  | <u>Apartments<sup>(3)</sup></u> | <u>Commercial<sup>(4)</sup></u> | <u>Land<sup>(5)</sup></u> | <u>Pro Forma</u> |
|--|----------------|---------------------------------|---------------------------------|---------------------------|------------------|
| Property revenue:                            |                |                                 |                                 |                           |                  |
| Rents  | \$ 166,908     | \$ (4,653)                      | \$ (14,534)                     | \$ (11)                   | \$ 147,710       |
| Property operations                          | 116,454        | (2,518)                         | (6,435)                         | (267)                     | 107,234          |
|  | <u>50,454</u>  | <u>(2,135)</u>                  | <u>(8,099)</u>                  | <u>256</u>                | <u>40,476</u>    |
| Land Operations:                             |                |                                 |                                 |                           |                  |
| Sales  | 67,283         |                                 |                                 | 33,626                    | 100,909          |
| Cost of Sales                                | 39,883         |                                 |                                 | 24,358                    | 64,241           |
| Deferred Gain on Sale                        | 3,493          |                                 |                                 | 5,159                     | 8,652            |
| Recognition of previously deferred gains     | 19,924         |                                 |                                 |                           | 19,924           |
|  | <u>43,831</u>  |                                 |                                 | <u>4,109</u>              | <u>47,940</u>    |
| Pizza Parlor Operations:                     |                |                                 |                                 |                           |                  |
| Sales  | 33,057         |                                 |                                 |                           | 33,057           |
| Cost of sales                                | 26,051         |                                 |                                 |                           | 26,051           |
|  | <u>7,006</u>   |                                 |                                 |                           | <u>7,006</u>     |
| Income from Operations:                      | 101,291        | (2,135)                         | (8,099)                         | 4,365                     | 95,422           |
| Other income:                                |                |                                 |                                 |                           |                  |
| Interest and other                           | 24,640         |                                 |                                 |                           | 24,640           |
| Equity in loss of equity investees           | (4,441)        |                                 |                                 |                           | (4,441)          |
|  | <u>20,199</u>  |                                 |                                 |                           | <u>20,199</u>    |
| Other expense:                               |                |                                 |                                 |                           |                  |
| Interest                                     | 71,008         | (1,869)                         | (3,597)                         | (1,553)                   | 63,989           |
| Depreciation                                 | 25,848         | (534)                           | (2,331)                         |                           | 22,983           |
| Discount on sale of note receivable          | 2,220          |                                 |                                 |                           | 2,220            |
| General & administrative                     | 22,124         |                                 |                                 |                           | 22,124           |
| Advisory fee to affiliates                   | 9,345          | (312)                           | (629)                           | (176)                     | 8,228            |
| Litigation settlement                        | 15             |                                 |                                 |                           | 15               |
| Writedown of assets held for sale            | 19,892         |                                 |                                 |                           | 19,892           |
| Loss on foreign currency translation         | 3,309          |                                 |                                 |                           | 3,309            |
| Minority interest                            | 347            |                                 | 1,064                           |                           | 1,411            |
|  | <u>154,108</u> | <u>(2,715)</u>                  | <u>(5,493)</u>                  | <u>(1,729)</u>            | <u>144,171</u>   |
| Net income (loss) from continuing operations | \$ (32,618)    | \$ 580                          | \$ (2,606)                      | \$ 6,094                  | \$ (28,550)      |

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|   | <u>                    </u> | <u>                    </u> | <u>                    </u> | <u>                    </u> | <u>                    </u> |
|---|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| <b>Basic and Diluted Earnings Per Share:</b>            |                             |                             |                             |                             |                             |
| Net Loss from Continuing Operations                     | \$                          | (3.02)                      |                             | \$                          | (2.65)                      |
|   | <u>                    </u> |                             |                             | <u>                    </u> |                             |
| <b>Weighted Average Common Shares Used in Computing</b> |                             |                             |                             |                             |                             |
| Earnings Per Share                                      |                             | 10,789,352                  |                             |                             | 10,789,352                  |
|   |                             | <u>                    </u> |                             |                             | <u>                    </u> |

The accompanying footnotes are an integral part of this Pro Forma Combined Statement of Operations

AMERICAN REALTY INVESTORS, INC.

NOTES TO PRO FORMA COMBINED STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2003

- (1) The Pro Forma Combined Statement of Operations assumes that each property was sold by ARI on January 1, 2003.
- (2) Operating results for properties are their actual operating results for 2003. Rents, property operations, interest expense and depreciation for non-land properties sold prior to April 1, 2004 were already excluded from the actual results of continuing operations in ARI's Annual Report on Form 10-K for the year ended December 31, 2003.
- (3) Includes the Tiberon Trails Apartments sold in March 2004, the Cliffs of El Dorado and Sandstone Apartments sold in May 2004, the Park Avenue Apartments sold in June 2004, the Falcon House Apartments sold in August 2004, and the In the Pines Apartments sold in October 2004.
- (4) Includes Plaza on Bachman, Countryside Retail and Harmon, Brandeis, and Odgen Industrial sold in February 2004; K-Mart, Texstar Warehouse, and the Pinewood Warehouse (Kelly) sold in March 2004; the Atrium sold in May 2004; 4135 Beltline sold in June 2004; the Cash Road Warehouse (Kelly) sold in July 2004; The Collection sold in September 2004; and One Steeplechase sold in October 2004.
- (5) Includes Red Cross sold in January 2004, Mason Goodrich sold in February 2004, Allen and Mason Goodrich sold in March 2004, Rasor sold in August 2004, Vista Ridge sold in September 2004, and Mason Goodrich sold in October 2004.

SIGNATURES

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

AMERICAN REALTY INVESTORS, INC.

Date: October 25, 2004

By: /s/ J. C. Lowenberg III  
J. C. Lowenberg III  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer and Acting Principal  
Executive Officer)

Date: October 25, 2004

By: /s/ Scott T. Lewis  
Scott T. Lewis  
Vice President and Chief Accounting Officer