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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2024  
or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-09240

**TRANSCONTINENTAL REALTY INVESTORS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

Nevada  
(State or Other Jurisdiction of  
Incorporation or Organization)

94-6565852  
(I.R.S. Employer  
Identification No.)

**1603 Lyndon B. Johnson Freeway, Suite 800, Dallas, Texas 75234**  
(Address of principal executive offices) (Zip Code)

**(469) 522-4200**  
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	TCI	NYSE

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer       Accelerated filer       Non-accelerated filer       Smaller reporting company   
Emerging growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of November 7, 2024, there were 8,639,316 shares of common stock outstanding.

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TRANSCONTINENTAL REALTY INVESTORS, INC.  
FORM 10-Q

TABLE OF CONTENTS

	<b><u>PAGE</u></b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Item 1.</u>	<u>Financial Statements</u>
	<u>Consolidated Balance Sheets at September 30, 2024 and December 31, 2023</u>
	3
	<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2024 and 2023</u>
	4
	<u>Consolidated Statements of Equity for the three and nine months ended September 30, 2024 and 2023</u>
	5
	<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2024 and 2023</u>
	6
	<u>Notes to Consolidated Financial Statements</u>
	7
<u>Item 2.</u>	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>
	18
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risks</u>
	25
<u>Item 4.</u>	<u>Controls and Procedures</u>
	26
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1.</u>	<u>Legal Proceedings</u>
	26
<u>Item 1A.</u>	<u>Risk Factors</u>
	26
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	26
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>
	26
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>
	26
<u>Item 5.</u>	<u>Other Information</u>
	26
<u>Item 6.</u>	<u>Exhibits</u>
	27
<u>Signatures</u>	29

**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
(dollars in thousands, except share and par value amounts)  
(Unaudited)

	<b>September 30, 2024</b>	<b>December 31, 2023</b>
<b>Assets</b>		
Real estate	\$ 527,562	\$ 501,586
Cash and cash equivalents	39,507	36,700
Restricted cash	29,588	42,327
Short-term investments	92,052	90,448
Notes receivable (including \$61,245 and \$65,057 at September 30, 2024 and December 31, 2023, respectively, from related parties)	128,229	133,837
Receivables from related party	139,398	136,211
Other assets (including \$831 and \$1,742 at September 30, 2024 and December 31, 2023, respectively, from related parties)	100,253	101,935
Total assets	<u>\$ 1,056,589</u>	<u>\$ 1,043,044</u>
<b>Liabilities and Equity</b>		
<b>Liabilities:</b>		
Mortgages and other notes payable	\$ 180,272	\$ 179,141
Accounts payable and other liabilities (including \$604 and \$1,016 at September 30, 2024 and December 31, 2023, respectively, to related parties)	20,139	13,735
Accrued interest	3,082	2,633
Deferred revenue	581	581
Total liabilities	<u>204,074</u>	<u>196,090</u>
<b>Equity</b>		
<b>Shareholders' Equity:</b>		
Common stock, \$0.01 par value, 10,000,000 shares authorized; 8,639,316 shares issued and outstanding	86	86
Additional paid-in capital	261,399	260,990
Retained earnings	570,685	564,931
Total shareholders' equity	832,170	826,007
Noncontrolling interest	20,345	20,947
Total equity	852,515	846,954
Total liabilities and equity	<u>\$ 1,056,589</u>	<u>\$ 1,043,044</u>

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

**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(dollars in thousands, except per share amounts)  
(Unaudited)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
<b>Revenues:</b>				
Rental revenues (including \$159 and \$232 for the three months ended September 30, 2024 and 2023, respectively, and \$495 and \$731 for the nine months ended September 30, 2024 and 2023, respectively, from related parties)	\$ 11,074	\$ 11,838	\$ 33,541	\$ 34,236
Other income	533	687	1,738	2,216
Total revenue	<u>11,607</u>	<u>12,525</u>	<u>35,279</u>	<u>36,452</u>
<b>Expenses:</b>				
Property operating expenses (including \$87 and \$97 for the three months ended September 30, 2024 and 2023, respectively, and \$253 and \$296 for the nine months ended September 30, 2024 and 2023, respectively, from related parties)	6,989	7,443	20,247	20,580
Depreciation and amortization	3,120	3,313	9,429	9,615
General and administrative (including \$879 and \$796 for the three months ended September 30, 2024 and 2023, respectively, and \$2,688 and \$2,854 for the nine months ended September 30, 2024 and 2023, respectively, from related parties)	1,223	1,432	3,898	7,836
Advisory fee to related party	1,944	2,112	5,789	6,282
Total operating expenses	<u>13,276</u>	<u>14,300</u>	<u>39,363</u>	<u>44,313</u>
Net operating loss	(1,669)	(1,775)	(4,084)	(7,861)
Interest income (including \$2,711 and \$5,522 for the three months ended September 30, 2024 and 2023, respectively, and \$8,084 and \$15,962 for the nine months ended September 30, 2024 and 2023, respectively, from related parties)	5,917	9,676	17,244	26,998
Interest expense	(2,075)	(1,902)	(5,806)	(7,415)
Gain on foreign currency transactions	—	—	—	993
Loss on early extinguishment of debt	—	—	—	(1,710)
Equity in income from unconsolidated joint venture	283	85	827	798
Gain on sale or write-down of assets, net	—	—	—	188
Income tax provision	(546)	(1,322)	(1,818)	(2,638)
Net income	<u>1,910</u>	<u>4,762</u>	<u>6,363</u>	<u>9,353</u>
Net income attributable to noncontrolling interest	(203)	(311)	(609)	(855)
Net income attributable to the Company	<u>\$ 1,707</u>	<u>\$ 4,451</u>	<u>\$ 5,754</u>	<u>\$ 8,498</u>
<b>Earnings per share - basic and diluted</b>				
	<u>\$ 0.20</u>	<u>\$ 0.52</u>	<u>\$ 0.67</u>	<u>\$ 0.98</u>
Weighted average common shares used in computing earnings per share - basic and diluted	<u>8,639,316</u>	<u>8,639,316</u>	<u>8,639,316</u>	<u>8,639,316</u>

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

**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**CONSOLIDATED STATEMENTS OF EQUITY**  
(dollars in thousands)  
(Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Total Shareholders' Equity	Noncontrolling Interest	Total Equity
<b>Three Months Ended September 30, 2024</b>						
Balance, July 1, 2024	\$ 86	\$ 261,289	\$ 568,978	\$ 830,353	\$ 20,467	\$ 850,820
Net income	—	—	1,707	1,707	203	1,910
Repurchase of treasury shares by IOR	—	—	—	—	(215)	(215)
Adjustment to noncontrolling interest	—	110	—	110	(110)	—
Balance, September 30, 2024	<u>\$ 86</u>	<u>\$ 261,399</u>	<u>\$ 570,685</u>	<u>\$ 832,170</u>	<u>\$ 20,345</u>	<u>\$ 852,515</u>
<b>Three Months Ended September 30, 2023</b>						
Balance, July 1, 2023	\$ 86	\$ 260,387	\$ 563,041	\$ 823,514	\$ 21,689	\$ 845,203
Net income	—	—	4,451	4,451	311	4,762
Balance, September 30, 2023	<u>\$ 86</u>	<u>\$ 260,387</u>	<u>\$ 567,492</u>	<u>\$ 827,965</u>	<u>\$ 22,000</u>	<u>\$ 849,965</u>
<b>Nine Months Ended September 30, 2024</b>						
Balance, January 1, 2024	\$ 86	\$ 260,990	\$ 564,931	\$ 826,007	\$ 20,947	\$ 846,954
Net income	—	—	5,754	5,754	609	6,363
Repurchase of treasury shares by IOR	—	—	—	—	(802)	(802)
Adjustment to noncontrolling interest	—	409	—	409	(409)	—
Balance, September 30, 2024	<u>\$ 86</u>	<u>\$ 261,399</u>	<u>\$ 570,685</u>	<u>\$ 832,170</u>	<u>\$ 20,345</u>	<u>\$ 852,515</u>
<b>Nine Months Ended September 30, 2023</b>						
Balance, January 1, 2023	\$ 86	\$ 260,387	\$ 558,994	\$ 819,467	\$ 21,145	\$ 840,612
Net income	—	—	8,498	8,498	855	9,353
Balance, September 30, 2023	<u>\$ 86</u>	<u>\$ 260,387</u>	<u>\$ 567,492</u>	<u>\$ 827,965</u>	<u>\$ 22,000</u>	<u>\$ 849,965</u>

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

**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(dollars in thousands)  
(Unaudited)

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2024</b>	<b>2023</b>
<b>Cash Flow From Operating Activities:</b>		
Net income	\$ 6,363	\$ 9,353
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale or write down of assets	—	(188)
Gain on foreign currency transactions	—	(993)
Loss on early extinguishment of debt	—	1,710
Depreciation and amortization	9,668	10,518
Provision for bad debts	112	875
Equity in income from unconsolidated joint venture	(827)	(798)
Distribution of income from unconsolidated joint venture	841	—
Changes in assets and liabilities:		
Other assets	920	(9,980)
Related party receivable	(3,187)	(5,291)
Interest payable	449	(1,872)
Accounts payable and other liabilities	2,718	4,512
Net cash provided by operating activities	<u>17,057</u>	<u>7,846</u>
<b>Cash Flow From Investing Activities:</b>		
Collection of notes receivable	5,608	394
Originations and advances on notes receivable	—	(6,500)
Purchase of short-term investments	(58,019)	(89,566)
Redemption and/or maturity of short-term investments	56,415	75,168
Development and renovation of real estate	(30,956)	(9,876)
Deferred leasing costs	(130)	(290)
Proceeds from sale of assets	—	188
Distributions from unconsolidated joint venture	—	20,916
Net cash used in investing activities	<u>(27,082)</u>	<u>(9,566)</u>
<b>Cash Flow From Financing Activities:</b>		
Proceeds from mortgages and other notes payable	10,708	—
Payments on mortgages, other notes and bonds payable	(9,614)	(136,809)
Repurchase of IOR shares	(802)	—
Debt extinguishment costs	—	(435)
Deferred financing costs	(199)	(16)
Net cash provided by (used in) financing activities	<u>93</u>	<u>(137,260)</u>
Net decrease in cash, cash equivalents and restricted cash	(9,932)	(138,980)
Cash, cash equivalents and restricted cash, beginning of period	79,027	222,307
Cash, cash equivalents and restricted cash, end of period	<u>\$ 69,095</u>	<u>\$ 83,327</u>

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

**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(dollars in thousands, except per share amounts)**  
**(Unaudited)**

## 1. Organization

As used herein, the terms “the Company”, “we”, “our”, or “us” refer to Transcontinental Realty Investors, Inc., a Nevada corporation, which was formed in 1984. Our common stock is listed on the New York Stock Exchange (“NYSE”) under the symbol “TCI”. We are owned approximately 78% by American Realty Investors, Inc. (“ARL”), whose common stock is listed on the NYSE under the symbol “ARL”, and 8% by the controlling shareholder of ARL.

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

At September 30, 2024, our portfolio of properties consisted of:

- Four office buildings comprising in aggregate of approximately 1,056,793 square feet;
- Fourteen multifamily properties, owned directly by us, comprising of 2,328 units; and
- Approximately 1,843 acres of developed and undeveloped land.

Our day to day operations are managed by Pillar Income Asset Management, Inc. (“Pillar”). Pillar's duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities, asset management, property development, construction management and arranging debt and equity financing with third party lenders and investors. We have no employees; all of our services are performed by Pillar employees. Three of our commercial properties are managed by Regis Realty Prime, LLC (“Regis”). Regis provides leasing and brokerage services. Our multifamily properties and one of our commercial properties are managed by outside management companies. Pillar and Regis are considered to be related parties (See Note 12 – Related Party Transactions).

## 2. Summary of Significant Accounting Policies

### *Short-Term Investments*

We account for our investment in corporate bonds and demand notes (collectively "debt securities") as held-to-maturity securities as we have the intent and the ability to hold these securities until maturity. Accordingly, our debt securities are carried at their amortized cost. The discount on these debt securities is amortized into interest income on a straight-line basis over the term of the underlying notes, which approximate the effective interest method.

### *Basis of Presentation*

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted in accordance with such rules and regulations, although management believes the disclosures are adequate to prevent the information presented from being misleading. In the opinion of management, all adjustments (consisting of normal recurring matters) considered necessary for a fair presentation have been included.

Certain prior year amounts have been reclassified to conform with the current year presentation. These reclassifications had no effect on the reported results of operation. An adjustment has been made to reclassify \$555 from investment in joint venture to other assets as December 31, 2023 on the consolidated balance sheets.

The consolidated balance sheet at December 31, 2023 was derived from the audited consolidated financial statements at that date, but does not include all of the information and disclosures required by GAAP for complete financial statements. For further information, refer to the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2023.

**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(dollars in thousands, except per share amounts)  
(Unaudited)

We consolidate entities in which we are considered to be the primary beneficiary of a variable interest entity (“VIE”) or have a majority of the voting interest of the entity. We have determined that we are a primary beneficiary of the VIE when we have (i) the power to direct the activities of a VIE that most significantly impacts its economic performance, and (ii) the obligations to absorb losses or the right to receive benefits that could potentially be significant to the VIE. In determining whether we are the primary beneficiary, we consider qualitative and quantitative factors, including ownership interest, management representation, ability to control decision and other contractual rights.

We account for entities in which we have less than a controlling financial interest or entities where we are not deemed to be the primary beneficiary under the equity method of accounting. Accordingly, we include our share of the net earnings or losses of these entities in our results of operations.

**3. Earnings Per Share**

Earnings per share (“EPS”) is computed by dividing net income attributable to the Company by the weighted-average number of common shares outstanding during the period.

The following table details our basic and diluted earnings per common share calculation:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
Net income	\$ 1,910	\$ 4,762	\$ 6,363	\$ 9,353
Net income attributable to noncontrolling interest	(203)	(311)	(609)	(855)
Net income attributable to the Company	<u>\$ 1,707</u>	<u>\$ 4,451</u>	<u>\$ 5,754</u>	<u>\$ 8,498</u>
Weighted-average common shares outstanding — basic and diluted	<u>8,639,316</u>	<u>8,639,316</u>	<u>8,639,316</u>	<u>8,639,316</u>
EPS - attributable to common shares — basic and diluted	<u>\$ 0.20</u>	<u>\$ 0.52</u>	<u>\$ 0.67</u>	<u>\$ 0.98</u>

**4. Supplemental Cash Flow Information**

The following presents the schedule of interest paid and other supplemental cash flow information:

	<b>Nine Months Ended September 30,</b>	
	<b>2024</b>	<b>2023</b>
Cash paid for interest	<u>\$ 4,656</u>	<u>\$ 9,273</u>
Cash paid for taxes	<u>\$ 3,200</u>	<u>\$ 5,428</u>
Cash - beginning of period		
Cash and cash equivalents	\$ 36,700	\$ 113,424
Restricted cash	42,327	108,883
	<u>\$ 79,027</u>	<u>\$ 222,307</u>
Cash - end of period		
Cash and cash equivalents	\$ 39,507	\$ 47,182
Restricted cash	29,588	36,145
	<u>\$ 69,095</u>	<u>\$ 83,327</u>
Payments on mortgages, other notes and bonds payable		
Payments on mortgages and other notes payable	\$ 9,614	\$ 5,633
Payments on bond payable	—	131,176
	<u>\$ 9,614</u>	<u>\$ 136,809</u>



**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(dollars in thousands, except per share amounts)**  
**(Unaudited)**

The following is a schedule of noncash investing activity:

	<b>Nine Months Ended September 30,</b>	
	<b>2024</b>	<b>2023</b>
Property acquired in exchange for reduction of related party receivable	\$ —	\$ 6,064

## 5. Operating Segments

Our segments are based on the internal reporting that we review for operational decision-making purposes. We operate in two reportable segments: (i) the acquisition, development, ownership and management of multifamily properties and (ii) the acquisition, ownership and management of commercial properties. The services for our multifamily segment include rental of apartments and other tenant services, including parking and storage space rental. Asset information by segment is not reported because we do not use this measure to assess performance or make decisions to allocate resources. Therefore, depreciation and amortization expense is not allocated among segments. General and administrative expenses, advisory fees, interest income and interest expense are not included in segment profit as our internal reporting addresses these items on a corporate level.

**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(dollars in thousands, except per share amounts)  
(Unaudited)

The following table presents our reportable segments for the three and nine months ended September 30, 2024 and 2023:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
<b>Multifamily Segment</b>				
Revenues	\$ 7,967	\$ 7,899	\$ 23,947	\$ 22,930
Operating expenses	(4,642)	(4,811)	(13,358)	(12,997)
Profit from segment	3,325	3,088	10,589	9,933
<b>Commercial Segment</b>				
Revenues	3,107	3,939	9,594	11,306
Operating expenses	(2,347)	(2,632)	(6,889)	(7,583)
Profit from segment	760	1,307	2,705	3,723
<b>Total profit from segments</b>	<b>\$ 4,085</b>	<b>\$ 4,395</b>	<b>\$ 13,294</b>	<b>\$ 13,656</b>

The table below reflects the reconciliation of total profit from segments to net income for the three and nine months ended September 30, 2024 and 2023:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
Total profit from segments	\$ 4,085	\$ 4,395	\$ 13,294	\$ 13,656
Other non-segment items of income (expense)				
Depreciation and amortization	(3,120)	(3,313)	(9,429)	(9,615)
General and administrative	(1,223)	(1,432)	(3,898)	(7,836)
Advisory fee to related party	(1,944)	(2,112)	(5,789)	(6,282)
Other income	533	687	1,738	2,216
Interest income	5,917	9,676	17,244	26,998
Interest expense	(2,075)	(1,902)	(5,806)	(7,415)
Gain on foreign currency transactions	—	—	—	993
Loss on early extinguishment of debt	—	—	—	(1,710)
Income from unconsolidated joint venture	283	85	827	798
Gain on sales or write-down of assets	—	—	—	188
Income tax provision	(546)	(1,322)	(1,818)	(2,638)
Net income	<b>\$ 1,910</b>	<b>\$ 4,762</b>	<b>\$ 6,363</b>	<b>\$ 9,353</b>

**6. Lease Revenue**

We lease our multifamily properties and commercial properties under agreements that are classified as operating leases. Our multifamily property leases generally include minimum rents and charges for ancillary services. Our commercial property leases generally include minimum rents and recoveries for property taxes and common area maintenance. Minimum rental revenues are recognized on a straight-line basis over the terms of the related leases.

**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(dollars in thousands, except per share amounts)  
(Unaudited)

The following table summarizes the components of our rental revenue for the three and nine months ended September 30, 2024 and 2023:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
Fixed component	\$ 10,841	\$ 11,338	\$ 32,667	\$ 32,968
Variable component	233	500	874	1,268
	<u>\$ 11,074</u>	<u>\$ 11,838</u>	<u>\$ 33,541</u>	<u>\$ 34,236</u>

The following table summarizes the future rental payments that are payable to us from non-cancelable leases. The table excludes multifamily leases, which typically have a term of one-year or less:

2024	\$ 11,754
2025	11,241
2026	10,810
2027	10,430
2028	8,542
Thereafter	13,299
	<u>\$ 66,076</u>

## 7. Real Estate Activity

Below is a summary of our real estate as of September 30, 2024 and December 31, 2023:

	<b>September 30, 2024</b>	<b>December 31, 2023</b>
Land	\$ 104,156	\$ 104,156
Building and improvements	374,892	372,399
Tenant improvements	16,503	16,286
Construction in progress	108,112	76,110
Total cost	<u>603,663</u>	<u>568,951</u>
Less accumulated depreciation	<u>(76,101)</u>	<u>(67,365)</u>
Total real estate	<u>\$ 527,562</u>	<u>\$ 501,586</u>

We incurred depreciation expense of \$2,966 and \$3,313 for the three months ended September 30, 2024 and 2023, respectively, and \$8,970 and \$9,615 for the nine months ended September 30, 2024 and 2023, respectively.

### *Construction Activities*

Construction in progress includes the cost of development of Windmill Farms and the costs associated with our multifamily projects.

On March 15, 2023, we entered into a development agreement with Pillar to build a 240 unit multifamily property in Lake Wales, Florida ("Alera") that is expected to be completed in 2025 for a total cost of approximately \$55,330. The cost of construction will be funded in part by a \$33,000 construction loan (See Note 11 – Mortgages and Other Notes Payable). The development agreement provides for a \$1,637 fee that will be paid to Pillar over the construction period. As of September 30, 2024, we have incurred a total of \$31,878 in development costs, including \$1,005 in development fees.

**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(dollars in thousands, except per share amounts)**  
**(Unaudited)**

On November 6, 2023, we entered into a development agreement with Pillar to build a 216 unit multifamily property in McKinney, Texas ("Merano") that is expected to be completed in 2025 for a total cost of approximately \$51,910. The cost of construction will be funded in part by a \$25,407 construction loan (See Note 11 – Mortgages and Other Notes Payable). The development agreement provides for a \$1,551 fee that will be paid to Pillar over the construction period. As of September 30, 2024, we have incurred a total of \$15,588 in development costs, including \$809 in development fees.

On December 15, 2023, we entered into a development agreement with Pillar to build a 216 unit multifamily property in Temple, Texas ("Bandera Ridge") that is expected to be completed in 2025 for a total cost of approximately \$49,603. The cost of construction will be funded in part by a \$23,500 construction loan (See Note 11 – Mortgages and Other Notes Payable). The development agreement provides for a \$1,607 fee that will be paid to Pillar over the construction period. As of September 30, 2024, we have incurred a total of \$11,087 in development costs, including \$336 in development fees.

## 8. Short-term Investments

The following is a summary of our short term investment as of September 30, 2024 and December 31, 2023:

	<b>September 30, 2024</b>	<b>December 31, 2023</b>
Corporate bonds, at par value	\$ 80,266	\$ 90,000
Demand notes	12,228	1,484
	92,494	91,484
Less discount	(442)	(1,036)
	<u>\$ 92,052</u>	<u>\$ 90,448</u>

The average interest rate on the investments was 5.50% and 5.65% at September 30, 2024 and December 31, 2023, respectively.

**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(dollars in thousands, except per share amounts)  
(Unaudited)

**9. Notes Receivable**

The following table summarizes our notes receivable as of September 30, 2024 and December 31, 2023:

Property/Borrower	Carrying value		Interest Rate	Maturity Date
	September 30, 2024	December 31, 2023		
ABC Land and Development, Inc.	\$ 4,408	\$ 4,408	9.50 %	6/30/26
ABC Paradise, LLC	1,210	1,210	9.50 %	6/30/26
Autumn Breeze(1)	1,451	2,157	5.00 %	7/1/25
Bellwether Ridge(1)	3,798	3,798	5.00 %	11/1/26
Cascades at Spring Street(2)(3)	—	180	5.33 %	6/30/27
Dominion at Mercer Crossing(4)	6,167	6,354	9.00 %	6/7/28
Forest Pines(1)	6,472	6,472	5.00 %	5/1/27
Inwood on the Park(2)(3)	20,208	20,325	5.33 %	6/30/28
Kensington Park(2)(3)	6,994	10,262	5.33 %	3/31/27
Lake Shore Villas(2)(3)	5,855	6,000	5.33 %	12/31/32
Prospectus Endeavors	496	496	6.00 %	10/23/29
McKinney Ranch	3,926	3,926	6.00 %	9/15/29
Ocean Estates II(2)(3)	3,615	3,615	5.33 %	5/31/28
One Realco Land Holding, Inc.	1,728	1,728	9.50 %	6/30/26
Parc at Ingleside(1)	3,759	3,759	5.00 %	11/1/26
Parc at Opelika Phase II(1)(5)	3,190	3,190	10.00 %	1/13/23
Parc at Windmill Farms(1)(5)	7,886	7,886	5.00 %	11/1/22
Phillips Foundation for Better Living, Inc.(2)	107	182	5.33 %	3/31/28
Plaza at Chase Oaks(2)(3)	11,772	11,772	5.33 %	3/31/28
Plum Tree(1)	1,478	1,767	5.00 %	4/26/26
Polk County Land	3,000	3,000	9.50 %	6/30/26
Riverview on the Park Land, LLC	1,045	1,045	9.50 %	6/30/26
Spartan Land	5,907	5,907	6.00 %	1/16/25
Spyglass of Ennis(1)	4,705	5,179	5.00 %	11/1/24
Steeple Crest(1)	6,358	6,498	5.00 %	8/1/26
Timbers at The Park(2)(3)	11,146	11,173	5.33 %	12/31/32
Tuscany Villas(2)(3)	1,548	1,548	5.33 %	4/30/27
	<u>\$ 128,229</u>	<u>\$ 133,837</u>		

- (1) The note is convertible, at our option, into a 100% ownership interest in the underlying property, and is collateralized by the underlying property.
- (2) The borrower is determined to be a related party due to our significant investment in the performance of the collateral secured by the notes receivable.
- (3) Principal and interest payments on the notes from Unified Housing Foundation, Inc. ("UHF") are funded from surplus cash flow from operations, sale or refinancing of the underlying properties and are cross collateralized to the extent that any surplus cash available from any of the properties underlying the notes. On October 1, 2023, the interest rate on the notes was amended from a fixed rate of 12.0% to a floating rate indexed to the Secured Overnight Financing Rate ("SOFR") in effect on the last day of the preceding calendar quarter. In connection with the amendment, accrued interest of \$3,601 was forgiven in exchange for participation in the proceeds from any future sale or refinancing of the underlying property.
- (4) The note bears interest at prime plus 1.0%.
- (5) We are working with the borrower to extend the maturity and/or exercise our conversion option.

**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(dollars in thousands, except per share amounts)**  
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**10. Investment in Unconsolidated Joint Ventures**

Other assets includes our joint venture investment in Victory Abode Apartments, LLC ("VAA"). VAA was formed as a result of our sale of a 50% ownership interest in a portfolio of multifamily properties to Macquarie in exchange for a 50% voting interest in VAA and a note payable.

On September 16, 2022, VAA sold 45 of its properties ("VAA Sale Portfolio") for \$1,810,700, resulting in a gain on sale of \$738,444 to the joint venture. In connection with the sale, we received an initial distribution of \$182,848 from VAA.

On November 1, 2022, we received an additional distribution from VAA, which included the full operational control of the remaining seven properties of VAA ("VAA Holdback Portfolio") and a cash payment of \$204,036.

On March 23, 2023, we received \$17,976 from VAA, which represented the remaining distribution of the proceeds from the sale of the VAA Sale Portfolio. On April 27, 2023, we received an additional \$2,940 liquidating distribution from the joint venture

We used our share of the proceeds from the sale of the VAA Sale Portfolio to invest in short-term investments and real estate, pay down our debt and for general corporate purposes. We anticipate that the final liquidation of the joint venture will be completed prior to the end of 2024.

**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(dollars in thousands, except per share amounts)  
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**11. Mortgages and Other Notes Payable**

The following table summarizes our mortgages and other notes payable as of September 30, 2024 and December 31, 2023:

Property/ Entity	Carrying Value		Interest Rate	Maturity Date
	September 30, 2024	December 31, 2023		
770 South Post Oak	\$ 11,002	\$ 11,187	4.40 %	6/1/2025
Alera(1)	4,148	—	8.20 %	3/15/2026
Blue Lake Villas	9,371	9,503	3.15 %	11/1/2055
Blue Lake Villas Phase II	3,291	3,349	2.85 %	6/1/2052
Chelsea	7,925	8,064	3.40 %	12/1/2050
EQK Portage	3,350	3,350	5.00 %	11/13/2029
Forest Grove(2)	6,415	6,988	7.50 %	8/1/2031
Landing on Bayou Cane	14,233	14,442	3.50 %	9/1/2053
Legacy at Pleasant Grove	12,466	12,716	3.60 %	4/1/2048
Northside on Travis	11,193	11,394	2.50 %	2/1/2053
Parc at Denham Springs	16,137	16,399	3.75 %	4/1/2051
Parc at Denham Springs Phase II	15,467	15,608	4.05 %	2/1/2060
RCM HC Enterprises	5,086	5,086	5.00 %	12/31/2024
Residences at Holland Lake	10,271	10,424	3.60 %	3/1/2053
Villas at Bon Secour	18,902	19,205	3.08 %	9/1/2031
Villas of Park West I(3)	9,033	9,181	3.04 %	3/1/2053
Villas of Park West II(3)	8,203	8,334	3.18 %	3/1/2053
Vista Ridge	9,386	9,512	4.00 %	8/1/2053
Windmill Farms(4)	4,393	4,399	7.50 %	2/28/2026
	<u>\$ 180,272</u>	<u>\$ 179,141</u>		

- (1) On March 15, 2023, we entered into a \$33,000 construction loan to finance the development of Alera (See Note 7 - Real Estate Activity) that bears interest at SOFR plus 3% and matures on March 15, 2026, with two one-year extension options.
- (2) On July 10, 2024, we replaced the existing loan on the property with a \$6,558 loan that bears interest at SOFR plus 1.85% and matures on August 1, 2031.
- (3) On November 1, 2022, we agreed to assume the mortgage note payable from our joint venture in connection with the acquisition of the underlying property (See Note 10 - Investment in Unconsolidated Joint Ventures) and obtained final lender approval of the assumption in 2024.
- (4) On February 8, 2024, we extended the maturity to February 28, 2026 at an interest rate of 7.50%.

As of September 30, 2024, we were in compliance with all of our loan covenants except for the minimum debt service coverage ratio (“DSCR”) for the loan on 770 South Post Oak. As a result, the lender requires us to lock the surplus cash flow of the property into a designated deposit account controlled by them, until we are in compliance with the DSCR covenant for a period of two consecutive quarters.

On November 6, 2023, we entered into a \$25,407 construction loan to finance the development of Merano (See Note 7 - Real Estate Activity) that bears interest at prime plus 0.25% and matures on November 6, 2028. As of September 30, 2024, no advances have been drawn on the loan.

On December 15, 2023, we entered into a \$23,500 construction loan to finance the development of Bandera Ridge (See Note 7 - Real Estate Activity) that bears interest at SOFR plus 3% and matures on December 15, 2028. As of September 30, 2024, no advances have been drawn on the loan.

**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(dollars in thousands, except per share amounts)**  
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All of the above mortgages and other notes payable are collateralized by the underlying property. In addition, we have guaranteed the loans on Alera, Bandera Ridge, Merano, Villas at Bon Secour and Windmill Farms.

**12. Related Party Transactions**

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

Pillar and Regis are wholly owned by a subsidiary of May Realty Holdings, Inc. ("MRHI"), which owns approximately 90.8% of ARL, which in turn owns approximately 78% of the Company. Pillar is compensated for advisory services in accordance with an advisory agreement and is compensated for development services in accordance with project specific agreements. Regis receives property management fees and leasing commissions in accordance with the terms of its property-level management agreement. In addition, Regis is entitled to receive real estate brokerage commissions in accordance with the terms of a non-exclusive brokerage agreement.

Rental income includes \$159 and \$232 for the three months ended September 30, 2024 and 2023, respectively, and \$495 and \$731 for the nine months ended September 30, 2024 and 2023, respectively, for office space leased to Pillar and Regis.

Property operating expense includes \$87 and \$97 for the three months ended September 30, 2024 and 2023, respectively, and \$253 and \$296 for the nine months ended September 30, 2024 and 2023, respectively, for management fees on commercial properties payable to Regis.

General and administrative expense includes \$879 and \$796 for the three months ended September 30, 2024 and 2023, respectively, and \$2,688 and \$2,854 for the nine months ended September 30, 2024 and 2023, respectively, for employee compensation and other reimbursable costs payable to Pillar.

Advisory fees paid to Pillar were \$1,944 and \$2,112 for the three months ended September 30, 2024 and 2023, respectively, and \$5,789 and \$6,282 for the nine months ended September 30, 2024 and 2023, respectively. Development fees paid to Pillar were \$525 and \$223 for the three months ended September 30, 2024 and 2023, respectively, and \$1,501 and \$335 for the nine months ended September 30, 2024 and 2023, respectively.

Notes receivable include amounts held by UHF (See Note 9 – Notes Receivable). UHF is deemed to be a related party due to our significant investment in the performance of the collateral secured by the notes receivable. In addition, we have a related party receivable from Pillar ("Pillar Receivable"), which represents amounts advanced to Pillar net of unreimbursed fees, expenses and costs as provided above. The Pillar Receivable bears interest in accordance with a cash management agreement. On January 1, 2024, an amendment to the cash management agreement changed the interest rate on the Pillar Receivable from prime plus one percent to SOFR. Interest income on the UHF notes and the Pillar Receivable was \$2,711 and \$5,521 for the three months ended September 30, 2024 and 2023, respectively, and \$8,084 and \$15,961 for the nine months ended September 30, 2024 and 2023, respectively.

**13. Noncontrolling Interests**

The noncontrolling interest represents the third party ownership interest in Income Opportunity Realty Investors, Inc. ("IOR"). Shares of IOR are listed on the NYSE American stock exchange under the symbol of IOR. We owned 83.2% and 82.3% of IOR at September 30, 2024 and December 31, 2023, respectively.

**14. Deferred Income**

In previous years, we sold properties to related parties at a gain, and therefore the sales criteria for the full accrual method was not met, and as such, we deferred the gain recognition and accounted for the sales by applying the finance, deposit, installment or cost recovery methods, as appropriate. The gain on these transactions is deferred until the properties are sold to a non-related third party. As of September 30, 2024 and December 31, 2023, we had deferred gain of \$581.



**TRANSCONTINENTAL REALTY INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(dollars in thousands, except per share amounts)**  
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### 15. Income Taxes

We are part of a tax sharing and compensating agreement with respect to federal income taxes with MRHI, ARL and IOR. In accordance with the agreement, our expense in each year is calculated based on the amount of losses absorbed by taxable income multiplied by the maximum statutory tax rate of 21%.

The following table summarizes our income tax provision:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
Current	\$ 198	\$ 5,422	\$ 1,470	\$ 6,738
Deferred	348	(4,100)	348	(4,100)
	<u>\$ 546</u>	<u>\$ 1,322</u>	<u>\$ 1,818</u>	<u>\$ 2,638</u>

### 16. Commitments and Contingencies

We believe that we will generate excess cash from property operations in the next twelve months; such excess, however, might not be sufficient to discharge all of our obligations as they become due. We intend to sell income-producing assets, refinance real estate and obtain additional borrowings primarily secured by real estate to meet our liquidity requirements.

### 17. Subsequent Events

The date to which events occurring after September 30, 2024, the date of the most recent balance sheet, have been evaluated for possible adjustment to the consolidated financial statements or disclosure is November 7, 2024, which is the date on which the consolidated financial statements were available to be issued.

On October 21, 2024, we entered into a development agreement with Pillar to build a 234 unit multifamily property in Dallas, Texas ("Mountain Creek") that is expected to be completed in 2026 for a total cost of approximately \$49,791. The cost of construction will be funded in part by a \$27,500 construction loan. The development agreement provides for a \$1,574 fee that will be paid to Pillar over the construction period. As of September 30, 2024, we have incurred a total of \$555 in development costs.

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

The following discussion and analysis by management should be read in conjunction with the unaudited Condensed Consolidated Financial Statements and Notes included in this Quarterly Report on Form 10-Q (the "Quarterly Report") and in our Form 10-K for the year ended December 31, 2023 (the "Annual Report").

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

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

- general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew leases, dependence on tenants' financial condition, and competition from other developers, owners and operators of real estate);
- risks associated with the availability and terms of construction and mortgage financing and the use of debt to fund acquisitions and developments;
- demand for apartments and commercial properties in our markets and the effect on occupancy and rental rates;
- our ability to obtain financing, enter into joint venture arrangements in relation to or self-fund the development or acquisition of properties;
- risks associated with the timing and amount of property sales and the resulting gains/losses associated with such sales;
- failure to manage effectively our growth and expansion into new markets or to integrate acquisitions successfully
- risks and uncertainties affecting property development and construction (including, without limitation, construction delays, cost overruns, inability to obtain necessary permits and public opposition to such activities);
- risks associated with downturns in the national and local economies, increases in interest rates, and volatility in the securities markets;
- costs of compliance with the Americans with Disabilities Act and other similar laws and regulations;
- potential liability for uninsured losses and environmental contamination; and
- risks associated with our dependence on key personnel whose continued service is not guaranteed.

The risks included here are not exhaustive. Some of the risks and uncertainties that may cause our actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements, include among others, the factors listed and described at Part I, Item 1A. "Risk Factors" Annual Report on Form 10-K, which investors should review.

## Management's Overview

We are an externally advised and managed real estate investment company that owns a diverse portfolio of income-producing properties and land held for development throughout the Southern United States. Our portfolio of income-producing properties includes residential apartment communities ("multifamily properties"), office buildings and retail properties ("commercial properties"). Our investment strategy includes acquiring existing income-producing properties as well as developing new properties on land already owned or acquired for a specific development project.

Our operations are managed by Pillar Income Asset Management, Inc. ("Pillar") in accordance with an Advisory Agreement. Pillar's duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities. Pillar also arranges our debt and equity financing with third party lenders and investors. We have no employees. Employees of Pillar render services to us in accordance with the terms of the Advisory Agreement. Pillar is considered to be a related party due to its common ownership with American Realty Investors, Inc. ("ARL"), who is our controlling shareholder.

The following is a summary of our recent financing and development activities:

### *Financing Activities*

- On January 31, 2023, we paid off our \$67.5 million of Series C bonds.
- On February 28, 2023, we extended the maturity of our loan on Windmill Farms until February 28, 2024 at a revised interest rate of 7.75%.
- On March 15, 2023, we entered into a \$33.0 million construction loan to finance the development of Alera (See "Development Activities") that bears interest at SOFR plus 3% and matures on March 15, 2026, with two one-year extension options.
- On May 4, 2023, we paid off the remaining \$14.0 million of our Series A Bonds and \$28.9 million of our Series B Bonds, which resulted in a loss on early extinguishment of debt of \$1.7 million.
- On August 28, 2023, we paid off our \$1.2 million loan on Athens.
- On October 1, 2023, we amended the terms of our UHF notes receivable. As a result, the interest rates on the notes were amended from a fixed rate of 12.0% to a floating rate indexed to SOFR. In connection with the amendment, accrued interest of \$3.6 million was forgiven in exchange for participation in the proceeds from any future sale or refinancing of the underlying properties.
- On November 6, 2023, we entered into a \$25.4 million construction loan to finance the development of Merano (See "Development Activities") that bears interest at prime plus 0.25% and matures on November 6, 2028.
- On December 15, 2023, we entered into a \$23.5 million construction loan to finance the development of Bandera Ridge (See "Development Activities") that bears interest at SOFR plus 3% and matures on December 15, 2028.
- On January 1, 2024, we amended our cash management agreement with Pillar. As a result, the interest rate on the related party receivable changed from prime plus one to SOFR.
- On February 8, 2024, we extended the maturity of our loan on Windmill Farms to February 28, 2026 at an interest rate of 7.50%.
- On July 10, 2024, we replaced the existing loan on Forest Grove with a \$6.6 million loan that bears interest at SOFR plus 1.85% and matures on August 1, 2031.
- On October 21, 2024, we entered into a \$27.5 million construction loan to finance the development of Mountain Creek (See "Development Activities") that bears interest at SOFR plus 3.45% and matures on October 20, 2026.

### *Development Activities*

We have agreements to develop two parcels of land ("PODs") from our land holdings in Windmill Farms. The agreements provide for the development of 125 acres of raw land into approximately 470 land lots to be used for single family homes for a total of \$24.3 million. We estimate that we will complete the development of these PODs over a two-year period starting during the fourth quarter of 2024. During 2024, we spent \$3.3 million on reimbursable infrastructure investments.

On March 15, 2023, we entered into a development agreement with Pillar to build a 240 unit multifamily property in Lake Wales, Florida ("Alera") that is expected to be completed in 2025 for a total cost of approximately \$55.3 million. The cost of construction will be funded in part by a \$33.0 million construction loan (See "Financing Activities"). The development agreement provides for a \$1.6 million fee that will be paid to Pillar over the construction period. As of September 30, 2024, we have incurred a total of \$31.9 million in development costs.

On November 6, 2023, we entered into a development agreement with Pillar to build a 216 unit multifamily property in McKinney, Texas ("Merano") that is expected to be completed in 2025 for a total cost of approximately \$51.9 million. The cost of construction will be funded in part by a \$25.4 million construction loan (See "Financing Activities"). The development agreement provides for a \$1.6 million fee that will be paid to Pillar over the construction period. As of September 30, 2024, we have incurred a total of \$15.6 million in development costs.

On December 15, 2023, we entered into a development agreement with Pillar to build a 216 unit multifamily property in Temple, Texas ("Bandera Ridge") that is expected to be completed in 2025 for a total cost of approximately \$49.6 million. The cost of construction will be funded in part by a \$23.5 million construction loan (See "Financing Activities"). The development agreement provides for a \$1.6 million fee that will be paid to Pillar over the construction period. As of September 30, 2024, we have incurred a total of \$11.1 million in development costs.

On October 21, 2024, we entered into a development agreement with Pillar to build a 234 unit multifamily property in Dallas, Texas ("Mountain Creek") that is expected to be completed in 2026 for a total cost of approximately \$49.8 million. The cost of construction will be funded in part by a \$27.5 million construction loan (See "Financing Activities"). The development agreement provides for a \$1.6 million fee that will be paid to Pillar over the construction period. As of September 30, 2024, we have incurred a total of \$0.6 million in development costs.

### **Critical Accounting Policies**

The preparation of our consolidated financial statements in conformity with United States generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Some of these estimates and assumptions include judgments on revenue recognition, estimates for common area maintenance and real estate tax accruals, provisions for uncollectible accounts, impairment of long-lived assets, the allocation of purchase price between tangible and intangible assets, capitalization of costs and fair value measurements. Our significant accounting policies are described in more detail in Note 2—Summary of Significant Accounting Policies in our notes to the consolidated financial statements in the Annual Report. However, the following policies are deemed to be critical.

#### *Fair Value of Financial Instruments*

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

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

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

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

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

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

*Related Parties*

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

**Results of Operations**

Many of the variations in the results of operations, discussed below, occurred because of the transactions affecting our properties described above, including those related to the Redevelopment Property, the Acquisition Properties and the Disposition Properties (each as defined below).

For purposes of the discussion below, we define "Same Properties" as all of our properties with the exception of those properties that have been recently constructed or leased-up (“Redevelopment Property”), properties that have recently been acquired ("Acquisition Properties") and properties that have been disposed ("Disposition Properties"). A developed property is considered leased-up, when it achieves occupancy of 80% or more. We move a property in and out of Same Properties based on whether the property is substantially leased-up and in operation for the entirety of both periods of the comparison.

For the comparison of the three and nine months ended September 30, 2024 to the three and nine months ended September 30, 2023, the Redevelopment Property is Landing on Bayou Cane (See "Development Activities" in Management's Overview). The change in revenues and expenses of the Redevelopment Property from 2023 to 2024 is primarily due to the lease-up of the property in 2023 as the restored units were placed in service. There were no Acquisition Properties or Disposition Properties for the comparison of the three and nine months ended September 30, 2024 to the three and nine months ended September 30, 2023.

The following table summarizes our results of operations for the three and nine months ended September 30, 2024 and 2023:

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2024	2023	Variance	2024	2023	Variance
<b>Multifamily Segment</b>						
Revenue	\$ 7,967	\$ 7,899	\$ 68	\$ 23,947	\$ 22,930	\$ 1,017
Operating expenses	(4,642)	(4,811)	169	(13,358)	(12,997)	(361)
	3,325	3,088	237	10,589	9,933	656
<b>Commercial Segment</b>						
Revenue	3,107	3,939	(832)	9,594	11,306	(1,712)
Operating expenses	(2,347)	(2,632)	285	(6,889)	(7,583)	694
	760	1,307	(547)	2,705	3,723	(1,018)
Segment operating income	4,085	4,395	(310)	13,294	13,656	(362)
Other non-segment items of income (expense)						
Depreciation and amortization	(3,120)	(3,313)	193	(9,429)	(9,615)	186
General, administrative and advisory	(3,167)	(3,544)	377	(9,687)	(14,118)	4,431
Interest income, net	3,842	7,774	(3,932)	11,438	19,583	(8,145)
Loss on early extinguishment of debt	—	—	—	—	(1,710)	1,710
Gain on foreign currency transactions	—	—	—	—	993	(993)
Gain on sale or write down of assets	—	—	—	—	188	(188)
Income from joint venture	283	85	198	827	798	29
Other expense	(13)	(635)	622	(80)	(422)	342
Net income	<u>\$ 1,910</u>	<u>\$ 4,762</u>	<u>\$ (2,852)</u>	<u>\$ 6,363</u>	<u>\$ 9,353</u>	<u>\$ (2,990)</u>

*Comparison of the three months ended September 30, 2024 to the three months ended September 30, 2023:*

Our \$2.9 million decrease in net income is primarily attributed to the following:

- The increase in profit from the multifamily segment is primarily due to an increase of \$0.2 million from the Redevelopment Property due to the lease up of the property in 2023. The decrease in profit from the commercial segment is primarily due to a decrease in revenue as a result of a decline in occupancy at Browning Place and Stanford Center.
- The decrease in general, administrative and advisory expenses is primarily due to a reduction in legal, auditing and other administrative expenses associated with the bonds payable, which were repaid in 2023.
- The \$3.9 million decrease in interest income, net is due to a \$3.8 million decrease in interest income, which was primarily due to a decrease in interest rates on the UHF notes in 2023 and a decrease in interest rates on the Pillar Receivable in 2024.
- The increase in other income is primarily due to the \$0.8 million decrease in income tax provision as a result of the sale of the VAA Portfolio in 2022.

*Comparison of the nine months ended September 30, 2024 to the nine months ended September 30, 2023:*

Our \$3.0 million decrease in net income is primarily attributed to the following:

- The increase in profit from the multifamily segment is primarily due to an increase of \$0.7 million from the Redevelopment Property due to the lease up of the property in 2023. The decrease in profit from the commercial segment is primarily due to a decrease in revenue as a result of a decline in occupancy at Browning Place and Stanford Center.
- The \$4.4 million decrease in general, administrative and advisory expenses is primarily due to a reduction in legal cost associated with the Nixdorf litigation in 2023 and due to auditing and other administrative expenses associated with the bonds payable, which were repaid in 2023.
- The \$8.1 million decrease in interest income, net is due to a \$9.8 million decrease in interest income offset in part by a \$1.6 million decrease in interest expense. The decrease in interest income is primarily due to a decrease in interest rates on the UHF notes in 2023 and a decrease in interest rates on the Pillar Receivable in 2024. The decrease in interest expense is primarily due to the repayment of the bonds payable in 2023 (See "Financing Activities" in Management's Overview).
- The loss from early extinguishment of debt and the gain on foreign currency transactions are due to the bonds payable that were outstanding in 2023.

## Liquidity and Capital Resources

Our principal sources of cash have been, and will continue to be, property operations; proceeds from land and income-producing property sales; collection of notes receivable; refinancing of existing mortgage notes payable; and additional borrowings, including mortgage and other notes payable.

Our principal liquidity needs are to fund normal recurring expenses; meet debt service and principal repayment obligations including balloon payments on maturing debt; fund capital expenditures, including tenant improvements and leasing costs; fund development costs not covered under construction loans; and fund possible property acquisitions.

We anticipate that our cash and cash equivalents as of September 30, 2024, along with cash that will be generated from notes, related party receivables and investment in cash equivalents and short-term investments, will be sufficient to meet all of our cash requirements. We may selectively sell land and income-producing assets, refinance or extend real estate debt and seek additional borrowings secured by real estate to meet our liquidity requirements. Although history cannot predict the future, historically, we have been successful at refinancing and extending a portion of our current maturity obligations.

The following summary discussion of our cash flows is based on the consolidated statements of cash flows in our consolidated financial statements, and is not meant to be an all-inclusive discussion of the changes in our cash flows for the periods presented below (dollars in thousands):

	<b>Nine Months Ended September 30,</b>		<b>Variance</b>
	<b>2024</b>	<b>2023</b>	
Net cash provided by operating activities	\$ 17,057	\$ 7,846	\$ 9,211
Net cash used in investing activities	\$ (27,082)	\$ (9,566)	\$ (17,516)
Net cash provided by (used in) financing activities	\$ 93	\$ (137,260)	\$ 137,353

The increase in cash provided by operating activities is primarily due to a decrease in interest payments and insurance cost in comparison to prior year.

The \$17.5 million increase in cash used in investing activities is primarily due to the \$21.1 million increase in development and renovation of real estate and the \$20.9 million decrease in distribution from joint venture offset in part by the \$12.8 million increase in net redemption of short-term investments, the \$6.5 million decrease in originations and advances on notes receivable and the \$5.2 million increase in collection of notes receivable. The increase in development and renovation of real estate relates to the construction start of Merano and Bandera Ridge in 2024. The distribution from joint venture in 2023 relates to the final distribution of proceeds from the sale of the VAA Sale Portfolio in 2022.

The \$137.4 million decrease in cash used in financing activities is primarily due to the \$131.2 million repayment of our bonds in 2023.



## Funds From Operations ("FFO")

We use FFO in addition to net income to report our operating and financial results and consider FFO and FFO-diluted as supplemental measures for the real estate industry and a supplement to GAAP measures. The National Association of Real Estate Investment Trusts ("Nareit") defines FFO as net income (loss) (computed in accordance with GAAP), excluding gains or (losses) from sales of properties, plus real estate related depreciation and amortization, impairment write-downs of real estate and write-downs of investments in an affiliate where the write-downs have been driven by a decrease in the value of real estate held by the affiliate and after adjustments for unconsolidated joint ventures. Adjustments for unconsolidated joint ventures are calculated to reflect FFO on the same basis. We also present FFO excluding the impact of the effects of foreign currency transactions.

FFO and FFO on a diluted basis are useful to investors in comparing operating and financial results between periods. This is especially true since FFO excludes real estate depreciation and amortization, as we believe real estate values fluctuate based on market conditions rather than depreciating in value ratably on a straight-line basis over time. We believe that such a presentation also provides investors with a meaningful measure of our operating results in comparison to the operating results of other real estate companies. In addition, we believe that FFO excluding gain (loss) from foreign currency transactions provide useful supplemental information regarding our performance as they show a more meaningful and consistent comparison of our operating performance and allows investors to more easily compare our results.

We believe that FFO does not represent cash flow from operations as defined by GAAP, should not be considered as an alternative to net income as defined by GAAP, and is not indicative of cash available to fund all cash flow needs. We also caution that FFO, as presented, may not be comparable to similarly titled measures reported by other real estate companies.

We compensate for the limitations of FFO by providing investors with financial statements prepared according to GAAP, along with this detailed discussion of FFO and a reconciliation of net income to FFO and FFO-diluted. We believe that to further understand our performance, FFO should be compared with our reported net income and considered in addition to cash flows in accordance with GAAP, as presented in our consolidated financial statements.

The following table reconciles net income attributable to the Company to FFO and FFO adjusted for the three and nine months ended September 30, 2024 and 2023 (dollars and shares in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net income attributable to the Company	\$ 1,707	\$ 4,451	\$ 5,754	\$ 8,498
Depreciation and amortization	3,120	3,313	9,429	9,615
Gain on sale or write down of assets, net	—	—	—	(188)
Gain on sale of land	—	—	—	188
FFO-Basic and Diluted	4,827	7,764	15,183	18,113
Loss on early extinguishment of debt	—	—	—	1,710
Gain on foreign currency transactions	—	—	—	(993)
FFO-adjusted	\$ 4,827	\$ 7,764	\$ 15,183	\$ 18,830

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

Optional and not included.

**ITEM 4. CONTROLS AND PROCEDURES**

Based on an evaluation by our management (with the participation of our Principal Executive Officer and Principal Financial Officer), as of the end of the period covered by this report, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), were effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Financial Officer, to allow timely decisions regarding required disclosures.

There has been no change in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

None

**ITEM 1A. RISK FACTORS**

There have been no material changes from the risk factors previously disclosed in the 2023 10-K. For a discussion on these risk factors, please see “Item 1A. Risk Factors” contained in the 2023 10-K.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

We have a program that allows for the repurchase of up to 1,637,000 shares of our common stock. This repurchase program has no termination date. There were no shares purchased under this program during the nine months ended September 30, 2024. As of September 30, 2024, 1,230,535 shares have been purchased and 406,465 shares may be purchased under the program.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

**ITEM 4. MINE SAFETY DISCLOSURES**

None

**ITEM 5. OTHER INFORMATION**

None

**ITEM 6. EXHIBITS**

The following exhibits are filed with this report or incorporated by reference as indicated;

<b>Exhibit Number</b>	<b>Description</b>
3.0	Articles of Incorporation of Transcontinental Realty Investors, Inc., (incorporated by reference to Exhibit No. 3.1 to the Registrant’s Annual Report on Form 10-K for the year ended December 31, 1991).
3.1	Certificate of Amendment to the Articles of Incorporation of Transcontinental Realty Investors, Inc., (incorporated by reference to the Registrant’s Current Report on Form 8-K, dated June 3, 1996).
3.2	Certificate of Amendment of Articles of Incorporation of Transcontinental Realty Investors, Inc., dated October 10, 2000 (incorporated by reference to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
3.3	Articles of Amendment to the Articles of Incorporation of Transcontinental Realty Investors, Inc., setting forth the Certificate of Designations, Preferences and Rights of Series A Cumulative Convertible Preferred Stock, dated October 20, 1998 (incorporated by reference to Exhibit 3.1 to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended September 30, 1998).
3.4	Certificate of Designation of Transcontinental Realty Investors, Inc., setting forth the Voting Powers, Designations, References, Limitations, Restriction and Relative Rights of Series B Cumulative Convertible Preferred Stock, dated October 23, 2000 (incorporated by reference to the Registrant’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2000).
3.5	Certificate of Designation of Transcontinental Realty Investors, Inc., setting forth the Voting Powers, Designating, Preferences, Limitations, Restrictions and Relative Rights of Series C Cumulative Convertible Preferred Stock, dated September 28, 2001 (incorporated by reference to Registrant’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2001).
3.6	Articles of Amendment to the Articles of Incorporation of Transcontinental Realty Investors, Inc., Decreasing the Number of Authorized Shares of and Eliminating Series B Preferred Stock dated December 14, 2001 (incorporated by reference to Exhibit 3.7 to the Registrant’s Annual Report on Form 10-K for the year ended December 31, 2001).
3.7	By-Laws of Transcontinental Realty Investors, Inc. (incorporated by reference to Exhibit No. 3.2 to the Registrant’s Annual Report on Form 10-K for the year ended December 31, 1991).
3.8	Certificate of Designation of Transcontinental Realty Investors, Inc., setting forth the Voting Powers, Designations, Preferences, Limitations, Restrictions and Relative Rights of Series D Cumulative Preferred Stock filed August 14, 2006 with the Secretary of State of Nevada (incorporated by reference to Registrant’s Current Report on Form 8-K for event dated November 21, 2006 at Exhibit 3.8 thereof).
10.1	Amended and Restated Advisory Agreement dated as of May 7, 2024, between Transcontinental Realty Investors, Inc., and Pillar Income Asset Management, Inc. (incorporated by reference to Exhibit 10.1 to the registrant’s current report on Form 8-K for event occurring May 7, 2024).
<a href="#">31.1*</a>	Section 302 Certification of the Erik L. Johnson, Chief Executive Officer.
<a href="#">31.2*</a>	Section 302 Certification of Alla Dzyuba, Chief Accounting Officer.
<a href="#">32.1*</a>	Section 906 Certifications of Erik L. Johnson and Alla Dzyuba.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document

[Table of Contents](#)

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LAB XBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith.

**SIGNATURE PAGE**

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

TRANSCONTINENTAL REALTY INVESTORS, INC.

Date: November 7, 2024

By: /s/ ERIK L. JOHNSON

Erik L. Johnson

President and Chief Executive Officer

## CERTIFICATION

I, Erik L. Johnson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Transcontinental Realty Investors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;
4. The registrant's other certifying officers(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and
  - (d) Disclosed in the report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 7, 2024

By: /s/ ERIK L. JOHNSON

Erik L. Johnson

President and Chief Executive Officer

**CERTIFICATION**

I, Alla Dzyuba, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Transcontinental Realty Investors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;
4. The registrant's other certifying officers(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and
  - (d) Disclosed in the report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 7, 2024

By: /s/ ALLA DZYUBA

Alla Dzyuba

Vice President and Chief Accounting Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906  
OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned officers of Transcontinental Realty Investors, Inc., a Nevada corporation (the “Company”) hereby certifies that:

- (i) The Company’s Quarterly Report on Form 10-Q for the three months ended September 30, 2024 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and
- (ii) The information contained in the Company’s Quarterly Report on Form 10-Q for the three months ended September 30, 2024 fairly presents in all material respects, the financial condition and results of operations of the Company, at and for the period indicated.

Dated: November 7, 2024

By: /s/ ERIK L. JOHNSON

Erik L. Johnson

President and Chief Executive Officer

/s/ ALLA DZYUBA

Alla Dzyuba

Vice President and Chief Accounting Officer