

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

AMERICAN REALTY INVESTORS INC
Form S-4/A
July 31, 2002

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON JULY 31, 2002
REGISTRATION NO. 333-83292

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

FORM S-4/A

AMENDMENT NO. 3

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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

NEVADA	6510	75-2847135
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

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

ROBERT A. WALDMAN
1800 VALLEY VIEW LANE, SUITE 300
DALLAS, TEXAS 75234
(469) 522-4200
(469) 522-4360 (FAX)

(NAME, ADDRESS, INCLUDING ZIP CODE, AND TELEPHONE NUMBER, INCLUDING AREA CODE,
OF AGENT FOR SERVICE)

WITH COPIES TO:

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

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

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

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

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.....[]

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

CALCULATION OF REGISTRATION FEE

TITLE OF EACH CLASS OF SECURITIES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM OFFERING PRICE PER UNIT	PROP AGGRE
10% Series G Cumulative Redeemable Convertible preferred stock, par value \$2.00 per share	4,025,344(1)	Not applicable	\$128,
Common stock, par value \$0.01 per share	10,070,618(4)	Not applicable	
10% Series H Cumulative Redeemable Convertible preferred stock, par value \$2.00 per share	683,282(7)	Not applicable	\$24,8
Common stock, par value \$0.01 per share	1,538,734(10)	Not applicable	
Total:			\$152

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

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

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

(3) Computed in accordance with Rule 457(f) under the Securities Act to be \$11,792.07, which is equal to 0.000092 multiplied by the proposed maximum offering price of \$128,174,675.67. \$11,786.96 has been previously paid.

(4) Represents the maximum number of shares of common stock of ARL estimated to be issued upon conversion of the shares of Series G redeemable convertible

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

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

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

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

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

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

(9) Previously paid.

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

THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES, AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED JULY 31, 2002.

AMERICAN REALTY
INVESTORS, INC.

TRANSCONTINENTAL REALTY
INVESTORS, INC.

INCOME OPPORTUNITY REALTY
INVESTORS, INC.

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

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

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

things, obtain the required approval of the ARL, TCI and IOT stockholders.

When the mergers are completed, holders of TCI's and IOT's common stock (other than ARL and its affiliates) will receive \$17.50 and \$19.00, respectively, in cash less any dividends declared and paid on the TCI common stock after January 2, 2002 or, if they affirmatively elect, one share of newly issued ARL Series G or Series H redeemable convertible preferred stock for each share of TCI or IOT common stock they currently own, respectively. Each share of TCI and IOT common stock held by certain affiliates of ARL will be converted into one share of the Series G or Series H redeemable convertible preferred stock, respectively, and shares held by ARL and its subsidiaries will be cancelled. The cash prices to be received by TCI and IOT stockholders are less than the calculated book values per common share at March 31, 2002, which were \$26.78 and \$28.00, respectively. See "Comparative per Share Information."

During a 75 day period commencing on the 15th day after ARL publicly files its first Form 10-Q with the Securities and Exchange Commission following the consummation of the TCI merger and/or the IOT merger, the Series G and the Series H redeemable convertible preferred stock may be converted at the option of the holder into 2.5 and 2.25 shares of ARL common stock, respectively. Beginning 45 days after ARL files its first Form 10-Q following the consummation of the TCI and/or IOT mergers, ARL may provide notice of and thereafter redeem the Series G and Series H redeemable convertible preferred stock upon payment of the liquidation value of \$20.00 and \$21.50 per share, respectively. By electing to receive Series H redeemable convertible preferred stock, stockholders of IOT will no longer be stockholders in a Real Estate Investment Trust, or REIT, but will become stockholders in a taxable corporation and, therefore, will not receive 95% of ARL's income in the form of dividends as they did for IOT.

At March 31, 2002, the total value of TCI assets and liabilities was \$720,198,000 and \$498,160,000, respectively. No goodwill is acquired or generated through the business combination. Likewise, the total value of IOT assets and liabilities was \$91,833,000 and \$35,222,000, respectively and no goodwill is acquired or generated through the business combination. The unaudited pro forma net earnings per share of the ARL common stock at December 31, 2001 was \$1.12, which is less than the historical net earnings per share of \$2.32 of the TCI common stock and more than the loss per share of (\$2.32) of the IOT common stock. This differential in pro forma net income per share was not considered by the TCI and IOT board of directors, nor was it available at the time the boards were considering the business combination.

The Series G and H redeemable convertible preferred stock have limited voting rights and, except as otherwise provided by law, may vote (i) only with respect to an amendment to ARL's restated articles of incorporation or bylaws that would materially alter the existing terms of such class of preferred stock and (ii) at any time or times for the election of two directors when all or any portion of the dividends on such class for any six quarterly dividends, whether or not consecutive, shall be in arrears and unpaid.

1,165,699 shares of the Series G redeemable convertible preferred stock and 106,802 shares of the Series H redeemable convertible preferred stock will be issued to affiliates of ARL. In the event that each stockholder of TCI and IOT, other than persons or entities affiliated with ARL, elects to receive shares of the Series G redeemable convertible preferred stock or the Series H redeemable convertible preferred stock, respectively, persons not affiliated with ARL will hold approximately 2,859,645 shares of Series G redeemable convertible preferred stock and 576,480 shares of Series H redeemable

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

convertible preferred stock, representing approximately 71% and 84.4% of all issued and outstanding shares of the Series G redeemable convertible preferred stock and the Series H redeemable convertible preferred stock, respectively. In the event all stockholders of TCI and IOT elect to receive cash in exchange for their shares of TCI and IOT common stock (other than affiliates of ARL who must take preferred stock) the maximum cash consideration payable in the aggregate to the TCI and IOT stockholders would be \$50,043,787 and \$10,953,120, respectively.

The shares of common stock of ARL and TCI are traded on the New York Stock Exchange under the symbols "ARL" and "TCI", respectively. The shares of common stock of IOT are traded on the American Stock Exchange under the symbol "IOT". On _____, 2002, the average of the high and low price for the common stock of ARL, TCI and IOT was \$_____, \$_____ and \$_____, respectively.

SEE THE SECTION ENTITLED "RISK FACTORS" BEGINNING ON PAGE 28 FOR A DISCUSSION OF CERTAIN FACTORS YOU SHOULD CONSIDER WHEN DECIDING HOW TO VOTE.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED THE PREFERRED STOCK OR COMMON STOCK TO BE ISSUED UNDER THIS JOINT PROXY STATEMENT AND PROSPECTUS; HAS APPROVED OR DISAPPROVED OF THE TRANSACTIONS UNDER THIS JOINT PROXY STATEMENT AND PROSPECTUS; PASSED UPON THE MERITS OR FAIRNESS OF THE TRANSACTION; DETERMINED IF THIS JOINT PROXY STATEMENT AND PROSPECTUS IS TRUTHFUL OR INCOMPLETE; OR PASSED UPON THE ADEQUACY OR ACCURACY OF THE DISCLOSURE IN THIS JOINT PROXY STATEMENT AND PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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

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

To Our Stockholders:

You are invited to attend the special meeting of stockholders of American Realty Investors, Inc. ("ARL"). The meeting will be held at 1800 Valley View Lane, Suite 300, Dallas, Texas 75234 on _____, 2002 at 2:00 p.m. local time. At the special meeting, ARL's stockholders will be asked to consider and vote upon:

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

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

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

Only holders of record of ARL's common stock at the close of business on June 4, 2002, the record date, are entitled to notice of, and to vote at, the special meeting and any adjournments or postponements thereof. None of the stockholders are entitled to dissenters' or appraisal rights in connection with the mergers.

Your vote is important. Whether or not you plan to attend the special meeting, please complete, sign and date the accompanying proxy card and return it in the enclosed prepaid envelope. You may also submit a proxy by telephone by calling 1-800-PROXIES or over the Internet by accessing www.voteproxy.com. For stockholders who wish to vote telephonically, after entering your control number, you will hear the name of the company and will be offered the option to vote for all of the recommendations or to vote on each proposal individually. Proposals are referred to by proposal number (as shown on the proxy card). For stockholders who vote via the Internet, after entering your control number, you will be offered the option to vote for all of the recommendations or to vote on each proposal individually. The text of each proposal is displayed exactly as it appears on the proxy card. After the voting process is completed, you will be shown how you have voted and given the opportunity to change your vote. Prior to ending the session, you will be asked if you wish to vote on another proxy. If yes, the process will be repeated for the next control number entered.

If you attend the special meeting, you may revoke your proxy and vote in person if you wish to do so. However, if you hold your shares in a brokerage account, you cannot vote in person at the special meeting. If you have instructed your broker to vote your shares, you must follow your broker's instructions regarding how to change your vote.

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

/s/ Robert A. Waldman

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

Dallas, Texas
_____, 2002

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

To Our Stockholders:

You are invited to attend the special meeting of stockholders of Transcontinental Realty Investors, Inc. ("TCI"). The meeting will be held at 1800 Valley View Lane, Suite 300, Dallas, Texas 75234 on _____, 2002 at 3:00 p.m. local time. At the special meeting, TCI's stockholders will be asked to consider and vote upon:

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

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

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

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

Only holders of record of TCI's common stock at the close of business on June 4, 2002, the record date, are entitled to notice of, and to vote at, the special meeting and any adjournments or postponements thereof. None of the stockholders are entitled to dissenters' or appraisal rights in connection with the merger.

Your vote is important. Whether or not you plan to attend the special meeting, please complete, sign and date the accompanying proxy card and return it in the enclosed prepaid envelope. You may also submit a proxy by telephone by calling 1-800-PROXIES or over the Internet by accessing www.voteproxy.com. For stockholders who wish to vote telephonically, after entering your control number, you will hear the name of the company and will be offered the option to vote for all of the recommendations or to vote on each proposal individually. Proposals are referred to by proposal number (as shown on the proxy card). For stockholders who vote via the Internet, after entering your control number, you will be offered the option to vote for all of the recommendations or to vote on each proposal individually. The text of each proposal is displayed exactly as it appears on the proxy card. After the voting process is completed, you will be shown how you have voted and given the opportunity to change your vote. Prior to ending the session, you will be asked if you wish to vote on another proxy. If yes, the process will be repeated for the next control number entered.

If you attend the special meeting, you may revoke your proxy and vote in person if you wish to do so. However, if you hold your shares in a brokerage account, you cannot vote in person at the special meeting. If you have instructed your broker to vote your shares, you must follow your broker's instructions regarding how to change your vote.

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

/s/ Robert A. Waldman

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

Dallas, Texas
_____, 2002

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS OF
INCOME OPPORTUNITY REALTY INVESTORS, INC.
TO BE HELD _____, 2002 AT 4:00 P.M.

To Our Stockholders:

You are invited to attend the special meeting of stockholders of Income Opportunity Realty Investors, Inc. ("IOT"). The meeting will be held at 1800 Valley View Lane, Suite 300, Dallas, Texas 75234 on _____, 2002 at 4:00 p.m. local time. At the special meeting, IOT's stockholders will be asked to consider and vote upon:

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

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

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

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

Only holders of record of IOT's common stock at the close of business on June 4, 2002, the record date, are entitled to notice of, and to vote at, the special meeting and any adjournments or postponements thereof. None of the stockholders are entitled to dissenters' or appraisal rights in connection with the merger.

Your vote is important. Whether or not you plan to attend the special meeting, please complete, sign and date the accompanying proxy card and return it in the enclosed prepaid envelope. You may also submit a proxy by telephone by calling 1-800-PROXIES or over the Internet by accessing www.voteproxy.com. For stockholders who wish to vote telephonically, after entering your control number, you will hear the name of the company and will be offered the option to vote for all of the recommendations or to vote on each proposal individually. Proposals are referred to by proposal number (as shown on the proxy card). For stockholders who vote via the Internet, after entering your control number, you will be offered the option to vote for all of the recommendations or to vote on each proposal individually. The text of each proposal is displayed exactly as it appears on the proxy card. After the voting process is completed, you will be shown how you have voted and given the opportunity to change your vote. Prior to ending the session, you will be asked if you wish to vote on another proxy. If yes, the process will be repeated for the next control number entered.

If you attend the special meeting, you may revoke your proxy and vote in person if you wish to do so. However, if you hold your shares in a brokerage account, you cannot vote in person at the special meeting. If you have instructed your broker to vote your shares, you must follow your broker's instructions regarding how to change your vote.

By Order of the Board of Directors of
INCOME OPPORTUNITY REALTY INVESTORS, INC.

/s/ Robert A. Waldman

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

Dallas, Texas
_____, 2002

TABLE OF CONTENTS

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

Summary.....
Forward Looking Statements.....
Risk Factors.....
The Special Meetings.....
Special Factors.....
Interests of Directors and Officers of ARL, TCI and IOT in the Business Combination.....
The Plans of Merger.....
Comparison of Ownership of Shares.....
The Advisor - BCM.....
Certain Relationships and Related Transactions of BCM, ARL, TCI and IOT.....
Certain Information Regarding TCI Common Stock and IOT Common Stock.....
Information About ARL.....
 Business of ARL.....
 Properties of ARL.....
 Legal Proceedings.....
 Selected Financial Data of ARL.....
 Management's Discussion and Analysis of Financial Condition and Results of Operations of ARL..
 Quantitative and Qualitative Disclosures about Market Risks of ARL.....
 Management of ARL.....
 Directors and Executive Officers.....
 Security Ownership of Certain Beneficial Owners and Management of ARL.....
 Description of the Capital Stock of ARL.....
Information About TCI.....
 Business of TCI.....
 Properties of TCI.....
 Legal Proceedings.....
 Selected Financial Data of TCI.....
 Management's Discussion and Analysis of Financial Condition and Results of Operations of TCI..
 Quantitative and Qualitative Disclosures Regarding Market Risk of TCI.....
 Management of TCI.....
 Directors and Executive Officers of TCI.....
 Executive Compensation of TCI.....
 Security Ownership of Certain Beneficial Owners and Management of TCI.....
Information About IOT.....
 Business of IOT.....
 Properties of IOT.....
 Legal Proceedings of IOT.....
 Selected Financial Data of IOT.....
 Management's Discussion and Analysis of Financial Condition and Results of Operations of IOT..
 Quantitative and Qualitative Disclosures Regarding Market Risk of IOT.....

 Management of IOT.....
 Directors and Executive Officers.....
 Executive Compensation.....
 Security Ownership of Certain Beneficial Owners and Management of IOT.....
Securityholder Proposals.....
Legal Matters.....
Experts.....
Where You Can Find More Information.....
Glossary of Terms.....

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

Pro Forma Financial Statements.....	
Financial Statements:.....	
Appendices:	
Agreement and Plan of Merger (TCI Merger).....	
Agreement and Plan of Merger (IOT Merger).....	
Certificate of Designation of the Series G redeemable convertible preferred stock	
Certificate of Designation of the Series H redeemable convertible preferred stock	
Houlihan Lokey Howard & Zukin Financial Advisors, Inc. Fairness Opinion Concerning TCI.....	
Houlihan Lokey Howard & Zukin Financial Advisors, Inc. Fairness Opinion Concerning IOT.....	

ii

JOINT PROXY STATEMENT AND PROSPECTUS

This joint proxy statement and prospectus is being used to solicit votes with respect to stockholder meetings for each of American Realty Investors, Inc., Transcontinental Realty Investors, Inc. and Income Opportunity Realty Investors, Inc. called to approve a proposed business combination of those companies. This joint proxy statement and prospectus is also being used to register the shares of ARL Series G and H redeemable convertible preferred stock and the ARL common stock underlying those shares. "We", "us" and "our" as used in this joint proxy statement and prospectus means American Realty Investors, Inc., Transcontinental Realty Investors, Inc. and Income Opportunity Realty Investors, Inc. as the context requires.

SUMMARY

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

OVERVIEW

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

THE PARTIES

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

AMERICAN REALTY INVESTORS, INC. ("ARL") is a publicly traded Nevada corporation engaged primarily in the business of owning and operating a portfolio of real estate and financing real estate and real estate activities through investments in mortgage loans. ARL holds a diverse portfolio of equity real estate located across the United States, including office buildings, apartments, hotels, shopping centers and

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

developed and undeveloped land. The day-to-day operations of ARL are managed by Basic Capital Management, Inc. ("BCM"), a contractual advisor, under the supervision of ARL's board of directors.

TRANSCONTINENTAL REALTY INVESTORS, INC. ("TCI") is a publicly traded Nevada corporation engaged primarily in the business of owning and operating a portfolio of real estate and financing real estate and real estate activities through investments in mortgage loans similar to ARL. The day-to-day operations of TCI are performed by BCM, a contractual advisor, under the supervision of TCI's board of directors. As of the third quarter of 2000, TCI no longer met the requirements for tax treatment as a real estate investment trust, or REIT, and cannot qualify for REIT status for at least five years.

1

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

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

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

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

ARL	TCI	
Out of 11,375,127 shares of ARL common stock outstanding as of July 16, 2002:	Out of 8,072,594 shares of TCI common stock outstanding as of July 16, 2002:	Out of 1,438,940 shares of IOT common stock outstanding as of July 16, 2002:
- BCM owns 6,629,744 (58.3%)	- ARL indirectly owns 3,994,300 (49.5%)	- ARL indirectly owns 1,000,000 (69.6%)
- TCI owns 746,972 (6.6%)	- BCM owns 1,166,947 (14.5%)	- BCM owns 200,000 (13.9%)
- Non-affiliates own 2,299,150 (20.2%)	- Non-affiliates own 2,859,645 (35.4%)	- TCI owns 200,000 (13.9%)
		- Non-affiliates own 238,940 (16.6%)

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

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

THE OLIVE SETTLEMENT

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

2

TCI and IOT are parties to a 1990 settlement of litigation known as the Olive Settlement. The Olive Settlement is a settlement of a federal class and derivative action lawsuit commenced in 1989. The action alleged that the boards of directors of TCI and IOT had breached the governing documents of the companies in 1989 by appointing a new advisor for the companies. It also alleged a breach of trust and a breach of fiduciary duty owed by the board members to each company by retaining BCM as the advisor to each company without stockholder approval. The lawsuit sought the removal of the board members and the appointment of an interim receiver pending the election of a new board. A Stipulation of Settlement was entered into in February 1990. The 1990 Stipulation of Settlement required (i) cash distributions to be made to stockholders over the next twelve months, (ii) the addition of three new independent board members to the board of each company; and (iii) the establishment of special board committees to review certain related party transactions. The original settlement was modified in 1995 and the modification was amended in 1997. Periodically, since 1990, designated Settlement Counsel, George Donaldson, has challenged the compliance of the parties under the Olive Settlement, the modification and the amendment and has unsuccessfully sought to remove BCM from its advisory position to TCI, IOT and other entities. Settlement Counsel also sought to, from time to time, remove some or all of the directors of TCI, IOT and other entities.

The most recent disputes arise from Settlement Counsel's allegations that the boards of TCI and IOT had breached the modification to the Stipulation of Settlement. In 1999, Settlement Counsel alleged that the boards had failed to comply with the requirement that a management/compensation consultant be engaged to review the contracts with BCM and its affiliates. In July 2000, Settlement Counsel alleged that the board of TCI had breached a settlement provision by authorizing TCI to make a \$3 million loan to BCM and a \$9 million loan to ART. In October 2000, Settlement Counsel alleged that the board of IOT had breached a settlement provision by authorizing IOT to enter into a stock option agreement to purchase shares of TCI from a third party. Settlement Counsel requested that the TCI and IOT advisory contracts with BCM be terminated, that the board members be removed and that a receiver be appointed to operate TCI and IOT.

The boards of directors of TCI and IOT denied the allegations and believe there has been no breach of any of the settlement provisions. Although there have been several status conferences concerning these matters, there has been no court order or action resolving or affirming the allegations of breaches of the settlement.

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

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

To that end, after arm's length negotiations, TCI, IOT and ARL, as the parent corporation of ART, entered into the Second Amendment to the Modification of Stipulation of Settlement

3

(the "Settlement Agreement"), dated October 17, 2001. Following notice to all stockholders of TCI and IOT, the Settlement Agreement obtained final approval of the Court on February 12, 2002. The Settlement Agreement provides that if the stockholders so approve, TCI and IOT will become subsidiaries of ARL through the mechanism of freeze-out mergers. As part of the mergers, stockholders (other than Mr. Phillips, BCM, ARL and ART (collectively the "Affiliated Entities") or their affiliates) are to receive \$19 per share in cash for IOT common stock or \$17.50 per share in cash for TCI common stock, which amounts shall be reduced by any dividends paid after January 2, 2002 on the TCI or IOT common stock, respectively. In the mergers, the stockholders of TCI and IOT not affiliated with the Affiliated Entities have the opportunity (but no obligation) to affirmatively elect to receive shares of preferred stock of ARL having a liquidation value of \$21.50 per share in exchange for IOT common stock or \$20 per share in exchange for TCI common stock, which amounts shall be reduced by any dividends paid after January 2, 2002 on the TCI or IOT common stock, respectively. In the mergers, the Affiliated Entities will receive shares of the ARL preferred stock for the shares of common stock of TCI and IOT held by them, provided, however, that shares of TCI and IOT common stock held by ARL and its subsidiaries will be cancelled. The purchase prices and liquidation values have been established under the Settlement Agreement. The cash consideration to be paid to the nonaffiliated TCI and IOT stockholders is to be guaranteed by and becomes an obligation of the Affiliated Entities. The mergers are to occur only after the satisfaction of certain conditions, including the approval of each merger by a majority of the shares held by the nonaffiliated TCI and IOT stockholders, as applicable, who vote by in person or by proxy at meetings of stockholders called for that purpose. The ARL board of directors has determined that it will not enter into the TCI and IOT mergers until, in each case, sufficient cash is available to ARL, either from its own resources or from TCI or IOT immediately after the mergers, to pay the cash merger consideration due as a result of the mergers.

In order to proceed with the mergers under the Settlement Agreement, the Affiliated Entities have been required to perform certain matters which are described in this joint proxy statement and prospectus, including filing of materials with the Securities and Exchange Commission ("SEC") and completion of that process prior to March 31, 2002. The other requirements were:

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

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

damages.

If the SEC review process of this joint proxy statement and prospectus was not completed by March 31, 2002, unless extended by the consent of Settlement Counsel, the Affiliated Entities would be in default under the Settlement Agreement and liable for liquidated damages equal to \$5 for each share of TCI and IOT common stock. The Affiliated Entities may cure that default by filing tender offers for all of the shares of IOT and TCI stock held by nonaffiliated stockholders, with respect to the cash option, at a cash price equal to or better than the amount specified under the mergers (\$19 per share for IOT common stock, and \$17.50 per share for TCI common stock). If the tender offers are substantially completed within 120 days following the

4

making of such tender offers, the Affiliated Entities will be deemed to have fully complied with the Settlement Agreement.

Although the SEC review process was not completed by March 31, 2002, ARL has requested an extension of that date from Settlement Counsel in order to allow additional time to complete the comment process on the joint proxy statement and prospectus. Although Settlement Counsel has not provided a written agreement to extend that date at this time, he has not refused to do so and has not alleged a default. ARL believes that there will be no problem with the extension as long as a good faith effort is made to complete this process as soon as possible.

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

5

QUESTIONS AND ANSWERS ABOUT THE BUSINESS COMBINATION

1.Q: WHAT IS BEING PROPOSED? (SEE PAGES 54 AND 99)

A: Two separate mergers are being proposed as the result of the Settlement Agreement. In each merger, a newly formed subsidiary of ARL would be merged with and into TCI or IOT, as the case may be, and TCI and IOT would become a subsidiary of ARL. The two mergers are not dependent upon each other, and if the stockholders of one company do not approve their merger, only the approved merger may be consummated.

2.Q: WHAT WILL I RECEIVE IN THE MERGER? (SEE PAGES 39 TO 41, 62-63 AND 99 TO 100)

A: Each share of TCI and IOT common stock will be converted into \$17.50 and \$19.00 in cash, respectively, (less the amount of any dividends paid after

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

January 2, 2002) or, at the affirmative election of the TCI or IOT stockholder, one share of ARL 10% Series G cumulative convertible preferred stock (the "Series G redeemable convertible preferred stock") or one share of the ARL 10% Series H cumulative convertible preferred stock (the "Series H redeemable convertible preferred stock"), respectively. Outstanding shares of TCI and IOT common stock held by ARL or its subsidiaries will be cancelled and shares of TCI and IOT common stock held by BCM and other affiliates of ARL will be exchanged for shares of Series G and Series H redeemable convertible preferred stock, respectively. If all of the holders of the TCI and IOT common stock other than BCM and other affiliates of ARL elect to convert their shares of TCI common stock to Series G redeemable convertible preferred stock, they will own approximately 71% of the issued and outstanding shares of the Series G redeemable convertible preferred stock. BCM and other affiliates of ARL would own the remaining shares of Series G redeemable convertible preferred stock. If all of the holders of IOT common stock other than BCM and other affiliates of ARL elect to convert their shares to Series H redeemable convertible preferred stock, they would own approximately 84.4% of the issued and outstanding shares of the Series H redeemable convertible preferred stock. BCM and other affiliates of ARL would own the remaining shares of Series H redeemable convertible preferred stock.

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

The cash price per share to be paid by ARL was determined in connection with the settlement of a derivative lawsuit, the Olive Litigation, which has been approved by a federal court. The cash prices were negotiated between and agreed to by ARL and by George Donaldson, the Settlement Counsel representing the interests of the nonaffiliated stockholders of TCI and IOT. In the course of considering and negotiating the terms of settlement, Settlement Counsel considered the net asset values of TCI and IOT, the book value of TCI and IOT on a per share basis and the historical trading prices of the common stock of TCI and IOT. The cash prices to be received by TCI and IOT stockholders are less than the calculated book value per common share at March 31, 2002, which were \$26.78 and \$28.00, respectively. See "Comparative per Share Information." The exchange ratio of one share of ARL preferred stock

6

for each one share of TCI or IOT common stock was determined in connection with the settlement of the Olive Litigation. The liquidation value for each series of ARL preferred stock also was determined in the litigation settlement. The liquidation value of each series of ARL preferred stock was set at an amount higher than the respective cash prices being offered for each TCI or IOT share which will provide a stockholder with a higher cash return upon redemption of the ARL preferred stock.

The conversion ratio for converting the Series G and Series H redeemable convertible preferred stock into ARL common stock was determined by and between ARL and Houlihan Lokey, the independent investment advisor to TCI and IOT, who has opined that the proposed transaction is fair from a financial point of view to the nonaffiliated stockholders of TCI and IOT.

3.Q: WHAT ARE THE MATERIAL TERMS OF THE TCI MERGER AND THE IOT MERGER? (SEE

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

PAGES 99 TO 102)

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

Although the ARL, TCI and IOT boards of directors have approved the terms of the merger agreements, the merger agreements will not be executed until after the stockholders approve the mergers and other conditions precedent thereto are met. Additionally, ARL has determined not to enter into the merger agreements unless it has sufficient cash available to it to pay the cash merger consideration.

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

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

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

- mutual written consent
- the merger is prohibited by law or a court order

7

- the other party materially breaches any representation, covenant or agreement in the merger agreement and the breach has not been remedied within twenty days after written notice
- by the other party if the other board of directors withdraws or modifies its approval or recommendation of the merger agreement in any manner materially adverse to the other party

4.Q: WHAT ARE THE TERMS OF THE SERIES G AND SERIES H REDEEMABLE CONVERTIBLE PREFERRED STOCK? (SEE PAGES 209 TO 212)

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

A: The Series G and Series H preferred shares are both convertible and redeemable. During a 75 day period commencing on the 15th day after ARL publicly files its first Form 10-Q with the SEC following the consummation of the TCI merger and the IOT merger, the Series G and Series H redeemable convertible preferred stock may be converted at the option of the holder into 2.5 and 2.25 shares of ARL common stock, respectively. Beginning 45 days after ARL files its first Form 10-Q following the consummation of the TCI and/or IOT mergers, ARL may provide notice of and thereafter redeem the Series G and Series H redeemable convertible preferred stock upon payment of the liquidation value of \$20.00 and \$21.50 per share, respectively. ARL may redeem any or all of the Series G and Series H redeemable convertible preferred stock upon payment of the liquidation value plus all accrued and unpaid dividends by giving the holder thereof not less than 45 days nor more than 60 days notice thereof prior to the date on which ARL desires such shares redeemed. The Series G and Series H redeemable convertible preferred stock receive a liquidation preference of \$20.00 and \$21.50, respectively, less dividends declared and paid after January 2, 2002 upon any liquidation, dissolution or winding up of ARL before any distribution or payment to the ARL common stock holders. No such preference is available for the TCI or IOT common stock.

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

8

In addition to the conversion and redemption features and the voting rights set forth above, there are other differences between the Series G and H redeemable convertible preferred stock and the TCI common stock and IOT common stock, respectively. For a description of additional differences see "Comparison of Ownership of Shares."

Each share of Series G redeemable convertible preferred stock has a cumulative dividend per share of 10.00% per annum of the \$20.00 liquidation preference, payable quarterly in equal installments of \$0.5, if and when declared by the board and to the extent permitted under the Nevada Revised Statutes. Dividends on the Series G redeemable convertible preferred stock are

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

in preference to and with priority over dividends upon the ARL common stock. The Series G redeemable convertible preferred stock ranks on a parity as to dividends and upon liquidation, dissolution or winding up with all other shares of ARL preferred stock.

Each share of Series H redeemable convertible preferred stock has a cumulative dividend per share of 10.00% per annum of the \$21.50 liquidation preference, payable quarterly in equal installments of \$0.5375, if and when declared by the board and to the extent permitted under the Nevada Revised Statutes. Dividends on the Series H redeemable convertible preferred stock are in preference to and with priority over dividends upon the ARL common stock. The Series H redeemable convertible preferred stock ranks on a parity as to dividends and upon liquidation, dissolution or winding up with all other shares of ARL preferred stock.

The full text of the description of the Series G and Series H redeemable convertible preferred stock is set forth in Appendix C and D, respectively.

5.Q: WHAT IS THE INTENDED ACCOUNTING TREATMENT OF THE TCI MERGER AND IOT MERGER? (SEE PAGE 102)

A: ARL will account for the mergers under the purchase method of accounting. At March 31, 2001, the total value of TCI assets and liabilities was \$720,198,000 and \$498,160,000, respectively. No goodwill is acquired or generated through the business combination. Likewise, the total value of IOT assets and liabilities was \$91,833,000 and \$35,222,000, respectively and no goodwill is acquired or generated through the business combination.

6.Q: WILL I RECOGNIZE INCOME TAX GAIN OR LOSS IN THE TCI MERGER OR IOT MERGER? (SEE PAGES 95 TO 97)

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

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

merger and (ii) their tax basis in their shares of TCI common stock or IOT common stock, as the case may be. The mergers will not be a taxable event to the ARL stockholders. Each stockholder receiving preferred stock in the mergers will be responsible for reporting the fair market value of the shares on its tax return. Assuming that the preferred stock is not listed on the NYSE or another exchange at the date of the closing of the mergers, it is unlikely that a stockholder receiving preferred stock could establish that the fair market value

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

of the shares was less than the cash that the stockholder could have received. We will not obtain an opinion as to the fair market value of the shares at the date of closing.

We urge you to carefully read the complete explanation of the tax consequences of the mergers beginning on page 95.

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

7.Q: ARE THERE RISKS INVOLVED IN THE MERGERS? (SEE PAGES 37 TO 47)

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

RISKS RELATED TO THE MERGERS

- Substantial amounts of cash are required for the mergers. If ARL, TCI and IOT are not able to raise the cash anticipated through the sale of real estate, obtaining new loans or other forms of financing, the mergers may be delayed or abandoned and the ongoing combined business of ARL, TCI and IOT may be adversely affected.
- Substantial property sales or loans are necessary to complete the mergers. ARL, TCI and IOT may not receive the best possible prices for their properties and may have to incur higher expenses than would otherwise be incurred. Real estate assets are not readily saleable. The consummation of the sales anticipated by ARL, TCI and IOT will be subject to a number of contingencies outside of their control.
- Lender consents may be necessary to complete the mergers. To the extent that ARL, TCI and IOT are unable to get any necessary lender consents, or to the extent that they have disagreements with their lenders regarding the mergers, the businesses of ARL, TCI and IOT may be adversely affected and the mergers may be delayed or abandoned.
- The mergers are separate transactions. If one of these companies does not approve the merger, ARL may be adversely affected and may not have sufficient cash to consummate the other merger. If the stockholders of either TCI or IOT do not approve the merger, but the stockholders of the other do, the merger of ARL and the other company may be delayed or abandoned.

- In the Settlement Agreement, it was agreed that if the stockholders of TCI or IOT did not approve the mergers, ARL can make a tender offer for the shares of the common

10

stock of the company or companies that did not approve the merger. Making a tender offer for the shares of TCI or IOT would be expensive for ARL, and there can be no assurance that it would be able to arrange the necessary financing to make and consummate such a transaction.

RISKS RELATED TO THE ARL PREFERRED STOCK

- The value of the ARL preferred stock is uncertain. There can be no assurance that an active trading market will exist and holders of ARL preferred stock may not be able to sell those shares when and in the amounts they want; even if there is an active trading market there is no assurance the value of the ARL preferred stock will rise; and ARL may not have sufficient cash to pay the dividend contemplated on the ARL preferred stock and those dividends do not bear interest.
- The Series G and Series H redeemable convertible preferred stock have very limited voting rights and do not vote for the election of directors or any other matters except as otherwise provided by law and in other limited circumstances when the holders' rights would be materially altered or under certain conditions when dividends are in arrears.
- Affiliates of ARL may hold a majority of the Series G and Series H redeemable convertible preferred stock after the mergers are completed and may be able to control any vote of holders of the Series G and H redeemable convertible preferred stock, including any vote to amend the terms of the Series G and H redeemable convertible preferred stock and amend the rights of the holders of the Series G and H redeemable convertible preferred stock.

RISKS RELATED TO THE COMBINED BUSINESS

- ARL will need to sell property and borrow money to meet its liquidity needs. There can be no assurance that the combined business will be able to make the required property sales for favorable prices or at all, or that it will be able to borrow additional funds on favorable terms or at all.
- ARL will have substantial debt after the mergers and the combined business of ARL, TCI and IOT will be highly leveraged. This high

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

level of indebtedness will subject the combined business to risk, including, the combined businesses may be limited in their ability to grow by a lack of cash or the availability of loans for new acquisitions; may be forced to sell properties on disadvantageous terms if they are unable to refinance maturing debt obligations; and the interest expense could increase if general interest rates increase the substantial leverage will increase their vulnerability to economic downturns; high levels of debt could limit the ability to react to changing conditions in the real estate industry or the economy generally; and failure to comply with financial and other restrictive covenants in loan agreements, or failure to make debt service payments could result in events of default that could harm the business or result in the bankruptcy of one or more subsidiaries of ARL, TCI or IOT or of the combined business as a whole.

- BCM and its affiliates own or control more than a majority of the voting securities of each of ARL, TCI and IOT, and will own more than a majority of the voting securities of ARL after the mergers. The interest of BCM may be different from

11

those of other stockholders of ARL, TCI and IOT, and may be different from those of other holders of the ARL preferred stock. BCM's position may have a number of effects on the combined business of ARL, TCI and IOT which may affect the value of the ARL common and preferred stock, including, BCM and its affiliates can control the election of all members of the board of directors of ARL; BCM and its affiliates are able to prevent any transaction that would result in a change of control of ARL; dealings between ARL and BCM after the mergers may not be at arms length; and BCM as the contractual advisor and BCM's officers and directors are entitled to indemnification from ARL from any action or claims with respect to liability for debts or obligations of ARL and TCI and IOT.

- Management of ARL, TCI and IOT are subject to conflicts of interest because most members of management of BCM and ARL are also members of management of TCI and IOT.
- Real estate investments are subject to varying degrees of risks and are relatively illiquid, which could adversely effect ARL's ability to pay dividends.
- Developing and managing real estate assets is a highly competitive business. The combined business will compete for tenants and customers with other developed real estate owned by third parties many of which are considerably larger, have greater financial resources and may have management personnel with more experience than the officers of the combined business.

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

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

- The real estate assets of the combined business of ARL, TCI and IOT will be subject to industry-specific operating risks, any or all of which may adversely affect the results of the operations of the combined business.

8.Q: ARE THERE ADVERSE CONSEQUENCES OR NEGATIVE FACTORS ASSOCIATED WITH THE MERGERS? (SEE PAGE 64 TO 65 AND 68 TO 69)

A: Yes. In addition to the risks involved in the mergers discussed above, the mergers involve other adverse consequences and negative factors, including the following:

- Following the mergers, the nonaffiliated stockholders of IOT and TCI who receive cash for their shares will cease to participate in any future earnings and growth of either IOT or TCI.

- The mergers will result in a taxable transaction for the stockholders of IOT and TCI.

- Based upon the unaudited pro forma consolidated financial statements, the mergers would have resulted in earnings per share of ARL common stock (\$1.12 at December 31, 2001) that are less than the historical earnings per share of TCI common stock

12

(\$2.32 at December 31, 2001), but more than the loss per share of IOT common stock (-\$2.32 at December 31, 2001).

- The December 31, 2001 book value per share of TCI common stock (\$29.95) and IOT common stock (\$24.48) exceeds the per share cash consideration offered to the nonaffiliated stockholders of TCI (\$17.50 per share) and IOT (\$19.00 per share), respectively, pursuant to the mergers.

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

- As a result of the IOT merger, stockholders of IOT electing to receive shares of the preferred stock of ARL will no longer be holders of an equity interest in a REIT, which is required to distribute 95% of its net income in the form of dividends each year.

9.Q: HOW WILL THE BUSINESS COMBINATION BE FINANCED? (SEE PAGES 74 TO 75)

A: The estimated cash requirements to pay the amounts to the nonaffiliated TCI and IOT stockholders if all elect to take the cash merger consideration and to pay all expenses (including prepayments of indebtedness) of the transactions is approximately \$94,350,801. The actual amount required to purchase the TCI common stock and IOT common stock will depend on the number of stockholders who affirmatively elect to receive Series G and Series H redeemable convertible preferred stock. Consequently, the greater number of stockholders who affirmatively elect to receive Series G and Series H redeemable convertible preferred stock the less funds will be required to pay the cash merger consideration. ARL and TCI intend to first seek new loans, which they expect to be able to obtain from several lenders aggregating at least \$36,056,464. ARL and TCI also have available a number of real property assets which, if necessary, should be able to be sold (or utilized as collateral for loans) to realize at least \$77,666,842, which is based upon ARL's estimate of the sales price of the properties using the industry formula of net operating income multiplied by a standard market rate minus the sum of the debt, prepayment penalties, closing costs and fees payable to BCM. ARL expects to sell 12 properties and TCI expects to sell 12 properties consisting of land, apartments and office buildings. These sums total an estimated \$77,666,842. If all such loans are entered into and all available properties are sold any remaining difference (presently estimated at \$29,372,505) will be available to ARL for working capital purposes. ARL presently has no written commitments for any of the expected loans and has no written or oral contracts to sell any assets.

10.Q: WILL I HAVE DISSENTERS' OR APPRAISAL RIGHTS IN THE MERGER? (SEE PAGE 51)

A: No.

11.Q: HAVE TCI AND IOT RECEIVED A FAVORABLE OPINION FROM THEIR FINANCIAL ADVISORS CONCERNING THE TCI MERGER AND IOT MERGER AS APPLICABLE? (SEE PAGES 79 TO 82)

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

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

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

12.Q: DO PERSONS INVOLVED IN THE MERGERS HAVE INTERESTS THAT DIFFER FROM MINE? (SEE PAGES 98)

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

The boards of directors of TCI and IOT are identical. Additionally, the executive officers of ARL, TCI, IOT and BCM are essentially the same persons. Each of the individuals, as a result of their multiple positions, owe fiduciary duties to the stockholders of all three of ARL, TCI and IOT. At times, they may be confronted by issues, including the mergers, that present them with potentially conflicting interests and obligations. Furthermore, in accordance with the advisory agreements that each of ARL, TCI and IOT have with BCM (as discussed under the heading "The Advisor"), BCM will receive a fee upon the sale, if any, of the properties that may be sold to fund the payment of the cash merger consideration. For the properties available for sale as of April 15, 2002, the amount of the fee is estimated to be \$3,038,815. See "Special Factors - Financing the Business Combination."

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

None of the individual officers and directors of ARL, TCI, IOT and BCM will receive individual compensation, shares, forgiveness of debt, options, severance benefits, earn outs or other amounts that could be considered compensation related to the successful consummation of the business combination. Certain officers and directors of ARL, TCI and IOT that own shares of ARL common stock will be treated as affiliates and will receive shares of the ARL preferred stock in return for their TCI and IOT common stock.

13.Q: WHAT PERCENTAGE OF OUTSTANDING SHARES OF ARL, TCI AND IOT ARE HELD BY OFFICERS, DIRECTORS AND THEIR AFFILIATES? (SEE PAGES 50 TO 51)

A: The directors, executive officers and the affiliates of the directors and executive officers of ARL beneficially own 65.1% of the outstanding shares of ARL voting with respect to the TCI and IOT mergers. After completion of the TCI and IOT mergers, the directors, executive officers and the affiliates of the directors and executive officers of ARL will beneficially own 72.6% of the outstanding shares of ARL, assuming the conversion of all shares of Series G and Series H redeemable convertible preferred stock, if any, received in the mergers.

The directors, executive officers and the affiliates of the directors and executive officers of TCI (including ARL and its affiliates) own 64.6% of the outstanding shares of TCI voting with respect to the TCI merger. All outstanding shares of TCI common stock will be cancelled or exchanged upon completion of the TCI merger. The directors, executive officers and the affiliates of the directors and executive officers of TCI will, indirectly and directly, beneficially own 67.3% of the outstanding common stock of ARL after completion of the TCI mergers, assuming conversion of all shares of Series G redeemable convertible preferred stock received in the merger.

The directors, executive officers and the affiliates of the directors and executive officers of IOT (including ARL, TCI and their affiliates) own 59.9% of the outstanding shares of IOT voting with respect to the IOT merger. All outstanding shares of IOT common stock will be cancelled or exchanged upon completion of the IOT merger. The directors and executive officers and affiliates of the directors and executive officers of IOT will, indirectly and directly, beneficially own 67.3% of the outstanding common stock of ARL after the completion of the IOT merger, assuming conversion of all shares of Series H redeemable convertible preferred stock received in the merger.

BCM will own 66.9% of the outstanding common stock of ARL after completion of the TCI and IOT mergers, assuming conversion of all shares of Series G and Series H redeemable convertible preferred stock received in the mergers.

14.Q: WHAT VOTE IS REQUIRED TO APPROVE MY MERGER? (SEE PAGE 50 TO 51)

A: Approval of the TCI merger requires:

- The affirmative vote of a majority of the votes cast at the TCI meeting.

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

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

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

Approval of the IOT merger requires:

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

15

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

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

ARL and its affiliates currently own 5,212,949 shares of TCI common stock representing approximately 64.6% of the outstanding TCI shares and 862,465 shares of IOT common stock representing approximately 59.9% of the outstanding IOT shares. Although ARL and its affiliates and TCI and IOT intend to vote their shares in favor of the mergers, the affirmative vote of a majority of the nonaffiliated shares is needed to authorize the merger.

15.Q: IF THE MERGERS ARE APPROVED AND I AFFIRMATIVELY ELECT TO RECEIVE SHARES OF THE ARL PREFERRED STOCK WILL THESE SHARES BE LISTED FOR TRADING? (SEE PAGE 39)

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

16.Q: WHAT FACTORS (POSITIVE AND NEGATIVE) WERE CONSIDERED BY THE ARL, TCI AND IOT BOARDS? DO THE BOARDS OF DIRECTORS OF ARL, TCI AND IOT RECOMMEND VOTING IN FAVOR OF THE TCI MERGER AND IOT MERGER AS APPLICABLE? (SEE PAGES 63 TO 73 AND 87 TO 89)

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

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

- The ARL board reviewed current and historical market prices of the TCI and IOT common stock relative to the historical market prices of the ARL common stock and relative to the merger consideration. In doing so, the board noted that the proposed merger consideration represented a premium over the average closing price of the TCI common stock and the IOT common stock. As a general matter, paying a premium to the market price for shares of the common stock of TCI and IOT can be seen as negative to the interests of ARL.
- The history of the negotiations leading to establishment of the merger consideration and the structure of the proposed transactions.
- The advice of TCI's and IOT's financial advisor that the consideration to be offered to the nonaffiliated public stockholders of TCI and IOT was fair from a financial point of view. The fact that the proposed transactions were negotiated at arms length

16

over an extended period of time and the fact that TCI's and IOT's financial advisor considered the structure of the proposed transactions and the merger consideration to be paid to be fair to the nonaffiliated stockholders of TCI and IOT can be seen as a favorable aspect of the proposed transactions from ARL's point of view.

- The fact that the cash merger consideration offered for the TCI common stock and the IOT common stock was less than the respective current book value of such stock. The fact that as a result of the transactions, ARL will acquire TCI and IOT by paying less than the book value per share of those businesses can be seen as favorable to ARL's interests.
- The view of the ARL board of directors that an increase in the size and diversity of ARL's portfolio would increase the development opportunities available to ARL. The ARL board felt that this increase in the size and diversity of ARL's portfolio was a favorable aspect of the proposed transactions from ARL's

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

point of view.

- The view of the ARL board of directors that an increase in the size of ARL's business and real estate portfolio would increase ARL's financial flexibility. The increase in financial flexibility that may occur as a result of the proposed transactions was seen as favorable to ARL's interests by ARL's board.

- The expectation of the ARL board of directors that the cash to be paid as merger consideration could be raised in large part from sales or refinancing of real estate held by TCI and IOT. The ability to finance the proposed transactions in large part by selling or refinancing the assets of TCI and IOT can be seen as a favorable aspect of the proposed transactions from ARL's point of view. However, the increased indebtedness that may result from refinancing the assets of the combined business will increase the risk associated with the business and can be seen as a potentially negative factor.

- The expectation of the ARL board of directors that the TCI and IOT mergers would not be consummated unless, in each case, sufficient cash was available to ARL to pay the cash merger consideration due as a result of the mergers. The ARL board did not believe that agreeing to consummate either of the proposed transactions before, in either case, sufficient cash was available to do so would be in ARL's best interests.

- The terms of the merger agreements, including that there is no financing condition and each can be terminated without penalty by either party; which can be seen as favorable to ARL. In addition, the ARL board noted the merger agreements would not be entered into until after the requisite stockholder approval had been obtained; and the possibility that a third party may seek to acquire TCI or IOT before such approval could be obtained making it unlikely that a merger with that entity would occur. Since it is possible that another person might acquire TCI or IOT after ARL has expended a great deal of money and effort on the proposed transactions, this provision of the merger agreements can be seen as negative to ARL's interests.

- The fact that stockholders of TCI and IOT affiliated with ARL will accept preferred stock of ARL in lieu of cash as merger consideration. The reduction in the cash necessary to consummate the proposed transactions made possible by delivering preferred stock to the ARL affiliates in lieu of cash can be seen a favorable to ARL's interests.

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

- The fact that the TCI and IOT mergers are not conditioned upon one another. ARL's ability to close one, but not the other transaction, can be seen as favorable to ARL's interests.
- The fact that if either of the mergers was not consummated, ARL may be required to pay a penalty of \$5.00 per outstanding share of the common stock of the entity not being acquired unless it commenced a tender offer for such shares for at least the same cash consideration offered in the failed merger, and that the consummation of either merger may not occur due to reasons outside of ARL's control. ARL's ability to avoid the penalty by initiating a tender offer can be seen as favorable to ARL's interests, although the existence of the penalty provisions can be seen as negative.
- The time and management resources necessary to solicit stockholder approval and consummate the mergers. The risk that consummating the proposed transactions will divert ARL's management resources from its existing businesses is a negative aspect of the proposed transactions from ARL's point of view.
- The ARL board of directors' understanding that any regulatory approvals necessary to consummate the TCI and IOT mergers could be obtained.
- The various risks and uncertainties involved in the mergers, including the risks described under the heading "Risk Factors".

TCI. The TCI board of directors has determined that the terms of the proposed TCI merger are fair to and in the best interests of the nonaffiliated TCI stockholders, approved the TCI merger agreement and unanimously recommends that its stockholders vote "for" the TCI merger. In reaching its decision to approve and recommend the TCI merger, the TCI board of directors considered, among other factors, the following, which includes the potentially positive and potentially negative factors considered by the IOT board:

Potentially Positive Factors Considered by the TCI Board:

- The current and historical market prices of TCI common stock relative to the merger consideration and the fact that the \$17.50 per share merger consideration represented a 44.6% premium over the average closing price of TCI common stock over the thirty trading days prior to October 23, 2001.
- The fact that the merger consideration is all cash.

- The fact that holders of TCI common stock have the opportunity to affirmatively elect to receive ARL preferred stock instead of cash.

- The view of the TCI board of directors that the trading value for shares of TCI common stock was not likely to exceed the merger price in the near term if TCI remained independent.

- The potential stockholder value that could be expected to be generated from other strategic options available to TCI.

- The financial presentation of Houlihan Lokey and the opinion to the effect that the consideration to be offered to the nonaffiliated TCI stockholders pursuant to the TCI merger agreement was fair from a financial point of view to those holders.

- The terms of the TCI merger agreement, as reviewed by the TCI board of directors with TCI legal advisors.

18

- The TCI board of directors' determination, based on the fact that no other offers to acquire TCI common stock have been made at a level equal to or better than the merger consideration of \$17.50 per share before or after initial press reports on and after October 23, 2001, that ARL had agreed to acquire the nonaffiliated stockholder interest in TCI and after discussing with TCI's advisors the potential risks, costs and benefits of contacting other third parties, that there was insufficient reason to justify the risk of delay in proceeding with the favorable transaction with ARL.

- The view of the TCI board of directors that the regulatory approvals necessary to consummate the TCI merger could be obtained.

- The fact that TCI will no longer exist as an independent company and its stockholders will no longer participate in the growth of TCI.

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

- The fact that gains from an all cash transaction would be taxable to TCI stockholders for U.S. federal income tax purposes.

Potentially Negative Factors Considered by the TCI Board:

Although all of the factors were simply viewed as a whole and the individual members of the TCI Board did not rank or list any as positive or negative, the following potentially negative factors were considered by the TCI Board:

- Calculated book value per share of TCI common stock (\$26.95 at December 31, 2001) exceeds the offered cash value per share (\$17.50), but the market price per share of TCI common Stock has historically been less than the book value per share of TCI common stock calculated from a financial standpoint.
- Based upon the unaudited pro forma consolidated financial statements, the mergers may result in earnings per share of ARL that are less than the historical earnings per share of TCI (\$2.32 per share at December 31, 2001).
- The risk exists that ARL will have to raise capital from another source, refinance indebtedness or sell assets (including assets of TCI and IOT) to produce proceeds sufficient to finance the cash payments to the TCI holders of common stock not affiliated with ARL. A substantial increase in leverage may be a result of the merger of TCI into ARL, which increase in leverage is not presently quantifiable.
- There may not be sufficient ARL cash to pay dividends on ARL preferred stock as a result of the substantial indebtedness which may be required to be incurred pursuant to the mergers.
- The likelihood that some significant divestitures will be required and the risk that the circumstances of any such divestitures may not fully maximize the value received for the divested assets.
- The risk of diverting management focus and corporate resources from other strategic opportunities and operational matters for an extended period of time.
- Gains from an all cash transaction would be taxable to TCI stockholders for U.S. federal income tax purposes even though some TCI stockholders may elect to receive Series G redeemable

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

convertible preferred stock.

- Based upon unaudited pro forma consolidated financial statements giving effect to the merger of TCI into ARL, resulting earnings per share would be less than the historical earnings per share of TCI (\$2.32 per share at December 31, 2001).

19

- See also "Information About ARL -- Security Ownership of Certain Beneficial Owners and Management of ARL".

IOT. The IOT board of directors has determined that the terms of the proposed IOT merger are fair to and in the best interests of the nonaffiliated IOT stockholders, approved the IOT merger agreement and unanimously recommends that its stockholders vote "for" the IOT merger. In reaching its decision to approve and recommend the IOT merger, the IOT board of directors considered, among other factors, the following which includes the potentially positive and potentially negative factors considered by the IOT board:

Potentially Positive Factors Considered by the IOT Board:

- The current and historical market prices of IOT common stock relative to the merger consideration and the fact that the \$19.00 per share merger consideration represented a 28.7% premium over the average closing price of IOT common stock over the thirty trading days prior to October 23, 2001.
- The fact that the merger consideration is all cash.
- The fact that holders of IOT stock have the opportunity to affirmatively elect to receive ARL preferred stock instead of cash.
- The view of the IOT board of directors that the trading value for shares of IOT common stock was not likely to exceed the merger price in the near term if IOT remained independent.
- The potential stockholder value that can be expected to be generated from other strategic options available to IOT.

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

- The financial presentation of Houlihan Lokey and the opinion to the effect that the consideration to be offered to the nonaffiliated IOT stockholders pursuant to the IOT merger agreement was fair from a financial point of view to those holders.

- The terms of the IOT merger agreement, as reviewed by the IOT board of directors with IOT legal advisors.

- The IOT board of directors' determination, based on the fact that no other offers to acquire IOT common stock have been made at a level equal to or better than the merger consideration of \$19 per share before or after initial press reports on and after October 23, 2001, that ARL had agreed to acquire the nonaffiliated stockholder interest in IOT and after discussing with IOT's advisors the potential risks, costs and benefits of contacting other third parties, that there was insufficient reason to justify the risk of delay in proceeding with the favorable transaction with ARL.

- The view of the IOT board of directors, the regulatory approvals necessary to consummate the IOT merger could be obtained.

- IOT will no longer exist as an independent company and its stockholders will no longer participate in the growth of IOT.

- The fact that gains from an all cash transaction would be taxable to IOT stockholders for U.S. federal income tax purposes.

20

Potentially Negative Factors Considered by the IOT Board:

Although all of the factors were simply viewed as a whole and the individual members of the IOT Board did not rank or list any as positive or negative, the following potentially negative factors were considered by the IOT Board:

- Book value per share of IOT common stock exceeds the offered cash value per share, but the market price per share of IOT common stock has historically been less than the book value per share of IOT common stock calculated from a financial standpoint.

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

- Based upon the unaudited pro forma consolidated financial statements, the merger may result in earnings per share of ARL that are less than the historical earnings per share of IOT and TCI.
- The risk exists that ARL will have to raise capital from another source, refinance indebtedness or sell assets (including assets of IOT and TCI) to produce proceeds sufficient to finance the cash payments to the IOT holders of common stock not affiliated with ARL. A substantial increase in leverage may be a result of the merger of IOT into ARL, which increase in leverage is not presently quantifiable.
- There may not be sufficient ARL cash to pay dividends on ARL preferred stock as a result of the substantial indebtedness which may be required to be incurred pursuant to the transactions.
- The likelihood that some significant divestitures will be required and the risk that the circumstances of any such divestitures may not fully maximize the value received for the divested assets.
- The risk of diverting management focus and corporate resources from other strategic opportunities and operational matters for an extended period of time.
- Gains from an all cash transaction would be taxable to IOT stockholders for U.S. federal income tax purposes even though some IOT stockholders may elect to receive Series G redeemable convertible preferred stock.
- As a result of the merger, IOT stockholders will no longer be holders of an equity interest in a REIT and therefore, will not receive 95% of REIT net income in the form of dividends each year. See "Comparative Per Share Information" for the amount of IOT distributions during the last two years. During the year ended December 31, 2000, IOT paid dividends equal to \$0.45 per share of IOT common stock and paid no dividends in 2001.
- See also "Security Ownership of Certain Beneficial Owners and Management of ARL".

17.Q: HAVE ARL AND BCM MADE A FAIRNESS DETERMINATION PERTAINING TO TCI AND IOT MERGERS WITH RESPECT TO THE NONAFFILIATED STOCKHOLDERS OF EACH TCI AND IOT?

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

(SEE PAGES 89 TO 92)

A: ARL. The ARL directors have unanimously determined that each of the TCI and IOT mergers are procedurally and substantively fair to the nonaffiliated TCI and IOT stockholders, respectively.

In connection with its determination of the procedural and substantive fairness of the TCI merger agreement and the transactions contemplated thereby, ARL relied upon the

21

determinations of the board of TCI as having been taken in good faith following the receipt of advice from legal and financial advisors. The ARL board adopted the conclusions as to the fairness of the TCI merger set forth under the "Recommendation and Determination of the TCI Board of Directors" and "TCI's Purpose and Reasons for the TCI Merger", and the analyses underlying such conclusions of TCI's board, based on ARL's reliance upon the determinations of the TCI board and its own views as to its reasonableness of such analyses. In view of the variety of factors considered in reaching its decision, ARL's board did not quantify or otherwise assign relative weights to the various factors considered in reaching its belief as to the fairness of the TCI merger.

In connection with its determination of the procedural and substantive fairness of the IOT merger agreement and the transactions contemplated thereby, ARL relied upon the determinations of the board of IOT as having been taken in good faith following the receipt of advice from legal and financial advisors. The ARL board adopted the conclusions as to the fairness of the IOT merger set forth under the "Recommendation and Determination of the IOT Board of Directors" and "IOT's Purpose and Reasons for the IOT Merger", and the analyses underlying such conclusions of IOT's board, based on ARL's reliance upon the determinations of the IOT board and its own views as to its reasonableness of such analyses. In view of the variety of factors considered in reaching its decision, ARL's board did not quantify or otherwise assign relative weights to the various factors considered in reaching its belief as to the fairness of the IOT merger.

BCM. BCM has determined that each of the TCI and IOT mergers are procedurally and substantively fair to the nonaffiliated TCI and IOT stockholders, respectively.

In connection with its determination of the procedural and substantive fairness of the TCI merger agreement and the transactions contemplated thereby, BCM relied upon the determinations of the board of TCI as having been taken in good faith following the receipt of advice from legal and financial advisors. BCM adopted the conclusions as to the fairness of the TCI merger set forth under the "Recommendation and Determination of the TCI Board of Directors" and "TCI's Purpose and Reasons for the TCI Merger", and the analyses underlying such conclusions of TCI's board, based on BCM reliance upon the determinations of the TCI board and its own views as to its reasonableness of such analyses. In view

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

of the variety of factors considered in reaching its decision, BCM did not quantify or otherwise assign relative weights to the various factors considered in reaching its belief as to the fairness of the TCI merger.

In connection with its determination of the procedural and substantive fairness of the IOT merger agreement and the transactions contemplated thereby, BCM relied upon the determinations of the board of IOT as having been taken in good faith following the receipt of advice from legal and financial advisors. BCM adopted the conclusions as to the fairness of the IOT merger set forth under the "Recommendation and Determination of the IOT Board of Directors" and "IOT's Purpose and Reasons for the IOT Merger", and the analyses underlying such conclusions of IOT's board, based on BCM's reliance upon the determinations of the IOT board and its own views as to its reasonableness of such analyses. In view of the variety of factors considered in reaching its decision, BCM's did not quantify or otherwise assign relative

22

weights to the various factors considered in reaching its belief as to the fairness of the IOT merger.

18.Q: WHEN DO THE COMPANIES EXPECT TO COMPLETE THE MERGERS? (SEE PAGE 99)

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

19.Q: WHEN DO I ELECT WHETHER TO RECEIVE ARL PREFERRED STOCK OR CASH? (SEE PAGE 99 TO 100)

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

20.Q: WHERE AND AT WHAT TIME WILL THE MEETINGS BE HELD? (SEE PAGE 48)

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

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

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

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

21.Q: WHAT DO I NEED TO DO NOW? (SEE PAGE 48 TO 49)

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

22.Q: IF MY SHARES ARE HELD BY MY BROKER, WILL MY BROKER VOTE MY SHARES FOR ME? (SEE PAGES 49 TO 50)

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

23.Q: CAN I CHANGE MY VOTE AFTER I HAVE MAILED MY SIGNED PROXY CARD? (SEE PAGE 48 TO 49)

23

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

24.Q: SHOULD I SEND IN MY CERTIFICATES NOW? (SEE PAGE 101 TO 102)

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

25.Q: I'VE LOST MY CERTIFICATE. WHAT SHOULD I DO? (SEE PAGES 101 TO 102)

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

26.Q: WHO CAN I CONTACT FOR MORE INFORMATION? (SEE PAGE 50)

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

RATIO OF EARNINGS TO FIXED CHARGES

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

	Years Ended December			
	Three Months Ended March 31, 2002 -----	2001 ----	2000 ----	1999 ----
Ratio of earnings to fixed charges and preferred stock dividends	1.03	1.16	1.00	1.09

**Earnings were inadequate to cover fixed charges and preferred stock dividends by \$23,982,000, \$2,634,000 and \$5,667,000 in 1998 and 1997, respectively.

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

	Years Ended December 31,		
	Three Months Ended March 31, 2002 -----	2001 ----	2000 -----
Ratio of earnings to fixed charges and preferred stock dividends	**	1.48	1.62

**Earnings were inadequate to cover fixed charges and preferred stock dividends by \$1,380,000.

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

	Years Ended December 31,	
	Three Months Ended March 31, 2002	2001 2000

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

Ratio of earnings to fixed charges and preferred stock dividends	5.78	**	4.31
--	------	----	------

**Earnings were inadequate to cover fixed charges and preferred stock dividends by \$3,462,000 in 2001.

25

SUMMARY FINANCIAL DATA OF ARL

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

	FOR THE THREE MONTHS ENDED MARCH 31, -----			FOR THE YEARS ENDED DE -----	
	2002 -----	2001 ----- (unaudited)	2001 -----	2000 -----	1999 -----
	(dollars in thousands, except per share amounts)				
EARNINGS DATA					
Revenue	\$ 38,688	\$ 41,456	\$ 166,018	\$ 172,750	\$ 193,980
Expense	55,553	59,276	243,166	272,045	324,789
	-----	-----	-----	-----	-----
(Loss) from operations	(16,865)	(17,820)	(77,148)	(99,295)	(130,809)
Equity in income of investees	(412)	(5)	8,803	5,246	11,847
Gain on sale of real estate	18,842	20,215	83,414	96,728	129,260
	-----	-----	-----	-----	-----
Net income (loss)	1,205	2,390	15,069	2,679	10,298
Preferred dividend requirement	(611)	(642)	(2,485)	(2,327)	(2,281)
	-----	-----	-----	-----	-----
Income (loss) applicable to Common shares ...	\$ 594	\$ 1,748	\$ 12,584	\$ 352	\$ 8,017
	=====	=====	=====	=====	=====
PER SHARE DATA					
Net income					

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

(loss) applicable to Common shares	\$.05	\$.17	\$ 1.07	\$.03	\$.75
Dividends per Common share	\$ --	\$ --	\$ --	\$ --	\$.05
Weighted average shares outstanding	11,375,127	10,104,268	11,714,374	10,399,890	10,759,416

	FOR THE THREE MONTHS ENDED MARCH 31,			FOR THE YEARS ENDED D	
	2002	2001	2000	1999	
	(unaudited)				
BALANCE SHEET DATA					
Real estate, net	\$580,874	\$588,203	653,744	\$771,630	\$
Notes and interest receivable, net	28,507	30,382	13,831	38,604	
Total assets	746,483	758,763	787,015	919,546	
Notes and interest payable ...	563,840	564,298	616,331	706,196	
Margin borrowings	27,105	28,040	13,485	33,264	
Stockholders' equity	86,937	85,884	73,402	46,266	
Book value per share	\$ 7.64	\$ 7.33	7.06	\$ 4.30	\$

26

SUMMARY FINANCIAL DATA OF TCI

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

	FOR THE THREE MONTHS ENDED MARCH 31,			FOR THE YEARS EN	
	2002	2001	2001	2000	199
	(unaudited)				
EARNINGS DATA					
Rents	\$ 30,869	\$ 35,265	\$ 134,911	\$ 139,357	\$ 82
Property expense	19,468	20,395	80,562	78,061	44

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

Operating income	11,401	14,870	54,349	61,296	37,814
Other income	(209)	(735)	(3,002)	1,814	1,814
Other expense	17,956	20,303	85,806	83,878	48,878
Gain on sale of real estate	5,429	6,484	54,270	50,550	40,550
Net income (loss)	(1,335)	316	19,811	29,782	30,782
Preferred dividend requirement	(45)	(7)	(172)	(22)	---
Net income (loss) applicable to Common shares	\$ (1,380)	309	\$ 19,639	\$ 29,760	\$ 30,760
Basic and Diluted Earnings Per Share Net income (loss) applicable to Common shares	\$ (.17)	\$.04	\$ 2.32	\$ 3.45	\$ 3.45
Dividends per Common share	--	--	--	\$.54	\$.54
Weighted average Common shares outstanding	8,042,594	8,686,346	8,478,377	8,631,621	4,283,621

FOR THE THREE MONTHS ENDED MARCH 31,

FOR THE YEARS ENDED

	2002	2001	2000	1999
	(unaudited)			
BALANCE SHEET DATA				
Real estate held for investment, net	\$618,784	\$622,171	\$639,040	\$599,746
Real estate held for sale, net	14,831			
Foreclosed	516	516	1,824	1,790
Other	14,315	--	--	--
Notes and interest receivable, net	26,510	22,049	8,172	11,530
Total assets	720,198	709,152	731,885	714,195
Notes and interest payable ...	472,486	461,037	501,734	503,406
Stockholders' equity	215,365	216,768	200,560	179,112
Book value per share	\$ 26.78	\$ 26.95	\$ 23.22	\$ 20.76

SUMMARY FINANCIAL DATA OF IOT

The following is a summary of financial data incorporated by reference in this joint proxy statement and prospectus. You should read the following data

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

in conjunction with the more detailed information contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations of IOT" and the IOT consolidated financial statements and related notes included elsewhere in this joint proxy statement and prospectus.

	FOR THE THREE MONTHS ENDED MARCH 31,			FOR THE YEARS ENDED	
	2002	2001	2001	2000	1999
	(unaudited)			(dollars in thousand)	
EARNINGS DATA					
Rents	\$ 2,800	\$ 3,251	\$ 13,001	\$ 13,731	\$ 15,9
Property expense	1,641	1,479	6,591	6,969	6,7
Operating income	1,159	1,772	6,410	6,762	9,2
Interest income	37	72	194	319	
Income (loss) from equity partnerships	(17)	9	(9)	(61)	1
Gain on sale of real estate	7,105	--	--	20,878	1,5
			185	21,136	1,7
Other expense	3,211	2,570	10,057	11,104	9,5
Net income (loss)	5,073	\$ (717)	(3,462)	\$ 16,794	\$ 1,3
PER SHARE DATA					
Net income (loss)	\$ 3.53	\$ (.47)	(2.32)	\$ 11.03	\$.
Dividends per	\$ --	--	--	\$.45	\$.
Weighted average Common shares outstanding	1,438,945	1,514,045	1,493,675	1,522,510	1,527,3

	FOR THE THREE MONTHS ENDED MARCH 31,			FOR THE YEARS EN	
	2002	2001	2000	1999	
	(unaudited)				
BALANCE SHEET DATA					
Real estate held for investment, net	\$79,574	\$87,315	\$86,277	\$86,542	
Real estate held for sale, net ...	--	--	--	--	
Notes and interest receivable, net	6,847	505	1,500	--	
Total assets	89,756	91,833	96,519	91,185	
Notes and interest payable	47,552	54,426	54,206	62,852	
Stockholders' equity	40,295	35,222	39,998	23,991	
Book value per share	\$ 28.00	\$ 24.48	\$ 26.42	\$ 15.69	

COMPARATIVE PER SHARE INFORMATION

The following tables set forth per share data of the shares of TCI and IOT common stock on a historical and pro forma combined and equivalent basis under three scenarios: (i) all nonaffiliated stockholders of TCI and IOT common stock take all cash for their shares of TCI and IOT common stock, respectively, (ii) all nonaffiliated stockholders of TCI and IOT take all Series G and H redeemable convertible preferred stock for their shares of TCI and IOT common stock, respectively, and (iii) 50% of the nonaffiliated stockholders of TCI and IOT accept cash and 50% of the nonaffiliated stockholders of TCI and IOT accept Series G and H redeemable convertible preferred stock for their shares of TCI and IOT common stock. In each of these scenarios, the affiliated stockholders of TCI and IOT receive Series G and Series H redeemable convertible preferred stock for their shares, respectively. Pro forma equivalent information for TCI and IOT was calculated by multiplying the pro forma per share amounts for ARL by the exchange ratio of 2.50 for TCI and 2.25 for IOT common stock. These tables should be read in conjunction with the historical financial statements and notes thereto and the unaudited pro forma combined financial information included elsewhere in this joint proxy statement and prospectus.

COMPARATIVE PER SHARE INFORMATION
(ALL CASH TO NONAFFILIATED STOCKHOLDERS OF TCI AND IOT)

	ARL COMMON STOCK		TCI COMMON STOCK		HIS
	HISTORICAL	PROFORMA COMBINED AND EQUIVALENT	HISTORICAL	PROFORMA COMBINED AND EQUIVALENT	
Income (loss) per common share, diluted					
Three months ended March 31,					
2002	\$ 0.05	\$ 0.21	\$ 2.32	\$ (0.06)	\$ (
Year ended December 31, 2001	\$ 0.04	\$ 1.59	\$ 3.45	\$ 1.74	\$1
Cash dividend per common share					
Three months ended March 31,					
2002	--	--	--	--	
Year ended December 31, 2001	--	--	--	--	
Book value per common share					
Three months ended March 31, .					
2002	\$ 7.6	\$ 9.25	\$26.95	\$ 8.87	\$2
Year ended December 31, 2001	\$ 6.45	\$ 7.06	\$23.22	\$ 7.18	\$2

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

COMPARATIVE PER SHARE INFORMATION
(ALL SERIES G AND SERIES H REDEEMABLE CONVERTIBLE PREFERRED STOCK TO
NONAFFILIATED STOCKHOLDERS OF TCI AND IOT)

	ARL COMMON STOCK		TCI COMMON STOCK		HIS
	HISTORICAL	PROFORMA COMBINED AND EQUIVALENT	HISTORICAL	PROFORMA COMBINED AND EQUIVALENT	
Income (loss) per common share, diluted					
Three months ended March 31,					
2002	0.05	\$ 0.05	\$ (0.17)	\$ (0.04)	\$
Year ended December 31, 2001 .	1.07	\$ 0.74	\$ 2.32	\$ 0.92	\$
Cash dividend per common share					
Three months ended March 31,					
2002	--	\$ --	\$ --	\$ --	\$
Year ended December 31, 2001 .	--	\$ --	\$ --	\$ --	\$
Book value per common share					
Three months ended March 31, .					
2002	7.64	\$ 8.8	\$26.78	\$ 8.57	\$
Year ended December 31, 2001 .	7.55	\$ 8.40	\$26.95	\$ 8.31	\$

COMPARATIVE PER SHARE INFORMATION
(50% CASH AND 50% SERIES G AND H REDEEMABLE CONVERTIBLE PREFERRED STOCK TO THE
NONAFFILIATED STOCKHOLDERS OF TCI AND IOT)

	ARL COMMON STOCK		TCI COMMON STOCK		HIS
	HISTORICAL	PROFORMA COMBINED AND EQUIVALENT	HISTORICAL	PROFORMA COMBINED AND EQUIVALENT	
Income (loss) per common share, diluted					
Three months ended March 31,					
2002	0.05	0.10	\$ (0.17)	\$ (0.03)	\$
Year ended December 31, 2001 .	1.07	1.06	\$ 2.32	\$ 1.08	\$
Cash dividend per common share					
Three months ended March 31,					
2002	--	--	\$ --	\$ --	\$

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

Year ended December 31, 2001 .	--	--	\$ --	\$ --	\$
Book value per common share					
Three months ended March 31,					
2002	7.64	9.02	\$26.78	\$ 8.69	\$
Year ended December 31, 2001 .	7.33	8.43	\$26.95	\$ 8.37	\$

30

MARKET PRICES AND DIVIDEND INFORMATION

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

	Closing Price

ARL Common Stock.....	\$11.62
TCI Common Stock.....	\$12.00
IOT Common Stock.....	\$14.76

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

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

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

Third Quarter	12	10 1/8	--	14 3/4	11 11/16	--	
Fourth Quarter	13	9 3/4	--	16 3/8	11 5/8	--	
2002:							
First Quarter	9.93	6.48	--	16.82	15.70	--	18.
Second Quarter	11.27	6.7	--	20.55	16.27	--	18.

Although ARL will apply to have the Series G and Series H redeemable convertible preferred stock, and the shares of ARL common stock issuable upon conversion of the Series G and Series H redeemable convertible preferred stock, listed on the NYSE, there is no assurance the NYSE will list the shares. The listing of the preferred and common shares for trading on the

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

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

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

31

NYSE is not a condition to the respective obligations of TCI and IOT to consummate the mergers.

32

FORWARD LOOKING STATEMENTS

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

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

- inability to obtain, or to meet conditions imposed for, regulatory approval of pending acquisitions and divestitures

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

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

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

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

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

33

RISK FACTORS

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

The plan to merge ARL, TCI and IOT involves risk. Some of those risks relate to the proposed transactions themselves. Other risks relate to the preferred stock of ARL being offered or to the businesses of ARL, TCI and IOT themselves. The risk factors described below are the material risk factors faced by ARL, TCI and IOT and their stockholders.

RISKS RELATED TO THE MERGERS

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

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

- Nonaffiliated TCI and IOT stockholders will be entitled to receive up to an aggregate of \$60,996,907 in cash for their shares of the common stock of TCI and IOT if none affirmatively elect to receive the preferred stock of ARL
- ARL, TCI and IOT expect to incur approximately \$27,149,311 in costs in connection with the mergers, including prepayment of indebtedness and fees and commissions associated with property sales necessary to raise cash to fund payments to the stockholders of TCI and IOT
- as of March 31, 2002, ARL, TCI and IOT have approximately \$385,159,557 in loans coming due in the next twelve months that must be repaid or refinanced

Approximately \$94,350,801 must be raised in order to fund all of the obligations related to the mergers, and an additional \$385,659,557 in the next twelve months to repay or refinance maturing indebtedness. ARL does not currently have this much cash presently available. Although ARL, TCI and IOT expect to be able to raise the cash necessary to fund the transactions required in connection with the mergers and their continuing combined business by selling real estate and obtaining new loans, there can be no assurance that sales will be made or that loans will be obtained, or that they will be made or obtained on terms favorable to the combined business of ARL, TCI and IOT. ARL may also consider selling securities such as shares of preferred stock in privately negotiated transactions to raise some or all of the cash it will require in connection with the mergers and its operations. Any such preferred stock might have rights to dividends and other rights ranking prior to those of the series G and Series H redeemable convertible preferred stock being offered in connection with the mergers. The ARL board of directors has determined that the TCI and IOT mergers would not be consummated unless, in each case, sufficient cash was available to ARL, either from its own resources or from TCI or IOT immediately after the mergers, to pay the cash merger consideration due as a result of the mergers. If ARL, TCI and IOT are not able to raise the cash anticipated through the sale

34

of real estate and obtaining new loans, the mergers may be delayed or abandoned and the ongoing combined business of ARL, TCI and IOT may be adversely affected.

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

- the buyers' ability to obtain any necessary financing

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

- the satisfactory completion of any due diligence review made by the buyers and the buyers' lenders
- satisfactory completion of any environmental review and other review of the subject properties' legal compliance

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

ARL MAY ISSUE SECURITIES. ARL may seek to raise some or all of the cash necessary to fund its obligations related to the mergers by issuing securities, such as shares of preferred stock, in privately negotiated transactions. There can be no assurance that ARL will be able to find a buyer for its securities, or if it does, on what terms such a sale would be consummated. It is possible that any securities issued to raise money to fund ARL's obligations related to the mergers would have rights to dividends and other rights superior to the Series G and Series H redeemable convertible preferred stock being offered in connection with the mergers.

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

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

35

A TENDER OFFER MAY BE MADE IN ORDER TO AVOID A PENALTY. In connection with the Settlement Agreement, ARL agreed to propose the mergers to the stockholders of TCI and IOT. It was also agreed that if the stockholders of TCI or IOT did not approve the mergers, ARL can make a tender offer for the shares of the common stock of the company or companies that did not approve the merger. Making a tender offer for the shares of TCI or IOT would be expensive for ARL, and there can be no assurance that it would be able to arrange the necessary financing to make and consummate such a transaction. If ARL does not make the tender offer allowed by the Settlement Agreement it could be liable for damages of approximately \$14,265,400 (or \$5.00 for each share of TCI stock it does not acquire) and/or \$2,882,400 (or \$5.00 for each share of IOT stock it does not acquire.)

RISKS RELATED TO THE ARL PREFERRED STOCK

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

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

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

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

36

the mergers and to repay or refinance indebtedness in the next twelve months, there can be no assurance that ARL will have sufficient cash to pay the dividend contemplated on the shares of ARL preferred stock to be offered to stockholders of TCI and IOT

- even if it is able to fund its near term cash needs, ARL's ability to declare and pay dividends on its preferred stock will depend upon the results of its business operations, the terms of loan agreements it may have and the amount of cash it has available from time to time. Dividends on ARL's preferred stock will only be payable when its board of directors determines it has sufficient

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

cash available and that it is otherwise appropriate to do so. Unpaid dividends on the ARL preferred stock will not bear interest

- ARL has other shares of preferred stock outstanding that are entitled to dividends. ARL can only pay dividends on its preferred stock if it pays dividends on all of the shares of preferred stock entitled to dividends at the same time. As of July 16, 2002, ARL has 3,374,910 shares of its Series A and E preferred stock outstanding. Those shares require the payment of a total of approximately \$613,727 in dividends quarterly. If all of the stockholders of TCI and IOT elect to receive preferred stock instead of cash, ARL will add approximately 4,731,576 shares of preferred stock outstanding with a dividend requirement of approximately \$2,391,000 quarterly

- stockholders of TCI and IOT who affirmatively elect to receive shares of ARL preferred stock instead of cash will each receive one share of preferred stock for each share of TCI or IOT common stock that they hold. No adjustment in this exchange ratio will be made to reflect changes in the market prices of the shares of ARL, TCI or IOT. Shares of the ARL preferred stock to be issued to TCI and IOT stockholders who elect to receive them instead of cash will be convertible into shares of ARL common stock in the future. The number of shares of ARL common stock you will receive if you convert a share of ARL preferred stock has already been set and will not be adjusted if the market value of ARL's common stock declines in the future

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

37

AFFILIATES OF ARL MAY HOLD A MAJORITY OF THE ARL PREFERRED STOCK. Affiliates of ARL own a substantial number of shares of the common stock of TCI and IOT. If the mergers occur, shares of TCI and IOT held by ARL's affiliates will be converted into preferred stock of ARL. Thus, a majority of the issued and outstanding shares of the ARL preferred stock to be issued as a result of the mergers may be held by affiliates of ARL. Affiliates of ARL may be able to control any vote of holders of the Series G and H redeemable convertible preferred stock, including any vote to amend the terms of the Series G and H redeemable convertible preferred stock and the rights of the holders of the

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

Series G and H redeemable convertible preferred stock.

RISKS RELATED TO THE COMBINED BUSINESS

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

ARL WILL NEED TO SELL PROPERTY AND BORROW MONEY TO MEET ITS LIQUIDITY NEEDS. The combined business of ARL, TCI and IOT will need to sell properties or borrow additional amounts to repay maturing debt and to fund their ongoing business operations. There can be no assurance that the combined business will be able to make the required property sales for favorable prices or at all, or that it will be able to borrow additional funds on favorable terms or at all. In connection with considering an investment in the ARL preferred stock, stockholders of TCI and IOT should consider the following risks related to the indebtedness and liquidity needs of the combined business of ARL, TCI and IOT. The pro forma dollar amounts set forth below are based upon the assumption that all nonaffiliated stockholders receive cash for their shares of TCI or IOT common stock if the mergers are consummated and that ARL will borrow approximately \$61.0 million in addition to any amounts that may be borrowed to fund the cash required for the mergers.

- in addition to the substantial amounts of cash that will be needed to fund the cash payments to the nonaffiliated stockholders, the combined business of ARL, TCI and IOT will need to raise approximately \$385,659,557 to repay or refinance debts maturing in the next twelve months. The combined business of ARL, TCI and IOT will have approximately \$385,659,557 of indebtedness coming due in the next twelve months out of a total debt of \$1,138,673,000.

- ARL, TCI and IOT have significant debt service obligations when compared to their available cash flow. As of December 31, 2001, after giving effect to the mergers and related transactions on a pro forma basis, the combination of ARL, TCI and IOT would have had total debt of approximately \$1,072,397,000 and total stockholders equity of approximately \$128,202,000, if no stockholders of TCI and IOT elect to receive ARL preferred stock instead of cash. For the twelve months ended December 31, 2001, after giving effect to the mergers and assuming that no TCI or IOT

stockholder elects to receive ARL preferred stock instead of cash, the interest expense for the combined business of ARL, TCI and IOT would have been \$130,877,000 as compared to net available cash

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

flow of approximately \$111,419,413.

- the ongoing business operations of the combined business of ARL, TCI and IOT will require substantial amounts of cash from property sales, new borrowings or sales of securities. A large portion of the assets of ARL, TCI and IOT consist of undeveloped real estate that produces little or no income. In addition, ARL, TCI and IOT have made substantial commitments in connection with the development of property. For the period ended December 31, 2001, the combined business operations of ARL, TCI and IOT, on a pro forma basis, would have had revenues of approximately \$356,772,000 and expenses, exclusive of debt service and non-cash expenses such as depreciation and amortization of approximately \$295,517,000. Based upon the anticipated sales of properties set forth under "Special Factors -- Financing of the Business Combination" management anticipates that the combined business of ARL, TCI and IOT will generate an additional \$29,372,505 during the next twelve months after paying the costs and expenses related to the mergers assuming all nonaffiliated stockholders receive cash for the shares of TCI and IOT common stock, which was derived by subtracting the total amount of funds related to the mergers (assuming all nonaffiliated stockholders receive cash) from the total amount of funds that are expected to be generated from the sale of properties identified under "Special Factors - Financing the Business Combination." ARL expects to sell enough properties to meet the cash requirements needed to pay the nonaffiliated stockholders that do not elect to receive preferred stock and to meet the working capital requirements of the combined company.

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

- the combined businesses of ARL, TCI and IOT may be limited in their ability to grow by a lack of cash or the availability of loans for new acquisitions
- the combined business of ARL, TCI and IOT may be forced to sell properties on disadvantageous terms if it is unable to refinance maturing debt obligations
- the interest expense of the combined business of ARL, TCI and IOT could increase if general interest rates increase, because 30.7% of their loans are floating rate loans and another 58.7% come due and must be refinanced within the next three years
- the substantial leverage of the combined business of ARL, TCI and IOT will increase their vulnerability to economic downturns and could place them at a competitive disadvantage to competitors having lower levels of debt
- high levels of debt could limit the ability of the combined businesses of ARL, TCI and IOT to react to changing conditions in the real estate industry or the economy generally
- failure by the combined business to comply with financial and other restrictive covenants in loan agreements, or failure to make debt service payments could result in events of default under

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

those and other loan agreements that, if not cured or

39

waived, could harm the business or could result in the bankruptcy of one or more subsidiaries of ARL, TCI or IOT or of the combined business as a whole

CONTROL BY BCM AND RELATED CONFLICTS OF INTEREST. ARL, TCI and IOT are each managed and controlled by BCM. The combined business of ARL, TCI and IOT will continue to be managed by BCM as well. ARL, TCI and IOT have no employees. Instead, pursuant to a written advisory agreement, BCM provides services for specific compensation. This arrangement will continue after the mergers and ARL does not expect to employ any full-time personnel. ARL expects to continue to rely upon BCM and the facilities, personnel and resources of BCM to conduct ARL's operations, including the sale of ARL property and the borrowing required to meet ARL's liquidity needs. Also, BCM and its affiliates own or control more than a majority of the voting securities of each of ARL, TCI and IOT, and will own more than a majority of the voting securities of ARL after the merger. It is estimated that pursuant to its advisory agreements with ARL, TCI and IOT, BCM will receive \$3,038,895 in incentive fees and finance fees earned from gains resulting from property sales and when finance or refinance transactions are consummated with respect to the potential sale of properties to finance the expenses of the business combination. The interest of BCM may be different from those of other stockholders of ARL, TCI and IOT, and may be different from those of other holders of the ARL preferred stock. BCM's position may have a number of effects on the combined business of ARL, TCI and IOT which may affect the value of the ARL common and preferred stock, including:

- BCM and its affiliates can control the election of all members of the board of directors of ARL at the present time, and will continue to have that control after the mergers
- BCM and its affiliates are able, and will be able after the mergers, to prevent any transaction that would result in a change of control of ARL
- dealings between ARL and BCM after the mergers may not be at arms length
- BCM as the contractual advisor and BCM's officers and directors are entitled to indemnification from ARL from any action or claims with respect to liability for debts or obligations of ARL and TCI and IOT

The executive officers of each of ARL, TCI and IOT may have conflicts of interest because the executive officers of BCM and ARL are also the executive officers of TCI and IOT. These potential conflicts may arise because:

- BCM's personnel and other resources must be allocated among ARL, TCI and IOT
- BCM will be subject to conflicts between its obligations as an advisor to each of TCI and IOT, on the one hand, and its interests as an affiliate and advisor of ARL on the other
- decisions may have to be made with respect to the extension, modification, or termination of the advisory agreements with each

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

of ARL, TCI and IOT

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

40

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

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

COMPETITION. Developing and managing real estate assets is a highly

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

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

41

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

REAL ESTATE OPERATING RISKS. The real estate assets of the combined business of ARL, TCI and IOT will be subject to industry-specific operating risks, any or all of which may adversely affect the results of the operations of the combined business. All properties are subject to increases in operating expenses, including: cleaning, electricity, heating, ventilation and air-conditioning, elevator repair and maintenance, insurance and administrative costs, and other general costs associated with security, landscaping, repairs, regulatory compliance and maintenance. While commercial tenants are often obligated to pay a portion of these escalating costs, there can be no assurance that they will agree to pay these costs in the absence of a contractual duty or that their payments will fully cover these costs. If operating expenses increase, the local rental market, governmental regulations or the lease may limit the extent to which rents may be increased to meet expenses without decreasing occupancy rates. To the extent rents cannot be increased or costs controlled, the cash flow and financial condition of the combined business of ARL, TCI and IOT will be adversely affected. Industry specific risks related to the asset of the combined business of ARL, TCI and IOT include the following:

- **APARTMENT PROPERTIES.** Market values of apartments can be affected significantly by the supply and demand in the geographic market for the properties and, therefore, may be subject to adverse economic conditions. Market values of apartments may vary as a result of economic events or governmental regulations outside the control of the borrower or lender. Governmental regulations such as rent control laws may impact the future cash flow of the apartments.
- **UNDEVELOPED PROPERTY.** Undeveloped real estate (raw land) generates little or no income. To the extent that undeveloped real estate is purchased with the proceeds of debt, as a result, the costs of holding it will greatly exceed any income it may generate. In addition, the market value of undeveloped

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

real estate tends to fluctuate greatly, depending upon many factors, including local and national economic conditions, interest rates, local development conditions, local land use regulations, the nature and quality of surrounding developed real estate.

- HOTEL PROPERTIES. Like any income producing property, the income generated by a hotel property is subject to local, regional and national economic conditions and competition. However, because the income is primarily generated by short-term occupancies, the level of income responds more quickly to market conditions. Sensitivity to competition may require more frequent improvements and renovations than other properties. To the extent a hotel is affiliated with a regional, national or international chain, changes in the public perception of the affiliated chain may have an impact on the income generated by the hotel. In addition, since the hotel industry is generally seasonal, income generated by a hotel property will fluctuate in

42

accordance with the particular demand characteristics of the market in which it is located.

- OFFICE AND RETAIL PROPERTIES. The market value of office buildings and shopping centers is affected by the risk that a lease may not be renewed, that the space may not be released and that the terms of renewal or release (including the cost of required renovations or concessions to tenants) may be less favorable than current lease terms.
- INVESTMENTS IN NON-RECOURSE MORTGAGE LOANS. Mortgage loans may or may not be recourse obligations of the borrower and generally will not be insured or guaranteed by governmental agencies or otherwise. In the event of a default under this type of a loan, ARL may have to foreclose the mortgage or protect its investment by acquiring title to the property. Taking title to a property may require investing in substantial improvements or repairs in order to maximize the property's investment potential. Borrowers may contest enforcement of foreclosure or other remedies, seek bankruptcy protection against foreclosure and/or bring claims for lender liability in response to actions to enforce mortgage obligations. Because of relatively high "loan-to-value" ratios and declines in the value of the mortgaged property, the amount received in foreclosure may be less than the amount outstanding under the mortgage loan.
- PARTICIPATION IN LOANS MADE BY OTHERS. The combined business of ARL, TCI and IOT may participate in loans originated by other real estate lenders or investors such as financial institutions. A participant in a loan or investment originated by another entity may not have the sole authority, or any authority, to declare a default under the mortgage or to control the management or disposition of the financed property or any related foreclosure proceedings.
- SUBORDINATED INTERESTS. The combined business of ARL, TCI and IOT may make loans that are subordinated to other obligations of the debtor. Any investments in subordinated mortgage loans involve additional risks, including the lack of control over

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

collateral and related foreclosure proceedings.

- INVESTMENTS IN PARTNERSHIPS OR JOINT VENTURES. The combined business of ARL, TCI and IOT will have investments in one or more partnerships, joint ventures or similar entities where responsibility for the conduct of the business of the investment is shared with a third party. As a result, the success of such an investment will be subject to risks that the third party may become bankrupt or fail to perform its obligations, have different economic goals than the combined business, take actions which are contrary to the interests of the combined business or be unable to agree upon the proper conduct of the investment's business.
- RISK OF TERRORISM. Office buildings, hotels and other properties are subject to the risk that terrorists or other persons may damage or destroy them, or that their value may be damaged or destroyed as a result of damage to or destruction of neighboring properties. In addition, to the extent that added security measures made necessary by changing political conditions increases the cost of operating real property investments, operating income from and value of such properties may be reduced.
- AMERICANS WITH DISABILITIES ACT. Under the Americans with Disabilities Act ("ADA"), places of public accommodation and commercial facilities are required to meet requirements related to access and use by disabled persons. Compliance with ADA requirements could require both structural and non-structural changes to the

43

properties in which the combined business of ARL, TCI and IOT invests. Noncompliance could result in fines imposed by the federal government or an award of damages to private litigants. The combined business of ARL, TCI and IOT may be required to incur additional and unexpected costs to ensure compliance with the ADA in the future. A number of additional federal, state and local laws exist which impose additional burdens or restrictions on owners with respect to access by disabled persons. Those laws may require modifications or restrict renovations to properties owned by the combined business of ARL, TCI and IOT. The ultimate amount of the cost of compliance with the ADA or other related laws is not currently ascertainable. Any substantial unexpected costs of compliance with the ADA and similar statutes could adversely affect the results of operations of the combined business of ARL, TCI and IOT.

44

THE SPECIAL MEETINGS

INTRODUCTION

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

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

ARL SPECIAL MEETING

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

TCI SPECIAL MEETING

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

IOT SPECIAL MEETING

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

VOTING INSTRUCTIONS

VOTING BY WRITTEN PROXY CARD. To vote by written proxy card, sign and date each proxy card you receive and return it in the prepaid envelope. If a stockholder is a corporation or partnership, the accompanying proxy card must be signed in the full corporate or partnership name by a duly authorized person. If the proxy card is signed pursuant to a power of attorney or by an executor, administrator, trustee or guardian, the signer's full title must be given and a certificate or other evidence of appointment must be furnished. If shares are owned jointly, each joint owner must sign the proxy card.

VOTING BY TELEPHONE OR THE INTERNET. Instructions for a stockholder of record to vote by telephone or the Internet are set forth on the enclosed proxy card. To vote by telephone, call toll-free 1-800-PROXIES and follow the instructions using the control number provided to you on the proxy card. To vote by Internet, access the web page at www.voteproxy.com and follow the instructions using the control number provided to you on the proxy card. The telephone and Internet voting procedures are designed to authenticate votes cast by use of a personal identification number. The procedures, which comply with Nevada law, allow stockholders to appoint a proxy to vote their shares and to confirm that their instructions have been properly

45

recorded. For stockholders who wish to vote telephonically, after entering your control number, you will hear the name of the company and will be offered the option to vote for all of the recommendations or to vote on each proposal individually. Proposals are referred to by proposal number (as shown on the proxy card). After voting on each proposal, you will be asked to confirm the vote. Prior to ending the call, you will be asked if you wish to vote on another proxy. If yes, the process will be repeated for the next control number entered.

For stockholders who vote via the Internet, after entering your control number, you will be offered the option to vote for all of the recommendations or to vote on each proposal individually. The text of each proposal is displayed exactly as it appears on the proxy card. After the voting process is completed, you will be shown how you have voted and given the opportunity to change your vote. You are also given the option of receiving confirmation of the vote via e-mail. In the future, your e-mail address may be used to distribute material via the Internet. Prior to ending the session, you will be asked if you wish to

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

vote on another proxy. If yes, the process will be repeated for the next control number entered.

Any ARL, TCI or IOT stockholder signing and delivering a proxy (other than for those shares held in a brokerage account, which are described below) has the power to revoke the proxy at any time prior to its use by:

- a. filing with the corporate secretary of ARL, TCI or IOT, as applicable, a written revocation of the proxy or a duly executed proxy;
- b. submitting another proper proxy bearing a later date than that of the proxy first given by:
 - signing and returning a proxy card to either the corporate secretary of ARL, TCI or IOT, as applicable;
 - following the telephone voting instructions to change your vote by calling toll-free 1-800-PROXIES and using the control number provided on the proxy card;
 - following the Internet voting instructions to change your vote by accessing the web page at www.voteproxy.com and using the control number provided on the proxy card; or
- c. attending and voting in person at the meeting.

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

Your broker may vote shares on the merger only if you instruct your broker how to vote. A "broker non-vote" occurs when a broker or nominee holding shares for a beneficial owner does not vote because the broker or nominee lacks the authority to vote on a particular proposal

46

and has not received any voting instructions from the beneficial owner. Broker non-votes will be treated as shares that are present for purposes of determining the presence of a quorum; however, for purposes of determining the outcome of any matter in which brokers or nominees have no discretionary power to vote, broker non-votes will be treated as not present and not entitled to vote with respect to that matter. You should follow the directions provided by your broker regarding how to instruct your broker to vote your shares. If you do not tell your broker how to vote, your shares will not be voted on the merger. If you hold your shares in a brokerage account, you cannot vote in person at your meeting. If you hold your shares in a brokerage account and you have instructed your broker to vote, you must follow your broker's instructions regarding how to change your vote.

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

RECORD DATE; VOTES REQUIRED

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

ARL. Only holders of shares of ARL common stock of record at the close of business on the record date, June 4, 2002, will be entitled to notice of and to vote at the ARL special meeting. The mergers and merger agreements will be approved by ARL if the mergers receive the affirmative vote, in person or by proxy, of a majority of the votes cast at the ARL meeting. The holders of a majority of the outstanding stock entitled to vote, present in person or by proxy, will constitute a quorum for purposes of the ARL meeting. As of the record date for the ARL special meeting, there were 11,375,127 shares of ARL common stock outstanding. BCM, TCI and the members of the board of directors and executive officers of ARL and its affiliates beneficially owned, as of the record date, 7,026,516 shares, which represent approximately 61.7% of the outstanding shares. After completion of the TCI and IOT mergers, the directors, executive officers and affiliates of ARL will beneficially own 72.6% of the outstanding shares of ARL, assuming that none of the TCI and IOT stockholders take Series G and Series H redeemable convertible preferred stock in the mergers and the conversion of all shares of Series G and Series H redeemable convertible preferred stock received in the mergers. The directors, executive officers and the affiliates of the directors and executive officers of TCI and IOT will, indirectly and directly, beneficially own 67.3% of the outstanding common stock of ARL after completion of the TCI and IOT mergers, assuming that none of the TCI and IOT stockholders take Series G and Series H redeemable convertible preferred stock in the mergers and the conversion of all shares of Series G and Series H redeemable convertible preferred stock received in the mergers. BCM will own 66.9% of the outstanding common stock of ARL after completion of the TCI and IOT mergers, assuming that none of the TCI and IOT stockholders take Series G and Series H redeemable convertible preferred stock in the mergers and the conversion of all shares of Series G and Series H redeemable convertible preferred stock received in the mergers. Each share of ARL common stock entitles its holder to cast one vote on matters as to which voting is permitted or required by Nevada law. BCM, TCI and, to the knowledge of ARL, the members of the board of directors and executive officers of ARL and their affiliates intend to vote their shares in favor of the mergers, however, a majority of the nonaffiliated shares is needed to approve the mergers. Since the ARL bylaws require the affirmative vote of a majority of the votes cast at the meeting, abstentions and broker non-votes will be excluded when calculating the number of votes required for approval of the proposals.

47

TCI. Only holders of shares of TCI common stock of record at the close of business on the record date, June 4, 2002, will be entitled to notice of and to vote at the TCI special meeting. The TCI merger and the TCI merger agreement will be approved by TCI if the TCI merger receives the affirmative vote, in person or by proxy, of (1) a majority of the votes cast at the TCI meeting and (2) a majority of the votes cast by the holders of shares of TCI common stock not held by Mr. Phillips, BCM or ARL, voting at the TCI meeting, whether in person or by proxy. The holders of a majority of the shares of voting stock, present in person or by proxy, will constitute a quorum for purposes of the TCI meeting. As of the record date for the TCI special meeting, there were 8,042,594 shares of TCI common stock outstanding. Each share of TCI common stock entitles its holder to cast one vote on matters as to which voting is permitted or required by Nevada law. ARL (indirectly), BCM (directly and indirectly) and the members of the board of directors and executive officers of TCI and its affiliates beneficially owned, as of the record date for the TCI special meeting, 5,217,722 shares, which represent approximately 64.6% of the outstanding shares. ARL, BCM and, to the knowledge of TCI, the members of the board of directors and the executive officers of TCI and its affiliates intend to vote their shares in favor of the TCI merger. Since the TCI bylaws require

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

the affirmative vote of a majority of the votes cast at the meeting, abstentions and broker non-votes will be excluded when calculating the number of votes required for approval of the proposals.

IOT. Only holders of shares of IOT common stock record at the close of business on the record date, June 4, 2002, will be entitled to notice of and to vote at the IOT special meeting. The IOT merger and merger agreement will be approved by IOT if the merger receives the affirmative vote, in person or by proxy, of (1) a majority of the votes cast at the IOT meeting and (2) a majority of the votes cast by the holders of shares of IOT common stock not held by Mr. Phillips, BCM or ARL, voting at the IOT meeting, whether in person or by proxy. The holders of a majority of the shares of voting stock, present in person or by proxy, will constitute a quorum for purposes of the IOT meeting. As of the record date for the IOT special meeting, there were 1,438,945 shares of IOT common stock outstanding. Each share of IOT common stock entitles its holder to cast one vote on matters as to which voting is permitted or required by Nevada law. ARL (indirectly), BCM and the members of the board of directors and executive officers of IOT and its affiliates beneficially owned, as of the record date for the IOT special meeting, 862,465 shares, which represent approximately 59.9% of the outstanding shares. ARL, TCI, BCM and, to the knowledge of IOT, the members of the board of directors and the executive officers of IOT and its affiliates intend to vote their shares in favor of the IOT merger. Since the IOT bylaws require the affirmative vote of a majority of the votes cast at the meeting, abstentions and broker non-votes will be excluded when calculating the number of votes required for approval of the proposals.

APPRAISAL RIGHTS

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

SOLICITATION OF PROXIES

The boards of directors of ARL, TCI and IOT are soliciting proxies for use in connection with the special meetings to be held by each entity and any adjournments or postponements of

48

either meeting. ARL, TCI and IOT will bear equally the expense of the proxy solicitation. The costs of the proxy solicitation are estimated to be \$7,000. Georgeson Stockholder Communications, Inc. has been retained to act as proxy solicitor in connection with the special meetings. The proxy solicitor may contact ARL, TCI and IOT stockholders by mail, telephone, telex, telegraph and personal interviews and may request brokers, dealers and other nominee stockholders to forward the proxy materials to beneficial owners of ARL, TCI or IOT shares. The proxy solicitor will receive a fee estimated not to exceed \$30,000 for these services, plus reimbursement of out-of-pocket expenses. ARL, TCI and IOT will indemnify the proxy solicitor against certain liabilities and expenses in connection with the mergers, including liabilities under federal securities laws. The telephone number of the proxy solicitor is 212-805-7000.

OTHER MATTERS FOR ACTION AT THE SPECIAL MEETINGS

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

SPECIAL FACTORS

GENERAL

The following is a description of all material matters concerning the business combination. Pursuant to the business combination, wholly-owned subsidiaries of ARL will be merged with and into TCI and IOT and TCI and IOT will become subsidiaries of ARL. If the TCI stockholders approve their merger and the merger is consummated, each share of outstanding TCI common stock will be converted into \$17.50 in cash (less the amount of any dividend declared and paid after January 2, 2002 by TCI on the TCI common stock) unless the TCI stockholder affirmatively elects to receive one share of Series G redeemable convertible preferred stock in exchange for each share of outstanding TCI common stock. Outstanding shares of TCI common stock held by ARL, its subsidiaries or TCI will be cancelled and shares of TCI common stock held by BCM and other affiliates of ARL will be exchanged for shares of Series G redeemable convertible preferred stock. Similarly, if the IOT stockholders approve their merger, each share of outstanding IOT common stock will be converted into \$19.00 in cash (less the amount of any dividends declared and paid after January 2, 2002 by IOT on the IOT common stock) unless the IOT stockholder affirmatively elects to receive one share of Series H redeemable convertible preferred stock. Outstanding shares of IOT held by ARL, its subsidiaries, TCI or IOT will be cancelled and each share of IOT common stock held by BCM and other affiliates of ARL will be exchanged for shares of Series H redeemable convertible preferred stock. Notwithstanding the foregoing, the ARL board of directors has determined that ARL would not enter into the merger agreements unless, in each case, sufficient cash was available to ARL, either from its own resources or from TCI or IOT immediately after the mergers, to pay the cash merger consideration due as a result of the mergers.

THE COMPANIES

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

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

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

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

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

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

Opportunity Acquisition Corporation and Transcontinental Realty Acquisition Corporation are located at 1800 Valley View Lane, Suite 300, Dallas, Texas 75234. The telephone number for each corporation is 469-522-4200.

BACKGROUND OF THE BUSINESS COMBINATION

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

On June 14, 2000, Mr. Phillips and A. Cal Rossi, Jr. were indicted* by a Grand Jury in the Southern District of New York, charged with conspiracy to commit securities fraud and kickback and wire fraud schemes. Mr. Phillips is a representative of a trust for the benefit of his children that indirectly owns BCM. As a representative of the trust, Mr. Phillips has substantial contact with, and influence over, the management of BCM and input with respect to BCM's performance of advisory services for ARL, TCI and IOT. Mr. Rossi serves as an officer of BCM, ARL, TCI and IOT. Following the announcement of the indictments the market values of TCI and IOT common stock declined precipitously, thereby exposing certain owners of the securities to margin calls. Sales under margin calls were averted in almost all instances, but one brokerage firm sold a large block of stock in TCI to an investment fund. On October 3, 2001, ARL entered into an option to purchase the TCI common stock from the investment fund at a price of \$16.50 per share. Mr. Donaldson, Settlement Counsel under the Olive Settlement, read about the purchase option agreement and inquired as to whether or not there was interest in a transaction whereby all of the shares owned by nonaffiliate stockholders in IOT and TCI might be purchased by ARL for cash.

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

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

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

attended a meeting with Ted P. Stokely, Chairman of the board of TCI and IOT,

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

and Robert A. Waldman, General Counsel to ARL, TCI and IOT, to discuss the mechanics leading toward a possible settlement. On November 3, 2000, Settlement Counsel, Mr. Phillips and Mr. Simon met to negotiate a possible pricing structure. Mr. Phillips indicated that he might consider recommending that ARL acquire the shares of common stock held by nonaffiliated TCI stockholders for \$16 per share and nonaffiliated IOT stockholders for \$14 per share.

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

On November 17, 2000, at meetings of the boards of directors of TCI and IOT, the members were advised that Settlement Counsel had expressed an initial interest in a buy out by ARL of all nonaffiliated stockholders at \$16 per TCI share and \$14 per IOT share, subject to further information and negotiation as to price. In attendance at the meetings were directors R. Douglas Leonhard*, Martin L. White, Edward G. Zampa* and Ted P. Stokely. Also attending the meetings were Mark W. Branigan, then a director of ARL and Chief Financial Officer of ARL, TCI and IOT, Karl L. Blaha, then a director of ARL and President of ARL, TCI and IOT, and Robert A. Waldman, Senior Vice President, General Counsel and Secretary of ARL, TCI and IOT.

On November 20, 2000, Settlement Counsel, Mr. Waldman, Mr. Phillips and Mr. Simon met in Dallas to discuss the proposals made and responses received between the parties. At that time Settlement Counsel indicated that he would not consider any price less than \$16.50 per share for the TCI shares, which was the option price agreed to between ARL and the investment fund. Settlement Counsel took the position, that under no circumstances would he agree to any settlement in which the cash price per share to be paid to the nonaffiliated TCI stockholders was less than the amount ARL would have to pay by April 2001 to exercise its options for the TCI shares purchased from a private investment fund. Accordingly, the price of \$16.50 cash per share became Settlement Counsel's absolute floor for the purchase price for the TCI shares. Additionally, Settlement Counsel advised that in order to go forward he wished to engage Green Street Advisors, Inc. to review asset values of TCI and IOT. Settlement Counsel was unwilling to commit to support any specific price until Green Street completed its review of the value of TCI and IOT. Settlement Counsel also advised that whatever price might be agreed upon would be based upon a current appraisal and evaluation of the underlying assets of the subject companies. Green Street Advisors, Inc. is a Newport Beach based independent research and consulting firm concentrating on publicly-traded real estate securities, principally real estate

* Messrs. Leonhard and Zampa resigned as directors of TCI and IOT on December 14, 2001. Messrs. Leonhard and Zampa were directors of both TCI and IOT, but held no other position in any of TCI, IOT or ARL. Mr. Leonhard did not provide any reason for his resignation; Mr. Zampa advised that his workload had increased and time no longer permitted him to continue; neither individual advised of any disagreement with any policies or practices or operations of either TCI or IOT, nor did either individual furnish TCI or IOT with any letter describing any disagreement and requesting that the matter be disclosed. See also Current Report on Form 8-K for event occurring December 14, 2001 of TCI and IOT.

investment trusts ("REITs") and other publicly-traded real estate companies. Green Street's stated mission is to provide exceptional research products and consulting services that lead to superior investment performance and insight for its clients. Green Street was selected by Settlement Counsel without any input or concurrence by any representative of ARL or its counsel. Except where Green Street provided information to Settlement Counsel based upon information obtained from ARL, TCI or IOT and their affiliates, no material relationship exists between Green Street and ARL, TCI or IOT nor has any existed during the past two years. To the best knowledge of the representatives of ARL, Green Street did not provide any opinion or appraisal or recommendation relating to the fairness of the consideration in either merger transaction. Green Street apparently provided to Settlement Counsel information with respect to TCI's and IOT's separate net asset values in the aggregate and on a per share basis, implied cap rate, multi-family property net operating income, or NOI, office property NOI, industrial property NOI, retail property NOI, and hotel property NOI. Net operating income, or NOI, means rental revenues less property operating expenses and replacements before debt service. Such information was prepared for and available to Settlement Counsel, but does not include any specific recommendations, procedures followed, basis for or methods of arriving at any findings or recommendations. Green Street did not receive any instructions from ARL, TCI or IOT, nor did ARL, TCI or IOT impose any limitations upon Green Street in the scope of its investigation or the information it provided to Settlement Counsel.

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

During the month of December 2000, Mr. Simon discussed with Settlement Counsel the appropriate procedure to advise Judge Patel that the parties were considering settlement. On December 21, 2000, Mr. Simon approved a form of Statement of the Case to be submitted by Settlement Counsel, which would formally advise Judge Patel that the parties were discussing a settlement. During January 2001, Messrs. Simon and Waldman prepared at the request of Settlement Counsel certain historical summaries of the trading values of stocks involved and facilitated the exchange of information between BCM and Green Street in order to expedite the analysis of the underlying values of TCI and IOT. On February 14, 2001, Mr. Simon discussed with Settlement Counsel certain discounts and other assumptions which ARL felt were appropriate in reaching final values. These discussions continued with telephone conversations on February 22, 23, and 28, 2001. On March 7, 2001, Settlement Counsel and Adam Markman

** Richard D. Morgan resigned as a director of ARL on October 25, 2001. Mr. Morgan did not provide any reason for his resignation and did not advise of any disagreement with any policies or practices or operations of ARL nor did he furnish ARL with any letter describing any disagreement and requesting that the matter be disclosed.

*** Karl L. Blaha resigned as a director of ARL and from his positions as President of ARL, TCI and IOT on February 5, 2002. Mr. Blaha did not provide any reason for his resignation and did not advise of any disagreement with any policies or practices or operations of either ARL, TCI or IOT, nor did he

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

furnish ARL, TCI or IOT with any letter describing any disagreement and requesting that the matter be disclosed. See also Current Report on Form 8-K for event occurring December 14, 2001 of TCI and IOT.

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

53

of Green Street met with Messrs. Simon and Waldman in Dallas to review additional information regarding certain assets. Following that meeting and several other conversations but prior to April 12, 2001, Messrs. Simon and Phillips and Settlement Counsel reached a tentative agreement to propose final cash prices of \$16.50 for each of the TCI shares and \$19 for each of the IOT shares.

On or about February 1, 2001, Settlement Counsel forwarded to Mr. Simon and Mr. Phillips an initial report from Green Street which, while not a complete economic analysis, reflected some of the methodology to be used by Green Street. Issues arose with Mr. Phillips and Mr. Blaha over the assumptions contained within the methodology, as follows:

- Mr. Phillips and his advisors disputed the appropriate cap rate for many of the apartment properties which would depend, to a great extent, on whether those particular properties might be classified as "B" or "C" apartment projects. And, as a function of the cap Mr. Phillips and Mr. Branigan analyzed the capital budgets, both past and projected for these properties
- With reference to raw land Mr. Phillips and his advisors debated the effect on probable value of the sale of parcels out of a large tract. The questions raised were how indicative a single or even several separate parcel sales might be toward fixing the value of a tract of 100 plus acres
- Additionally, issues were raised as to the economic significance of pending, unclosed contracts
- Mr. Phillips and his advisors debated the proper criteria to utilize in attempting to determine the economic values to be obtained if a large number of the properties, particularly those grouped in the same markets, were to be placed on the market within a six to twelve month period

On February 14, 2001, Simon discussed with Settlement Counsel certain discounts and other assumptions which ARL felt were appropriate in reaching final values. These discussions continued with telephone conversations on February 22, 23, and 28, 2001.

These conversations were critical to the final result. The prospect of lowered interest rates, as the result of a national recession and possible action by the Federal Reserve Board, would produce higher values for older properties because such rates facilitated both sales and refinancing. However, Mr. Phillips and his advisors disputed the lasting effect of such a monetary policy. Mr. Phillips pointed out that lowered rates increased new construction, which, while it generated economic activity, also increased competition. And, the recession, arguably, affected the collectibility of rent. Generally, it was Phillips' view that immediate conditions should be seen in a longer context, leading generally to lower value for these older units. Settlement Counsel disputed the discounting of current conditions.

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

On March 7, 2001, Settlement Counsel and Adam Markman of Green Street met with Messrs. Simon and Waldman in Dallas, Texas to review additional information regarding certain assets. Following that meeting and several other conversations but prior to April 12, 2001, Settlement Counsel and Messrs. Simon and Phillips reached a tentative agreement to propose final cash prices of \$16.50 for each of the TCI common stock and \$19 for each of the IOT

54

common stock. Other criteria and assumptions commonly utilized in the evaluation of real estate were likewise raised and debated through these discussions.

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

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

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

On August 30, 2001, the TCI and IOT directors held special meetings at which time they approved the terms of the proposed settlement subject to completion of due diligence and negotiation of a final agreement. In attendance at the meetings were directors Messrs. Leonhard, White, Zampa and Stokely. Also attending the meetings were Messrs. Blaha, Corna and Waldman. Mr. Waldman reviewed the terms of the proposed settlement which had been negotiated between the parties. They discussed the need to obtain approval from the Court and from the nonaffiliated stockholders of TCI and IOT. The Settlement Agreement was drafted by Messrs. Donaldson and Simon in September 2001. Mr. Simon discussed

the proposed joint

55

settlement with Settlement Counsel on a daily basis during September and the early part of October. Mr. Simon met with Settlement Counsel in San Francisco on October 3 and 4, 2001 to continue discussions of the Settlement Agreement. Commencing on October 12, 2001, Mr. Simon broadened his activities to discuss all aspects of the then "draft" form of the Settlement Agreement, along with ancillary documents to be filed therewith, with Jessica Pers and David Goldstein of the Heller Ehrman White & McAuliffe law firm, special counsel to the boards of directors of TCI and IOT in the Olive Litigation.

On October 15, 2001, Mr. Simon discussed certain new concerns with Messrs. Donaldson and Waldman, Eric Redwine, an attorney for BCM, and again with Ms. Pers. Ms. Pers, by letter, and in telephone conferences raised a concern regarding whether or not the language embodied in the draft agreement might be read to indicate that an appeal, then pending, was being abandoned by the appellants. It was agreed that a part of the Settlement Agreement would be a voluntary abatement, assuming the consent of the 9th Circuit Court of Appeals, in the pending appeal over issues of jurisdiction which arose from an earlier order from Judge Patel in which the Court declared that it had jurisdiction to continue consideration of certain activities of the TCI and IOT directors and of BCM and its officers.

On October 18, 2001, the written Settlement Agreement was filed with Judge Patel. Ms. Pers suggested new language which would make it clear that the appeal, if abated, was not being abandoned or resolved by agreement and would revive in the event the contemplated settlement failed to come to fruition. On October 23, 2001, a press release was issued on behalf of ARL, TCI and IOT announcing the preliminary agreement with Settlement Counsel providing for ARL to acquire all of the outstanding common stock of TCI and IOT. On October 25, 2001, the boards of directors of TCI and IOT held special meetings with the representatives of Houlihan Lokey. The directors reviewed the settlement proposal and discussed with Houlihan Lokey the procedures that Houlihan Lokey would apply in analyzing the fairness of the proposed transaction. It was noted that Houlihan Lokey would render an opinion as to the fairness from a financial point of view of the consideration to be received by the TCI and IOT nonaffiliated public stockholders.

On the morning of December 10, 2001, counsel reported to Judge Patel on their progress and received the Court's comments. That afternoon and evening the parties worked through the Court's comments, as well as certain comments relayed to the parties from Stephen Taylor, the Special Master. On December 11, 2001, Messrs. Simon and Donaldson had extensive telephone conversations with all participants in the negotiation process which resulted in certain changes being made to the documents and, upon accomplishment of such changes, the documents then believed to be in final form were filed with Judge Patel. The Court signed the order preliminarily approving the Settlement Agreement on December 18, 2001. The Court also approved a proposed Notice of Proposed Settlement of Derivative Action which was then mailed to all stockholders of TCI and IOT. The Notice described the proposed settlement and advised that a Settlement Hearing would be held on February 4, 2002.

On February 1 and 4, 2002, the TCI board of directors met by telephone conference to review a draft of a board presentation prepared by Houlihan Lokey, which contained proposed revisions to the timing of the conversion period of the preferred stock available by affirmative election by the TCI stockholders. During that meeting, discussions ensued concerning the

56

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

probable timing based upon potential filings by ARL depending upon the consummation of the TCI merger. The TCI board of directors concluded that the recommended change in timing of conversion periods would be beneficial to those TCI stockholders who affirmatively elect to receive preferred stock. Following these discussions, the TCI directors reaffirmed their February 1, 2002, determination that the terms of the Settlement Agreement and contemplated merger are procedurally and substantively fair to the nonaffiliated TCI stockholders as previously described.

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

On February 4, 2002, the board of directors of ARL had a telephonic board meeting to begin consideration of the proposed acquisitions of TCI and IOT by ARL in the manner contemplated by the Settlement Agreement. Present at the meeting were Ms. Currie and Messrs. Cecil, Humphrey and Mizrachi. Also attending the meeting were Ronald E. Kimbrough, Mr. Waldman, Jeffrey Sone and Tiffany Marchesoni. Following a discussion of the proposed transaction, the ARL board adjourned until the following afternoon to permit members of the board to consider information provided by management and to receive additional information requested by members of the board. The meeting of the ARL board reconvened on February 5, 2002. In attendance were directors Ms. Currie and Messrs. Cecil and Humphrey. Also attending the meeting were Messrs. Kimbrough, Waldman, Sone and Tiffany Marchesoni. The board received presentations from management regarding the proposed transaction, including detailed presentations regarding ARL's proposed plan for raising the funds necessary to pay for shares of TCI and IOT common stock to be purchased from stockholders not affiliated with ARL or BCM. In addition, the ARL board received representations from legal counsel to ARL and discussed with management of ARL and ARL's legal counsel matters relating to the proposed transactions. Mr. Cecil, Ms. Currie and Mr. Humphrey were present, in person, at the meeting of the ARL board on February 5. Messrs. Blaha and Mizrachi were not present. Following an extended discussion regarding the proposed transactions among ARL, TCI and IOT and other matters related to the current and proposed business operations of ARL, the board again adjourned its meeting until the following afternoon. Subsequent to the adjournment of the ARL board's meeting on February 5, Mr. Blaha tendered his resignation as a member of the ARL board and as an officer of ARL, TCI and IOT. Mr. Blaha did not communicate the reasons for his resignation to the ARL board or to the boards of TCI or IOT.

On February 6, 2002, the ARL board reconvened telephonically. Present for the entire meeting were Ms. Currie and Messrs. Humphrey and Mizrachi. Mr. Cecil joined the meeting after it was in progress. Also attending the meeting were Messrs. Kimbrough, Waldman, and Sone and Ms. Marchesoni. Following a discussion of the proposed transaction, the board unanimously approved the proposed business combination between ARL and each of TCI and

IOT and determined to recommend that stockholders of ARL approve the transactions. Following these actions, the board adjourned its meeting.

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

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

Because the business combination arose out of a negotiated settlement of the Olive litigation, the boards of TCI and IOT were presented with the settlement terms to either approve or not approve and continue with the Olive litigation. This was not a typical merger or acquisition situation where the board of directors had alternatives to consider. Continuation as a going concern not considered because it would not have settled the litigation. However, the TCI and IOT stockholders may continue to participate in the future of the combined companies by opting to receive Series G or H convertible preferred stock. Liquidation was considered only in the evaluation of the assets of each company with a discount for the cost of liquidation and the uncertainty of realizing the asset values over the time required to liquidate.

DETERMINATION OF MERGER CONSIDERATION

The merger consideration was determined through negotiations by and between representatives of ARL and Settlement Counsel in the Olive Litigation. The parties desired to reach a settlement which would allow the nonaffiliated TCI and IOT stockholders to obtain a fair price for their common stock and resolve the ongoing litigation. Settlement Counsel sought to obtain the highest cash price possible for the shares. Green Street reviewed the assets of both companies and advised Settlement Counsel on the underlying net asset values. The agreed upon cash prices per share were greater than the current or historical trading prices and less than the estimated net asset value per share.

ARL desired to provide the stockholders with an opportunity to continue to participate in the ongoing business combination through stock ownership. Therefore, the proposal to allow stockholders to affirmatively elect to receive one share of ARL preferred stock for each one share of TCI or IOT common stock was set forth. Each series of the preferred stock was set with a liquidation value per share at a premium above the cash price per share. ARL set the annual dividend on the preferred stock at 10%. The conversion ratio was not determined by the board of directors of ARL until after Houlihan Lokey completed their evaluation and calculated a range of conversion ratios based on such evaluation. Initially, Houlihan Lokey's engagement was limited to rendering an opinion as to the fairness from a financial point of view of the consideration to be received by the IOT and TCI nonaffiliated public stockholders. The scope of the engagement was subsequently expanded and Houlihan Lokey was requested to conduct negotiations on behalf of the TCI and IOT boards of directors with representatives of ARL with respect to the terms of the proposed transaction, including the conversion ratios for each series of preferred stock and the timing of ARL's right to redeem the preferred stock.

Houlihan Lokey advised the TCI and IOT boards that the conversion ratios should be such that the stockholders would receive a number of shares of ARL common stock with a range of underlying net asset values that approximates the range of the underlying net asset values of the shares of TCI or IOT common stock they had exchanged for one share of ARL preferred stock. They also suggested that the ARL preferred shares should not be redeemable until the

58

nonaffiliated stockholders had an opportunity to evaluate the resulting business combination and convert to ARL common stock.

TCI'S PURPOSE AND REASONS FOR THE TCI MERGER

Pursuant to the Settlement Agreement, TCI received an offer to its stockholders at \$17.50 cash per share. That offer (in the form of the merger of

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

TCI into ARL) was at a significant premium over the average closing price of TCI common stock over the thirty trading days prior to October 23, 2001. The TCI board of directors received a suggestion of the concept of a cash offer through advice initially in November 2000 and continued with periodic updates, through mid-October 2001. Although the actual amount of the offer was not finalized until October 23, 2001, the concept of the offer at a range reflecting a significant premium over the then market price was known. Once actually received, the TCI board of directors began the analysis process by employment of Houlihan Lokey as an independent financial advisor and reviewing information to determine the potential fairness of the offer to the TCI stockholders.

In reaching its decision to approve the TCI merger agreement and to recommend that TCI stockholders approve the TCI merger agreement, the TCI board of directors consulted with management and its legal and financial advisors. The TCI board of directors reviewed various information available to it and provided by management, financial advisors and counsel and considered a number of factors, including those described below. During its review, the TCI board of directors did not address whether any of the various factors, information or advice should be considered as a positive or negative factor affecting their respective determinations. In certain instances, one or more of the factors might be considered to be both positive and negative depending upon the importance to the reviewer. The factors were simply viewed as a whole, and the individual members of the TCI board of directors did not find it necessary to make any list of so-called positive factors or so-called negative factors. The TCI board of directors considered a number of factors including, without limitation, the following potentially positive factors:

- The current and historical market prices of TCI common stock relative to the merger consideration and the fact that the \$17.50 per share merger consideration represented a 44.6% premium over the average closing price of TCI common stock over the thirty trading days prior to October 23, 2001.
- The fact that the merger consideration is all cash, which provides certainty of value to nonaffiliated TCI stockholders compared to a transaction in which stockholders would only receive stock.
- The fact that nonaffiliated TCI stockholders have the opportunity to affirmatively elect to receive ARL preferred stock instead of cash.
- It is the view of the TCI board of directors that the trading value for shares of TCI common stock was not likely to exceed the merger price in the near term if TCI remained independent.
- The potential stockholder value that could be expected to be generated from other strategic options available to TCI, including (a) remaining independent and continuing to implement its growth strategy, or (b) pursuing other strategic alternatives, as well as the risks and uncertainties associated with those alternatives.
- The financial presentation of Houlihan Lokey and the opinion of that firm delivered on February 1, 2002 to the TCI board of directors to the effect that, based upon and

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

February 1, 2002, the consideration to be offered to the nonaffiliated TCI public stockholders pursuant to the TCI merger agreement was fair from a financial point of view to those holders.

- The terms of the TCI merger agreement, as reviewed by the TCI board of directors with TCI legal advisors including:
 - the absence of any financing condition
 - no termination fee if the TCI merger agreement is terminated
 - consummation of the TCI merger agreement resolving expensive, inconvenient and distracting litigation
- The TCI board of directors' determination, based on the fact that no other offers to acquire TCI common stock have been made at a level equal to or better than the merger consideration of \$17.50 per share before or after initial press reports on and after October 23, 2001, that ARL had agreed to acquire the nonaffiliated stockholder interest in TCI and after discussing with TCI's advisors the potential risks, costs and benefits of contacting other third parties, that there was insufficient reason to justify the risk of delay in proceeding with the favorable transaction with ARL.
- In the view of the TCI board of directors, based upon the advice of management after consultation with its legal counsel, the regulatory approvals necessary to consummate the TCI merger could be obtained.
- TCI will no longer exist as an independent company, and its stockholders will no longer participate in the growth of TCI or the pursuit of its standalone business plan and other factors set forth in the TCI certificate of incorporation.
- Under the terms of the TCI merger agreement, the fact that gains from an all cash transaction would be taxable to TCI stockholders for U.S. federal income tax purposes.

Although the various factors were simply viewed as a whole, and the individual members of the TCI board did not make any list of positive or negative factors, the following potentially negative factors were considered by the board in its deliberations concerning the merger in relation to both the ARL and TCI businesses, but the board was not able to quantify any of the following:

- Although the \$17.50 per share merger consideration represents a significant premium over the average closing price of TCI common stock over the thirty trading days prior to October 23, 2001, the \$17.50 per share merger consideration is less than the calculated book value per share from a financial standpoint (at December 31, 2001, it was \$26.95 per share).
- Based upon unaudited pro forma consolidated financial statements giving effect to the merger of TCI into ARL, resulting earnings per share would also be less than the

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

historical earnings per share of TCI (\$2.32 per share at December 31, 2001).

- ARL will have to raise capital from other sources, refinance indebtedness, or sell assets (likely including assets owned by TCI) to produce proceeds sufficient to finance the cash payments in the merger to TCI stockholders, all of which is likely to result in a substantial increase in the amount of leverage as a result of the merger.

60

- By virtue of a number of factors, it is possible that there may not be sufficient ARL cash to allow the payment of dividends on the Series G redeemable convertible preferred stock as a result of the substantial debt to be incurred and increase of leverage by ARL.
- The likelihood that some significant divestitures will be required and the risk that the circumstances of any such divestitures may not fully maximize the value received for the divested assets.
- The risk of diverting management focus and corporate resources from other strategic opportunities and operational matters for an extended period of time.
- Gains from an all cash transaction would be taxable to TCI stockholders for U.S. federal income tax purposes even though some TCI stockholders may elect to receive Series G redeemable convertible preferred stock.

The TCI board of directors has an awareness of all of the possible adverse consequences described above, including that the book value per share of TCI common stock from a financial standpoint exceeds the cash offered of \$17.50 per share. Historically, the market value per share of TCI common stock (at least for the last several years) has been less than the calculated book value per share from a financial standpoint (at December 31, 2001, \$26.95 per share). The Board of Directors of TCI is also well aware that ARL will have to raise capital from other sources, which will likely include sales of assets owned by TCI, to produce proceeds sufficient to finance the cash payments in the merger to TCI stockholders, all of which is likely to result in a substantial increase in the amount of leverage as a result of the merger.

During its consideration of the transaction with ARL, the TCI board of directors were also aware that certain directors and executive officers of TCI may have interests in the merger that are different from or in addition to those of nonaffiliated TCI stockholders generally, as described under "Interests of Directors and Officers in the Business Combination." Specifically, the executive officers of BCM, ARL, TCI and IOT are the same. TCI and IOT have the same directors and Mr. Earl Cecil is a director of ARL, TCI and IOT. The multiple positions held by these individuals causes them to owe fiduciary duties to more than one company in the business combination.

The discussion of the information and factors considered and given and

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

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

IOT'S PURPOSE AND REASONS FOR THE IOT MERGER

Pursuant to the Settlement Agreement, IOT received an offer to its stockholders at \$19 cash per share. That offer (in the form of the merger of IOT into ARL) was at a significant

61

premium over the average closing price of IOT common stock over the thirty trading days prior to October 23, 2001. The IOT board of directors received a suggestion of the concept of a cash offer through advice initially in November 2000 and continued with periodic updates, through mid-October 2001. Although the actual amount of the offer was not finalized until October 23, 2001, the concept of the offer at a range reflecting a significant premium over the then market price was known. Once actually received, the IOT board of directors began the analysis process by employment of Houlihan Lokey as an independent financial advisor and reviewing information to determine the potential fairness of the offer to the IOT stockholders.

In reaching its decision to approve the IOT merger agreement and to recommend that IOT stockholders approve the IOT merger agreement, the IOT board of directors consulted with management and its legal and financial advisors. The IOT board of directors reviewed various information available to it and provided by management, financial advisors and counsel and considered a number of factors, including those described below. During its review, the IOT board of directors did not address whether any of the various factors, information or advice should be considered as a positive or negative factor affecting their respective determinations. In certain instances, one or more of the factors might be considered to be both positive and negative depending upon the importance to the reviewer. The factors were simply viewed as a whole, and the individual members of the IOT board of directors did not find it necessary to make any list of so-called positive factors or so-called negative factors. The IOT board of directors considered a number of factors including, without limitation, the following potentially positive factors:

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

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

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

62

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

Although the various factors were simply viewed as a whole, and the individual members of the IOT board did not make any list of positive or

Edgar Filing: AMERICAN REALTY INVESTORS INC - Form S-4/A

negative factors, the board did consider the following potentially negative factors in its deliberations concerning the merger in relation to both the ARL and IOT businesses, but the board was not able to quantify any of the following:

- Although the \$19.00 per share merger consideration represents a significant premium over the average closing price of IOT common stock over the thirty trading days prior to October 23, 2001, the \$19 per share merger consolidation is less than the calculated book value per share from a financial standpoint (at December 31, 2001, it was \$24.48 per share).
- Based upon the unaudited pro forma consolidated financial statements, the merger may result in earnings per share of ARL that are less than the historical earnings per share of IOT and TCI.
- ARL may have to raise capital from other sources, refinance indebtedness, or sell assets (likely including assets owned by IOT) to produce proceeds sufficient to finance the cash payments in the merger to IOT stockholders, all of which is likely to result in a substantial increase in the amount of leverage as a result of the merger.
- By virtue of a number of factors, it is possible that there may not be sufficient ARL cash to allow the payment of dividends on the Series G redeemable convertible preferred stock as a result of the substantial debt to be incurred and increase of leverage by ARL.

63

- The likelihood that some significant divestitures will be required and the risk that the circumstances of any such divestitures may not fully maximize the value received for the divested assets.
- The risk of diverting management focus and corporate resources from other strategic opportunities and operational matters for an extended period of time.
- Gains from an all cash transaction would be taxable to IOT stockholders for U.S. federal income tax purposes even though some IOT stockholders may elect to receive Series G redeemable