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AMERICAN REALTY INVESTORS INC
Form S-4/A
May 14, 2002

AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MAY 14, 2002

REGISTRATION NO.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM S-4
AMENDMENT NO. 1
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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

NEVADA
(State or other jurisdiction of
incorporation or organization)

6510
(Primary Standard Industrial
Classification Code Number)

(I.R.S.)

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

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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..... []

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	PROPOS AGGREGATE
10% Series G Cumulative Redeemable Convertible preferred stock, par value \$2.00 per share	4,021,254(1)	Not applicable	\$128,1
Common stock, par value \$0.01 per share	10,161,895(4)	Not applicable	\$
10% Series H Cumulative Redeemable Convertible preferred stock, par value \$2.00 per share	683,282(7)	Not applicable	\$24,82
Common stock, par value \$0.01 per share	1,538,734(10)	Not applicable	\$
Total:			\$153,5

(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) 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 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

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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 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.

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 May 14, 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,

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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. 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. If the mergers are approved by the ARL, TCI and IOT stockholders and sufficient cash is available to ARL, wholly-owned subsidiaries of ARL will be merged into TCI and IOT, with TCI and IOT being the surviving corporations (the mergers and related transactions are collectively referred to as the business combination).

In order to complete the business combination, we must, among other things, obtain the required approval of the ARL, TCI and IOT stockholders. However, if the stockholders of ARL and only one of either TCI or IOT approve their merger, that merger alone may be consummated. In addition to being a condition to the settlement of the lawsuit, we believe that the business combination will benefit the stockholders of all three companies and we ask for your support in voting for the mergers at the special meetings.

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. Shares of the TCI and IOT common stock 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 value per common share at December 31, 2001. 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 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 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 December 31, 2001, the total value of TCI assets and liabilities was \$644,902,000 and \$495,967,000, respectively. No goodwill is acquired or generated through the business combination. Likewise, the total value of IOT assets and liabilities was \$78,091,000 and \$56,611,000, respectively and no goodwill is acquired or generated through 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.

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1,168,774 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 2,853,080 shares of Series G redeemable convertible preferred stock and 576,480 shares of Series H redeemable convertible preferred stock, representing approximately 70.9% 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 \$49,928,900 and \$10,953,120, respectively.

The boards of directors of ARL, TCI and IOT have approved the mergers and recommend that their respective stockholders vote for the merger proposals as described in the attached materials.

ARL stockholders will vote at ARL's special meeting on Wednesday, June 26, 2002, at 2:00 p.m., local time, at 1800 Valley View Lane, Suite 300, Dallas, Texas.

TCI stockholders will vote at TCI's special meeting on Wednesday, June 26, 2002, at 3:00 p.m., local time, at 1800 Valley View Lane, Suite 300, Dallas, Texas.

IOT stockholders will vote at IOT's special meeting on Wednesday, June 26, 2002, at 4:00 p.m., local time, at 1800 Valley View Lane, Suite 300, Dallas, Texas.

Your vote is important, regardless of the number of shares you own. Please vote as soon as possible to make sure that your shares are represented at the special meetings. You may vote your shares by completing the enclosed proxy card, by telephoning the transfer agent or by voting on the Internet. Using the control number provided to you on your proxy card, call toll-free 1-800-PROXIES to vote by telephone or access www.voteproxy.com to vote on the Internet. You may also cast your vote in person at the special meetings.

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 THAT STOCKHOLDERS SHOULD CONSIDER WHEN DECIDING HOW TO VOTE.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE PREFERRED STOCK OR COMMON STOCK TO

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BE ISSUED UNDER THIS JOINT PROXY STATEMENT AND PROSPECTUS OR DETERMINED IF THIS JOINT PROXY STATEMENT AND PROSPECTUS IS TRUTHFUL OR INCOMPLETE. 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 JUNE 26, 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 on June 26, 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.

Only holders of record of ARL's common stock at the close of business on May 10, 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 and following the instructions in the proxy statement and on the enclosed proxy card. If you vote by phone or by Internet, you may vote separately on each of the two merger proposals. 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.

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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
May__, 2002

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS OF
TRANSCONTINENTAL REALTY INVESTORS, INC.
TO BE HELD JUNE 26, 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 on June 26, 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.

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 May 10, 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 and following the instructions in the proxy statement and on the enclosed proxy

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card. 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
May ____, 2002

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS OF
INCOME OPPORTUNITY REALTY INVESTORS, INC.
TO BE HELD JUNE 26, 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 on June 26, 2002 at 4:00 p.m. local time. At the special meeting, IOT's stockholders will be asked to consider and vote upon:

- 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 May 10, 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

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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 and following the instructions in the proxy statement and on the enclosed proxy card. 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
Income Opportunity Realty Investors, Inc.

Dallas, Texas
May __, 2002

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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. "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.

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

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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 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.

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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

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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 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	IOT
Out of 11,375,127 shares of ARL common stock outstanding as of March 15, 2002:	Out of 8,042,594 shares of TCI common stock outstanding as of March 15, 2002:	Out of 1,438,944 shares of IOT common stock outstanding as of March 15, 2002:
- BCM owns 6,269,344 (55.1%)	- ARL indirectly owns 3,994,300 (49.7%)	- ARL owns 1,438,944 (100%)
- TCI owns 746,972 (6.6%)	- BCM owns 1,166,947 (14.5%)	- BCM owns 1,438,944 (100%)
- Non-affiliates own 2,649,350 (23.3%)	- Non-affiliates own 2,854,827 (35.5%)	- Non-affiliates own 1,438,944 (100%)

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.

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

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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.

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

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(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 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

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.

QUESTIONS AND ANSWERS ABOUT THE BUSINESS COMBINATION

1.Q: WHAT IS BEING PROPOSED? (SEE PAGES 43 and 81)

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 will be consummated.

2.Q: WHAT WILL I RECEIVE IN THE MERGER? (SEE PAGES 26, 50 and 81)

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 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 70.9% of the issued and outstanding shares of the Series

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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 December 31, 2001, which were \$26.95 and \$24.48, respectively. See "Comparative per Share Information." The exchange ratio of one share of ARL preferred stock for each one share of TCI or IOT common stock was determined in connection with the

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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 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 PAGES 81 to 84)

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

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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
- 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 163-164)

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

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convertible preferred stock may be converted at the option of the holder into 2.5 and 2.25 shares of ARL common stock, respectively. The liquidation value of the Series G and Series H redeemable convertible preferred stock shall be reduced by any dividends paid on the TCI and IOT common stock, respectively, after January 2, 2002 and prior to conversion. 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.

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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." 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 84)

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A: ARL will account for the mergers under the purchase method of accounting. At December 31, 2001, the total value of TCI assets and liabilities was \$644,902,000 and \$495,967,000, respectively. No goodwill is acquired or generated through the business combination. Likewise, the total value of IOT assets and liabilities was \$78,091,000 and \$56,611,000, 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 76-78)

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 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 76.

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.

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7.Q: ARE THERE RISKS INVOLVED IN THE MERGERS? (SEE PAGES 28-37)

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

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- Substantial amounts of cash are required for the mergers
- Substantial property sales or loans are necessary
- Lender consents may be necessary to complete the mergers
- The mergers are separate transactions
- A tender offer may be made in order to avoid a penalty

RISKS RELATED TO THE ARL PREFERRED STOCK

- The value of the ARL preferred stock is uncertain; ARL may not have sufficient cash to pay the dividend contemplated on the ARL preferred stock
- The Series G and Series H redeemable convertible preferred stock have limited voting rights
- Affiliates of ARL may hold a majority of the Series G and Series H redeemable convertible preferred stock after the mergers are completed

RISKS RELATED TO THE COMBINED BUSINESS

- ARL will need to sell property and borrow money to meet its liquidity needs
- ARL will have substantial debt after the mergers
- 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
- 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
- Developing and managing real estate assets is a highly competitive business
- 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
- 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 59)

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 non-affiliated 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 that are less than the historical earnings per share of IOT common stock and TCI common stock
- The book value per share of IOT common stock and TCI common stock at December 31, 2001 exceeds the per share cash consideration offered to the non-affiliated stockholders of IOT and TCI, respectively, pursuant to the mergers
- 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 59-62)

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 \$94,235,000. 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 \$37,718,438. 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 \$86,943,135, 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 15 properties and TCI expects to sell 18 properties consisting of apartments and office buildings. These sums total an estimated \$86,943,135. If all such loans are entered into and all available properties are sold any remaining difference (presently estimated at \$30,425,987) will be available to ARL for working capital purposes. ARL presently has no written commitments for any of the expected loans and has no

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written or oral contracts to sell any assets.

10.Q: WILL I HAVE DISSENTERS' OR APPRAISAL RIGHTS IN THE MERGER?
(SEE PAGE 41)

A: No.

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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 63-65)

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 79-80)

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."

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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

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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 40 AND 41)

A: The directors, executive officers and the affiliates of the directors and executive officers of ARL beneficially own 61.7% 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 70% 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 64.5% 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 70.2% 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 70.2% 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.

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BCM will own 64.9% 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 40)

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

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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
- 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 5,215,324 shares of TCI common stock representing approximately 64.5% 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 26)

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,

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on the NYSE. There can be, however, no assurance that the shares will be listed. The listing of the preferred and 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: 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 71-73)

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:

- The 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
- 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 non-affiliated public stockholders of TCI and IOT was fair from a financial 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

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- 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 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 expectation of the ARL board of directors that the cash to be paid as merger consideration could be raised in large part from sales of real estate held by TCI and IOT
- 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 terms of the merger agreements, including that there is no financing condition and each can be terminated without penalty by either party; the expectation of the

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ARL board of directors that 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

- 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 fact that the TCI and IOT mergers are not conditioned upon one another
- 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
- The time and management resources necessary to solicit stockholder approval and consummate the mergers
- 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:

- 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
- 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
- The fact that gains from an all cash transaction would be taxable to TCI stockholders for U.S. federal income tax purposes
- Book value per share of TCI common stock exceeds the offered cash value per share, 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 and IOT
- 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

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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. 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:

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- 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
- 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

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- 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
 - 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
 - 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

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to the transactions. See also "Security Ownership of Certain Beneficial Owners and Management of ARL"

- 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.

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17.Q: WHEN DO THE COMPANIES EXPECT TO COMPLETE THE MERGERS? (SEE PAGE 81)

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.

18.Q: WHEN DO I ELECT WHETHER TO RECEIVE ARL PREFERRED STOCK OR CASH? (SEE PAGE 83)

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

19.Q: WHERE AND AT WHAT TIME WILL THE MEETINGS BE HELD? (SEE PAGE 38)

A: The ARL special meeting will be held on Wednesday, June 26, 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 Wednesday, June 26, 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 Wednesday, June 26, 2002, at the offices of IOT at 1800 Valley View Lane, Suite 300, Dallas, Texas, at 4:00 p.m., Central Time.

20.Q: WHAT DO I NEED TO DO NOW? (SEE PAGE 38)

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.

21.Q: IF MY SHARES ARE HELD BY MY BROKER, WILL MY BROKER VOTE MY SHARES FOR ME? (SEE PAGE 39)

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.

22.Q: CAN I CHANGE MY VOTE AFTER I HAVE MAILED MY SIGNED PROXY CARD? (SEE PAGE 39)

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

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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.

23.Q: SHOULD I SEND IN MY CERTIFICATES NOW? (SEE PAGE 84)

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.

24.Q: I'VE LOST MY CERTIFICATE. WHAT SHOULD I DO? (SEE PAGE 83)

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

25.Q: WHO CAN I CONTACT FOR MORE INFORMATION? (SEE PAGE 39)

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

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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:

	2001	2000	Years Ended D 199
	----	----	----
Ratio of earnings to fixed charges and preferred stock dividends	1.16	1.00	1.0

**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.

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 YEARS ENDED DE		
	2001	2000	1999
	----	----	----
	(dollars in thousands, exc		
EARNINGS DATA			
Revenue.....	\$ 166,018	\$ 172,750	\$ 193,980
Expense.....	243,166	272,045	324,789
	-----	-----	-----
(Loss) from operations.....	(77,148)	(99,295)	(130,809)
Equity in income of investees.....	8,803	5,246	11,847
Gain on sale of real estate.....	83,414	96,728	129,260
	-----	-----	-----
Income (loss) before extra-ordinary gain.....	15,069	2,679	10,298
Extraordinary gain.....	---	---	---
	-----	-----	-----
Net income (loss).....	15,069	2,679	10,298
Preferred dividend requirement.....	(2,485)	(2,327)	(2,281)
	-----	-----	-----
Income (loss) applicable to Common shares.....	\$ 12,584	\$ 352	\$ 8,017
	=====	=====	=====
PER SHARE DATA			
Net income (loss) before extraordinary gain....	\$ 1.07	\$.03	\$.75
Extraordinary gain.....	---	---	---
	-----	-----	-----
Net income (loss) applicable to Common shares..	\$ 1.07	\$.03	\$.75
	=====	=====	=====
Dividends per Common share.....	\$ ---	\$ ---	\$.05
Weighted average shares outstanding.....	11,714,374	10,399,890	10,759,416

FOR THE YEARS ENDED

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	2001		2000		1999
	----		----		----
BALANCE SHEET DATA					
Real estate, net.....	\$ 588,203		653,744	\$	771,630
Notes and interest receivable, net.....	30,382		13,831		38,604
Total assets.....	758,763		787,015		919,546
Notes and interest payable.....	564,298		616,331		706,196
Margin borrowings.....	28,040		13,485		33,264
Stockholders' equity.....	85,884		73,402		46,266
Book value per share.....	\$ 7.33		7.06	\$	4.30

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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 YEARS ENDED DECEMBER	
	2001	2000
	----	----
EARNINGS DATA		
Rents.....	\$ 134,911	\$ 139,357
Property expense.....	80,562	78,061
Operating income.....	54,349	61,296
Other income.....	(3,002)	1,814
Other expense.....	85,806	83,878
Gain on sale of real estate.....	54,270	50,550
Net income (loss).....	19,811	29,782
Preferred dividend requirement.....	(172)	(22)
Net income (loss) applicable to Common shares..	\$ 19,639	\$ 29,760
Basic and Diluted Earnings Per Share Net income (loss) applicable to Common shares.....	\$ 2.32	\$ 3.45
Dividends per Common share.....	---	\$.54
Weighted average Common shares outstanding.....	8,478,377	8,631,621

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	FOR THE YEARS ENDED DECEMBER 31			
	2001		2000	
	-----		-----	
BALANCE SHEET DATA				
Real estate held for investment, net.....	\$	622,171	\$	639,040
Real estate held for sale, net.....				
Foreclosed.....		516		1,824
Other.....		---		---
Notes and interest receivable, net.....		22,049		8,172
Total assets.....		709,152		731,885
Notes and interest payable.....		461,037		501,734
Stockholders' equity.....		216,768		200,560
Book value per share.....	\$	26.95	\$	23.22

	FOR THE YEARS ENDED DECEMBER 31,			
	1998		1997	
	-----		-----	
EARNINGS DATA				
Rents.....	\$	69,829	\$	54,462
Property expense.....		38,282		32,424
Operating income.....		31,547		22,038
Other income.....		739		2,311
Other expense.....		38,320		33,154
Gain on sale of real estate.....		12,940		21,404
Net income (loss).....		6,906		12,599
Preferred dividend requirement.....		(1)		---
Net income (loss) applicable to Common shares..	\$	6,905	\$	12,599
Basic and Diluted Earnings Per Share Net income (loss) applicable to Common shares.....	\$	1.78	\$	3.22
Dividends per Common share.....	\$.60	\$.28*
Weighted average Common shares outstanding.....		3,876,797		3,907,221

	FOR THE YEARS ENDED DECEMBER 31,			
	1998		1997	
	-----		-----	
BALANCE SHEET DATA				
Real estate held for investment, net.....	\$	347,389	\$	269,845
Real estate held for sale, net.....				
Foreclosed.....		1,356		1,356
Other.....		---		3,630
Notes and interest receivable, net.....		1,493		3,947

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Total assets.....	382,203	319,135
Notes and interest payable.....	282,688	222,029
Stockholders' equity.....	91,132	86,133
Book value per share.....	\$ 23.35	\$ 22.15

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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 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 YEARS ENDED DECEMBER	
	2001	2000
	-----	-----
	(dollars in thousands, except p	
EARNINGS DATA		
Rents.....	\$ 13,001	\$ 13,731
Property expense.....	6,591	6,969
Operating income.....	6,410	6,762
Interest income.....	194	319
Income (loss) from equity partnerships.....	(9)	(61)
Gain on sale of real estate.....	---	20,878
	185	21,136
Other expense.....	10,057	11,104
Net income (loss).....	\$ (3,462)	\$ 16,794
PER SHARE DATA		
Net income (loss).....	\$ (2.32)	\$ 11.03
Dividends per share.....	\$ ---	\$.45
Weighted average Common shares outstanding.....	1,493,675	1,522,510

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	FOR THE YEARS ENDED DECEMBER	
	2001	2000
BALANCE SHEET DATA		
Real estate held for investment, net.....\$	87,315	\$ 86,277
Real estate held for sale, net		---
Notes and interest receivable, net.....	505	1,500
Total assets.....	91,833	96,519
Notes and interest payable.....	54,426	54,206
Stockholders' equity.....	35,222	39,998
Book value per share.....\$	24.48	\$ 26.42

	FOR THE YEARS ENDED DECEMBER 31,	
	1998	1997
(dollars in thousands, except per share)		
EARNINGS DATA		
Rents..... \$	14,326	\$ 12,221
Property expense.....	6,462	5,900
Operating income.....	7,864	6,321
Interest income.....	172	266
Income (loss) from equity partnerships.....	113	52
Gain on sale of real estate.....	180	3,953
	465	4,271
Other expense.....	9,008	7,275
Net income (loss)..... \$	(679)	\$ 3,317
PER SHARE DATA		
Net income (loss)..... \$	(.44)	\$ 2.18
Dividends per share..... \$.60	\$.40
Weighted average Common shares outstanding.....	1,521,832	1,519,888

	FOR THE YEARS ENDED DECEMBER 31,	
	1998	1997
BALANCE SHEET DATA		
Real estate held for investment, net..... \$	83,691	\$ 81,914
Real estate held for sale, net	---	---
Notes and interest receivable, net.....	---	2,010
Total assets.....	88,695	90,309
Notes and interest payable.....	60,786	61,323
Stockholders' equity.....	23,560	25,131
Book value per share..... \$	15.44	\$ 16.53

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)

	ARL COMMON STOCK		TCI COMMON STOCK	
	HISTORICAL	PROFORMA COMBINED AND EQUIVALENT	HISTORICAL	PROFORMA COMBINED AND EQUIVALENT
Income (loss) per common share, diluted				
Year ended December 31, 2001.....	\$1.07	\$1.12	\$2.32	
Year ended December 31, 2000.....	0.04	1.90	3.45	
Cash dividend per common share				
Year ended December 31, 2001.....	-	-	-	
Year ended December 31, 2000.....	-	-	0.54	
Book value per common share				
Year ended December 31, 2001.....	7.55	8.49	26.95	
Year ended December 31, 2000.....	6.45	7.56	23.22	

IOT COMMON STOCK

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	HISTORICAL	PROFORMA COMBINED AND EQUIVALENT
Income (loss) per common share, diluted		
Year ended December 31, 2001.....	\$ (2.32)	\$ 0.78
Year ended December 31, 2000.....	11.03	1.04
Cash dividend per common share		
Year ended December 31, 2001.....	-	-
Year ended December 31, 2000.....	0.45	0.45
Book value per common share		
Year ended December 31, 2001.....	24.48	7.59
Year ended December 31, 2000.....	26.42	6.52

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

	ARL COMMON STOCK	
	HISTORICAL	PROFORMA COMBINED AND EQUIVALENT
Income (loss) per common share, diluted		
Year ended December 31, 2001.....	\$1.07	\$0.74
Year ended December 31, 2000.....	0.04	1.20
Cash dividend per common share		
Year ended December 31, 2001.....	-	-
Year ended December 31, 2000.....	-	-
Book value per common share		
Year ended December 31, 2001.....	7.55	8.40
Year ended December 31, 2000.....	6.45	12.26

	IOT COMMON STOCK	
	HISTORICAL	PROFORMA COMBINED AND EQUIVALENT
Income (loss) per common share, diluted		
Year ended December 31, 2001.....	\$ (2.32)	\$0.70

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Year ended December 31, 2000.....	11.03	0.98
Cash dividend per common share		
Year ended December 31, 2001.....	-	-
Year ended December 31, 2000.....	0.45	0.45
Book value per common share		
Year ended December 31, 2001.....	24.48	7.79
Year ended December 31, 2000.....	26.42	6.82

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

	ARL COMMON STOCK		TCI COMMON STOCK	
	HISTORICAL	PROFORMA COMBINED AND EQUIVALENT	HISTORICAL	PROFORMA COMBINED AND EQUIVALENT
Income (loss) per common share, diluted				
Year ended December 31, 2001.....	\$1.07	\$0.89	\$2.32	\$1.08
Year ended December 31, 2000.....	0.04	1.48	3.45	1.26
Cash dividend per common share				
Year ended December 31, 2001.....	-	-	-	-
Year ended December 31, 2000.....	-	-	0.54	0.54
Book value per common share				
Year ended December 31, 2001.....	7.55	8.43	26.95	8.37
Year ended December 31, 2000.....	6.45	9.54	23.22	7.35

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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:

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Closi

ARL Common Stock.....	\$1
TCI Common Stock.....	\$1
IOT Common Stock.....	\$1

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 -----
1999:						

First Quarter	\$---	\$---	\$---	\$16 3/8	\$11 5/8	\$
Second Quarter	---	---	---	12 1/2	11 3/8	
Third Quarter	---	---	---	13 7/16	10 7/8	
Fourth Quarter	---	---	---	13 1/8	11 1/4	
2000:						

First Quarter	---	---	---	13	10 13/16	
Second Quarter	---	---	---	13 1/2	2 7/8	
Third Quarter	17	7	---	16	11 1/2	
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	
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	

	IOT COMMON STOCK		
	HIGH ----	LOW ---	DIVIDENDS (3) -----
1999:			

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First Quarter	\$8	\$6 3/8	\$.15
Second Quarter	7 3/4	5 5/8	.15
Third Quarter	7 1/8	5 1/8	.15
Fourth Quarter	5 7/8	4 3/4	.15
2000:			

First Quarter	7 1/2	5 1/4	.15
Second Quarter	7 1/2	2	.15
Third Quarter	10 1/4	6 3/4	.15
Fourth Quarter	9 1/4	8	---
2001:			

First Quarter	9 1/8	7 5/8	---
Second Quarter	8 3/16	6 15/16	---
Third Quarter	13 1/2	9 1/16	---
Fourth Quarter	23 1/2	12 3/4	---
2002:			

First Quarter	18.30	17.30	---

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

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- (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.

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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

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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
- 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.

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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

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 \$60,882,020 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 \$94,235,586 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. 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 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.

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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
- 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.

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.

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 required 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.)

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RISKS RELATED TO THE ARL PREFERRED STOCK

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

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- 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 March 31, 2002, ARL has 2,778,878.75 shares of its Series A, E and F 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 7,484,006 shares of preferred stock outstanding with a dividend requirement of approximately \$1,736,398 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.

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 Series G and H redeemable convertible preferred stock.

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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:

- 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. After consummating the mergers and paying related expenses, ARL on a pro forma basis expects to have approximately \$11,121,000 of cash and negotiable securities on hand to meet its obligations
- 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 \$1,138,673,000 and total stockholders equity of

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approximately \$117,109,000, 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 flow of approximately \$112,358,008.

- 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

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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 \$30,425,987 during the next twelve months after paying the costs and expenses related to the mergers assuming nonaffiliated stockholders take cash for the shares of TCI and IOT common stock.

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

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- 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 those and other loan agreements that, if not cured or 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 \$3,038,815 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

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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

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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 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:

- 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

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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 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.

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

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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 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 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

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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 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 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.

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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.

ARL SPECIAL MEETING

The special meeting of holders of ARL common stock will be held on June 26, 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 June 26, 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.

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IOT SPECIAL MEETING

The special meeting of holders of IOT common stock will be held on June 26, 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

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recorded. ARL stockholders may vote separately on each of the two merger proposals when voting by proxy or Internet.

Any ARL, TCI or IOT stockholder signing and delivering a proxy 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

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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 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.

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RECORD DATE; VOTES REQUIRED

ARL. Only holders of shares of ARL common stock of record at the close of business on the record date, May 10, 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 70.0% of the outstanding shares of ARL, assuming that all 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 70.2% of the outstanding common stock of ARL after completion of the TCI and IOT mergers, assuming that all TCI and

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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 64.9% of the outstanding common stock of ARL after completion of the TCI and IOT mergers, assuming that all 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.

TCI. Only holders of shares of TCI common stock of record at the close of business on the record date, May 10, 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

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favor of the TCI merger. Since the TCI 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.

IOT. Only holders of shares of IOT common stock record at the close of business on the record date, May 10, 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

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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 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.

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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.

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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.

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The principal operating offices of each of ARL, TCI, IOT, Income 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 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 non-affiliates 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, 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.

* 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

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also Current Report on Form 8-K for event occurring December 14, 2001 of TCI and IOT.

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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 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

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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,

** 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 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.

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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.

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

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\$16.50 for each of the TCI common stock and \$19 for each of the IOT 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.

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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 settlement with Settlement Counsel on a daily basis during September and the early part of October. Mr. Simon met with Settlement Counsel

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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

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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

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conversion period of the preferred stock available by affirmative election by the TCI stockholders. During that meeting, discussions ensued concerning the 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

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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.

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

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 nonaffiliated stockholders had an opportunity to evaluate the resulting business

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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 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:

- 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

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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 subject to the matters set forth in that opinion, as of 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.

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The TCI board of directors has an awareness that the book value per share of TCI common stock from a financial standpoint exceeds the cash offered of \$17.50 per share. Historically, market value per share of TCI common stock has, for more than the past ten years been less than the calculated book value per share from a financial standpoint. Based upon

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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. The board of directors of TCI is also aware that ARL may have to raise capital from other sources, refinance indebtedness or sell assets (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. By virtue of these 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.

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 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 premium over the average closing price of IOT common stock over the thirty trading days prior to October 23, 2001. The IOT

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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

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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:

- 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.
- 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

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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:
 - 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.

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- 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.

The IOT board of directors is aware that the book value per share of IOT common stock from a financial standpoint exceeds the cash offered of \$19 per share. Historically, market value per share of IOT common stock has for several years been less than the calculated book value per share from a financial standpoint. Based upon unaudited pro forma consolidated financial statements giving effect to the merger of IOT into ARL resulting earnings per share could be less than the historical earnings per share of IOT. The IOT board of directors is also aware that ARL may have to raise capital from other sources, refinance indebtedness or sell assets (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 these factors, it is possible that there may not be sufficient ARL cash to allow the payment of dividends on the Series H redeemable convertible preferred stock as a result of the substantial debt to be incurred and increase of leverage. 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 the net income from any REIT in the form of dividends each year. During the year ended December 31, 2000, IOT paid

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dividends equal to \$0.45 per share of IOT common stock and paid no dividends in 2001.

During its consideration of the transaction with ARL, the IOT board of directors were also aware that certain directors and executive officers of IOT may have interests in the merger that are different from or in addition to those of nonaffiliated IOT stockholders generally, as described under "Interests of Directors and Officers in the Business Combination."

The discussion of the information and factors considered and given and weighted by the IOT board of directors is not intended to be exhaustive, but it is believed to address the material information and factors considered by the IOT board of directors. In view of the number and variety of these factors, the IOT 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 IOT merger agreement was made after consideration of all of the factors and analyses as a whole. In addition, individual members of the IOT board of directors may have given different weights to different factors.

ARL'S PURPOSE AND REASONS FOR THE MERGER

ARL's purpose in pursuing the merger is to acquire the businesses of TCI and IOT at what ARL believes to be an attractive price and on what it believes to be attractive terms. In addition, ARL believes that by combining and integrating under ARL the businesses and

operations of ARL, IOT and TCI, ARL will be able to enjoy greater financial and operational flexibility, and may enjoy better access to capital. ARL's opportunity to acquire TCI and IOT arose, in part, from the court approved settlement of certain litigation against TCI, IOT and certain of their affiliates known as 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. As described elsewhere in this joint proxy statement and prospectus under "Summary - The Olive Settlement" the parties to the litigation have entered into a settlement, after arms length negotiation, providing that if the stockholders of TCI and IOT so approve, TCI and IOT will become subsidiaries of ARL through the mechanism of the proposed mergers. As a result of the mergers, if consummated, stockholders of TCI and IOT (other than Mr. Phillips, BCM, ARL and ART) will receive \$17.50 and \$19.00 in cash for each of their shares of the common stock of TCI or IOT, respectively. Stockholders of TCI and IOT who are entitled to receive cash for their shares of the common stock of TCI or IOT will also, under the proposed settlement, have the opportunity to affirmatively elect to receive shares of the preferred stock of ARL in lieu of cash. BCM and affiliates of BCM, ART, ARL and Mr. Phillips have agreed to receive shares of the ARL preferred stock offered hereby for their shares of the common stock of TCI and IOT, thus reducing the amount of cash necessary to consummate the proposed transactions. The proposed transactions were negotiated by ARL's management and presented to

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the ARL board of directors for approval. After consideration of the proposals, the ARL board unanimously approved the transactions and recommended that the stockholders of ARL approve the TCI and IOT merger agreements.

In reaching its decision to approve and recommend to the ARL stockholders the TCI merger agreement and the IOT merger agreement, the ARL board of directors consulted with management, reviewed materials provided to it by management as part of management's presentation to the board and pursuant to requests from the board, consulted with its legal advisors and discussed the proposed transactions among its members. The ARL board of directors considered a great deal of information, advice and a number of factors in reaching its decision, including those described below. Although individual members of the board may have considered some information, factors or advice more or less important than others, and in view of the number and variety of this information, factors and advice, the ARL board did not find it practicable or useful, as a board, to make specific assessments of or to otherwise assign relative weights to the factors, information and advice considered in reaching its decisions. Instead, the determination to approve and recommend the TCI and IOT merger agreements was made after consideration of all of the factors, information and advice as a whole and after discussion thereof by the board. In its discussion, the ARL board did not specifically address whether any of various factors, information or advice considered positively or negatively affected their determination. Among the information, factors and advice considered by the ARL board were the following:

- The ARL board reviewed information concerning the historical market prices for the TCI, IOT and ARL common stock. In doing so, the board noted that the proposed merger consideration represented a 44.6% premium over the average closing price of the TCI common stock over the thirty trading days prior to October 23, 2001 and a 28.7% premium over the average closing price for the IOT common stock for the

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same period. The board also compared the historical relationship between the prices for shares of ARL's common stock and shares of TCI's and IOT's common stock.

- In considering the merger consideration to be offered for the shares of TCI and IOT common stock, the ARL board was advised by management of ARL of the history of negotiations among representatives of ARL, TCI and IOT with respect to the merger consideration and the structure of the proposed transactions. In addition, the board was advised of the advice rendered to the boards of TCI and IOT by their financial advisor to the effect that based upon and subject to certain matters to be reflected in an opinion, as of February 1, 2002, the consideration to be offered to the non-affiliated public stockholders of TCI and IOT was fair from a financial point of view to those stockholders. The ARL board was not provided with a copy of TCI and IOT's financial advisors opinion or board presentation.
- In considering the cash merger consideration to be offered for the TCI common stock and IOT common stock, the ARL board noted that in each case, the cash consideration was less than the current book value per share of the common stock of TCI and IOT.
- The ARL board reviewed the real estate portfolios of ARL, TCI and IOT and expressed the view that the proposed combination of those

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portfolios would benefit ARL by increasing the size and diversity of its portfolio and increasing the number of development opportunities available to it. The board noted, in coming to this conclusion, that TCI and IOT have the largest number of their properties in the Southwest region of the United States, while ARL has its greatest concentration of properties in the Southeast.

- The ARL board expected that an increase in the size of the portfolio of real estate properties under ARL's control, and an increase in the size of its business generally, would increase ARL's financial flexibility. Among other things, the board felt that a larger portfolio would increase that likelihood that properties would be available for sale or mortgage when ARL or its subsidiaries required cash for development activities. In addition, the board felt that a larger entity would be more attractive as a borrower to capital sources.
- The ARL board carefully reviewed with ARL's management the anticipated cash requirements of ARL's business in the future if the TCI and IOT mergers, or either of them, were consummated, and management's expectations regarding steps necessary to assure that sufficient cash was available to meet ARL's obligations to pay the cash portion of the merger consideration. The ARL board understood that the cash to be paid as merger consideration could be raised in large part from the sales of real estate held by TCI and IOT.
- The ARL board expects that the consummation of each of the TCI and IOT mergers will be dependent upon the availability of sufficient cash to consummate those transactions, and that ARL will not consummate the TCI merger or the IOT merger, respectively, unless management believes such cash is available at the time of the merger.
- The ARL board carefully reviewed the terms of the proposed merger agreements with TCI and IOT with management and its legal counsel and noted that neither of the merger agreements were expected to be entered into until after the stockholders of ARL and TCI or IOT, as the case may be, had approved the proposed merger. In

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connection with its review, the ARL board noted that the proposed merger agreements did not contain a financing condition and could be terminated without penalty by either party. In addition, the ARL board noted that because the merger agreements would not be executed until stockholder approval is obtained, it is possible that a third party might seek to acquire either TCI or IOT before such approval could be obtained, making it unlikely that a merger with that entity would occur.

- The ARL board noted that ARL affiliates hold approximately 14.9% and 7.4% of the issued and outstanding common stock of TCI and IOT, respectively, and that those stockholders will accept preferred stock of ARL in lieu of cash as merger consideration.
- The ARL board noted that the TCI and IOT mergers are not conditioned upon one another, meaning that, subject to stockholder approval and the availability of necessary cash, either of the mergers could be consummated, even if the other was not.
- The ARL board noted that if ARL were unable or unwilling to consummate either of the proposed mergers, it would become obligated

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to pay a penalty of \$5.00 per outstanding share of the common stock of the entity not being acquired unless it initiated a tender offer for such shares for at least the same consideration proposed in the mergers with respect to the cash consideration. The ARL board further noted that consummation of the mergers might not occur for a number of reasons outside of ARL's control, including failure to obtain the necessary stockholder approvals of TCI or IOT or the lack of sufficient cash available to ARL, TCI or IOT, as the case may be, to pay the cash portion of the merger consideration.

- The ARL board considered, based upon the advice of management and after consultation with legal counsel, the time and management resources necessary to solicit the requisite stockholder approval of the mergers and to consummate the mergers.
- The ARL board considered the steps necessary to consummate the mergers, in addition to those required to solicit stockholder approval, and based upon the advice of management and after consultation with legal counsel, was of the view that such steps, including the obtaining of necessary regulatory and other approvals, could be obtained.
- The ARL board considered the various risks and uncertainties involved in the mergers, including the risks described under the heading "Risk Factors" in this joint proxy statement and prospectus.

During its consideration of the proposed transactions with TCI and IOT, the ARL board was aware that certain executive officers and directors of ARL may have interests in the proposed transactions that are different from or in addition to those of ARL's non-affiliated stockholders generally, all as described under "Interests of Directors and Officers in the Business Combination."

The foregoing discussion of the information, factors and advice considered by the ARL board of directors is not intended to be exhaustive, but is believed to address the material

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information, factors and advice considered by the ARL board of directors in reaching its determination to approve and recommend the TCI and IOT merger agreements.

ADVERSE CONSEQUENCES AND NEGATIVE FACTORS ASSOCIATED WITH THE MERGERS

The mergers involve risks, uncertainties, adverse consequences, detriments and negative factors, including, without limitation, the following:

- The risks and uncertainties described in this joint proxy statement and prospectus under the heading "RISK FACTORS" beginning on page 28
- Following the mergers, the non-affiliated 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, including those who may otherwise have preferred retaining their stock in order to defer the occurrence of a taxable event
- Based upon the unaudited pro forma consolidated financial

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statements, the mergers would have resulted in earnings per share of ARL common stock that are less than the historical earnings per share of IOT common stock and TCI common stock

- The book value per share of IOT common stock and TCI common stock at December 31, 2001 exceeds the per share cash consideration offered to the non-affiliated stockholders of IOT and TCI, respectively, pursuant to the mergers
- 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. During the year ended December 31, 2000, IOT paid dividends equal to \$0.45 per share of IOT common stock. IOT paid no dividends in 2001

The foregoing discussion is not intended to be exhaustive, but includes material risks, uncertainties, adverse consequences, detriments and negative factors associated with the mergers in general. The adverse consequences and detriments of the mergers to each stockholder may be different from those described above depending on the facts and circumstances applicable to such stockholder.

FINANCING OF THE BUSINESS COMBINATION

ARL estimates that approximately \$94,235,586 will be required if all nonaffiliated TCI and IOT stockholders take cash in exchange for their shares of TCI common stock and IOT common stock, and to pay the related fees and expenses of the transactions. The actual amount required to purchase such shares and pay the related expenses 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 and certain of the related expenses. The following table contains an itemized list of funds applicable to the individual mergers as well as funds that apply to both mergers. This table assumes that all nonaffiliated TCI and IOT stockholders take the cash merger consideration.

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APPLICATION OF FUNDS SPECIFIC TO TCI MERGER	AMOUNT OF FUNDS	SOURCE OF FUNDS
Purchase of 2,853,080 shares of TCI common stock at \$17.50 per share from all nonaffiliated TCI stockholders.....	\$49,928,900	Cash from the sources set forth in the Source of Funds table below
Sunset Management loan secured by 2,601,798 shares of TCI common stock.....	\$20,000,000	ARL intends to satisfy the loan by substituting ARL stock that will

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secured by \$40,000,000 of equity from TCI and IOT income property for the TCI common stock now used as collateral, otherwise ARL must pay off this loan

Dynamic Finance loan secured by 843,311 shares of TCI common stock.....	\$4,000,000
Preferred Bank loan secured by 249,191 shares of TCI common stock.....	\$250,000
Subtotal.....	\$74,178,900

ARL intends to satisfy the loan substituting ARL stock owned by as collateral for the TCI common stock now used as collateral, otherwise ARL must pay off this loan

ARL intends to satisfy the loan substituting ARL stock owned by as collateral for the TCI common stock now used as collateral, otherwise ARL must pay off this loan

APPLICATION OF FUNDS SPECIFIC TO IOT MERGER	AMOUNT OF FUNDS	SOURCE OF FUNDS
Purchase of 576,480 shares of IOT common stock at \$19.00 per share from nonaffiliated IOT stockholders.....	\$10,953,120	Cash from the sources set forth in the Source of Funds table below
Beal Bank loan secured by 250,000 shares of IOT common stock.....	\$3,000,000	ARL intends to satisfy the loan substituting ARL stock owned by as collateral for the IOT common stock now used as collateral, otherwise ARL must pay off this loan
Subtotal.....	\$13,953,120	

APPLICATION OF FUNDS APPLICABLE TO BOTH THE TCI AND IOT MERGERS	AMOUNT OF FUNDS	TYPE OF FUNDS
Payment to George Donaldson, Settlement		

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Counsel, pursuant to the Olive Settlement	\$875,000	Cash from the sources set forth in the Source of Funds table below
Professional fees.....	\$590,000	Cash from the sources set forth in the Source of Funds table below
Advisory fees on property sales.....	\$3,038,566	Cash from the sources set forth in the Source of Funds table below
Payment of a margin loan with a brokerage firm secured by 300,000 shares of TCI common stock and 150,000 shares of IOT common stock	\$1,600,000	ARL will satisfy the margin loan by substituting stock of ARL owned by BCM as collateral for the TCI and IOT common stock not used as collateral, otherwise ARL must pay off this loan
Subtotal.....	\$6,103,566	
TOTAL.....	\$94,235,586	

ARL expects the amount of funds needed to complete the business combination to be funded first through new loans and, if necessary, through internally generated funds from the sale (or use as collateral for loans) of a number of assets. The amount of loans and the sale of assets, if necessary, will depend on the number of stockholders who accept cash rather than affirmatively elect to receive Series G and Series H redeemable convertible preferred stock. The more stockholders who elect to receive Series G and Series H redeemable convertible preferred stock will reduce the amount of cash needed to pay the cash merger consideration and in turn will affect the amount of loans and whether the assets need to be sold. At the date of this joint proxy statement and prospectus, while preliminary discussions for new financings have occurred, no written formal commitment has been issued by any of the lenders. Similarly, no stated or effective interest rates or other material terms of any financing arrangement have been agreed. ARL, TCI and IOT have available a number of real property assets which should be able to be sold (or used as collateral for loans), if such funds are necessary, however, presently there are no written or oral contracts to sell any of the assets. The table set forth below summarizes the expected loans and the expected sales of real property that ARL may use to fund the business combination. Some or all of the loans and property sales may not be required depending on the amount of cash needed. The properties listed below are more fully described under "Information about ARL -- Properties of ARL," "Information about TCI -- Properties of TCI" and "Information about IOT -- Properties of IOT," as applicable. In the event the cash from loans and any sales of assets is greater than needed to satisfy the cash merger consideration requirements, ARL and its subsidiaries will use the excess for working capital purposes.

SOURCE OF FUNDS	AMOUNT OF NET CASH EXPECTED TO BE GENERATED
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ARL expects to enter into new loans that total in the aggregate \$20,000,000 that will be secured by approximately 4,000,000 shares of ARL stock with a market value of \$40,000,000..... \$20,000,000
 ARL expects to obtain new loans that are secured by the following properties(+). \$ 8,231,543

PROPERTY	LOCATION
Williamsburg Hospitality House	Williamsburg, VA
Cross County Mall	Mattoon, IL
Conradi House	Tallahassee, FL
Villager	Ft. Walton, FL
One Hickory Center	Farmers Branch, TX

TCI expects to obtain new loans that are secured by the following properties(+):..... \$9,486,895

PROPERTY	LOCATION
The Forum	Richmond, VA
Jefferson Office Building	Washington, DC
Durham Center	Durham, NC
Autumn Chase Apartments	Midland, TX
Gladstell Forest	Curee, TX
Treehouse-Irving	Irving, TX
Westwood Square	Odessa, TX
Surf Hotel	Chicago, IL
Majestic Hotel	San Francisco, CA
City Suites Hotel	Chicago, IL

ARL expects to sell the following properties(++)... \$24,327,259

PROPERTY	LOCATION
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Regency on Kennedy Apts	Tampa, FL
Confederate Pointe	Jacksonville, FL
Pheasant Ridge	Belleview, NE
Oak Tree Square	Grandview, MO
Woodsong	Smyrna, GA
Whispering Pines	Topeka, KS
Centura Towers	Farmers Branch, TX
Greenbriar	Tallahassee, FL
Lake Chateau	Thomasville, GA
LeeHills	Tallahassee, FL
Northside Villas	Tallahassee, FL
Pine Crest West	Tallahassee, FL
Rolling Hills	Tallahassee, FL
Valley Hi	Tallahassee, FL

(+) Properties available as of April 15, 2002. The available properties are subject to change depending on interim sales and market conditions.

(++) Properties available as of April 1, 2002. The available properties are subject to change depending on interim sales and market conditions.

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White Pines	Tallahassee, FL
TCI expects to sell the following properties(++)...	\$62,615,876

PROPERTY	LOCATION
4242 Cedar Springs	Dallas, TX
Bay Plaza I	Tampa, FL
Bay Plaza II	Tampa, FL
Bonita Plaza	Bonita, CA
Country Club Villas	Largo, FL
Country Crossing	Tampa, FL
Gladstell	Houston, TX
Heritage on the River	Jacksonville, FL
In the Pines	Gainesville, FL
Limestone Canyon	Austin, TX
Plantation	Tulsa, OK
Plaza Tower	St. Petersburg, FL
Quail Creek	Lawrence, KS
Sandstone	Mesa, AZ
Somerset Place	Texas City, TX
Stone Oak Place	San Antonio, TX
Summerfield	Orlando, FL

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Allen Land

McKinney, TX

Total..... \$124,661,573

OPINION OF FINANCIAL ADVISOR

The board of directors of each of TCI and IOT retained Houlihan Lokey, pursuant to engagement letters dated October 4, 2001 (the "Engagement Letters"), to render fairness opinions, from a financial point of view, to public TCI common stockholders and public IOT common stockholders, in each case excluding those stockholders affiliated with ARL, of the consideration to be received by the nonaffiliated TCI stockholders and the nonaffiliated IOT stockholders in the merger of TCI and IOT with two subsidiaries of ARL pursuant to which (a) nonaffiliated TCI stockholders will receive: (i) \$17.50 in cash or (ii) if they affirmatively elect, one share of newly issued ARL Series G redeemable convertible preferred stock for each share of TCI common stock that they currently own and (b) nonaffiliated IOT stockholders will receive: (i) \$19.00 in cash or (ii) if they affirmatively elect, one share of newly issued ARL Series H redeemable convertible preferred stock. Both the Series G redeemable convertible preferred stock and Series H redeemable convertible preferred stock are convertible into ARL common stock based upon the terms, conditions and exchange ratios set forth herein. Houlihan Lokey and the board of directors of each of TCI and IOT amended the Engagement Letters on February 1, 2002, to provide for Houlihan Lokey's performance of certain additional financial advisory services on behalf of the board of directors of each of TCI and IOT, specifically, conducting negotiations with ARL regarding the mergers. Houlihan Lokey did not set the cash offering price in the mergers of \$17.50 per share for TCI stockholders or \$19 per share for IOT

(++) Properties available as of April 1, 2002. The available properties are subject to change depending on interim sales and market conditions.

stockholders. These amounts were determined by negotiation between Settlement Counsel and representatives of ARL. Houlihan Lokey advised the TCI and IOT boards of directors as to the range of exchange ratios for the conversion factors of ARL Series G and H Preferred Stock implied by the financial analysis conducted by Houlihan Lokey and assisted the boards of directors in negotiating such exchange ratios. See "Special Factors -- Background of the Business Combination and -- Determination of Merger Consideration."

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Houlihan Lokey is a nationally recognized investment banking firm that provides financial advisory services in connection with mergers and acquisitions, leveraged buyouts, business valuations for a variety of regulatory and planning purposes, recapitalizations, financial restructurings, and private placements of debt and equity securities. In November of 1999, Houlihan Lokey acted as financial advisor to an affiliate of ARL, TCI and IOT, National Realty, L. P. ("NRLP"), and rendered a fairness opinion with respect to the consideration to be received by unitholders of NRLP in connection with a business combination. The board of directors of each of TCI and IOT selected Houlihan Lokey to provide the financial advisory services described herein upon a referral from NRLP and because of Houlihan Lokey's reputation as a nationally recognized valuation and financial consulting firm that has substantial experience providing valuation and consulting services. TCI agreed to pay Houlihan Lokey a fee of \$340,000 and IOT agreed to pay Houlihan Lokey a fee of \$60,000, in each case for its preparation and delivery of a fairness opinion plus reasonable out-of-pocket expenses that may be incurred by Houlihan Lokey in connection herewith, plus a refundable indemnification deposit of \$42,500 from TCI and a refundable indemnification deposit of \$7,500 from IOT. In accordance with the Settlement Agreement in the Olive Litigation, Mr. Phillips, BCM and ARL are required to reimburse TCI and IOT for such expenses. Pursuant to the amendment to the Engagement Letters, TCI and IOT agreed to jointly pay Houlihan Lokey an additional fee of \$100,000 for the additional services described below. No portion of Houlihan Lokey's fee is contingent upon the successful completion of the mergers or any other related transaction. Houlihan Lokey has been retained by TCI and IOT to deliver fairness opinions to the board of directors of TCI and IOT and provide certain additional financial advisory services on behalf of the board of directors of each of TCI and IOT, specifically, to conduct negotiations with ARL regarding the terms of the Series G redeemable convertible preferred and the Series H redeemable convertible preferred. With respect to the negotiations with ARL, Houlihan Lokey advised the TCI and IOT boards of directors with respect to the range of exchange ratios implied by Houlihan Lokey's financial analysis and recommended that the boards of directors ensure that the stockholders that received the ARL preferred stock would have an adequate opportunity to evaluate the ARL combined business operation and to convert the Series G and Series H redeemable convertible preferred stock into ARL common stock. Houlihan Lokey also negotiated with representatives of ARL at the direction of the boards of directors of IOT and TCI regarding the timing of redeeming the preferred stock and converting the preferred stock. The exchange ratio was determined by the boards of directors of ARL, IOT and TCI following negotiations conducted by Houlihan Lokey and representatives of ARL. The limitations on voting rights of the preferred stock were determined by ARL. TCI and IOT agreed to indemnify Houlihan Lokey and its affiliates against certain liabilities, including liabilities under federal securities laws that arise out of the engagement of Houlihan Lokey.

At joint meetings of the TCI and IOT boards of directors on February 1, 2002, Houlihan Lokey rendered its oral opinion regarding the consideration to be received by the stockholders of TCI and IOT in connection with the mergers. Thereafter, Houlihan Lokey assisted the TCI and IOT boards of directors with respect to certain negotiations regarding modifications to the terms of the Series G redeemable convertible preferred stock and Series H redeemable convertible preferred stock. On February 4, 2002, Houlihan Lokey confirmed in writing, that as of February 1, 2002, and subject to and based upon the various qualifications and assumptions set forth in its written opinions, the

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consideration to be received by the stockholders of TCI and IOT in connection with the mergers was fair, from a financial point of view, to the nonaffiliated TCI stockholders and the nonaffiliated IOT stockholders. The full text of Houlihan Lokey's opinions, which set forth the assumptions made, general procedures followed, factors considered and limitations on the review undertaken by Houlihan Lokey in rendering its opinions are attached hereto as APPENDIX E and APPENDIX F and are incorporated herein by reference. The discussion of the opinions below is qualified in its entirety by reference to the opinions. You are urged to read Houlihan Lokey's opinions in their entirety carefully for a description of the procedures followed, the factors considered and the assumptions made by Houlihan Lokey.

Houlihan Lokey's opinions to the TCI and IOT boards of directors address only the fairness from a financial point of view of the consideration to be received in the mergers. Houlihan Lokey's opinions do not constitute a recommendation as to how any person should vote with respect to the mergers or a recommendation as to the form and amount of consideration that any person should elect in connection with the mergers. Houlihan Lokey is not rendering any opinion on the current or prospective public share prices of any of TCI, IOT or ARL (collectively, the "Subject Companies"). Houlihan Lokey's opinions also do not address TCI's or IOT's underlying business decision to effect the mergers, the tax consequences of the mergers, the fair market value of any of the Subject Companies' assets either individually or collectively, or the reasonableness of any aspect of the mergers not expressly addressed in its fairness opinions. Houlihan Lokey has not been requested to, is not obligated to and does not intend to update, revise or reaffirm its fairness opinion in connection with the mergers. Events that could affect the fairness of the mergers, from a financial point of view, include adverse changes in industry performance or market conditions and changes to the business, financial condition and results of operations of the Subject Companies.

In arriving at its fairness opinions, among other things, Houlihan Lokey assumed that: (i) each Series G share will have a liquidation preference of \$20.00 per share and will pay a cash dividend of 10 percent per annum; (ii) each Series H share will have a liquidation preference of \$21.50 per share and will pay a cash dividend of 10 percent per annum; (iii) at the holders' option, each Series G share is convertible into 2.5 shares of ARL common stock during a 75 day period commencing on the fifteenth day after the public issuance of ARL's form 10-Q (the "10-Q Issuance Date") to the public following the close date of the mergers; (iv) at the holders' option, each Series H share is convertible into 2.25 shares of ARL common stock during a seventy-five day period commencing on the fifteenth day after the 10-Q Issuance Date following the close date of the mergers; and (v) the Series G and Series H shares will be redeemable by ARL 90 days after the 10-Q Issuance Date following the close date of the mergers at the liquidation preference plus any accrued and unpaid dividends thereon.

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In arriving at its fairness opinions, among other things, Houlihan Lokey:

1. met with certain members of the senior management of the Subject Companies and their advisor, BCM, to discuss the operations, financial condition, future prospects and projected operations and performance of the Subject Companies;
2. visited certain facilities and business offices of the Subject

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Companies;

3. reviewed the Subject Companies' annual reports to stockholders and on Form 10-K for the fiscal years ended December 31, 2000 and quarterly reports on Form 10-Q for the three quarters ended September 30, 2001, which Subject Companies' management have identified as being the most current financial statements available;
4. reviewed forecasts and projections prepared by the Subject Companies management with respect to the Subject Companies' apartment, retail, industrial, hotel and office building assets for the years ended December, 2002 through 2006;
5. requested the latest appraisals on the Subject Companies' income producing properties and any and all appraisals for the Subject Companies' land assets, and reviewed such appraisals as were provided by management;
6. reviewed ARL's Land Portfolio Book dated September 2001;
7. reviewed certain estimated valuations of TCI and IOT prepared in connection with the Settlement Agreement;
8. reviewed the historical market prices and trading volume for the Subject Companies' publicly traded securities;
9. reviewed certain other publicly available financial data for certain companies that Houlihan Lokey deems comparable to the Subject Companies; and
10. conducted such other studies, analyses and inquiries as Houlihan Lokey deemed appropriate.

ANALYSES

In order to determine the fairness, from a financial point of view, of the consideration to be received by the nonaffiliated IOT stockholders and the nonaffiliated TCI stockholders in the mergers, Houlihan Lokey determined an indicated range per share of equity net asset values for ARL, IOT and TCI and compared such per share concluded equity net asset values to each other and to the ARL per share public trading price. This analysis was premised upon a valuation of each of the Subject Companies' income and non-income producing properties and other assets and considered their respective liabilities.

In determining the value of the Subject Companies' income producing properties, Houlihan Lokey conducted several analyses, including the following: (1) a "Net Asset Value" approach whereby Houlihan Lokey (a) applied capitalization rates to historical and projected

adjusted net operating income for each of the income producing properties held by the Subject Companies (the "Income Producing Properties") and (b) estimated the present value of the projected future cash flows to be generated from the Income Producing Properties by applying a discount rate to the projected future

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cash flow, (2) a "Portfolio" approach whereby Houlihan Lokey determined a level of earnings considered to be representative of future performance of the Subject Companies, and capitalized such figure with a risk-adjusted rate, and (3) various other analyses. Houlihan Lokey used the following valuation methodologies to determine the value of the land assets: historical sales price per square foot, outstanding offers and letters of intent, management estimates and book value. In addition, certain assets, such as Pizza World, Signature Athletic Club and parking lots, were valued by employing the market multiple approach and other assets, including notes receivable and oil and gas operations, were valued at book value.

NET ASSET VALUE APPROACH - INCOME PRODUCING PROPERTY

DIRECT CAPITALIZATION

In conducting the direct capitalization net asset value approach, Houlihan Lokey applied (x) rates from publicly available capitalization rates estimated in the Second Quarter 2001 Market Monitor and the Fall 2001 Real Estate Outlook by Cushman & Wakefield, Inc. and The Appraisal Institute to (y) each of the Income Producing Properties (i) adjusted net operating income for the twelve months ended September 30, 2001 and (ii) projected adjusted net operating income for the fiscal year ended December 31, 2002. The capitalization rates used in the direct capitalization approach ranged from 8.9% to 15.9% for the twelve-month period ended September 30, 2001 and from 9.3% to 16.4% for the twelve month period ended December 31, 2002. Capitalization rates applied in individual property valuations were determined with reference to the type of property being evaluated and adjusted based on historical and/or projected occupancy rates for such property, as applicable.

DISCOUNTED CASH FLOW

In conducting the discounted cash flow net asset value approach, Houlihan Lokey applied a discount rate to the projected future cash flows of each Income Producing Property to arrive at present value of such Income Producing Property. The applicable Subject Company provided Houlihan Lokey with the property level historical and projected financial information used to determine the net operating income of each property. The discount rates used in the discounted cash flow approach ranged from 11.3% to 18.3% and were intended to reflect risks of ownership of the relevant Income Producing Property and the associated risks of realizing the stream of projected future cash flows. The discount rates applied by Houlihan Lokey in its analysis were based on discount rates for office, industrial and retail properties published by Cushman & Wakefield, Inc. Discount rates applied in individual property valuations were determined with reference to the types of property being evaluated and adjusted based on historical and/or projected occupancy rates for such property, as applicable. Houlihan Lokey's ability to use the discounted cash flow method of valuation was limited by the lack of availability of necessary forecasts for certain Income Producing Properties resulting from changes in tenant occupancy or other factors that effect projected performance for certain Income Producing Properties. Accordingly, Houlihan Lokey utilized the discount cash flow method only for those assets with forecasts considered

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relevant. Additionally, based upon Houlihan Lokey's discussions with management, due diligence and analysis of projections, in some instances the discount rate was adjusted to reflect additional uncertainty and risk associated with the projections.

SELECTED ASSET VALUES

Based upon the valuation indications of both the direct capitalization and discounted cash flow analyses, Houlihan Lokey selected a range of values for each asset. Following the determination of the individual income producing property asset values, each property's value was allocated to the Subject Companies based on respective ownership of the assets.

PORTFOLIO (MARKET) APPROACH - INCOME PRODUCING PROPERTY

The Subject Companies own various real estate assets that were combined, based on asset types, into portfolios. Property level financial data was provided by the applicable Subject Company based on internally prepared property operating statements. The market approach consists of determining a level of earnings and capitalizing this figure by an appropriate risk-adjusted rate. This approach provides an indication of value for the security, which corresponds with the particular earnings figure being capitalized. For purposes of determining the value of the Income Producing Properties owned by the Subject Companies, net operating income was utilized as a representative level of earnings for the office, hotel, apartment, retail and industrial assets.

In using the portfolio (market) approach, Houlihan Lokey applied debt-free market capitalization rates to net operating income of the various categories of Income Producing Properties of the Subject Companies, in each case to arrive at the values of the Income Producing Properties.

Houlihan Lokey utilized the Subject Companies' internal financial statements to determine consolidated net operating income for the twelve months ended September 30, 2001 and management projections for the twelve months ended December 31, 2002. In performing the portfolio (market) analysis, Houlihan Lokey applied capitalization rates ranging from 9.5% to 15.0% to the net operating income for the twelve months ended September 30, 2001.

ARL VALUATION

Because of the nature of ARL's assets and the diversity in type of property, age, rental history and other factors, no single valuation methodology was likely to produce an accurate indication of the value of ARL. As a result, Houlihan Lokey engaged in a valuation of each ARL asset individually by applying one or more valuation methodologies that were most likely to yield a meaningful indication of value. Houlihan Lokey then aggregated the range of indicated values for each property to determine the range of concluded enterprise values and concluded equity net asset values for ARL taken as a whole. Based on the portfolio (market) analysis conducted by Houlihan Lokey, Houlihan Lokey estimated a range of asset value for ARL's income producing property as follows: (1) \$230.5 million to \$254.7 million for the ARL apartment portfolio, (2) \$50.7 million to \$55.8 million for the ARL office portfolio, (3) \$70.7 million to \$77.1 million for the ARL shopping center portfolio and (4) \$68.8 million to \$80.3 million for ARL's hotel portfolio. In utilizing the "Net Asset Value" approach, Houlihan Lokey estimated a range of

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asset value for ARL's income producing property as follows: (1) \$237.6 million to \$248.8 million for apartment assets, (2) \$59.4 million to \$65.0 million for hotel assets, (3) \$120.9 million to \$133.0 million for office assets and (4) \$84.4 million to \$90.6 million for retail assets. Houlihan Lokey estimated a range of asset values for ARL's land assets of \$290.0 million to \$400.0 million. The estimate asset value for other assets such as investments in joint ventures, Pizza World, oil & gas operations, notes receivable, accounts receivable, escrows and earnest money, net other liabilities such as accounts payable, property taxes and accrued expenses, was \$27.6 million to \$35.1 million. Houlihan Lokey estimated a range of value for ARL's investment in real estate securities of \$7.8 million to \$10.5 million for ARL's 28.3 percent ownership interest in IOT and \$86.9 million to \$123.6 million for ARL's 49.7 percent ownership interest in TCI. These estimated values were calculated based upon ARL's percentage ownership in TCI and IOT multiplied by Houlihan Lokey's concluded equity net asset values for TCI and IOT.

Based on the approaches discussed above, Houlihan Lokey estimated a range of concluded enterprise values for ARL of \$873.7 million to \$1,071.8 million, a range of concluded equity net asset values for ARL of \$126.3 million to \$262.8 million and a range of per share concluded equity net asset values of \$11.10 to \$23.10.

IOT VALUATION

Because of the nature of IOT's assets and the diversity in type of property, age, rental history and other factors, no single valuation methodology was likely to produce an accurate indication of the value of IOT. As a result, Houlihan Lokey engaged in a valuation of each IOT asset individually by applying one or more valuation methodologies that were most likely to yield a meaningful indication of value. Houlihan Lokey then aggregated the range of indicated values for each property to determine the range of concluded enterprise values and concluded equity net asset values for IOT taken as a whole. Based on the portfolio (market) analysis conducted by Houlihan Lokey, Houlihan Lokey estimated a range of asset value for IOT's income producing property as follows: (1) \$23.8 million to \$26.3 million for the IOT apartment portfolio and (2) \$38.1 million to \$41.9 million for the IOT office portfolio. In utilizing the "Net Asset Value" approach, Houlihan Lokey estimated a range of asset value for IOT's income producing property as follows: (1) \$21.5 million to \$22.8 million for apartment assets and (2) \$41.3 million to \$50.2 million for office assets. The estimated asset value for IOT's land assets was \$24.6 million to \$31.6 million. The estimated asset value for other assets such as investments in joint ventures, notes receivable, accounts receivable and escrow deposits, net other liabilities such as accounts payable, property taxes and security deposits was -\$0.6 million to \$0.5 million.

Based on the approaches discussed above, Houlihan Lokey estimated a range of concluded enterprise values for IOT of \$86.3 million to \$102.7 million, a range of concluded equity net asset values for IOT of \$27.4 million to \$37.0 million and a range of per share concluded equity net asset values of \$19.04 to \$25.71.

TCI VALUATION

Because of the nature of TCI's assets and the diversity in type of property, age, rental history and other factors, no single valuation methodology

produced an accurate indication of the

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value of TCI. As a result, Houlihan Lokey engaged in a valuation of each TCI asset individually by applying one or more valuation methodologies that were most likely to yield a meaningful indication of value. Houlihan Lokey then aggregated the range of indicated values for each property to determine the range of concluded enterprise values and concluded equity net asset values for TCI taken as a whole. Based on the portfolio (market) analysis conducted by Houlihan Lokey, Houlihan Lokey estimated a range of asset value for TCI's income producing property as follows: (1) \$221.0 million to \$244.3 million for the TCI apartment portfolio, (2) \$200.6 million to \$220.7 million for the TCI office portfolio, (3) \$25.6 million to \$28.0 million for the TCI shopping center portfolio, (4) \$49.7 million to \$54.7 million for the TCI industrial portfolio and (5) \$13.1 million to \$15.1 million for TCI's hotel portfolio. In utilizing the "Net Asset Value" approach, Houlihan Lokey estimated a range of asset value for TCI's income producing property as follows: (1) \$270.4 million to \$296.0 million for apartment assets (2) \$17.6 million to \$18.6 million for hotel assets, (3) \$51.7 million to \$60.7 million for industrial/warehouse assets, (4) \$225.9 million to \$261.8 million for office assets and (5) \$28.0 million to \$32.5 million for retail assets. Houlihan Lokey estimated a range of asset values for TCI's land assets from \$68.0 million to \$97.0 million. The estimated asset value for other assets such as investments in joint ventures, the Signature Athletic Club, Alamo and West End parking lots, notes receivable, advances to affiliates, accounts receivable, pending purchases and escrow deposits, net other liabilities such as accounts payable, property taxes and security deposits was \$10.9 million to \$15.1 million. Houlihan Lokey estimated a range of asset value for TCI's investment in real estate securities of \$6.6 million to \$8.9 million for TCI's 24 percent ownership interest in IOT and \$8.0 million to \$16.6 million for TCI's 6.3 percent ownership interest in ARL. These estimated values were calculated based upon TCI's percentage ownership in ARL and IOT multiplied by Houlihan Lokey's concluded equity net asset values for ARL and IOT.

Based on the approaches discussed above, Houlihan Lokey estimated a range of concluded enterprise values for TCI of \$645.3 million to \$754.1 million, a range of concluded equity net asset values for TCI of \$173.7 million to \$247.2 million and a range of per share concluded equity net asset values of \$20.70 to \$29.45.

EXCHANGE RATIO ANALYSIS

Based on the foregoing valuation estimates, Houlihan Lokey notes that the indicated exchange ratios based on net asset values of IOT and TCI and the lowest estimated net asset value of ARL was 1.71 to 2.32 for IOT and 1.86 to 2.65 for TCI on an after tax basis and 1.24 to 1.81 for IOT and 1.42 to 2.10 on a before tax basis.

In conclusion, Houlihan Lokey's analyses indicated that the consideration being offered to the nonaffiliated TCI stockholders and the nonaffiliated IOT stockholders in connection with the mergers is fair from a financial point of view.

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Houlihan Lokey's opinions are based on the business, economic, market and other conditions as they existed as of February 1, 2002, and on the projected financial information provided to Houlihan Lokey as of that date. In rendering its opinions, Houlihan Lokey has relied upon and assumed, without independent verification, that the historical and projected financial information (including the future value and estimated sale dates of the land held for sale) provided to Houlihan Lokey by the Subject Companies has been reasonably and accurately

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prepared based upon the best current available estimates of the financial results and condition of the Subject Companies. Houlihan Lokey did not independently verify the accuracy or completeness of the information supplied to it with respect to the Subject Companies and does not assume responsibility with respect to it. Except as set forth above, Houlihan Lokey did not make any independent appraisal of the specific properties or assets of the Subject Companies.

The summary set forth above describes the material points of more detailed analyses performed by Houlihan Lokey in arriving at its fairness opinions. The preparation of a fairness opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and application of those methods to the particular circumstances and is therefore not readily susceptible to summary description. In arriving at its opinions, Houlihan Lokey made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Houlihan Lokey believes that its analyses and summary set forth herein must be considered as a whole and that selecting portions of its analyses, without considering all analyses and factors, or portions of this summary, could create an incomplete view of the processes underlying the analyses set forth in Houlihan Lokey's fairness opinions. In its analysis, Houlihan Lokey made numerous assumptions with respect to the Subject Companies, industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of the respective entities. The estimates contained in the analyses are not necessarily indicative of actual values or predictive of future results or values, which may be more or less favorable than suggested by the analyses. However, there were no specific factors reviewed by Houlihan Lokey that did not support its opinions. Additionally, analyses relating to the value of businesses or securities are not appraisals. Accordingly, the analyses and estimates are inherently subject to substantial uncertainty.

DETERMINATION AND RECOMMENDATION OF THE TCI BOARD OF DIRECTORS

On February 1, 2002, the TCI board of directors met by telephone conference to consider the recommendation of the TCI merger, to approve the filing of documents with the SEC and to authorize the executive officers to finalize this joint proxy statement and prospectus and the related filings. At that meeting, counsel for TCI reviewed and compared the terms of the TCI merger agreement to the requirements under the Settlement Agreement. At that meeting, Houlihan Lokey made a presentation to the TCI board of directors on the financial analyses performed by Houlihan Lokey in connection with its fairness analysis. Houlihan Lokey also made a presentation concerning the fairness of the consideration to be offered to the nonaffiliated TCI stockholders in the merger

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and delivered their opinion that the amount of the consideration to be offered in the TCI merger was fair from a financial point of view to those nonaffiliated TCI stockholders. Following the presentations, all of the TCI directors determined that the terms of the Settlement Agreement and contemplated merger were procedurally and substantively fair to the nonaffiliated TCI stockholders and approved the terms of the merger and the TCI merger agreement. The TCI board of directors believe that the following helped insure the procedural fairness of the proposed TCI merger to the nonaffiliated TCI stockholders, all as required by the Settlement Agreement:

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- That the TCI board of directors obtain an opinion from Houlihan Lokey that the consideration to be offered to the nonaffiliated TCI stockholders in the merger is fair to them from a financial point of view.
- The procedural mechanism for approval of the TCI merger agreement requires the affirmative vote of a majority of the votes cast by nonaffiliated TCI stockholders.
- The TCI board of directors was aware that all affiliated TCI stockholders will receive ARL preferred stock in the merger rather than cash.
- The terms of the proposed TCI merger were dictated principally from the Settlement Agreement from arms length negotiations between Settlement Counsel and counsel for ARL.
- The TCI merger will afford nonaffiliated TCI stockholders with the opportunity (but no obligation) to make an affirmative election to receive securities rather than cash.
- The terms of the proposed TCI merger were not determined at a time when market prices were unusually depressed by virtue of the occurrence of any extraordinary or unique event.

On February 1 and 4, 2002, the TCI board of directors again met by telephone conference to review a revised form of opinion from 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 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.

The Houlihan Lokey opinion was rendered to the TCI board of directors for its consideration in determining whether to approve the TCI merger agreement and does not constitute a recommendation to any TCI stockholder as to how such stockholder should vote.

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Based upon all of the information available to the TCI board of directors, the TCI board of directors unanimously concluded that the terms and provisions of the TCI merger and TCI merger agreement were fair to and in the best interests of the nonaffiliated TCI stockholders, approved the TCI merger agreement and recommended that the TCI stockholders approve the TCI merger agreement and the transactions contemplated thereby.

DETERMINATION AND RECOMMENDATION OF THE IOT BOARD OF DIRECTORS

On February 1, 2002, the IOT board of directors met by telephone conference to consider the recommendation of the IOT merger, to approve the filing of documents with the SEC and to authorize the executive officers to finalize this joint proxy statement and prospectus and the related filings. At that meeting, counsel for IOT reviewed and compared the terms of the IOT merger agreement to the requirements under the Settlement Agreement. At that meeting, Houlihan Lokey made a presentation to the IOT board of directors on the financial analyses performed by Houlihan Lokey in connection with its fairness analysis. Houlihan Lokey also made a presentation concerning the fairness of the consideration to be offered to the nonaffiliated

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IOT public stockholders in the IOT merger and delivered their opinion that the amount of the consideration to be offered in the IOT merger, was fair from a financial point of view to those nonaffiliated IOT stockholders. Following the presentations, all of the IOT directors determined that the terms of the Settlement Agreement and contemplated IOT merger were procedurally and substantively fair to the nonaffiliated IOT stockholders and approved the terms of the IOT merger and the IOT merger agreement. The IOT board of directors believe that the following helped insure the procedural fairness of the proposed IOT merger to the nonaffiliated IOT stockholders, all as required by the Settlement Agreement:

- That the IOT board of directors obtain an opinion from Houlihan Lokey that the consideration to be offered to the nonaffiliated IOT public stockholders in the merger is fair to them from a financial point of view.
- The procedural mechanism for approval of the IOT merger agreement requires the affirmative vote of a majority of the votes cast by nonaffiliated IOT stockholders.
- The IOT board of directors was aware that all affiliated IOT stockholders will receive ARL preferred stock in the merger rather than cash.
- The terms of the proposed IOT merger were dictated principally from the Settlement Agreement from arms length negotiations between Settlement Counsel and counsel for ARL.
- The IOT merger will afford nonaffiliated IOT stockholders with the opportunity (but no obligation) to make an affirmative election to receive securities rather than cash.
- The terms of the proposed IOT merger were not determined at a time when market prices were unusually depressed by virtue of the occurrence of any extraordinary or unique event.

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On February 1 and 4, 2002, the IOT board of directors again met by telephone conference to review a revised form of opinion from 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.

The Houlihan Lokey opinion was rendered to the IOT board of directors for its consideration in determining whether to approve the IOT merger agreement and does not constitute a recommendation to any IOT stockholder as to how such stockholder should vote.

Based upon all of the information available to the IOT board of directors, the IOT board of directors unanimously concluded that the terms and provisions of the IOT merger and IOT merger agreement were fair to and in the best interests of the nonaffiliated IOT stockholders, approved the IOT merger agreement and recommended that the stockholders approve the IOT merger agreement and the transactions contemplated thereby.

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EFFECTS OF THE MERGERS; ARL AFTER THE MERGERS

ARL, TCI and IOT have substantially the same management, and affiliated ownership. While the three companies operate as a group of related companies, each is a separate and distinct entity and as such, each has separate SEC reporting obligations, each files separate tax returns with the Internal Revenue Service and state tax authorities, and each entity has its own board of directors, including one or more independent directors. Each entity presently has the same contractual advisor, BCM, and each entity attempts to operate efficiently given this three entity structure by, among other things, having the same contractual advisor which results in a consolidation of the general and administrative functions of the three companies at the BCM level, and in common offices located in Dallas, Texas. However, the three entity structure does not necessarily result in certain inefficiencies and higher costs. Among the detriments of the current structure to each of the three entities and their respective nonaffiliated stockholders are the following:

- the need for and costs of three separate outside audits
- the need for and costs of filing separate SEC reports and separate tax returns for each of the three entities
- the need for and costs of maintaining three separate boards of directors, each with at least one or more separate independent directors, and of holding separate board meetings and annual stockholder meetings for each of the three entities

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- inefficiencies resulting from the need to maintain separate books and records for three public companies, and to institute and maintain procedural safeguards to protect the interests of the separate minority interests in each of the three entities
- a limited number of shares in the hands of the public available which results in illiquidity of the common equity of the three entities, when compared to the enhanced liquidity that should exist if substantially all of the common equity of the three entities were traded as a single common security
- difficulties in explaining to the capital markets the business plan and strategy on a company-by-company basis, as opposed to a consolidated basis and the interrelations between the ownership, businesses and management of the three entities
- the difficulty of matching the available assets with the available opportunities of the three companies on a company-by-company basis, as opposed to a consolidated basis

If the mergers are consummated, TCI and IOT will each become subsidiaries of ARL. If both mergers are consummated, the current unaffiliated TCI and IOT stockholders will no longer own their shares of stock. Therefore, they will not benefit from any future earnings or growth of TCI or IOT or benefit from any increase of the value of TCI or IOT and will no longer bear the risk of any decrease in value of TCI or IOT. Instead, former stockholders will have the right to receive at consummation of the merger, \$17.50 in cash for each share of TCI common stock held, and \$19.00 in cash for each share of IOT common stock held. The benefit to the holders of the TCI common stock and the IOT common stock of the transaction is the payment of a premium, in cash, above the respective market values for such stock prior to the announcement of the merger agreements. This cash payment assures that all nonaffiliated TCI and IOT stockholders will receive a specific cash amount for their respective shares rather than taking the risks associated with attempting to sell their shares in the open market. The detriment to such

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holders (if any) is their inability to participate as a continuing stockholder in the possible future growth of either TCI or IOT.

TCI's and IOT's common stock are each currently registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). As a result of the mergers, the TCI common stock will be delisted from the NYSE, the IOT common stock will be delisted from the AMEX, the registration of the TCI common stock and IOT common stock under the Exchange Act will be terminated, and TCI and IOT will each be relieved of the obligation to comply with the proxy rules of Regulation 14a under Section 14 of the Exchange Act. Further, TCI and IOT will no longer be subject to periodic reporting requirements of the Exchange Act and will cease filing information with the SEC. There will be cost savings attributable to TCI and IOT no longer being public companies, including legal and other fees and administrative expenses of personnel relating to the filing of public documents, and maintenance of boards of directors and committees required under the federal securities laws and the rules and regulations of the NYSE and the AMEX.

After consummation of the mergers, ARL will be the only remaining public entity of the three. The directors of ARL immediately prior to the effectiveness of the mergers will be the directors of ARL immediately after the mergers, and the three directors of TCI and IOT will join the board of directors of ARL

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following the mergers. The directors of TCI and IOT will not continue to be the directors of TCI and IOT after the mergers. The officers of ARL, TCI and IOT immediately prior to the effective time of the mergers will be the officers of the entities immediately after the mergers. Similarly, no change in the certificate of incorporation or bylaws of any of the entities is contemplated prior to the effective time of the mergers or after the consummation of the mergers.

ARL expects that the business and operations of all three entities will be continued substantially as they are currently conducted (except that TCI and IOT will be operated as subsidiaries of ARL) but some adjustments will be necessitated by the financing of the consideration to be paid to the nonaffiliated TCI stockholders and nonaffiliated IOT stockholders in connection with the mergers. Except as stated in this joint proxy statement and prospectus, management of ARL does not currently intend to dispose of any specific assets or operations of ARL, TCI or IOT other than in the ordinary course of their respective businesses. Management will, from time to time, continue to evaluate and review the businesses, operations and properties of all of the entities and make such changes as are deemed appropriate.

Other than by virtue of the mergers (and any possible tender offers described elsewhere in this joint proxy statement and prospectus), ARL, TCI, IOT and BCM have no current plans or proposals which relate to or would result in an extraordinary corporate transaction involving TCI or IOT or any of their subsidiaries, such a merger, reorganization or liquidation, or a sale or transfer of a material amount of assets involving TCI or IOT or any of their subsidiaries, or any material change in the present dividend rate or policy, or capitalization or indebtedness (except as contemplated by the financing arrangements described in this joint proxy statement and prospectus) involving TCI or IOT or any of their subsidiaries, or any change in the present board or management of TCI or IOT, or any other material change in ARL's or TCI's or IOT's corporate structure or business. However, management of ARL will review proposals or may propose the acquisition or disposition of assets or other changes in ARL and its subsidiaries'

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business, corporate structure, capitalization, management or dividend policy that they consider to be in the best interests of ARL and its stockholders. Neither ARL nor its management has formulated any specific plans regarding repayment of indebtedness incurred in connection with the mergers, but it is anticipated that such indebtedness will be repaid primarily with or by means of cash from operations of the businesses of ARL and its subsidiaries.

CONDUCT OF THE BUSINESS OF EITHER OR BOTH OF TCI OR IOT IF EITHER MERGER IS NOT CONSUMMATED

If either of the mergers is not consummated, the board of directors of TCI or IOT or both and current management will continue to operate each entity's business substantially as presently operated.

FEDERAL INCOME TAX CONSIDERATIONS

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This section summarizes material U.S. federal income tax considerations relevant to the stockholders of TCI and IOT participating in the mergers. This discussion is based upon the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), applicable Treasury Regulations, judicial decisions and current administrative rulings and pronouncements, all as of the date of this document and any of which may be changed at any time with retroactive effect. There can be no assurance that future legislation, regulations, administrative rulings or court decisions would not alter the tax consequences set forth below. The discussion does not address all aspects of federal income taxation that may be important to particular stockholders in light of their personal investment circumstances or to stockholders subject to special treatment under the federal income tax laws (such as dealers in securities, life insurance companies, foreign persons, broker-dealers, regulated investment companies, tax-exempt entities, financial institutions, taxpayers subject to the alternative minimum tax, taxpayers who acquired their TCI or IOT stock as compensation and persons holding their stock as part of a "straddle," "hedge" or other integrated investment) and does not address any aspect of state, local or foreign taxation. For purposes of this discussion, it is assumed that the TCI and IOT stock are held by the TCI and IOT stockholders respectively, as capital assets at the time of the consummation of the mergers, within the meaning of Section 1221 of the Code. THEREFORE, STOCKHOLDERS ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE SPECIFIC TAX CONSEQUENCES TO THEM OF THE MERGERS AND RELATED TRANSACTIONS, INCLUDING APPLICABLE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES.

No ruling has been or will be obtained from the Internal Revenue Service in connection with the mergers. TCI and IOT stockholders should be aware that an opinion of counsel is not binding on the Internal Revenue Service or the courts, and no assurance can be given that the Internal Revenue Service will not challenge the tax treatment of the mergers.

The following are the material United States federal income tax consequences of the mergers. The following discussion is based on and subject to the Code, the regulations promulgated thereunder, existing administrative interpretations and court decisions and any related laws, all of which are subject to change, possibly with retroactive effect. This discussion does not address all aspects of United States federal income taxation that may be important to you in light of your particular circumstances or if you are subject to special rules, such as rules relating to:

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- stockholders who are not citizens or residents of the United States
- financial institutions
- tax exempt organizations
- insurance companies
- dealers in securities

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 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.

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Jackson Walker L.L.P. has concluded that the mergers will not qualify as tax-free reorganizations and accordingly they will be taxable transactions. The mergers will have the following federal income tax consequences upon the TCI, IOT and ARL stockholders:

1. The TCI stockholders who receive cash in the TCI merger will recognize gain or loss equal to the difference between (i) the cash received by them; and (ii) their tax basis of their shares of TCI.
2. The TCI stockholders who receive preferred stock in the TCI merger will recognize gain or loss equal to the difference between (i) the fair market value of the preferred stock received by them; and (ii) their tax basis of their shares of TCI.
3. The IOT stockholders who receive cash in the IOT merger will recognize gain or loss equal to the difference between (i) the cash received by them; and (ii) their tax basis of their shares of IOT.
4. The IOT stockholders who receive preferred stock in the IOT mergers will recognize gain or loss equal to the difference between (i) the fair market value of the preferred stock received by them; and (ii) their tax basis of their shares of IOT.
5. The tax basis of the preferred stock received by TCI and IOT stockholders in the merger will equal the fair market value of the preferred shares at the date the TCI and IOT stockholders own the shares of preferred stock.
6. The holding period for the shares of our preferred stock received by TCI and IOT stockholders will not include the holding period of their TCI or IOT shares.
7. ARL stockholders will not recognize gain or loss as a result of the mergers.

The foregoing discussion is not based upon an advance ruling by the United States Treasury Department but upon an opinion of Jackson Walker L.L.P., counsel to ARL. The foregoing discussion is not intended to be a complete analysis or description of all potential United States federal income tax consequences or any other consequences of the mergers. In addition, the discussion does not address tax consequences which may vary with, or are

contingent on, your individual circumstances. Moreover, this discussion does not address any non-income tax or any foreign, state or local tax consequences of the mergers. Accordingly, we strongly urge you to consult with your tax adviser to determine the particular United States federal, state, local or foreign income or other tax consequences to you of the mergers.

The above discussion addresses only the federal income tax considerations of the proposed transactions to a TCI or an IOT stockholder generally. The federal, state, local and foreign tax consequences of the proposed transactions and the ownership and disposition of stock in ARL are complex and, in some cases, uncertain. These consequences also may vary based upon the individual circumstances of each stockholder. Accordingly, TCI and IOT stockholders are urged to consult, and must rely upon, their own tax advisors as to the tax consequences to them of the acquisition, ownership and disposition of

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stock in ARL, including the applicability of any state, local or foreign tax laws and any pending or proposed legislation.

REGULATORY APPROVALS

At any time before or after the completion of the merger, the Antitrust Division of the Justice Department, the Federal Trade Commission or another third party could seek to enjoin or rescind the mergers on antitrust grounds.

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INTERESTS OF DIRECTORS AND OFFICERS OF ARL, TCI AND IOT IN THE BUSINESS COMBINATION

Some of the directors and officers of ARL have interests in the business combination that are different from, or in addition to, the interests of ARL stockholders generally, and that may present actual or potential conflicts of interest. Likewise, some of the directors and officers of TCI and IOT have interests that are different from, or in addition to, the interests of TCI and IOT stockholders generally. These interests, to the extent material, are described below. The ARL, TCI and IOT boards of directors were aware of these interests and considered them, among other matters, in approving the respective agreements and plans of merger and the business combination.

DIRECTORS AND EXECUTIVE OFFICERS

Messrs. Branigan, Corna, Kimbrough and Starowicz, who serve as executive officers of ARL, also serve as executive officers of TCI, IOT and BCM. Each of the individuals, as a result of their position with ARL, owe fiduciary duties to the stockholders of ARL in addition to the fiduciary duties owed to the stockholders of TCI and IOT. Mr. Earl Cecil is a director of each of ARL, TCI and IOT. Additionally, TCI and IOT have the same officers and directors and, therefore, the directors owe fiduciary duties to both TCI and IOT. At times, each of these individuals may be confronted by issues, including the business combination, 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 1, 2002, the amount of the fee is estimated to be \$3,038,815. See "Special Factors - Financing the Business Combination."

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

It is currently expected that the directors and officers of ARL, TCI and IOT will remain the same after the business combination except that the three

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directors of TCI and IOT will become directors of ARL. As a result of these interests as well as those set forth below, the directors and officers of ARL, TCI and IOT could be more likely to vote to approve the business combination, the agreements and plans of merger and related matters than if they did not hold these interests. You should consider whether these interests may have influenced these directors and officers to support or recommend the business combination.

STOCK OWNERSHIP

Some of the executive officers and directors of ARL, TCI and IOT own stock and options of ARL, TCI and IOT. See "Security Ownership of Certain Beneficial Owners and Management

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of ARL," "Security Ownership of Certain Beneficial Owners and Management of TCI" and "Security Ownership of Certain Beneficial Owners and Management of IOT" for a detailed breakdown of share ownership before and after the mergers. As a result, these executive officers and directors may benefit from that ownership if the business combination is approved.

STOCK OPTIONS

Certain members of the ARL and TCI boards of directors and management have been issued options pursuant to certain option plans of ARL and TCI. As of the record date, executive officers and directors of ARL held options to purchase a total of 13,000 shares of ARL common stock at exercise prices of between \$9.87 per share and \$18.53 per share. Directors of TCI held options to purchase a total of 30,000 shares of TCI common stock at exercise prices of between \$8.875 per share and \$16.05 per share.

OTHER AGREEMENTS AND BENEFIT PLANS

Neither ARL, TCI or IOT has any employees, employment agreements, benefit plans or other agreements with stockholders. As a result, the directors and executive officers of each company may have different interests in the business combination arising primarily from their ownership of stock in either ARL, TCI or IOT.

INDEMNIFICATION AND INSURANCE

ARL has agreed to cause TCI and IOT to maintain, for a period of three years after the completion of the business combination, the current provisions and policies regarding indemnification of officers and directors, provided that TCI or IOT may substitute policies having at least the same coverage and containing terms that are no less advantageous to the insured.

THE PLANS OF MERGER

Provided ARL has sufficient funds available to it, either from its own resources or from TCI and IOT immediately after the mergers, to pay the cash merger consideration, ARL and each of TCI and IOT will execute and deliver an agreement and plan of merger following approval of the mergers by ARL's stockholders and, in the case of TCI and IOT, approval by their respective stockholders of the mergers. The mergers will be consummated contemporaneously with or promptly following the execution and delivery of the agreements and plans of merger. The following is a discussion of the material provisions of each agreement and plan of merger. The full text of each agreement and plan of merger is attached as Appendix A and Appendix B to this joint proxy statement and prospectus and are incorporated herein by reference. We encourage you to read the applicable agreement and plan of merger in its entirety.

THE MERGER

According to the terms of each agreement and plan of merger, at the effective time of each merger, two separate recently formed wholly-owned subsidiaries of ARL will merge with TCI and IOT, respectively. The acquisitions of TCI and IOT are not dependent upon each other. If the stockholders of one company do not approve their respective merger, only the approved merger may be consummated. TCI and IOT will survive the merger.

EFFECTIVE TIME OF THE MERGER

The closing of the transactions contemplated by the merger agreements will take place contemporaneously with or as soon as practicable following the execution and delivery of each merger agreement. The closing cannot take place until after the stockholders of TCI or IOT approve their respective mergers. Additionally, 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.

As soon as practicable after the closings, the articles of mergers in connection with each respective merger will be filed with the Secretary of State of the State of Nevada, as provided in the Nevada Mergers and Exchanges of Interest Act. The times at which the articles of merger are filed in Nevada and the Secretary of State issues a certificate of merger is referred to as the "effective time" of each respective merger.

CONVERSION OF SHARES - EXCHANGE RATIO

If the TCI stockholders approve their merger, each share of outstanding TCI common stock will be converted into \$17.50 in cash or upon the affirmative election of the stockholder, one share of Series G redeemable convertible preferred stock. The cash consideration shall be reduced by any dividend TCI

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pays on the TCI common stock after January 2, 2002. Each share of outstanding TCI common stock held by BCM and other affiliates of ARL will be converted into one share of Series G redeemable convertible preferred stock and each outstanding share held by TCI, ARL or its subsidiaries will be cancelled.

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If the IOT stockholders approve their merger, each share of outstanding IOT common stock will be converted into \$19.00 in cash or, upon the affirmative election of the stockholder, one share of ARL Series H redeemable convertible preferred stock. The cash consideration shall be reduced by any dividend IOT pays on the IOT common stock after January 2, 2002. Each share of outstanding IOT common stock held by BCM and other affiliates of ARL will be converted into one share of Series H redeemable convertible preferred stock and each outstanding share held by IOT, TCI, ARL or its subsidiaries will be cancelled.

CLOSING

Contemporaneously with the execution and delivery of the merger agreements, or promptly thereafter, a closing will take place at the offices of Jackson Walker L.L.P., 901 Main Street, Suite 6000, Dallas, Texas or at such other place as ARL, TCI, IOT and the two newly formed subsidiaries mutually agree upon.

REPRESENTATIONS AND WARRANTIES

The merger agreements contain representations and warranties by ARL and its two recently formed subsidiaries relating to:

- organization and qualification
- capitalization
- authority
- the absence of a breach or any violation of ARL's and its two recently formed subsidiaries' articles of incorporation, bylaws, or similar governing documents
- statutory approvals
- compliance with laws
- accuracy of information in the documents filed with the SEC
- accuracy of information in financial statements contained in the documents filed with the SEC
- absence of certain changes or events
- absence of litigation
- absence of undisclosed liabilities
- accuracy of information in the joint proxy statement and prospectus
- vote required to approve the merger
- accuracy of representations, warranties, and statements contained in any certificate or schedule
- stock option plans
- affiliate agreements
- taxes
- brokers and finders

The respective merger agreements contain representations and warranties by TCI and IOT relating to:

- organization and qualification
- capitalization
- authority
- the absence of a breach or a violation of TCI's or IOT's articles of incorporation, bylaws, or similar governing documents
- consents and approvals
- statutory approvals
- compliance with laws
- accuracy of information in documents filed with the SEC
- accuracy of information in financial statements contained in documents filed with the SEC
- absence of certain changes or events
- absence of litigation
- absence of undisclosed liabilities
- accuracy of information in the joint proxy statement and prospectus
- vote required to approve the merger agreement
- accuracy of representations, warranties, and statements contained in any certificate or schedule
- stock option plans affiliate agreements
- taxes
- brokers and finders

INDEMNIFICATION

The surviving corporations have agreed to maintain the current provisions regarding indemnification of officers and directors contained in the charter and bylaws of TCI and/or IOT and each of their respective subsidiaries and any directors, officers or employees indemnification agreements of TCI and/or IOT or their respective subsidiaries.

EXCHANGE OF CERTIFICATES

At the effective time of the mergers, all shares of TCI and IOT common stock will cease to be outstanding and will automatically be cancelled and retired. Each certificate formerly representing TCI and IOT common stock other than those held by ARL and its subsidiaries, TCI or IOT will represent ownership of the right to receive either cash or ARL preferred stock, as applicable, issuable in the mergers until those certificates are surrendered to the exchange agent. The exchange agent for the merger is American Stock Transfer and Trust Company.

As soon as possible after the completion of the mergers, the exchange agent will mail you a form of letter of transmittal and instructions for your use in making your election and exchanging your common stock certificates for cash or ARL preferred stock certificates. When

you surrender your certificates, together with a signed letter of transmittal, you will receive in exchange either cash or certificate(s) representing whole shares of ARL preferred stock to which you are entitled.

YOU SHOULD NOT SEND YOUR CERTIFICATES TO THE EXCHANGE AGENT UNTIL YOU RECEIVE A LETTER OF TRANSMITTAL.

ACCOUNTING TREATMENT

The mergers will be accounted for under the purchase method of accounting. Accordingly, ARL will record the assets and liabilities of TCI and IOT and the consideration paid.

CONSEQUENCES UNDER FEDERAL SECURITIES LAWS; RESALE OF ARL STOCK

The sale of shares of Series G and Series H redeemable convertible preferred stock issuable in connection with the mergers has been registered under the Securities Act. Accordingly, there will be no federal securities law restrictions upon the resale or transfer of the shares by stockholders, except for those stockholders who are considered affiliates of ARL, TCI or IOT, as that term is defined in Rule 144 and Rule 145 adopted under the Securities Act.

Series G and Series H redeemable convertible preferred stock received by those stockholders who are considered to be affiliates of ARL, TCI or IOT may be resold without registration only as provided for by Rule 145 or as otherwise permitted under the Securities Act. Persons who may be considered to be affiliates of ARL, TCI or IOT generally include individuals or entities that control, are controlled by or are under common control with, ARL, TCI or IOT, and may include the executive officers and directors of ARL, TCI and IOT.

MANAGEMENT AND BOARD OF DIRECTORS AFTER THE MERGERS

Following the completion of the business combination, the board of directors of ARL will consist of the combined boards of all three entities and will be seven in number. No other changes in the directors, executive officers or management of ARL, TCI or IOT are anticipated.

During the past five years, none of ARL, TCI, IOT, BCM, Transcontinental Realty Acquisition Corporation, Income Opportunity Acquisition Corporation or any of their respective executive officers or directors was (i) convicted in a criminal proceeding during the past five years (excluding traffic violations or other minor offenses, if any), or (ii) a party to any judicial or administrative proceeding during the past five years (except for matters that were dismissed without sanction or settlement, if any) that resulted in a judgment, decree or final order enjoining the person from future violations of, or prohibiting activities subject to, federal or state securities laws, or a finding of any violation of federal or state securities laws.

EXPENSES OF THE MERGERS

If the mergers are consummated, all fees and expenses incurred in connection with the mergers will be paid by the party incurring those fees and expenses, except for the fees and expenses for the fairness opinions, which ARL is required to pay pursuant to the Settlement

Agreement. Estimated fees and expenses incurred or to be incurred in connection with the business combination are approximately as follows:

DESCRIPTION	AMOUNT
Legal fees and expenses.....	\$ 500,000
Accounting fees and expenses.....	64,751
Houlihan Lokey.....	500,000
Fees to BCM relating to property expected to be sold and loans to be obtained to finance the business combination.....	3,038,815
Printing, mailing and distribution expenses.....	30,000
Paying agent fees and expenses.....	10,000
SEC filing fees.....	14,130
Miscellaneous fees and expenses.....	10,000
Total.....	\$4,167,696

The fees to BCM (\$3,038,815) relate to incentive fees and finance fees earned when gains result from property sales and finance or refinance transactions are consummated. These fees will be expensed by ARL, TCI and IOT in the period when earned by BCM.

COMPARISON OF OWNERSHIP OF SHARES

After the effective time of the mergers, IOT and TCI stockholders will be offered the opportunity to affirmatively elect to become stockholders of ARL. The following is a comparison of the rights of holders of the TCI common stock and IOT common stock, on the one hand, and the Series G and Series H redeemable convertible preferred stock they will be offered the opportunity to acquire, on the other. No holder of TCI or IOT common stock will be required to acquire Series G or Series H redeemable convertible preferred stock. Instead, following the mergers, if they occur, holders of the TCI and IOT common stock will be offered the opportunity to affirmatively elect to receive Series G or Series H redeemable convertible preferred stock in lieu of the cash they would otherwise receive.

TCI COMMON STOCK	IOT COMMON STOCK	SERIES G REDEEMABLE PREFERRED STOCK
MANAGEMENT		
<p>Under the Nevada Revised Statutes (the "NRS"), the business and affairs of a Nevada corporation are managed by or under the directors of its board of directors, whose members are generally elected by a majority vote.</p> <p>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, including the election of directors.</p> <p>The TCI Articles of Incorporation require a minimum of 3 directors and a maximum of 12 directors on its board.</p> <p>The Articles of Incorporation and Bylaws of TCI provide that any director of TCI may be removed from office at any time, for cause, by the affirmative vote of the holders of not less than 80% of the outstanding stock of TCI voting thereon.</p>	<p>IOT is subject to the same NRS provisions.</p> <p>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, including the election of directors.</p> <p>The IOT Articles of Incorporation require a board consisting of not fewer than 3 nor more than 12 directors, the exact number to be determined by the board.</p> <p>Pursuant to IOT's Articles of Incorporation, any director of IOT may be removed from office at any time, with or without cause, by the affirmative vote of the holders of not less than two-thirds (2/3) of the outstanding stock of IOT voting thereon.</p>	<p>The holders of Series H convertible preferred stock are entitled to elect one director to the election of directors when all or any part of the dividends on such stock for any six consecutive periods of dividends, whether paid or unpaid, as the case may be, during the period such dividends are in arrears, and only if such dividends are in arrears for a period of six consecutive months constituting the period of the election of ARL shall be in the hands of the holders of Series H convertible preferred stock, voting separately, and shall be entitled to elect one director to fill the newly vacated directorships with the holders of Series H convertible preferred stock entitled to one vote for each share of Series H convertible preferred stock held by the holder.</p> <p>ARL's Restated Articles of Incorporation provide that the business and affairs of ARL shall be managed by a board of directors.</p>

TCI COMMON STOCK	IOT COMMON STOCK	SERIES G REDEEMABLE PREFERRED STOCK
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consisting of not
nor more than 12
exact number to b
board.

According to ARL'
of Incorporation,
ARL may be remove
any time, with or
the affirmative v
of not less than
the outstanding s
thereon; provided
elected by a part
series of shares
Restated Articles
may be removed on
applicable vote o
such class or ser

FIDUCIARY DUTIES

Under Nevada law, directors are charged with the duty to exercise their powers in good faith with a view to the interests of the corporation. Directors must use reasonable due diligence to protect corporate property.

IOT is subject to the same NRS provisions.

ARL is subject to provisions.

VOTING RIGHTS

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, including the election of directors, amendments to TCI's Articles of Incorporation, mergers and other extraordinary transactions.

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, including the election of directors, amendments to IOT's articles of incorporation, mergers and other extraordinary transactions.

The holders of Se and Series H rede preferred stock a the election of d matter except: (i provided by law, to an amendment t Articles of Incon that would materi change the existi class of preferre case may be, and or times for the directors when al the dividends on

TCI COMMON STOCK	IOT COMMON STOCK	SERIES G REDEEMABLE PREFERRED STOCK REDEEMABLE CONVERTIBLE S
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preferred stock in
quarterly dividend
consecutive, shall
unpaid. In the l
only during such
dividends are in
of directors cons
of directors of A
increased by two
such class of Ser
convertible prefe
Series H redeemab
preferred stock,
voting separately
be entitled to el
to fill the newly
directorships wit
entitled to one v
for each share of
preferred stock h

In the event that
redeemable conver
stock or Series H
convertible prefe
required to vote
provided by law,
be deemed to have
upon the affirmat
holders of a majo
of such class of
outstanding.

VOTING PROCEDURES
ANNUAL / SPECIAL MEETINGS

The NRS provides that a corporation is entitled to make bylaws pertaining to the calling and holding of meetings of its stockholders. The TCI Bylaws provide that the annual meeting of stockholders for the election of directors and for such other business as may be stated in the

IOT is subject to the same NRS provisions. In addition, IOT's Bylaws provide that the annual meeting of stockholders for the election of directors shall be held within the first eight months of each calendar year, or as soon as practicable thereafter. Each meeting of the stockholders shall

The holders of Series G convertible preferred stock are not voting in the election of directors and all or any portion of such class of stock shall receive one vote for each share of such class of stock on such class of stock on all or any six quarterly

TCI COMMON STOCK	IOT COMMON STOCK	SERIES G REDEEMABLE PREFERRED STOCK REDEEMABLE CONVERTIBLE S
<p>by such holders of stock voting thereon shall be required to alter, amend or repeal the provisions of TCI's Articles of Incorporation pertaining to (i) the size of the board of directors, (ii) the procedures for amending the corporation's bylaws, (iii) the provisions for obtaining written consents of the stockholders and the procedures for calling a special meeting of the stockholders, (iv) TCI's election not to be governed by the statutes contained in NRS 78.411 to 78.444 "Combinations with Interested stockholders" and the statutes contained in NRS 78.378 to 78.3793 "Acquisition of Controlling Interest", (v) TCI's requirement to obtain the approval of two-thirds (2/3) of the holders of the voting stock for certain mergers or business combinations, (vi) the procedures governing the removal of directors, or (vii) the procedures governing the board's consideration of certain mergers, acquisitions or business combinations, or to adopt any provision inconsistent therewith; provided, however, that the requirement for such a 75% vote shall not be required for any alteration, amendment, repeal or adoption of such provision recommended by more than 50% of the entire board of directors.</p>	<p>special meeting of the stockholders, (iv) IOT's election not to be governed by the statutes contained in NRS 78.411 to 78.444 "Combinations with Interested stockholders" and the statutes contained in NRS 78.378 to 78.3793 "Acquisition of Controlling Interest" or (v) IOT's requirement to obtain the approval of two-thirds (2/3) of the holders of the voting stock to approve certain mergers or business combinations, or to adopt any provision inconsistent therewith; provided, however, that the requirement for such a 75% vote shall not be required for any alteration, amendment, repeal or adoption of such provision recommended by more than 50% of the entire board of directors.</p>	<p>Articles of Incorporation materially alter existing terms of preferred stock.</p>
<p>AMENDMENTS TO BYLAWS</p>		
<p>The NRS provides that subject to the restrictions set forth in a corporation's bylaws, the directors may make the bylaws of the</p>	<p>IOT is subject to the same NRS provisions. The IOT Articles of Incorporation provide that the Bylaws may be amended by the board</p>	<p>ARL's Restated Articles of Incorporation and that the Bylaws may be amended by the board of directors</p>

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corporation. The TCI Articles of
Incorporation provide

of directors or the approval of no
less than 75% of the

of the outstanding
voting

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TCI COMMON STOCK	IOT COMMON STOCK	SERIES G REDEEMABLE PREFERRED STOCK REDEEMABLE CONVERTIBLE STOCK
<p>that the Bylaws may be amended by a majority of the directors or by the affirmative vote of the holders of not less than 75% of the outstanding stock of TCI voting thereon.</p>	<p>holders of the voting stock of IOT voting thereon.</p>	<p>thereon. The holder of the redeemable convertible stock and Series G convertible preferred stock shall not vote for amendments to ARL's Bylaws or other governing law or if such amendments to ARL's Bylaws would alter or change the terms of such class of stock.</p>

DIVIDENDS AND DISTRIBUTIONS

<p>Pursuant to the NRS, distributions may be made to stockholders (i) unless TCI would not be able to pay its debts as they become due in the usual course of business, or (ii) except as otherwise specifically allowed by TCI's Articles of Incorporation, its total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the corporation were to be dissolved at the time of distribution, to satisfy the preferential rights upon dissolution of stockholders whose preferential rights are superior to those receiving the distribution.</p>	<p>IOT is subject to the same NRS provisions.</p>	<p>Each share of Series G convertible preferred stock shall be entitled to a cumulative dividend of 10.00% per annum in cash or in kind, or in liquidation preference, until the dividend is paid in full, quarterly in equal installments of \$0.50, if and when approved by the board and to the extent of the assets available under the NRS. Dividends on Series G redeemable preferred stock shall be paid with priority upon the ARL common stock. Series G redeemable preferred stock shall have the right to dividends and distributions upon dissolution or winding up of the company, in preference to other shares of ARL.</p> <p>Each share of Series G convertible preferred stock shall be entitled to a cumulative dividend of 10.00% per annum in cash or in kind, or in liquidation preference, until the dividend is paid in full, quarterly in equal installments of \$0.50, if and when approved by the board and to the extent of the assets available under the NRS. Dividends on Series G redeemable preferred stock shall be paid with priority upon the ARL common stock. Series G redeemable preferred stock shall have the right to dividends and distributions upon dissolution or winding up of the company, in preference to other shares of ARL.</p>
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liquidation preference
 quarterly in equal
 \$0.5375, if and w
 board and to the
 under the NRS. D
 Series H redeemab
 preferred stock a
 and with priority

TCI COMMON STOCK	IOT COMMON STOCK	SERIES G REDEEMABLE PREFERRED STOCK REDEEMABLE CONVERTIBLE S
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dividends upon the
 stock. The Series
 convertible preference
 ranks on a parity
 dividends and upon
 dissolution or winding
 all other shares of
 preferred stock.

CONVERSION RIGHTS

None.	None.	During a 75 day period the 15th day after files its first F SEC following the the TCI merger, the redeemable convertible stock may be converted of the holder of convertible preference shares of ARL common share of Series G convertible preference
		During a 75 day period the 15th day after files its first F SEC following the the IOT merger, the redeemable convertible stock may be converted of the holder of convertible preference

2.25 shares of AR
each share of Ser
convertible prefe

REDEMPTION RIGHTS

None.

None.

ARL may provide n
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redeemable conver
stock no earlier
ARL publicly file
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following the con
the TCI merger. A
ARL may redeem an
Series G redeemab
preferred stock u
the liquidation v
per share plus al
unpaid dividends
holder thereof no
days nor more tha
notice thereof pr
on which ARL desi
redeemed.

ARL may provide n
intention to rede
redeemable conver
stock no earlier
ARL publicly file
10-Q with the SEC
consummation of t
After that time,
or all of the Ser
convertible prefe
payment of the li
\$21.50 per share
and unpaid divide
holder thereof no

nor more than 60
prior to the date
Corporation desir
redeemed.

LIQUIDATION/DISSOLUTION

Under the NRS, a dissolution must be initiated by the board of directors and approved by the holders of a majority of the outstanding voting shares of the corporation.

Upon a liquidation, dissolution or winding up of TCI, TCI will distribute the remaining assets, if any, to the holders of TCI common stock after paying or

IOT is subject to the same NRS provisions. Upon a liquidation, dissolution or winding up of IOT, IOT will distribute the remaining assets, if any, to the holders of IOT common stock after paying or adequately providing for the payment of all of its liabilities and obligations.

The holders of Series H convertible preferred stock shall be entitled to receive, in any liquidation or winding up of ARL, except as otherwise provided, the amount of the liquidation proceeds, respectively.

Upon any liquidation or winding up of ARL, and providing for the payment of all of its liabilities and obligations, the holders of ARL common stock shall be entitled to receive, in any liquidation or winding up of ARL, the amount of the liquidation proceeds, respectively.

TCI COMMON STOCK

IOT COMMON STOCK

SERIES G REDEEMABLE
PREFERRED STOCK
REDEEMABLE CONVERTIBLE
PREFERRED STOCK

adequately providing for the payment of all of its liabilities and obligations.

the holders of Series G Redeemable Convertible Preferred Stock shall be entitled to receive, in any distribution made to the ARL Corporation, the amount of the liquidation proceeds, in an amount in cash of \$20.00 per share plus any dividend declared on January 2, 2002 and any other dividend declared on or after the issuance of shares of Series G Redeemable Convertible Preferred Stock with respect to TCI common stock, equal to accrued dividends and dividends thereon, whether declared, to the payment. Holders

redeemable convertible
 stock are not entitled to
 further distributions.

Upon any liquidation or
 dissolution or winding up
 of ARL, and after payment
 to the creditors of ARL,
 the holders of Series H
 redeemable convertible
 preferred stock shall be
 entitled, before any
 distribution or payment
 to the ARL common stock
 holders, to receive a
 liquidation dividend in an
 amount in cash of \$21.50
 per share plus any
 dividend declared on
 January 2, 2002 and any
 other dividends on the
 issuance of shares of
 redeemable convertible
 stock with respect to
 stock plus an amount for
 accrued and unpaid
 distributions thereon,
 whether or not declared,
 plus any such payment.
 Holders of Series H
 redeemable convertible

SERIES G REDEEMABLE
 PREFERRED STOCK
 REDEEMABLE CONVERTIBLE
 STOCK

TCI COMMON STOCK

IOT COMMON STOCK

convertible preferred
 stock are not entitled to
 participate in any
 distributions.

PREEMPTIVE RIGHTS

Under the NRS, the stockholders of a corporation organized after October 1, 1991 do not have a preemptive right to acquire unissued shares, treasury shares or securities convertible into such shares unless the corporation's articles of incorporation provide otherwise. The TCI Articles of

IOT is subject to the same NRS provisions. The IOT Articles of Incorporation do not contain a provision granting the holders of IOT common stock preemptive rights.

No holder of Series G
 convertible preferred
 redeemable convertible
 stock shall have the right
 to acquire any securities
 sold by ARL because of
 the nature of such class of

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Incorporation do not contain a provision granting the holders of TCI common stock preemptive rights.

TRANSFERABILITY

Shares of TCI common stock are freely transferable except for shares issued to affiliates of TCI. Transfers of shares of stock held by affiliates are restricted by federal and state securities laws. The shares are listed on the NYSE under the symbol "TCI".

Shares of IOT common stock are freely transferable except for shares issued to affiliates of IOT. Transfers of shares of stock held by affiliates are restricted by federal and state securities laws. The shares are listed on the AMEX under the symbol "IOT".

Shares of Series convertible preferred stock with Series H redeemable preferred stock which is not transferable, except as provided in the articles of incorporation issued to affiliates. Transfers of shares of stock held by affiliates are restricted by federal and state securities laws.

INSPECTION RIGHT

The NRS provides that any person who has been a stockholder of record of a corporation for at least 6 months immediately preceding his demand, or any person holding, or thereunto authorized in writing by the holders of, at least 5% of all of its outstanding shares, upon at least 5 days' written demand is entitled to inspect in person or by agent or attorney, during usual business hours, a copy certified by the secretary of state of the corporation's articles of incorporation, as amended, a copy certified by an officer of the

IOT is subject to the same NRS provisions. IOT's Bylaws provide that any stockholder of IOT may inspect and copy during usual business hours the Bylaws, minutes of the proceedings of meetings of stockholders, annual statements of its affairs and voting trust agreements on file at IOT's principal office.

In addition to the provisions of the articles of incorporation provide that any stockholder of a corporation and of its subsidiaries authorized by the articles of incorporation at least 15% of all outstanding shares, is entitled to inspect and copy the corporate records upon at least 5 days' written demand.

TCI COMMON STOCK

IOT COMMON STOCK

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corporation of its bylaws, as amended, and the corporation's stock ledger and make copies therefrom.

The TCI Bylaws provide that any stockholder may inspect and copy the bylaws, stockholder minutes, annual

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statements of its affairs and any voting trust agreements.

BUSINESS COMBINATIONS/MERGERS

Under the NRS, stockholders have the right, subject to certain exceptions, to vote on all mergers to which the corporation is a party. In certain circumstances, different classes of securities may be voting separately as a class with respect to mergers. Under the NRS, unless the articles of incorporation, the board of directors or the merger statutes require a greater vote, a plan of merger must be approved by a majority of the voting power of the stockholders voting thereon.

TCI's Articles of Incorporation requires the affirmative vote of not less than two-thirds (2/3) of the outstanding stock of TCI voting thereon on certain mergers or business combinations with, or proposed on behalf of any affiliate of any interested stockholder, excluding the stock held by such interested stockholder. The requirement is not be applicable in any merger or business combination if the transaction is approved by a majority of the board.

The approval of the surviving

IOT is subject to the same NRS provisions. In addition, IOT's Articles of Incorporation requires the affirmative vote of not less than two-thirds (2/3) of the outstanding stock of IOT voting thereon on certain mergers or business combinations with, or proposed on behalf of any affiliate of any interested stockholder, excluding the stock held by such interested stockholder. The requirement is not be applicable in any merger or business combination if the transaction is approved by a majority of the board.

The ARL Restated Incorporation do provision requiring vote with respect holders of Series convertible preference Series H redeemable preferred stock a mergers to which a party except (provided by law a respect to an amended Restated Articles or Bylaws in connection merger that would or change the existing class of preferred respectively.

TCI COMMON STOCK

IOT COMMON STOCK

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corporation in a merger is not required under the NRS if: (i) the articles of incorporation of the surviving domestic corporation will not differ from its articles before the merger, (ii) each stockholder holds the same number of shares in the

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surviving corporation immediately after the merger as prior thereto, and such shares have identical designations, preferences, limitations and relative rights, (iii) the number of voting shares in the surviving corporation immediately after the merger, plus the voting power of the shares issued in the merger, does not exceed the voting power of the shares prior to the merger by more than 20%, and (iv) the number of shares entitled to participate without limitations in distributions immediately after the merger, plus the number of shares entitled to participate without limitations in distributions shares issued in the merger, does not exceed the number of shares entitled to participate without limitations in distributions prior to the merger by more than 20%.

DISSENTERS' OR APPRAISAL RIGHTS

Under the NRS, dissenting stockholders of a corporation engaged in certain major corporate transactions are entitled to appraisal rights. Appraisal rights permit a stockholder to receive cash equal to the fair market value of the stockholders' shares (as determined by agreement by the parties or by a court), in lieu of the consideration such stockholder

IOT is subject to the same NRS provisions.

ARL is subject to provisions.

TCI COMMON STOCK

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would otherwise receive in any such transaction.

Under the NRS, a stockholder is entitled to dissent from, and obtain payment for the fair value of his shares in the event of consummation of, a plan of merger or plan of

exchange in which the corporation is a party and any corporate action taken pursuant to a vote of the stockholders to the extent that the articles of incorporation, bylaws or a resolution of the board of directors provides that voting or nonvoting stockholders are entitled to dissent and obtain payment for their shares.

Notwithstanding, the NRS provides that stockholders do not have dissenters' rights of appraisal in connection with a merger or plan of exchange if their shares are securities listed on a national securities exchange or if they are designated as a national market system security on an interdealer quotation system by the National Association of Securities Dealers, Inc. or are securities held by 2,000 stockholders of record, unless (1) the articles of incorporation provide otherwise or (2) the stockholders voting thereon are required to accept anything except (a) cash or owners' interest in (i) the surviving corporation or (ii) an entity whose securities were listed on a national securities exchange, included on the national market system by the National Association of

		SERIES G REDEEMABLE PREFERRED STOCK
TCI COMMON STOCK	IOT COMMON STOCK	REDEEMABLE CONVERTIBLE PREFERRED STOCK

Securities Dealers, Inc., or held of record by at least 2,000 holders or (b) a combination thereof.

LIMITATION OF LIABILITY OF MANAGEMENT		
Under the NRS, a corporation, through its articles of incorporation, may	IOT's Articles of Incorporation contain such a provision eliminating	The ARL Restated Incorporation con

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limit or eliminate the personal liability of directors to the corporation and its stockholders for damages for breach of fiduciary duty. However, this provision excludes any limitation on liability for (i) acts or omissions which involve intentional misconduct, fraud or a knowing violation of law or (ii) the payment of distributions in violation of NRS Section 78.300. The TCI Articles of Incorporation contain such a provision eliminating the personal liability of directors to the corporation and its stockholders for damages for breach of fiduciary duty to the fullest extent permitted under the NRS.

the personal liability of directors to the corporation and its stockholders for damages for breach of fiduciary duty to the fullest extent permitted under the NRS.

provision eliminating the personal liability of directors to the corporation and its stockholders for damages for breach of fiduciary duty to the fullest extent permitted under the NRS.

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THE ADVISOR - BCM

Although the boards of directors are directly responsible for managing the affairs of ARL, TCI and IOT and for setting the policies which guide each, the day-to-day operations of each entity are performed by BCM, a contractual advisor, under the supervision of each board. The duties of BCM include, among other things, locating, investigating, evaluating and recommending real estate and mortgage loan investment and sales opportunities as well as financing and refinancing sources. BCM also serves as consultant to each entity's board of directors in connection with the business plan and investment policy decisions made by each board.

BCM, an affiliate, has served as advisor to ARL since its organization in July 2000 (and to ART since February 6, 1989) and to TCI and IOT since March 1989 pursuant to separate Advisory Agreements. The Advisory Agreements are similar with the exception of the compensation provisions, which are discussed separately below. The business address of BCM is 1800 Valley View Lane, Suite 300, Dallas, Texas 75234; its telephone number of BCM is 469-522-4200.

BCM is a company of which Messrs. Branigan, Corna, Kimbrough and Starowicz serve as executive officers. BCM is owned by a trust for the benefit of the children of Gene E. Phillips. Mr. Phillips serves as a representative of his children's trust which owns BCM and, in such capacity, has substantial contact with the management of BCM and input with respect to BCM's performance of advisory services to ARL, TCI and IOT.

As of March 15, 2002, BCM owned 6,269,344 shares of ARL's common stock, or approximately 55.1% of the shares outstanding; 1,193,422 shares of TCI's common stock, or approximately 14.8% of the shares outstanding; and 106,802 shares of IOT's common stock or approximately 7.4% of the shares outstanding.

ARL COMPENSATION TO BCM

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The ARL Advisory Agreement provides for BCM to receive monthly base compensation at the rate of 0.0625% per month (0.75% on an annualized basis) of Average Invested Assets. As of December 31, 2001, the compensation paid to BCM in 2001 under the ARL Advisory Agreement was \$6,714,671.

In addition to base compensation, BCM, an affiliate of BCM, or a related party receives the following forms of additional compensation:

- an acquisition fee for locating, leasing or purchasing real estate for ARL in an amount equal to the lesser of (i) the amount of compensation customarily charged in similar arms length transactions or (ii) up to 6% of the costs of acquisition, inclusive of commissions, if any, paid to nonaffiliated brokers
- a disposition fee for the sale of each equity investment in real estate in an amount equal to the lesser of (i) the amount of compensation customarily charged in similar arms length transactions or (ii) 3% of the sales price of each property, exclusive of fees, if any, paid to nonaffiliated brokers

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- a loan arrangement fee in an amount equal to 1% of the principal amount of any loan made to ARL arranged by BCM
- an incentive fee equal to 10% of net income for the year in excess of a 10% return on stockholders' equity, and 10% of the excess of net capital gains over net capital losses, if any, realized from sales of assets
- a mortgage placement fee, on mortgage loans originated or purchased, equal to 50%, measured on a cumulative basis, of the total amount of mortgage origination and placement fees on mortgage loans advanced by ARL for the fiscal year

The ARL Advisory Agreement further provides that BCM shall bear the cost of certain expenses of its employees, excluding fees paid to ARL's directors; rent and other office expenses of both BCM and ARL (unless ARL maintains office space separate from that of BCM); costs not directly identifiable to ARL's assets, liabilities, operations, business or financial affairs; and miscellaneous administrative expenses relating to the performance by BCM of its duties under the ARL Advisory Agreement.

If and to the extent that ARL shall request BCM, or any director, officer, partner or employee of BCM, to render services to ARL other than those required to be rendered by BCM under the ARL Advisory Agreement, such additional services, if performed, will be compensated separately on terms agreed upon between such party and ARL from time to time.

The ARL Advisory Agreement may be terminated by BCM for any reason without penalty upon sixty (60) days' written notice to ARL. Additionally, the directors or the holders of a majority in interest of the then outstanding shares of ARL may terminate the ARL Advisory Agreement for any reason without penalty upon sixty (60) days' written notice to BCM. ARL may also terminate the ARL Advisory Agreement in the event of an assignment by BCM, except in the event

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of an assignment to a corporation, association, trust, or other successor organization which may take over the property and carry on the affairs of BCM.

The ARL Advisory Agreement may be terminated immediately at the sole option of the directors of ARL upon written notice of termination provided to BCM, if BCM (i) violates any provision of the ARL Advisory Agreement, and fails to cure such default within thirty (30) days after notice of such violation, (ii) is adjudged a bankrupt or insolvent by a court of competent jurisdiction, or an order is made by a court of competent jurisdiction for the appointment of a receiver, liquidator or trustee for BCM or for all or substantially all of its property by reason of the foregoing, or approving any petition filed against the BCM for its reorganization and such adjudication or order shall remain in full force for a period of thirty (30) days and (ii) institutes proceedings for voluntary bankruptcy or files a petition seeking reorganization under the Federal bankruptcy laws, or for relief under any law for the relief of debtors, or consents to the appointment of a receiver for itself or for all or substantially all of its properties, or makes a general assignment for the benefit of its creditors, or admits in writing its inability to pay its debts generally as they become due. BCM must give written notice to the directors of ARL within seven (7) days after the occurrence of any of the events specified in (ii) and (iii) above.

The ARL Advisory Agreement automatically renews from year to year unless terminated in accordance with its terms. ARL's management believes that the terms of the ARL Advisory Agreement are at least as fair as could be obtained from unaffiliated third parties.

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Situations may develop in which the interests of ARL are in conflict with those of one or more directors or officers in their individual capacities or of BCM, or of their respective affiliates. In addition to services performed for ARL, as described above, BCM actively provides similar services as agent for, and advisor to, other real estate enterprises, including persons and entities involved in real estate development and financing, including IOT and TCI. The ARL Advisory Agreement provides that BCM may also serve as advisor to other entities.

As advisor, BCM is a fiduciary of ARL's public investors. In determining to which entity a particular investment opportunity will be allocated, BCM will consider the respective investment objectives of each entity and the appropriateness of a particular investment in light of each such entity's existing mortgage note and real estate portfolios and business plan. To the extent any particular investment opportunity is appropriate to more than one such entity, such investment opportunity will be allocated to the entity that has had funds available for investment for the longest period of time, or, if appropriate, the investment may be shared among various entities. See "Certain Relationships and Related Transactions of ARL, TCI and IOT--Certain Business Relationships."

During the year ended December 31, 2001, ARL paid BCM \$20.2 million in compensation under the ARL Advisory Agreement.

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TCI AND IOT COMPENSATION TO BCM

If the TCI and IOT mergers are approved and consummated, it is contemplated that the Advisory Agreements with TCI and IOT will be terminated. The Advisory Agreements with each of TCI and IOT provide for BCM to receive an advisory fee comprised of a gross asset fee of .0625% per month (0.75% per annum) of the average of the gross asset value (total assets less allowance for amortization, depreciation or depletion and valuation reserves) and an annual net income fee equal to 7.5% of either TCI's or IOT's net income.

Under the Advisory Agreements with TCI and IOT, BCM is required to annually formulate and submit for board approval a budget and business plan containing a twelve-month forecast of operations and cash flow, a general plan for asset sales and purchases, borrowing activity, and other investments. BCM is required to report quarterly to the board on IOT's performance against the business plan. In addition, all transactions require prior board approval, unless they are explicitly provided for in the approved business plan or are made pursuant to authority expressly delegated to BCM by the Board.

The Advisory Agreements with TCI and IOT also require prior approval of the board for the retention of all consultants and third party professionals, other than legal counsel. The Advisory Agreements with TCI and IOT provide that BCM shall be deemed to be in a fiduciary relationship to the stockholders; contains a broad standard governing BCM's liability for losses by TCI and IOT; and contain guidelines for BCM's allocation of investment opportunities as among itself, TCI and IOT and other entities it advises.

The Advisory Agreements also provide for BCM to receive an annual incentive sales fee equal to 10% of the amount, if any, by which the aggregate sales consideration for all real estate sold by either TCI or IOT during the fiscal year exceeds the sum of: (1) the cost of each such

property as originally recorded in TCI's or IOT's books for tax purposes (without deduction for depreciation, amortization or reserve for losses), (2) capital improvements made to such assets during the period owned by either TCI or IOT and (3) all closing costs, (including real estate commissions) incurred in the sale of such real estate. However, no incentive fee shall be paid unless (a) such real estate sold in such fiscal year, in the aggregate, has produced an 8% simple annual return on the net investment including capital improvements, calculated over the holding period before depreciation and inclusive of operating income and sales consideration and (b) the aggregate net operating income from all real estate owned for each of the prior and current fiscal years shall be at least 5% higher in the current fiscal year than in the prior fiscal year.

Additionally, pursuant to the TCI and IOT Advisory Agreements, BCM or an affiliate of BCM is to receive an acquisition commission for supervising the acquisition, purchase or long-term lease of real estate equal to the lesser of (1) up to 1% of the cost of acquisition, inclusive of commissions, if any, paid to nonaffiliated brokers or (2) the compensation customarily charged in arms length transactions by others rendering similar property acquisition services as

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an ongoing public activity in the same geographical location and for comparable property; provided that the aggregate purchase price of each property (including acquisition fees and real estate brokerage commissions) may not exceed such property's appraised value at acquisition.

The TCI and IOT Advisory Agreements require BCM or any affiliate of BCM to pay TCI and IOT one-half of any compensation received from third parties with respect to the origination, placement or brokerage of any loan made by TCI or IOT; provided, however, that the compensation retained by BCM or any affiliate of BCM shall not exceed the lesser of (1) 2% of the amount of the loan commitment or (2) a loan brokerage and commitment fee which is reasonable and fair under the circumstances.

The TCI and IOT Advisory Agreements also provide that BCM or an affiliate of BCM is to receive a mortgage or loan acquisition fee with respect to the purchase of any existing mortgage loan by TCI or IOT equal to the lesser of (1) 1% of the amount of the loan purchased or (2) a brokerage or commitment fee which is reasonable and fair under the circumstances. Such fee will not be paid in connection with the origination or funding of any mortgage loan by TCI or IOT.

Under the TCI and IOT Advisory Agreements, BCM or an affiliate of BCM also is to receive a mortgage brokerage and equity refinancing fee for obtaining loans or refinancing on properties equal to the lesser of (1) 1% of the amount of the loan or the amount refinanced or (2) a brokerage or refinancing fee which is reasonable and fair under the circumstances. However, no such fee shall be paid on loans from BCM or an affiliate of BCM without the approval of the TCI or IOT board of directors, as the case may be. No fee shall be paid on loan extensions.

Under the TCI and IOT Advisory Agreements, BCM is to receive reimbursement of certain expenses incurred by it in the performance of advisory services. Under the Advisory Agreements, all or a portion of the annual advisory fee must be refunded by BCM if the operating expenses of TCI or IOT (as defined in the TCI and IOT Advisory Agreements) exceed certain limits specified in the Advisory Agreement, based on the book value, net asset value and net income of TCI or IOT during the fiscal year. BCM was required to refund to IOT \$265,000 of the 2001 advisory fee under this provision.

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Additionally, if management were to request that BCM render services to TCI or IOT other than those required by the TCI and IOT Advisory Agreements, BCM or an affiliate of BCM is separately compensated for such additional services on terms to be agreed upon from time to time. TCI and IOT have hired Triad Realty Services, Ltd. ("Triad"), an affiliate of BCM, to perform property management for TCI's and IOT's properties. Triad provides such property management services for a fee of 5% or less of the monthly gross rents collected on residential properties and 3% or less of the monthly gross rents collected on commercial properties under its management. Also, TCI and IOT have engaged, on a non-exclusive basis, Regis Realty, Inc. ("Regis"), a related party, to perform brokerage services for TCI and IOT. Regis is entitled to receive a real estate commission for property purchases and sales in accordance with the following sliding scale of total fees to be paid: (1) maximum fee of 4.5% on the first \$2.0 million of any purchase or sale transaction of which no more than 3.5%

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would be paid to Regis or affiliates; (2) maximum fee of 3.5% on transaction amounts between \$2.0 million-\$5.0 million of which no more than 3% would be paid to Regis or affiliates; (3) maximum fee of 2.5% on transaction amounts between \$5.0 million-\$10.0 million of which no more than 2% would be paid to Regis or affiliates; and (4) maximum fee of 2% on transaction amounts in excess of \$10.0 million of which no more than 1.5% would be paid to Regis or affiliates. BCM may only assign the TCI and IOT Advisory Agreements with the prior consent of TCI and IOT.

The TCI and IOT Advisory Agreements may be terminated by BCM for any reason without penalty upon one hundred twenty (120) days' written notice to TCI or IOT. Additionally, a majority of the directors who are not Affiliates of BCM or the holders of a majority in interest of the then outstanding shares of TCI or IOT may terminate the TCI or IOT Advisory Agreement for any reason without penalty upon sixty (60) days' written notice to BCM. Notwithstanding, TCI or IOT may terminate the TCI or IOT Advisory Agreement without penalty and without notice to BCM in the event of any material change in the ownership, control or management of BCM. TCI or IOT may also terminate the TCI or IOT Advisory Agreement in the event of an assignment by BCM without the prior consent of TCI or IOT.

The TCI and IOT Advisory Agreements may be terminated immediately at the sole option of the directors of TCI or IOT upon written notice of termination provided to BCM, if BCM (i) violates any provision of the TCI or IOT Advisory Agreement, and fails to cure such default within thirty (30) days after notice of such violation, (ii) is adjudged a bankrupt or insolvent by a court of competent jurisdiction, or an order is made by a court of competent jurisdiction for the appointment of a receiver, liquidator or trustee for BCM or for all or substantially all of its property by reason of the foregoing, or approving any petition filed against the BCM for its reorganization and such adjudication or order shall remain in full force for a period of thirty (30) days and (iii) institutes proceedings for voluntary bankruptcy or files a petition seeking reorganization under the Federal bankruptcy laws, or for relief under any law for the relief of debtors, or consents to the appointment of a receiver for itself or for all or substantially all of its properties, or makes a general assignment for the benefit of its creditors, or admits in writing its inability to pay its debts generally as they become due. BCM must give written notice to the directors of TCI or IOT within seven (7) days after the occurrence of any of the events specified in (ii) and (iii) above.

During the year ended December 31, 2001, TCI paid BCM \$22.9 million under the TCI Advisory Agreement and IOT paid BCM \$1.7 million under the IOT Advisory Agreement.

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DIRECTORS AND PRINCIPAL OFFICERS OF ADVISOR

The directors and principal officers of BCM are set forth below:

Name	Position
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Mickey N. Phillips.....	Director*

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Ryan T. Phillips.....	Director*
Mark W. Branigan.....	Executive Vice President -- Residential
Louis J. Corna.....	Executive Vice President - Tax
Ronald E. Kimbrough.....	Executive Vice President and Chief Financial Officer
David W. Starowicz.....	Executive Vice President--Commercial Asset Management
Robert A. Waldman.....	Senior Vice President, General Counsel and Secretary

MARK W. BRANIGAN: Age 47, Executive Vice President - Residential (since June 2001), Director (September 2000 to June 2001), and Executive Vice President and Chief Financial Officer (August 2000 to June 2001) of ARL. Executive Vice President - Residential (since June 2001), Executive Vice President and Chief Financial Officer (August 2000 to June 2001), Vice President - Director of Construction (August 1999 to August 2000) and Executive Vice President - Residential Management (January 1992 to October 1997) of BCM, TCI and IOT; Vice President - Director of Construction (August 1999 to August 2000) and Executive Vice President - Residential Asset Management (January 1992 to October 1997) of ART; and real estate consultant (November 1997 to July 1999).

LOUIS J. CORNA: Age 54, Executive Vice President - Tax (since October 2001), Executive Vice President and Chief Financial Officer (June 2001 to October 2001), and Senior Vice President - Tax (December 2000 to June 2001) of ARL. Executive Vice President - Tax (since October 2001), Executive Vice President and Chief Financial Officer (June 2001 to October 2001) and Senior Vice President - Tax (December 2000 to June 2001) of BCM, TCI and IOT; Private Attorney (January 2000 to December 2000); Vice President - Taxes and Assistant Treasurer (March 1998 to January 2000) of IMC Global, Inc.; and Vice President - Taxes (July 1991 to February 1998) of Whitman Corporation.

RONALD E. KIMBROUGH: Age 49, Acting Principal Executive Officer (since February 2002) and Executive Vice President and Chief Financial Officer (since January 2002) of ARL. Acting Principal Executive Officer (since March 2002) and Executive Vice President and Chief Financial Officer (since January 2002) of BCM, TCI and IOT; Controller (September 2000 to January 2002) of BCM; Director, Vice President and Treasurer (since February 2002) of First Equity Properties, Inc.; Vice President and Treasurer (January 1998 to September 2000) of Syntek West, Inc. and One Realco Corporation; and Consultant (1997).

DAVID W. STAROWICZ: Age 46, Executive Vice President - Commercial Asset Management (since April 2002), Executive Vice President--Acquisitions, Sales and

* Mickey N. Phillips is the brother of Gene E. Phillips and Ryan T. Phillips is the son of Gene E. Phillips. Gene E. Phillips serves as a representative of the trust established for the benefit of his children which owns BCM and, in such capacity, has substantial contact with the management of BCM and input with respect to its performance of advisory services for ARL, TCI and IOT.

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Construction (March 2001 to April 2002) and Executive Vice President--Commercial Asset Management (August 2000 to March 2001) of ARL. Executive Vice President - Commercial Asset Management (since April 2002), Executive Vice President--Acquisitions, Sales and Construction (March 2001 to April 2002), Executive Vice President--Commercial Asset Management (September 1999 to March 2001), Vice President (May 1992 to September 1999) and Asset Manager (November 1990 to May 1992) of BCM, TCI and IOT; and Executive Vice President - Commercial Asset Management (September 1999 to August 2000), Vice President (May 1992 to September 1999) and Asset Manager (November 1990 to May 1992) of ART.

ROBERT A. WALDMAN: Age 49, Senior Vice President, Secretary and General Counsel (since August 2000) of ARL. Senior Vice President and General Counsel (since January 1995), Vice President (December 1990 to January 1995) and Secretary (December 1993 to February 1997 and since June 1999) of IOT and TCI; Senior Vice President and General Counsel (since November 1994), Vice President and Corporate Counsel (November 1989 to November 1994) and Secretary (since November 1989) of BCM; and Senior Vice President and General Counsel (since January 1995), Vice President (January 1993 to January 1995) and Secretary (since December 1989) of ART.

The business address of each director and executive officer is 1800 Valley View Lane, Suite 300, Dallas, Texas 75234. The business telephone number of each person is 469-522-4200. Each director and executive officer is a citizen of the United States.

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CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS OF BCM, ARL, TCI AND IOT

POLICIES WITH RESPECT TO CERTAIN ACTIVITIES

ARL. Article ELEVENTH of ARL's Articles of Incorporation provides that ARL shall not, directly or indirectly, contract or engage in any transaction with (1) any director, officer or employee of ARL, (2) any director, officer or employee of the advisor, (3) the advisor or (4) any affiliate or associate (as such terms are defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended) of any of the aforementioned persons, unless (a) the material facts as to the relationship among or financial interest of the relevant individuals or persons and as to the contract or transaction are disclosed to or are known by ARL's board of directors or the appropriate committee thereof and (b) ARL's board of directors or committee thereof determines that such contract or transaction is fair to ARL and simultaneously authorizes or ratifies such contract or transaction by the affirmative vote of a majority of independent directors of ARL entitled to vote thereon.

Article ELEVENTH defines an "independent director" as one who is neither an officer or employee of ARL, nor a director, officer or employee of ARL's advisor.

ARL's policy is to have such contracts or transactions approved or ratified by a majority of the disinterested directors with full knowledge of the character of such transactions, as being fair and reasonable to the stockholders at the time of such approval or ratification under the circumstances then prevailing. Such directors also consider the fairness of such transactions to

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ARL. Management believes that, to date, such transactions have represented the best investments available at the time and that they were at least as advantageous to ARL as other investments that could have been obtained.

ARL expects to enter into future transactions with entities the officers, directors or stockholders of which are also officers, directors or stockholders of ARL, if such transactions would be beneficial to the operations of ARL and consistent with ARL's then-current investment objectives and policies, subject to approval by a majority of disinterested directors as discussed above.

ARL does not prohibit its officers, directors, stockholders or related parties from engaging in business activities of the types conducted by ARL.

TCI. Article FOURTEENTH of TCI's Articles of Incorporation provides that TCI shall not, directly or indirectly, contract or engage in any transaction with (1) any director, officer or employee of TCI, (2) any director, officer or employee of the advisor, (3) the advisor or (4) any affiliate or associate (as such terms are defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended) of any of the aforementioned persons, unless (a) the material facts as to the relationship among or financial interest of the relevant individuals or persons and as to the contract or transaction are disclosed to or are known by the board of directors or the appropriate committee thereof and (b) the board of directors or committee thereof determines that such contract or transaction is fair to TCI and simultaneously authorizes or ratifies such contract or

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transaction by the affirmative vote of a majority of independent directors of TCI entitled to vote thereon.

Article FOURTEENTH defines an "independent director" as one who is neither an officer or employee of TCI nor a director, officer or employee of TCI's advisor.

IOT. Article FOURTEENTH of IOT's Articles of Incorporation provides that IOT shall not, directly or indirectly, contract or engage in any transaction with (1) any director, officer or employee of IOT, (2) any director, officer or employee of the advisor, (3) the advisor or (4) any affiliate or associate (as such terms are defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended) of any of the aforementioned persons, unless (a) the material facts as to the relationship among or financial interest of the relevant individuals or persons and as to the contract or transaction are disclosed to or are known by IOT's board of directors or the appropriate committee thereof and (b) IOT's board of directors or committee thereof determines that such contract or transaction is fair to IOT and simultaneously authorizes or ratifies such contract or transaction by the affirmative vote of a majority of independent directors of IOT entitled to vote thereon.

Article FOURTEENTH defines an "independent director" as one who is neither an officer or employee of IOT, nor a director, officer or employee of IOT's advisor.

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CERTAIN BUSINESS RELATIONSHIPS

BCM, ARL's, TCI's and IOT's contractual advisor, is a company of which Messrs. Branigan, Corna, Kimbrough and Starowicz serve as executive officers. BCM is a company owned by a trust for the benefit of the children of Gene E. Phillips. Mr. Phillips serves as a representative of his children's trust, which owns BCM and, in such capacity, has substantial contact with the management of BCM and input with respect to BCM's performance of advisory services.

ARL, TCI and IOT contract with affiliates of BCM for property management services. Currently, Triad, an affiliate, and Carmel Realty, Inc. ("Carmel"), provide such property management services. The general partner of Triad is BCM. The limited partner of Triad is GS Realty Services, Inc. ("GS Realty"), a related party, which is not affiliated with BCM. Triad and Carmel subcontract the property-level management of 13 of ARL's commercial properties (office buildings, shopping centers and a merchandise mart) and eight of its hotels to Regis, a related party, which is a company owned by GS Realty. Regis also provides real estate brokerage services to ARL and receives brokerage commissions in accordance with the advisory agreement between ARL and BCM. Carmel is a company owned by First Equity Properties, Inc., which is a company affiliated with BCM.

ARL owns an equity interest in each of IOT and TCI. See "Properties of ARL - Investments in Real Estate Companies and Real Estate Partnerships."

With respect to TCI, Triad also subcontracts the property-level management and leasing of 51 of TCI's commercial properties, its four hotels and the commercial properties owned by a real estate partnership in which TCI and IOT are partners to Regis. Regis also provides real

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estate brokerage services for TCI, on a non-exclusive basis, and receives brokerage commissions in accordance with the brokerage agreement.

Regarding IOT, Triad also subcontracts the property-level management and leasing of IOT's seven office buildings and two commercial properties owned by real estate partnerships in which IOT and TCI are partners to Regis. Prior to May 1, 2000, affiliates of BCM provided brokerage services for IOT, on a non-exclusive basis, and received brokerage commissions in accordance with a brokerage agreement. Currently, Regis performs such brokerage services for IOT.

At March 15, 2002, ARL indirectly owned approximately 49.7% of TCI's outstanding common stock. At December 31, 2001, TCI owned 345,728 shares of IOT's common stock, an approximate 24% interest and 746,972 shares of ARL common stock, an approximate 6.6% interest which were primarily purchased in open market transactions in 1990 and 1991 at a total cost of \$1.6 million.

The executive officers of TCI and IOT also serve as officers of ARL, and owe fiduciary duties to each of those entities as well as BCM under applicable law. The directors and officers of IOT also serve as directors and officers of TCI. The directors owe fiduciary duties to TCI as well as to IOT under applicable law. IOT and TCI have the same relationship with BCM as does ARL.

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RELATED PARTY TRANSACTIONS

Historically, ARL, TCI and IOT have each engaged in and may continue to engage in business transactions, including real estate partnerships, with related parties. Management believes that all of the related party transactions represented the best investments available at the time and were at least as advantageous to ARL, TCI and IOT as could have been obtained from unrelated third parties.

In 2001, ARL paid BCM, its affiliates and a related party \$6.7 million in advisory fees, \$166,000 in net income fees, \$3.8 million in incentive fees, \$1.1 million in mortgage brokerage and equity refinancing fees, \$92,000 in property acquisition fees, \$5.9 million in real estate brokerage commissions and \$3.9 million in property and construction management fees and leasing commissions, net of property management fees paid to subcontractors, other than affiliates of BCM. In addition, as provided in the ARL Advisory Agreement, BCM received cost reimbursements of \$2.8 million.

In 2001, IOT paid BCM and its affiliates and related parties \$817,000 in advisory fees and \$312,000 in property and construction management fees and leasing commissions, net of property management fees paid to subcontractors other than Regis. In addition, from time-to-time, IOT has made advances to BCM, which generally have not had specific repayment terms and have been reflected in IOT's financial statements as other assets or other liabilities from affiliates. At December 31, 2001, BCM advanced IOT \$593,000. As of March 2002, IOT has repaid that amount to BCM.

In 2001, TCI paid BCM, its affiliates and related parties \$10.8 million in advisory incentive and net income fees, \$45,000 in mortgage brokerage and equity refinancing fees, \$2.4

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million in property acquisition fees, \$3.8 million in real estate brokerage commissions and \$2.6 million in property and construction management fees and leasing commissions, net of property management fees paid to subcontractors, other than affiliates of BCM. In addition, as provided in the TCI Advisory Agreement, BCM received cost reimbursements of \$2.6 million.

In addition, from time-to-time, ARL and its affiliates have made advances to each other, which generally have not had specific repayment terms and have been reflected in ARL's financial statements as other assets or other liabilities. Also, incentive fees and net income fees payable to BCM for 2001 are accrued throughout the year and are due by March 31, 2002. At December 31, 2001, ARL owed \$10.1 million (\$4.0 million for fees owed for 2001), \$980,000 and \$257,000 to BCM, TCI and GS Realty, respectively. In January 2002, ARL paid the \$257,000 due to GS Realty. At December 31, 2001, TCI had receivables of \$11.6 million, \$1.9 million and \$608,000 from BCM, GS Realty, and ARL, respectively. Also at December 31, 2001, TCI owed \$1.0 million and \$39,000 to GS Realty and BCM, respectively. In January 2002, TCI paid the \$1.0 million due to GS Realty and in March 2002, TCI paid the \$39,000 to BCM. At December 31, 2001, BCM advanced IOT \$593,000. As of March 2002, IOT has repaid that amount to BCM.

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In October 1999, ARL funded a \$4.7 million loan to Realty Advisors, Inc., an affiliate. The loan was secured by all of the outstanding shares of common stock of American Reserve Life Insurance Company. The loan bore interest at 10.25% per annum, and matured in November 2001. In January 2000, \$100,000 was collected. In November 2001, the maturity date was extended to November 2004. The collateral was changed to a subordinate pledge of 850,000 shares of ARL common stock owned by BCM. The shares are also pledged to a lender on ARL's behalf. The interest rate was changed to 2% over the prime rate, currently 6.75% per annum, and the accrued but unpaid interest of \$984,000 was added to the principal. The new principal balance is \$5.6 million. All principal and accrued interest are due at maturity.

In March 2000, a loan with a principal balance of \$2.5 million to Lordstown, L.P., matured. The loan is secured by a second lien on land in Ohio and Florida, by 100% of the general and limited partner interest in Partners Capital, Ltd., the limited partner of Lordstown, L.P., and a profits interest in subsequent land sales. At December 2001, the loan, and \$741,000 of accrued interest, remained unpaid. At March 2002, settlement terms are being negotiated. A corporation controlled by Richard D. Morgan is the general partner of Lordstown, L.P. Mr. Morgan served as a director of ARL until October 2001.

In March 2001, ARL funded \$13.6 million of a \$15.0 million unsecured line of credit to One Realco Corporation ("One Realco"), which owns approximately 14.8% of the outstanding shares of ARL's common stock. The line of credit bears interest at 12.0% per annum. All principal and interest were due at maturity in February 2002. The line of credit is guaranteed by BCM. In June 2001, \$394,000 in principal and \$416,000 in interest was collected. In December 2001, \$21,000 in principal and \$804,000 in interest was collected. In February 2002, the maturity date was extended to February 2004. All principal and interest are due at maturity. Ronald E. Kimbrough, Executive Vice President and Chief Financial Officer of ARL, is a 10% stockholder of One Realco. During 2001, Mr. Kimbrough did not participate in day-to-day operations or management of One Realco.

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In December 2000, an unsecured loan with a principal balance of \$1.7 million to Warwick of Summit, Inc. ("Warwick") matured. All principal and interest were due at maturity. At December 2001, the loan, and \$451,000 of accrued interest, remained unpaid. At March 2002, settlement terms are being negotiated. Richard D. Morgan, a Warwick stockholder, served as a director of ARL until October 2001.

In December 2000, a loan with a principal balance of \$1.6 million to Bordeaux Investments Two, L.L.C. ("Bordeaux"), matured. The loan is secured by (1) a 100% interest in Bordeaux, which owns a shopping center in Oklahoma City, Oklahoma; (2) 100% of the stock of Bordeaux Investments One, Inc., which owns 6.5 acres of undeveloped land in Oklahoma City, Oklahoma; and (3) the personal guarantees of the Bordeaux members. At December 2001, the loan, and \$471,000 of accrued interest, remained unpaid. At March 2002, settlement terms are being negotiated. Richard D. Morgan, a Bordeaux member, served as a director of ARL until October 2001.

In December 1998, in connection with the settlement of litigation relating to the original formation of NRLP, NRLP Management Corp. ("NMC"),

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assumed responsibility for repayment to NRLP of the \$12.2 million paid by NRLP to settle the litigation. The loan bore interest at a variable rate and required annual payments of accrued interest plus principal payments of \$500,000 in each of the first three years, \$750,000 in each of the next three years, \$1.0 million in each of the next three years, with payment in full of the remaining balance in the tenth year. The note was guaranteed by ART. The note was to mature upon the earlier of the liquidation or dissolution of NRLP, NMC ceasing to be general partner or March 31, 2009. Upon the merger of ART and NRLP into ARL, the loan was cancelled.

In October 1997, ARL entered into leases with BCM and an affiliate of BCM, for space at the One Hickory Centre Office Building, construction of which was completed in December 1998. The BCM leases, effective upon ARL obtaining permanent financing of the building, were for 75,852 sq. ft. (approximately 75% of the building), had terms of ten and fifteen years and provided for annual base rent of \$19.25 per sq. ft. for the first year. In January 2001, both leases were terminated, and ARL entered into a new lease with BCM, effective October 1, 2000. The new lease is for 59,463 sq. ft. (approximately 62% of the building), has a term of three years, and provides for annual base rent of \$1.3 million or \$21.50 per sq. ft. Effective March 1, 2002, the lease was amended to 57,879 sq. ft. (approximately 59% of the building), with an annual base rent of \$1.2 million, or \$21.50 per sq. ft.

BCM has entered into put agreements with certain holders of the Class A limited partner units of Ocean Beach Partners, L.P. The Class A units are convertible into Series D Cumulative preferred stock of ARL. The put price of the Series D preferred stock is \$20.00 per share plus accrued but unpaid dividends.

BCM has entered into put agreements with the holders of the Class A limited partner units of Valley Ranch L.P. Such Class A units are convertible into Series B Cumulative Convertible preferred stock of ARL which is further convertible into common stock of ARL. The put price for the Class A units is \$1.00 per unit and the put price for either the Series B redeemable convertible preferred stock or ARL's common stock is 80% of the average daily closing price of ARL's common stock for the prior 20 trading days. In March 1999, ARL reached

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agreement with the Class A unitholders of Valley Ranch, L.P. to acquire their eight million Class A units for \$1.00 per unit. In 1999, three million units were purchased, an additional one million units were purchased in January 2000 and two million units in May 2001. ARL has committed to purchase the remaining two million units in May 2002.

BCM has entered into put agreements with the holders of the Class A units of ART Palm, L.P. Such Class A units are convertible into Series C Cumulative Convertible preferred stock of ARL. The put price for the Class A units is \$1.00 per unit and the put price for either the Series C preferred stock or ARL's common stock is 90% of the average daily closing price of ARL's common stock for the prior 20 trading days. The put agreement calls for ARL to

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repurchase the Class A units as follows: June 30, 2002, 1,625,000 units; June 30, 2003, 1,625,000 units; December 31, 2005, 1,625,000 units; and December 31, 2006, 8,563,750 units.

TCI is a 63.7% limited partner and IOT is a 36.3% general partner in the Tri-City Limited Partnership ("Tri-City") which owns the Chelsea Square Shopping Center. In February 2000, the Chelsea Square Shopping Center was financed in the amount of \$2.1 million. Tri-City received net cash of \$2.0 million after the payment of various closing costs. The mortgage bore interest at a fixed rate of 10.24% per annum until February 2001, and a variable rate thereafter, currently 10% per annum, requires monthly payments of principal and interest of \$20,601 and matures in February 2005. TCI received a distribution of \$1.3 million of the net financing proceeds. IOT received a distribution of \$739,000 of the net financing proceeds.

In May 2001, ARL exchanged with TCI two parcels of land, a 10.5 acre tract of Vista Ridge land and an 8.88 acre tract of Hollywood Casino land, for the 168 unit Glenwood Apartments. ARL received net cash of \$3.2 million on the subsequent sale of the apartments.

In December 2001, TCI, purchased 100% of the outstanding common shares of National Melrose, Inc. ("NM"), a wholly-owned subsidiary of ARL, for \$2.0 million. NM owns the Executive Court Office Building. ARL has guaranteed that the asset will produce at least a 12% annual return on the purchase price for a period of three years from the purchase date. If the asset fails to produce the annual return, ARL will pay TCI any shortfall. In addition, if the asset fails to produce the 12% return for a calendar year, TCI may require ARL to repurchase the shares of NM for the purchase price. Management has classified this related party transaction as a note payable to TCI.

In January 2002, IOT purchased 100% of the outstanding common shares of Rosedale Corporation ("Rosedale"), a wholly-owned subsidiary of ARL, for \$5.1 million. Rosedale owns the Rosedale Towers Office Building. ARL has guaranteed that the asset will produce at least a 12% annual return on the purchase price for a period of three years from the purchase date. If the asset fails to produce the 12% return, ARL will pay IOT any shortfall. In addition, if the asset fails to produce the 12% return for a calendar year, IOT may require ARL to repurchase the shares of Rosedale for the purchase price. Management has classified this related party transaction as a note payable to IOT.

In January 2002, TCI purchased 100% of the common shares of ART Two Hickory Corporation ("Two Hickory"), a wholly-owned subsidiary of ARL, for \$4.4 million. Two Hickory owns the Two Hickory Centre Office Building. ARL has guaranteed that the asset will

produce at least a 12% annual return on the purchase price for a period of three years from the purchase date. If the asset fails to produce the 12% return, ARL will pay TCI any shortfall. In addition, if the asset fails to produce the 12% return for a calendar year, TCI may require ARL to repurchase the shares of Two Hickory for the purchase price. Management has classified this related party transaction as a note payable to TCI.

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In March 2002, ARL received \$600,000 and exchanged with TCI a 24.5 acre tract of Rasor land, a 16.89 acre tract of Lakeshore Villas Apartments land and the 45,623 sq. ft. Oaktree Village Shopping Center for the 80,278 sq. ft. Plaza on Bachman Creek Shopping Center. ARL received \$4.4 million on the subsequent financing of the shopping center.

In 2001, TCI received \$120,000 in rent from BCM for BCM's lease at Addison Hanger.

In February 2002, TCI sold a \$2.0 million senior participation interest in a loan to IOT.

The directors and officers of TCI also serve as directors and officers of IOT. The directors owe fiduciary duties to IOT as well as to TCI under applicable law. IOT has the same relationship with BCM as TCI. At December 31, 2001, TCI owned 746,972 shares of ARL common stock which were primarily purchased in open market transactions in 1990 and 1991 at a total cost of \$1.6 million. The officers of TCI also serve as officers of ARL. BCM also serves as advisor to ARL and at March 15, 2002, ARL owned approximately 50% of TCI's outstanding common stock. At December 31, 2001, the market value of the ARL common shares was \$7.4 million.

TCI established on April 13, 2000, the Director Stock Option Plan (the "TCI Director Plan") which became effective upon subsequent approval of the stockholders of TCI at an Annual Meeting of Stockholders held on October 10, 2000. Under the terms of the TCI Director Plan, successive options covering 5,000 shares of TCI common stock each were automatically granted to each director on the date of effectiveness of the TCI Director Plan, and on each January 1 of each subsequent year in which the individual served as a director of TCI. Pursuant to the TCI Director Plan, two former directors of TCI, Edward G. Zampa and R. Douglas Leonhard, each held options covering 5,000 shares at an exercise price of \$8.975 per share, and an additional 5,000 shares at an exercise price of \$14.875 per share. On January 30, 2002, TCI entered into separate agreements with Messrs. Leonhard and Zampa pursuant to which TCI repurchased all options held by each at a price based upon a \$16 per share sale price of common stock, less the aggregate amount of the exercise price under each option. As a result of the Purchase Agreements, each of Messrs. Leonhard and Zampa received an aggregate of \$41,225 in settlement, and the outstanding options previously held by each under the TCI Director Plan have been cancelled.

Options covering an aggregate of 30,000 shares remain outstanding at exercise prices ranging from \$8.875 per share to \$16.05 per share, by Ted Stokely (15,000 shares) and Martin L. White (15,000 shares).

INDEBTEDNESS OF MANAGEMENT

As of the record date, no director or executive officer of ARL, TCI or IOT has any indebtedness to ARL, TCI or IOT.

CERTAIN INFORMATION REGARDING TCI COMMON STOCK AND IOT COMMON STOCK

PURCHASES OF TCI COMMON STOCK

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The following sets forth for each quarter during 2000: (a) the amount of TCI common stock purchased by BCM, (b) the range of prices paid by BCM, and (c) the average purchase price paid by BCM, based on information obtained from documents filed with the SEC.

QUARTER	NUMBER OF SHARES PURCHASED	RANGE OF PRICES PAID	AVERAGE PURCHASE PRICE
2000			
First	None	--	--
Second	347,400	\$6.69 to \$13.38	\$9.62
Third	99,300	\$11.63 to \$14.25	\$12.51
Fourth	900	\$16.00 to \$16.63	\$16.32

On October 3, 2000, pursuant to a Stock Option Agreement dated October 3, 2000, Gotham Partners, LP and Gotham Partners III, LP (both New York limited partnerships) and Gotham Partners International, Ltd., a Canadian Island company (all collectively "Gotham") granted to ARL and IOT, jointly, an option to purchase 1,858,900 shares of TCI common stock (the "Option") at an exercise price of \$12 per share (a total price of \$22,306,800). Such Option became exercisable on January 1, 2001 through 5:00 p.m., central standard time, on April 4, 2001 (the "Option Period") and was only to be exercised as to the whole of such Option (not in part). As a fee for the Option, ARL and IOT paid to Gotham an initial option fee of \$5,576,700 (\$3 per share) at the time of execution of the Option and were obligated to pay Gotham on or before December 15, 2000, the remaining portion of the option fee of \$2,788,350 (\$1.50 per share), which was not paid but became an obligation payable at the time of exercise of such Option. On October 19, 2000, IOT assigned all of its right, title and interest in and to the Option to ARL. On April 4, 2001, ARL gave notice of exercise of the Option in accordance with the terms of the Option and paid to Gotham in cash the balance of the option fee of \$2,788,350; within three business days thereafter, Gotham delivered the 1,858,900 shares of TCI common stock to a brokerage account of EQK Holdings, Inc. ("EQK Holdings") and ARL paid the full exercise price of \$22,306,800 into the brokerage account of EQK Holdings which was then paid to Gotham. These 1,858,900 shares of TCI common stock are currently owned by EQK Holdings, an indirect, wholly-owned subsidiary of ARL.

Except as set forth above, there were no other purchases by ARL, IOT, TCI or BCM of any shares of TCI common stock during the past two years that were reported in documents filed with the SEC.

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PURCHASES OF IOT COMMON STOCK

The following sets forth for each quarter during 2000: (a) the amount of IOT common stock purchased by BCM, (b) the range of prices paid by BCM, and (c) the average purchase price paid by BCM, based on information obtained from documents filed with the SEC.

QUARTER	NUMBER OF SHARES PURCHASED	RANGE OF PRICES PAID	AVERAGE PURCHASE PRICE
First	None	--	--
Second	6,700	\$6.63 to \$6.50	\$6.57
Third	None	--	--
Fourth	None	--	--

Except as set forth above, there were no other purchases by ARL, IOT, TCI or BCM of any shares of IOT common stock during the past two years that were reported in documents filed with the SEC.

ARRANGEMENTS RELATING TO TCI COMMON STOCK AND IOT COMMON STOCK

Pursuant to the Option discussed above, Gotham agreed to a "standstill" for a period of two years from the date of the Option and agreed not to purchase directly or indirectly any security issued by ARL, TCI or IOT, provided, however, the standstill was to terminate if the additional option fee was not made or paid on or before December 15, 2000, or if the Option was not exercised prior to April 4, 2001. Such Option was exercised prior to April 4, 2001, and the additional option fee was paid. Gotham had also executed a proxy covering the shares of TCI common stock that was subject to the Option (a total of 1,858,900 shares) in favor of ARL to attend to the Annual Meeting of Stockholders of TCI on October 10, 2000, to represent, vote, execute consents and otherwise act for Gotham only in approving the four proposals set forth in TCI's Proxy Statement for such Annual Meeting dated December 11, 2000.

BCM has pledged 920,507 shares of TCI common stock to Sunset Management, LLC pursuant to a loan agreement with such lender. BCM has also pledged 36,689 shares of TCI common stock to Dynamic Finance Corporation as collateral for a guaranty of indebtedness of an affiliate of BCM under a loan agreement with such lender. The remaining 209,751 shares of TCI common stock directly owned by BCM may be deemed to be "collateral" for borrowings pursuant to margin or other account arrangements with bankers and brokerage firms relating to accounts of BCM. Such arrangements are standard arrangements involving margin securities of up to a specified percentage of the market value of the shares and bear interest at varying rates and contain only standard default and similar provisions, the operation of any of which should not give any other person immediate voting power or investment power over such securities. Such arrangements exist with the shares of TCI common stock and other securities held in such accounts, and it is impracticable at any given time to determine the amounts, if any, with respect to the shares of TCI common stock and interest costs under such arrangements.

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vary with applicable costs and account balances.

EQK Holdings has pledged 2,601,798 shares of TCI common stock to Sunset Management, LLC pursuant to a loan agreement with such lender. EQK Holdings has also pledged 843,111 shares of TCI common stock to Dynamic Finance Corporation as collateral for

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indebtedness under a loan agreement with such lender. EQK Holdings has also pledged 249,191 shares of TCI common stock to Preferred Bank as collateral for a guaranty of indebtedness of ART under a loan agreement with such lender. The remaining 300,000 shares of TCI common stock owned directly by EQK Holdings may be deemed to be "collateral" for borrowings pursuant to margin or other account arrangements with bankers and brokerage firms relating to accounts of EQK Holdings. Such arrangements are standard arrangements involving margin securities of up to a specified percentage of market value of the shares and bear interest at varying rates and contain only standard default and similar provisions, the operation of any of which should not give any other person immediate voting power or investment power over such securities. Such arrangements exist with the shares of TCI common stock and other securities held in such accounts, and it is impracticable at any given time to determine the amounts, if any, with respect to the shares of TCI common stock and interest costs under such arrangements may vary with applicable costs and account balances.

EQK Holdings has pledged 250,000 shares of IOT common stock to Beal Bank as additional collateral. An additional 153,400 shares of IOT common stock owned by EQK Holdings and 106,802 shares of IOT common stock owned by BCM may be deemed to be "collateral" for borrowings pursuant to margin or other account arrangements with bankers and brokerage firms relating to accounts of EQK Holdings and BCM, respectively. Such arrangements are standard arrangements involving margin securities of up to a specified percentage of the market value of the shares and bear interest at varying rates and contain only standard default and similar provisions, the operation of any of which should not give any person immediate voting power or investment power over such securities. Such arrangements exist with the shares of IOT common stock and other securities held in such accounts and it is impracticable at any time to determine the amounts, if any, with respect to these shares of IOT common stock and interest costs under such arrangements vary with applicable costs and account balances.

All 345,728 shares of IOT common stock owned by TCI are located at a brokerage firm in a cash account (not margin account), and do not serve as "collateral" for any borrowings pursuant to any margin account arrangement or otherwise.

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INFORMATION ABOUT ARL

BUSINESS OF ARL

ARL, a Nevada corporation, is the successor through merger to American Realty Trust, Inc. ("ART"), a Georgia corporation and National Realty, L.P. ("NRLP"), a Delaware partnership.

ARL files annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any document filed by ARL at the SEC's public reference room in Washington, D.C. The public reference room at the SEC's office in Washington, D.C. is located at 450 Fifth Street, N.W. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. ARL's SEC filings are also available to the public from commercial document retrieval services and at the web site maintained by the SEC at "<http://www.sec.gov>." In addition, because the common stock of ARL is listed on the NYSE, reports and other information concerning ARL (symbol: "ARL") can also be inspected at the office of the NYSE, Inc., 20 Broad Street, New York, New York 10005.

On November 3, 1999, ART and NRLP jointly announced the agreement of their respective boards to combine, in a tax-free exchange, under a new company, ARL. Prior to December 31, 1998, ART accounted for its investment in NRLP under the equity method. As of December 31, 1998, upon the election of a wholly-owned subsidiary of ART as general partner of NRLP, ART began consolidation of NRLP's accounts at that date and consolidation of its operations subsequent to that date.

The merger transaction was closed on August 2, 2000. NRLP unitholders, except for ART, received one share of ARL common stock for each unit of NRLP held. ART stockholders received .91 shares of ARL common stock for each share of ART common stock held. Each share of ART preferred stock was converted into one share of preferred stock of ARL, having substantially the same rights as ART's preferred stock. The ART shares of common stock ceased trading on the New York Stock Exchange on August 2, 2000. ARL common stock commenced trading on the New York Stock Exchange on August 3, 2000. For financial reporting purposes, the merger is treated as the purchase of NRLP by ART; accordingly, the historical information presented for ARL is that of ART.

On October 23, 2001, ARL, TCI, and IOT jointly announced a preliminary agreement with Settlement Counsel of the derivative action entitled Olive et al. v. National Income Realty Trust, et al. for complete settlement of all disputes in the lawsuit. In February 2002, the court granted final approval of the proposed settlement. Under the proposal, ARL would acquire all of the outstanding shares of IOT and TCI not currently owned by ARL for a cash payment or shares of ARL preferred stock. ARL will pay \$17.50 cash per TCI share and \$19.00 cash per IOT share for the stock held by nonaffiliated stockholders. ARL will issue one share of Series G redeemable convertible preferred stock with a liquidation value of \$20.00 per share for each share of TCI common stock for stockholders who affirmatively elect to receive ARL Preferred Stock in lieu of cash. ARL will issue one share of Series H redeemable convertible preferred stock with a liquidation value of \$21.50 per share for each share of IOT common stock for stockholders who affirmatively elect to receive ARL preferred stock in lieu of cash. All

affiliated stockholders will receive ARL preferred stock. Each share of Series G

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redeemable convertible preferred stock will be convertible into 2.5 shares of ARL common stock, and each share of Series H redeemable convertible preferred stock will be convertible into 2.25 shares of ARL common stock during a 75-day period that commences fifteen days after the date of the first ARL Form 10-Q filing that occurs after the closing of the merger transaction. Upon the acquisition of IOT and TCI shares, TCI and IOT would become wholly-owned subsidiaries of ARL. The transaction is subject to the execution of a definitive merger agreement and a vote of the stockholders of all three entities. ARL has the same advisor as TCI and IOT, and TCI and IOT have the same board of directors.

BUSINESS PLAN AND INVESTMENT POLICY

ARL's primary business is investing in equity interests in real estate (including equity securities of real estate-related entities), leases, joint venture development projects and partnerships and, to a lesser extent, financing real estate and real estate activities through investments in mortgage loans, including first, wraparound and junior mortgage loans. Information regarding the real estate and mortgage notes receivable portfolios of ARL is set forth in "Properties" and in Schedules III and IV to the ARL consolidated financial statements included elsewhere in this joint proxy statement and prospectus.

ARL, through its wholly owned subsidiary, Pizza World Supreme, Inc. ("PWSI"), operates and franchises pizza parlors featuring pizza delivery, carry-out and dine-in under the trademarks "Me-N-Ed's," "Slices" and "Angelo & Vito's" in California and Texas. The first Me-N-Ed's pizza parlor opened in 1962. At December 31, 2001, there were 59 pizza parlors in operation, consisting of 47 owned and 12 franchised pizza parlors. One of the owned pizza parlors was in Texas and the remainder were in California.

ARL's businesses are not seasonal. With regard to real estate investments, ARL is seeking both current income and capital appreciation. ARL's plan of operation is to continue, to the extent its liquidity permits, to make equity investments in income producing real estate such as hotels, apartments or commercial properties or equity securities of real estate-related entities. ARL also intends to continue to pursue higher risk, higher reward investments, such as improved and unimproved land where it can obtain financing of substantially all of a property's purchase price. ARL intends to seek selected dispositions of certain of its assets, in particular, selected income producing properties in stabilized markets and certain of its land holdings where the prices obtainable for such assets justify their disposition. ARL has determined that it will no longer actively seek to fund or purchase mortgage loans. However, it may, in selected instances, originate mortgage loans or it may provide purchase money financing in conjunction with a property sale. See "--Properties of ARL" and Schedules III and IV to the ARL consolidated financial statements included elsewhere in this joint proxy statement and prospectus.

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

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largely on the judgment of management as to changing investment opportunities and the level of risk associated with specific investments or types of investments. Management intends to attempt to maintain a real estate portfolio diversified by location and type of property.

In addition to its equity investments in real estate, ARL has also invested in private and open market purchases of the equity securities of IOT and TCI, both affiliates of ARL. See "--Properties of ARL --Investments in Real Estate Companies and Real Estate Partnerships."

MANAGEMENT OF THE COMPANY

Although the board of directors is directly responsible for managing the affairs of ARL and for setting the policies which guide it, its day-to-day operations are performed by BCM, a contractual advisor under the supervision of the board. The duties of BCM include, among other things, locating, investigating, evaluating and recommending real estate and mortgage note investment and sales opportunities, as well as financing and refinancing sources. BCM also serves as a consultant in connection with ARL's business plan and investment policy decisions made by the board. BCM is a company owned by a trust for the benefit of the children of Gene E. Phillips. Mr. Phillips serves as a representative of his children's trust, which owns BCM and, in such capacity, has substantial contact with the management of BCM and input with respect to its performance of advisory services to ARL. As of March 15, 2002, BCM owned 6,269,344 shares of ARL's common stock, approximately 55.1% of the shares then outstanding. BCM is more fully described in "The Advisor -- BCM." BCM has been providing advisory services to ARL since February 6, 1989. BCM also serves as advisor to IOT and TCI. The officers of ARL are also officers of IOT, TCI and BCM.

Affiliates of BCM have provided property management services to ARL. Currently, Triad Realty Services, Ltd. ("Triad"), an affiliate, and Carmel Realty, Inc. ("Carmel") provide such property management services. Triad and Carmel subcontract with other entities for property-level management services. The general partner of Triad is BCM. The limited partner of Triad is also a related party. Triad subcontracts the property-level management and leasing of 13 of ARL's commercial properties (shopping centers, office buildings and a merchandise mart) and eight of its hotels to Regis Realty, Inc. ("Regis"), also a related party. Regis is entitled to receive property and construction management fees and leasing commissions in accordance with the terms of its property-level management agreement with Triad. Carmel is a company owned by First Equity Properties, Inc., which is a company affiliated with BCM.

Regis is also entitled to receive real estate brokerage commissions in accordance with the terms of the Advisory Agreement as discussed in "The Advisor -- BCM."

ARL has no employees itself, but PWSI has 921 employees. Employees of BCM render services to ARL. See "The Advisor -- BCM."

COMPETITION

REAL ESTATE. The real estate business is highly competitive, and ARL competes with numerous entities engaged in real estate activities (including certain entities described in "Certain Relationships and Related Transactions of ARL, TCI and IOT--Related Party

Transactions"), some of which have greater financial resources than ARL. Management believes that success against such competition is dependent upon the geographic location of the property, the performance of property-level managers in areas such as marketing, collections and control of operating expenses, the amount of new construction in the area and the maintenance and appearance of the property. Additional competitive factors with respect to commercial properties are the ease of access to the property, the adequacy of related facilities, such as parking, and sensitivity to market conditions in setting rent levels. With respect to apartments, competition is also based upon the design and mix of the units and the ability to provide a community atmosphere for the tenants. With respect to hotels, competition is also based upon the market served, i.e., transient, commercial or group users. Management believes that beyond general economic circumstances and trends, the rate at which properties are renovated or the rate new properties are developed in the vicinity of each of ARL's properties, in particular its improved and unimproved land, are also competitive factors.

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

As described above and in "Certain Relationships and Related Transactions of ARL, TCI and IOT --Related Party Transactions," the officers of ARL also serve as officers of IOT and TCI, both of which are also advised by BCM, and both of which have business objectives similar to ARL's. ARL's officers and advisor owe fiduciary duties to both IOT and TCI as well as to ARL under applicable law. In determining whether a particular investment opportunity will be allocated to ARL, IOT or TCI, management and BCM consider the respective investment objectives of each and the appropriateness of a particular investment in light of the existing real estate and mortgage notes receivable portfolios of each. To the extent that any particular investment opportunity is appropriate to more than one of the entities, the investment opportunity will be allocated to the entity which has had funds available for investment for the longest period of time or, if appropriate, the investment may be shared among all or some of the entities.

In addition, also as described in "Certain Relationships and Related Transactions of ARL, TCI and IOT - Related Party Transactions," ARL also competes with entities which are affiliates of BCM having similar investment objectives in the purchasing, selling, leasing and financing of real estate and real estate-related investments. In resolving any potential conflicts of interest which may arise, BCM has informed ARL that it intends to continue to exercise its best judgment as to what is fair and reasonable under the circumstances in accordance with applicable law.

ARL is subject to all the risks incident to ownership and financing of real estate and interests therein, many of which relate to the general illiquidity of real estate investments. These risks include, but are not limited to, changes in general or local economic conditions, changes in interest rates and availability of permanent mortgage financing which may render the purchase, sale or refinancing of a property difficult or unattractive and which may make debt service burdensome, changes in real estate and zoning laws, increases in real estate taxes, federal or local economic or rent controls, floods, earthquakes, hurricanes and other acts of God and other factors beyond the control of management or BCM. The illiquidity of real estate investments

may also impair the ability of management to respond promptly to changing circumstances. Management believes that such risks are partially mitigated by the diversification by geographic region and property type of ARL's real estate and mortgage notes receivable portfolios. However, to the extent that property sales, new property investments, in particular improved and unimproved land, or mortgage lending are concentrated in any particular region the advantages of geographic diversification are mitigated.

Virtually all of ARL's real estate, equity security holdings in IOT and TCI and its trading portfolio of equity securities are held subject to secured indebtedness. Such borrowings increase the risk of loss because they represent a prior claim on ARL's assets and require fixed payments regardless of profitability. In the event of default, the lender may foreclose on the assets securing such indebtedness, and ARL could lose its investment in the pledged assets.

PIZZA PARLORS. The pizza parlor business is highly competitive and is affected by changes in consumer tastes and eating habits, as well as national, regional and local economic conditions, and demographic trends. The performance of an individual pizza parlor can be affected by changes in traffic patterns, demographics, and the type, number and location of competing restaurants.

The quick-service restaurant industry is extremely competitive with respect to price, service, location and food quality. PWSI and its franchisees compete with a variety of other restaurants in the quick-service restaurant industry, including those that offer dine-in, carry-out and delivery services. These competitors include national and regional chains, franchisees of other restaurant chains and local owner-operated restaurants. Some of these competitors have been in existence longer and have an established market presence in certain geographic regions, and some have substantially greater financial, marketing and other resources than PWSI and its franchisees. PWSI competes for qualified franchisees with many other restaurant concepts, including national and regional restaurant chains.

PWSI's success is largely dependent upon the efforts of its management and other key personnel. The loss of the service of one or more members of management could have an adverse effect on PWSI's operations. Significant transitions in management involve important risks, including potential loss of key personnel, difficulties in implementing changes to operational strategies and maintaining relationships with franchisees.

The typical PWSI franchise agreement establishes the rights and relationship between the franchisor and franchisee, and outlines the standards, specifications and operating procedures that franchisees are expected to follow. The term of the franchise agreement is typically limited; however, the typical franchise agreement provides that the agreement can be renewed at the option of the franchisee. Assignment or transfer of a franchise agreement is generally permitted only in limited circumstances.

Franchisees enjoy protected territories under typical franchise agreements, in which no other related pizza franchise can be maintained by the franchisor. The typical franchise agreement also contains non-competition clauses, or covenants not to compete, which prevent a franchisee or its owners from owning or operating a similar business within a specific geographical area of the pizza parlor. A franchisee who wishes to sell a pizza parlor, or its

interest in a pizza parlor, must, under the typical franchise agreement, give the franchisor the right of first refusal.

The typical franchise agreement terminates at the sole discretion of the franchisor if, for example, the franchisee fails to obtain an on-sale beer and wine license for the pizza parlor, the franchisee fails to open the pizza parlor within a specified period of time, or the franchisee fails to complete or achieve a passing grade in the customary training course concerning operation of a pizza parlor. The franchisor also has the right to terminate the typical franchise agreement and the franchise, effective upon delivery of notice of termination to the franchisee, in certain circumstances. Such circumstances include, but are not limited to (i) making material misrepresentations or untrue or inaccurate representations of information, (ii) the bankruptcy or insolvency of the franchisee or any of its owners, (iii) felony conviction or other crime or misconduct by the franchisee or any of its owners, which substantially impairs the goodwill associated with the proprietary nature of the franchisor's business and (iv) generally, the failure of the franchisee to comply with the provisions of the franchise agreement.

The typical franchise agreement provides for the payment of certain fees and expenses by a franchisee to the franchisor, including, but not limited to (i) an initial franchise fee for opening a new pizza parlor, payable upon the execution of the franchise agreement, (ii) an initial advertising fee, payable upon execution of the franchise agreement, (iii) royalty fees consisting of a percentage of the adjusted gross sales generated monthly by the pizza parlor, (iv) periodic advertising fees consisting of a percentage of the adjusted gross sales generated monthly by the pizza parlor, (v) expenses incurred by the franchisor in connection with the renewal of the franchise agreement, and (vi) charges incurred by late payment of any fees, expenses or charges owed by the franchisee to the franchisor.

At December 31, 2001, PWSI owned and operated 47 and franchised 12 pizza parlors. The results achieved by PWSI's relatively small pizza parlor base may not be indicative of the results of a larger number of pizza parlors in a more geographically dispersed area. Because of PWSI's relatively small pizza parlor base, an unsuccessful pizza parlor has a more significant effect on PWSI's results of operations than would be the case in a company owning more pizza parlors.

PWSI's existing pizza parlors, both owned and franchised, are located in California or Texas. At December 31, 2001, there were 54 pizza parlors in California and five in Texas. Accordingly, PWSI's results of operations may be affected by economic or other conditions in those regions. Also, given PWSI's present geographic concentration, publicity relating to PWSI's pizza parlors could have a more pronounced effect on PWSI's overall sales than might be the case if PWSI's pizza parlors were geographically dispersed.

All of PWSI's owned pizza parlors are operated on premises leased from third parties. Most of the pizza parlor leases provide for a minimum annual rent and additional rental payments if sales volumes exceed specified amounts. There can be no assurance that PWSI will be able to renew leases upon expiration or that the lease terms upon renewal will be as favorable as the current lease terms. In 2001, PWSI added three new company-owned stores and sold two company-owned stores to franchisees. In 2002, PWSI plans to construct and open four new company-owned stores.

PROPERTIES OF ARL

ARL's principal offices are located at 1800 Valley View Lane, Suite 300, Dallas, Texas 75234 and are, in the opinion of management, suitable and adequate for ARL's present operations.

Details of ARL's real estate and mortgage notes receivable portfolios at December 31, 2001, are set forth in Schedules III and IV, respectively, to the ARL consolidated financial statements included elsewhere in this joint proxy statement and prospectus. The discussions set forth below under the headings "-- Real Estate" and "-- Mortgage Loans" provide certain summary information concerning ARL's real estate and mortgage notes receivable portfolios.

At December 31, 2001, no single asset accounted for 10% or more of total assets. At December 31, 2001, 78% of ARL's assets consisted of real estate, 4% consisted of notes and interest receivable, 10% consisted of investments in equity investees, including IOT and TCI, and 3% consisted of pizza parlor equipment and related goodwill. The remaining 5% of ARL's assets were leasehold interests in oil and gas properties, cash, cash equivalents, marketable equity securities and other assets. The percentage of assets invested in any one category is subject to change and no assurance can be given that the composition of ARL's assets in the future will approximate the percentages listed above.

ARL's real estate is geographically diverse. At December 31, 2001, ARL's real estate was located in all geographic regions of the continental United States, other than the Northeast region, as shown more specifically in the table under "-- Real Estate" below. ARL also holds mortgage notes receivable secured by real estate located in the Southeast, Southwest, Pacific and Midwest regions of the continental United States. See Schedule IV to the ARL consolidated financial statements included elsewhere in this joint proxy statement and prospectus for a detailed description of ARL's notes receivable portfolio.

GEOGRAPHIC REGIONS

Northeast region comprised of the states of Connecticut, Delaware, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont, and the District of Columbia. ARL has no properties in this region.

Southeast region comprised of the states of Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee and Virginia. ARL has 34 apartments, 3 commercial properties and 2 hotels in this region.

Southwest region comprised of the states of Arizona, Arkansas, Louisiana, New Mexico, Oklahoma and Texas. ARL has 11 apartments and 8 commercial properties in this region.

Midwest region comprised of the states of Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, West Virginia and Wisconsin. ARL has 7 apartments, 2 commercial properties and 1 hotel in this region.

Mountain region comprised of the states of Colorado, Idaho, Montana, Nevada, Utah and Wyoming. ARL has 2 commercial properties and 1 hotel in this region.

Pacific region comprised of the states of Alaska, California, Hawaii, Oregon and Washington. ARL has 2 commercial properties and 4 hotels in this region.

Excluded from the above are 54 parcels of improved and unimproved land, a hotel in Sofia, Bulgaria and a single family residence, as described below.

REAL ESTATE

At December 31, 2001, 88% of ARL's assets were invested in real estate and the equity securities of IOT and TCI. ARL invests in real estate located throughout the continental United States, either on a leveraged or nonleveraged basis. ARL's real estate portfolio consists of properties held for investment, investments in partnerships, properties held for sale and investments in equity securities of IOT and TCI.

TYPES OF REAL ESTATE INVESTMENTS. ARL's real estate consists of apartments, commercial properties (office buildings, shopping centers and a merchandise mart), hotels and improved and unimproved land. In selecting real estate for investment, the location, age and type of property, gross rents, lease terms, financial and business standing of tenants, operating expenses, fixed charges, land values and physical condition are among the factors considered. Properties may be purchased subject to debt, or existing debt may be assumed and properties may be mortgaged, pledged or otherwise collateralized to obtain financing. The board of directors may alter the types of and criteria for selecting new real estate investments and for obtaining financing without a vote of stockholders.

Although ARL has typically invested in developed real estate, it may also invest in new construction or development either directly or in partnership with nonaffiliated parties or affiliates (subject to approval by the board of directors). To the extent that it invests in construction and development projects, such as Four Hickory Centre described below, ARL is subject to business risks, such as cost overruns and construction delays, associated with such higher risk projects. Also at December 31, 2001, ARL had under construction Oaks of Vista Ridge, a 288 unit apartment complex in Lewisville, Texas and Vista Lago, a 206 unit apartment complex in Farmers Branch, Texas.

In the opinion of management, the properties owned by ARL are adequately covered by insurance.

The following table sets forth the percentages, by property type and geographic region, of owned real estate (excluding 54 parcels of improved and unimproved land, a hotel in Sofia, Bulgaria and a single family residence, described below) at December 31, 2001.

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Region	Apartments	Commercial Properties	Hotels
Midwest.....	17%	16%	14%
Mountain.....	--	30	11
Pacific.....	--	8	46
Southeast.....	53	11	29
Southwest.....	30	35	--
	-----	-----	-----
	100%	100%	100%
	-----	-----	-----

The foregoing table is based solely on the number of apartment units, amount of commercial square footage and number of hotel rooms owned and does not reflect the value of ARL's investment in each region. See Schedule III to the ARL consolidated financial statements included elsewhere in this joint proxy statement and prospectus for a detailed description of owned real estate.

Excluded from the table above are a 136 room hotel in Sofia, Bulgaria, a single family residence in Dallas, Texas and 54 parcels of improved and unimproved land consisting of: a 44.4 acre land parcel in Las Colinas, Texas; six parcels of land in Dallas County, Texas, totaling 391.8 acres; four parcels of land in Irving, Texas, totaling 278.5 acres; an 82.4 acre land parcel in Oceanside, California; four parcels of land in Tarrant County, Texas, totaling 129.8 acres; a 130.6 acre land parcel in Harris County, Texas; four parcels of land in Collin County, Texas, totaling 42.1 acres; 12 parcels of land in Farmers Branch, Texas, totaling 136.4 acres; two parcels of land in Plano, Texas, totaling 40.7 acres; a 1,070.9 acre land parcel in Austin, Texas; three parcels of land in Palm Desert, California, totaling 775.8 acres; a 63.3 acre land parcel in Travis County, Texas; a 171.7 acre parcel of land in Houston, Texas; a 54.2 acre land parcel in Fort Worth, Texas; a 99.1 acre land parcel in Lewisville, Texas; a 7.6 acre land parcel in Carrollton, Texas; a 131.3 acre land parcel in Nashville, Tennessee; three parcels of land in Riverside, California, totaling 1,677.8 acres; a 150.8 acre parcel of land in Denton County, Texas; and five additional land parcels totaling approximately 84.0 acres. See Schedule III to the ARL consolidated financial statements included elsewhere in this joint proxy statement and prospectus for a detailed description of ARL's real estate portfolio.

A summary of the activity in the owned real estate portfolio during 2001 is as follows:

Owned properties at January 1, 2001.....	15
Property obtained in exchange for land.....	
Properties under construction.....	
Properties sold (excluding partial sales).....	(2)

Owned properties at December 31, 2001.....	13
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PROPERTIES HELD FOR INVESTMENT. Set forth below are the properties held for investment and the monthly rental rate for apartments and the average annual rental rate for commercial properties and the average daily room rate and room revenue divided by total available rooms for hotels and occupancy at December 31, 2001, 2000 and 1999 for apartments and commercial properties and average occupancy during 2001, 2000 and 1999 for hotels:

PROPERTY -----	LOCATION -----	UNITS/SQUARE FOOTAGE -----	2001 -----
APARTMENTS			
Arlington Place	Pasadena, TX	230 Units/205,476 Sq. Ft.	\$.73
Bay Anchor	Panama City, FL	12 Units/10,700 Sq. Ft.	.55
Bridgestone	Friendswood, TX	76 Units/65,519 Sq. Ft.	.71
Chateau	Bellevue, NE	115 Units/99,220 Sq. Ft.	.71
Chateau Bayou	Ocean Springs, MS	122 Units/105,536 Sq. Ft.	.67
Confederate Point	Jacksonville, FL	206 Units/277,860 Sq. Ft.	.61
Conradi House	Tallahassee, FL	98 Units/49,900 Sq. Ft.	.79
Daluce	Tallahassee, FL	112 Units/95,432 Sq. Ft.	.63
Falcon House	Ft. Walton, FL	82 Units/71,220 Sq. Ft.	.64
Foxwood	Memphis, TN	220 Units/212,000 Sq. Ft.	.58
Georgetown	Panama City, FL	44 Units/36,160 Sq. Ft.	.65
Governor Square	Tallahassee, FL	168 Units/146,550 Sq. Ft.	.65
Grand Lagoon	Panama City, FL	54 Units/47,460 Sq. Ft.	.76
Greenbriar	Tallahassee, FL	50 Units/36,600 Sq. Ft.	.77
La Mirada	Jacksonville, FL	320 Units/341,400 Sq. Ft.	.56
Lake Chateau	Thomasville, GA	98 Units/65,800 Sq. Ft.	.59
Lake Shore Villas	Harris County, TX	312 Units/259,176 Sq. Ft.	.89
Landings/Marina	Pensacola, FL	52 Units/34,464 Sq. Ft.	.72
Lee Hills	Tallahassee, FL	16 Units/14,720 Sq. Ft.	.57
Mallard Lake	Greensboro, NC	336 Units/295,560 Sq. Ft.	.65
Mediterranean Villas	San Antonio, TX	140 Units/158,960 Sq. Ft.	.55
Morning Star	Tallahassee, FL	82 Units/41,000 Sq. Ft.	.85
Northside Villas	Tallahassee, FL	81 Units/134,000 Sq. Ft.	.63
Oak Hill	Tallahassee, FL	92 Units/81,240 Sq. Ft.	.64
Oak Tree	Grandview, MO	189 Units/160,591 Sq. Ft.	.65
Oaks of Vista Ridge	Lewisville, TX	288 Units/238,176 Sq. Ft.	**
Park Avenue	Tallahassee, FL	121 Units/78,979 Sq. Ft.	.87
Pheasant Ridge	Bellevue, NE	264 Units/243,960 Sq. Ft.	.67
Pinecrest	Tallahassee, FL	48 Units/46,400 Sq. Ft.	.61
Quail Point	Huntsville, AL	184 Units/202,602 Sq. Ft.	.47
Regency	Lincoln, NE	106 Units/111,700 Sq. Ft.	.63
Regency	Tampa, FL	78 Units/55,810 Sq. Ft.	.91
Rolling Hills	Tallahassee, FL	134 Units/115,730 Sq. Ft.	.66
Seville	Tallahassee, FL	62 Units/63,360 Sq. Ft.	.59
Stonebridge	Florissant, MO	100 Units/140,576 Sq. Ft.	.50
Stonegate	Tallahassee, FL	83 Units/34,900 Sq. Ft.	.83
Sun Hollow	El Paso, TX	216 Units/156,000 Sq. Ft.	.71
Sunset	Odessa, TX	240 Units/160,400 Sq. Ft.	.45
Valley Hi	Tallahassee, FL	54 Units/27,800 Sq. Ft.	.82
Villa Del Mar	Wichita, KS	162 Units/128,004 Sq. Ft.	.62
Villager	Ft. Walton, FL	33 Units/22,840 Sq. Ft.	.76

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Villas	Plano, TX	208 Units/156,632 Sq. Ft.	.91
Vista Lago	Farmers Branch, TX	206 Units/175,100 Sq. Ft.	**
Waters Edge III	Gulfport, MS	238 Units/212,216 Sq. Ft.	.63
Westwood	Mary Ester, FL	120 Units/93,000 Sq. Ft.	.71
Westwood Parc	Tallahassee, FL	94 Units/55,950 Sq. Ft.	.77
White Pines	Tallahassee, FL	85 Units/17,000 Sq. Ft.	.54
Whispering Pines	Topeka, KS	320 Units/299,264 Sq. Ft.	.83
Windsor Tower	Ocala, FL	64 Units/66,000 Sq. Ft.	.54
Woodhollow	San Antonio, TX	546 Units/348,692 Sq. Ft.	.67
Woodlake	Carrollton, TX	256 Units/210,208 Sq. Ft.	.84
Woodsong II	Smyrna, GA	190 Units/207,460 Sq. Ft.	.64
OFFICE BUILDINGS			
56 Expressway	Oklahoma City, OK	54,649 Sq. Ft.	11.47
Centura	Farmers Branch, TX	410,901 Sq. Ft.	24.91
Cooley Building	Farmers Branch, TX	27,000 Sq. Ft.	11.69

PROPERTY -----	OCCUPANCY % -----		
	2001 ----	2000 ----	1999 ----
APARTMENTS			
Arlington Place	97	93	98
Bay Anchor	100	100	97
Bridgestone	93	99	91
Chateau	94	97	96
Chateau Bayou	97	89	99
Confederate Point	98	96	94
Conradi House	100	98	96
Daluce	95	96	93
Falcon House	100	95	92
Foxwood	91	90	81
Georgetown	93	100	94
Governor Square	95	95	95
Grand Lagoon	96	93	94
Greenbriar	90	98	100
La Mirada	87	88	94
Lake Chateau	81	95	95
Lake Shore Villas	96	*	*
Landings/Marina	94	92	96
Lee Hills	81	94	92
Mallard Lake	90	97	93
Mediterranean Villas	89	96	96
Morning Star	100	99	95
Northside Villas	93	97	94
Oak Hill	98	95	96
Oak Tree	91	89	95
Oaks of Vista Ridge	**	**	**
Park Avenue	94	98	97
Pheasant Ridge	90	94	94
Pinecrest	100	100	94
Quail Point	89	90	90
Regency	96	93	88
Regency	89	97	97
Rolling Hills	97	96	99
Seville	95	97	100

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Stonebridge	99	97	94
Stonegate	100	99	95
Sun Hollow	84	97	94
Sunset	88	85	96
Valley Hi	98	98	92
Villa Del Mar	91	91	85
Villager	94	91	94
Villas	94	94	96
Vista Lago	**	**	**
Waters Edge III	90	92	97
Westwood	88	93	94
Westwood Parc	93	99	99
White Pines	90	93	95
Whispering Pines	94	97	94
Windsor Tower	94	98	100
Woodhollow	96	89	76
Woodlake	94	99	96
Woodsong II	93	97	96
OFFICE BUILDINGS			
56 Expressway	66	77	23
Centura	48	31	*
Cooley Building	69	100	100

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PROPERTY -----	LOCATION -----	UNITS/SQUARE FOOTAGE -----	2001 ----
Encino Executive Plaza	Encino, CA	177,211 Sq. Ft.	26.98
Executive Court	Memphis, TN	41,840 Sq. Ft.	11.06
Four Hickory Centre	Farmers Branch, TX	221,000 Sq. Ft.	**
Melrose Business Park	Oklahoma City, OK	124,200 Sq. Ft.	3.57
One Hickory Centre	Farmers Branch, TX	102,615 Sq. Ft.	18.95
Rosedale Towers	Minneapolis, MN	84,798 Sq. Ft.	17.37
Two Hickory Centre	Farmers Branch, TX	96,127 Sq. Ft.	20.89
University Square	Anchorage, AK	22,260 Sq. Ft.	14.73
SHOPPING CENTERS			
Collection	Denver, CO	267,812 Sq. Ft.	10.43
Cross County Mall	Mattoon, IL	304,575 Sq. Ft.	5.24
Cullman	Cullman, AL	92,466 Sq. Ft.	3.38
Oaktree Village	Lubbock, TX	45,623 Sq. Ft.	9.23
Westwood	Tallahassee, FL	149,855 Sq. Ft.	6.87
MERCHANDISE MART			
Denver Mart	Denver, CO	509,008 Sq. Ft.	11.20
SINGLE FAMILY RESIDENCE			
Tavel Circle	Dallas, TX	2,271 Sq. Ft.	--

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PROPERTY -----	OCCUPANCY % -----		
	2001 ----	2000 ----	1999 ----
Encino Executive Plaza	65	78	90
Executive Court	73	100	100
Four Hickory Centre	**	**	**
Melrose Business Park	78	74	86
One Hickory Centre	99	72	*
Rosedale Towers	95	86	92
Two Hickory Centre	75	33	25
University Square	100	97	97
SHOPPING CENTERS			
Collection	88	96	99
Cross County Mall	93	94	93
Cullman	98	98	98
Oaktree Village	89	79	76
Westwood	97	93	100
MERCHANDISE MART			
Denver Mart	92	90	92
SINGLE FAMILY RESIDENCE			
Tavel Circle	--	--	--

PROPERTY -----	LOCATION -----	ROOMS -----	AVERAGE ROOM RATE -----		
			2001 ----	2000 ----	1999 ----
HOTELS					
Best Western	Virginia Beach, VA	110 Rooms	\$ 108.20	\$ 103.94	\$ 94.
Grand Hotel Sofia	Sofia, Bulgaria	136 Rooms	106.97	*	
Holiday Inn	Kansas City, MO	196 Rooms	73.58	70.67	64.
Piccadilly Airport	Fresno, CA	185 Rooms	70.87	70.22	69.
Piccadilly Chateau	Fresno, CA	78 Rooms	57.29	56.38	57.
Piccadilly Shaw	Fresno, CA	194 Rooms	73.12	70.96	71.
Piccadilly University	Fresno, CA	190 Rooms	65.18	67.11	68.
Quality Inn	Denver, CO	161 Rooms	53.75	52.83	55.
Williamsburg Hospitality House	Williamsburg, VA	296 Rooms	99.04	93.28	88.

PROPERTY -----	TOTAL ROOM REVENUE DIVIDED BY TOTAL AVAILABLE ROOMS -----		
	2001 ----	2000 ----	1999 ----
HOTELS			

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Best Western	\$ 57.83	\$ 62.29	\$ 57.96
Grand Hotel Sofia	60.85	*	*
Holiday Inn	48.01	51.18	52.02
Piccadilly Airport	42.04	42.87	41.02
Piccadilly Chateau	34.07	32.64	32.17
Piccadilly Shaw	50.84	49.07	45.36
Piccadilly University	40.38	36.83	34.02
Quality Inn	35.75	36.30	34.45
Williamsburg Hospitality House	51.88	55.71	51.58

*Property was purchased or constructed in 2000 or 2001.

**Property was under construction in 2001.

Occupancy presented above and throughout this Section is without reference to whether leases in effect are at, below or above market rates.

In 2001, ARL purchased the following property:

PROPERTY	LOCATION	UNITS	PURCHASE PRICE	NET CASH PAID	DEBT INCURRED
APARTMENTS					
Glenwood	Addison, TX	168 Units	\$ 6,246	\$ -- (1)	\$ 2,549 (2)

(1) 8.88 acres of Hollywood Casino land and 10.5 acres of Vista Ridge land given as consideration. Exchanged with TCI, a related party.

(2) Assumed debt of seller. Exchanged with TCI, a related party.

In 2001, ARL sold the following properties:

PROPERTY	LOCATION	UNITS/SQ.FT./ACRES	SALES PRICE	NET CASH RECEIVED	D
APARTMENTS					
Ashford	Tampa, FL	56 Units	\$ 2,145	\$ 593	\$
Bent Tree	Addison, TX	292 Units	12,050	2,480	
Blackhawk	Ft. Wayne, IN	209 Units	7,100	904	

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PROPERTY	LOCATION	UNITS/SQ.FT./ACRES	SALES PRICE	NET CASH RECEIVED
Carriage Park	Tampa, FL	46 Units	2,005	757
Chalet I	Topeka, KS	162 Units	5,650	1,288
Chalet II	Topeka, KS	72 Units	2,100	485

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Club Mar	Sarasota, FL	248 Units	8,500	1,905
Covered Bridge	Gainesville, FL	176 Units	7,900	2,463
Crossing at Church	Tampa, FL	52 Units	1,880	750
Glenwood	Addison, TX	168 Units	6,650	3,166
Kimberly Woods	Tucson, AZ	279 Units	8,450	1,667
Nora Pines	Indianapolis, IN	254 Units	9,850	2,548
Place One	Tulsa, OK	407 Units	12,935	3,310
Rockborough	Denver, CO	345 Units	16,675	3,654
Shadowood	Addison, TX	184 Units	7,125	1,980
Timbercreek	Omaha, NE	180 Units	7,500	1,871
Woodstock	Dallas, TX	320 Units	9,600	3,877
SHOPPING CENTER				
Regency Pointe	Jacksonville, FL	67,410 Sq.Ft.	7,350	5,126
LAND				
Chase Oaks	Plano, TX	22.3 Acres	2,875	663
Chase Oaks	Plano, TX	4.9 Acres	1,973	1,832
Elm Fork	Denton County, TX	10.0 Acres	1,002	(30)
Elm Fork	Denton County, TX	107.0 Acres	5,600	(168)
Frisco Bridges	Collin County, TX	27.8 Acres	4,500	4,130
Katrina	Palm Desert, CA	20.0 Acres	2,831	(124)
Katrina	Palm Desert, CA	20.0 Acres	2,940	78
Katrina	Palm Desert, CA	6.1 Acres	1,196	1,108
Katrina	Palm Desert, CA	2.2 Acres	800	(24)
Katrina	Palm Desert, CA	1.4 Acres	284	(9)
Las Colinas	Las Colinas, TX	1.7 Acres	825	233
Mason/Goodrich	Houston, TX	22.1 Acres	4,168	(34)
Nashville	Nashville, TN	2.0 Acres	26	(1)
Nashville	Nashville, TN	1.2 Acres	8	--
Nashville	Nashville, TN	4.2 Acres	600	(53)
Plano Parkway	Plano, TX	11.3 Acres	1,445	312
Plano Parkway	Plano, TX	12.0 Acres	740	672
Razor	Plano, TX	6.6 Acres	350	267
Santa Clarita	Santa Clarita, CA	12.7 Acres	2,100	1,791
Santa Clarita	Santa Clarita, CA	6.7 Acres	500	608
Scoggins	Tarrant County, TX	232.8 Acres	2,913	892
Scout	Tarrant County, TX	408.0 Acres	5,087	1,586
Tree Farm	Dallas County, TX	10.4 Acres	2,888	(87)
Vista Ridge	Denton County, TX	27.4 Acres	871	(26)
Watersedge	Gulfport, MS	.4 Acres	80	78
Yorktown	Harris County, TX	120.4 Acres	5,239	(160)

- (1) Debt assumed by purchaser.
- (2) Gain of \$830 deferred until ARL-provided financing is collected.
- (3) Sold to TCI, a related party. Gain of \$65 deferred until sale to unrelated party.

In 2001, ARL financed/refinanced or obtained second mortgage financing on the following:

PROPERTY	LOCATION	UNITS/SQ.FT. ROOMS/ACRES	DEBT INCURRED	DEBT DISCHARGED	NET REVENUE
-----	-----	-----	-----	-----	-----
APARTMENTS					
Sun Hollow	El Paso, TX	216 Units	\$ -- (1)	\$ --	\$

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Waters Edge III	Gulfport, MS	238 Units	-- (1)	--
Woodlake	Carrollton, TX	256 Units	-- (1)	--
OFFICE BUILDING				
Centura Tower	Farmers Branch, TX	410,910 Sq.Ft.	28,739	28,384
Executive Court	Memphis, TN	41,840 Sq.Ft.	1,970	--
Four Hickory Centre	Farmers Branch, TX	221,000 Sq.Ft.	5,000	--
Rosedale Towers	Minneapolis, MN	84,798 Sq.Ft.	7,500 (1)	--

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PROPERTY	LOCATION	UNITS/SQ.FT. ROOMS/ACRES	DEBT INCURRED	DEBT DISCHARGED	NET RECE
-----	-----	-----	-----	-----	-----
SHOPPING CENTER					
Cross County	Mattoon, IL	307,174 Sq.Ft.	3,200	700	2,
Cullman	Cullman, AL	92,486 Sq.Ft.	-- (2)	129	
Sesame Square	Anchorage, AK	27,651 Sq.Ft.	800	--	
Westwood	Tallahassee, FL	149,244 Sq.Ft.	3,000	700	2,
HOTEL					
Williamsburg Hospitality House	Williamsburg, VA(3)	296 Rooms	10,309	--	9,
LAND					
Chase Oaks	Plano, TX	6.9 Acres	1,633	1,000	
Hollywood Casino	Farmers Branch, TX	51.7 Acres	2,500 (4)	--	1,
Jeffries Ranch	Oceanside, CA	82.4 Acres	5,250 (2)	750	3,
Katrina	Palm Desert, CA	300.5 Acres	22,000	15,584	4,
Marine Creek	Fort Worth, TX	54.2 Acres	1,500	750	
Mason/Goodrich	Houston, TX	235.0 Acres	6,750	--	6,
Mercer Crossing	Carrollton, TX	31.3 Acres	2,937	1,986	
Pioneer Crossing	Austin, TX	350.1 Acres	7,000	--	6,
Pioneer Crossing	Austin, TX	14.5 Acres	2,500	--	2,
Valwood	Dallas County, TX	19.4 Acres	-- (4)	--	
Varner Road	Riverside, CA	127.8 Acres	2,450	--	2,
Vista Ridge LI	Lewisville, TX	90.3 Acres	9,085	9,119	(1
Vista Ridge MF	Lewisville, TX	23.0 Acres	1,345	1,000	
Willow Springs	Riverside, CA	1,485.7 Acres	-- (2)	--	

- (4) Single note, with all properties as collateral.
- (5) Single note, with all properties as collateral.
- (6) Also secured by 1,846,000 shares of TCI Common Stock.
- (7) Single note, with all properties as collateral.
- (8) Variable interest rate.
- (9) Paid off in September 2001.
- (10) Extended to April 2002.

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(11) Extended to April 2002.

(12) In December 2001, TCI, a related party, purchased 100% of the outstanding common shares of National Melrose, Inc. ("NM"), a wholly-owned subsidiary of ARL, for \$2.0 million. NM owns the Executive Court Office Building. ARL has guaranteed that the asset will produce at least a 12% annual return on the purchase price for a period of three years from the purchase date. If the asset fails to produce the annual return, ARL will pay TCI any shortfall. In addition, if the asset fails to produce a 12% return for a calendar year, TCI may require ARL to repurchase the shares of NM for the purchase price. Management has classified this related party transaction as a note payable to TCI.

PROPERTIES HELD FOR SALE. Set forth below are the properties held for sale, consisting of improved and unimproved land:

PROPERTY -----	LOCATION -----
Bonneau	Dallas County, TX
Centura Holdings	Farmers Branch, TX
Chase Oaks	Plano, TX
Clark	Farmers Branch, TX
Croslin	Dallas County, TX
Dalho	Farmers Branch, TX
Desert Wells	Palm Desert, CA
Eldorado Parkway	Collin County, TX
Elm Fork	Denton County, TX
Frisco Bridges	Collin County, TX
FRWM Cummings	Farmers Branch, TX
Hollywood Casino	Farmers Branch, TX
HSM	Farmers Branch, TX
Jeffries Ranch	Oceanside, CA
JHL Connell	Carrollton, TX
Katrina	Palm Desert, CA
Katy Road	Harris County, TX
Keller	Tarrant County, TX
Kelly	Collin County, TX

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PROPERTY -----	LOCATION -----
Lacy Longhorn	Farmers Branch, TX
Las Colinas I	Las Colinas, TX
Leone	Irving, TX
Marine Creek	Fort Worth, TX
Mason/Goodrich	Houston, TX
McKinney Corners II	Collin County, TX
Mendoza	Dallas County, TX
Messick	Palm Desert, CA
Monterrey	Riverside, CA
Nashville	Nashville, TN

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Pioneer Crossing	Austin, TX
Rasor	Plano, TX
Scout	Tarrant County, TX
Sladek	Travis County, TX
Stagliano	Farmers Branch, TX
Thompson	Farmers Branch, TX
Thompson II	Dallas County, TX
Tomlin	Farmers Branch, TX
Valley Ranch	Irving, TX
Valley Ranch III	Irving, TX
Valley Ranch IV	Irving, TX
Valley View 34	Farmers Branch, TX
Valwood	Dallas County, TX
Varner Road	Riverside, CA
Vineyards	Tarrant County, TX
Vineyards II	Tarrant County, TX
Vista Ridge	Lewisville, TX
Walker	Dallas County, TX
Willow Springs	Riverside, CA
Woolley	Farmers Branch, TX
Other (5 properties)	Various

ARL FEDERAL TAX BASIS OF DEPRECIABLE PROPERTY AS OF DECEMBER 31, 2001

For each ARL property upon which depreciation is taken, the table set forth below includes (i) the Federal tax basis; (ii) rate, (iii) method and (iv) life claimed as of December 31, 2001.

PROPERTY	GROSS FEDERAL TAX BASIS	ACCUMULATED TAX DEPRECIATION	NET FEDERAL TAX BASIS	RATE	METHOD
APARTMENTS					
Arlington Place	\$5,136,331	\$865,067	\$4,271,264	100 %	
Bay Anchor	117,306	15,808	101,498	100	M
Bridgestone	1,970,565	331,652	1,638,913	100	
Chateau	2,844,370	337,786	2,506,584	100	
Chateau Bayou	2,364,187	229,042	2,135,145	100	
Confederate Point	6,697,547	1,086,080	5,611,467	100	
Conradi House	1,151,649	155,230	996,419	100	M
Daluce	2,622,734	353,506	2,269,228	100	M
Falcon House	1,967,301	259,304	1,707,997	100	M
Foxwood	4,950,375	853,921	4,096,454	100	
Georgetown	1,025,485	156,543	868,942	100	M
Governor Square	830,752	147,295	683,457	100	
Grand Lagoon	659,190	99,141	560,049	100	
Greenbriar	923,602	206,950	716,652	100	
La Mirada	8,857,528	1,576,027	7,281,501	100	
Lake Chateau	1,379,424	200,620	1,178,804	100	M
Lakeshore Villas	14,129,956	619,488	13,510,468	100	
Landings/Marina	1,255,751	185,117	1,070,634	100	M

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PROPERTY	GROSS FEDERAL TAX BASIS	ACCUMULATED TAX DEPRECIATION	NET FEDERAL TAX BASIS	RATE	METHOD (1)
Lee Hills	236,046	31,813	204,233	100	MACRS
Mallard Lake	13,485,915	2,133,760	11,352,155	100	ADS
Med Villas	2,847,706	275,886	2,571,820	100	ADS
Morning Star	1,348,597	177,692	1,170,905	100	MACRS
Northside Villas	3,758,551	506,795	3,251,756	100	MACRS
Oak Hill	2,107,213	283,890	1,823,323	100	MACRS
Oak Tree	4,490,117	760,612	3,729,505	100	ADS
Oaks at Vista Ridge**	-	-	-	100	ADS
Park Avenue	774,877	169,779	605,098	100	ADS
Pheasant Ridge	7,525,733	1,217,629	6,308,104	100	ADS
Pinecrest West	891,750	120,195	771,555	100	MACRS
Quail Point	4,304,220	819,277	3,484,943	100	ADS
Regency - NE	2,885,626	427,367	2,458,259	100	ADS
Regency - FL	1,784,436	496,641	1,287,795	100	ADS
Rolling Hills	3,057,516	493,268	2,564,248	100	MACRS
Seville	1,686,356	277,678	1,408,678	100	MACRS
Stonebridge	3,277,158	573,381	2,703,777	100	ADS
Stonegate	1,663,558	241,364	1,422,194	100	MACRS
Sun Hollow	5,152,743	997,072	4,155,671	100	ADS
Sunset	1,381,980	133,886	1,248,094	100	ADS
Valley Hi	833,613	138,976	694,637	100	MACRS
Villa Del Mar	3,225,142	533,725	2,691,417	100	ADS
Villager	1,106,359	160,353	946,006	100	MACRS
Villas	6,278,546	1,036,042	5,242,504	100	ADS
Vista Lago**	-	-	-	100	ADS
Waters Edge III	1,323,967	114,470	1,209,497	100	ADS
Westwood	1,897,454	253,362	1,644,092	100	ADS
Westwood Parc	1,483,208	195,500	1,287,708	100	MACRS
Whispering Pines	7,382,519	1,195,969	6,186,550	100	ADS
White Pines	673,341	90,723	582,618	100	MACRS
Windsor Tower	2,014,279	280,623	1,733,656	100	MACRS
Wood Hollow	8,632,523	1,999,434	6,633,089	100	ADS
Woodlake	8,935,473	1,633,781	7,301,692	100	ADS
Woodsong II	5,553,747	781,852	4,771,895	100	ADS
OFFICE BUILDINGS					
56 Expressway	3,560,831	1,025,583	2,535,248	100	ADS
Centura Tower	56,326,747	2,847,642	53,479,105	100	MACRS
Cooley Building	4,435,200	218,164	4,217,036	100	ADS
Encino	31,520,000	2,320,000	29,200,000	100	MACRS
Executive Court*	-	-	-	100	ADS
Melrose Business Park	2,680,791	565,449	2,115,342	100	ADS
One Hickory Center	11,199,591	562,341	10,637,250	100	ADS
Two Hickory Center	9,041,244	216,628	8,824,616	100	ADS
Four Hickory Center**	-	-	-	100	ADS
Rosedale Towers	5,159,244	1,673,231	3,486,013	100	ADS
University Square	2,733,833	785,430	1,948,403	100	ADS
SHOPPING CENTERS					

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PROPERTY	GROSS FEDERAL TAX BASIS	ACCUMULATED TAX DEPRECIATION	NET FEDERAL TAX BASIS	RATE
Collection	13,724,776	1,265,832	12,458,944	100
Cross County Mall	14,627,929	2,733,606	11,894,323	100
Cullman	2,473,588	351,922	2,121,666	100
Oaktree Shopping Village	1,608,873	222,414	1,386,459	100
Westwood	8,570,701	1,770,918	6,799,783	100
MERCHANDISE MART				
Denver Mart	22,653,797	3,823,165	18,830,632	100
HOTELS				
Best Western Hotel	5,233,153	4,156,553	1,076,600	100
AKC Holiday Inn	7,303,484	1,995,685	5,307,799	100
Piccadilly Airport	8,324,191	979,546	7,344,645	100
Piccadilly Chateau	3,946,863	446,984	3,499,879	100
Piccadilly Shaw	10,525,142	1,246,662	9,278,480	100
Piccadilly University	12,145,188	1,360,137	10,785,051	100
Quality Inn	964,516	313,206	651,310	100
Grand Hotel, Sofia	14,566,761	500,612	14,066,149	100
Williamsburg Hospitality House	18,184,618	2,578,840	15,605,778	100
SINGLE FAMILY RESIDENCE				
Tavel Circle	213,576	30,035	183,541	100
Total	442,608,959	60,221,957	382,387,002	

*Sold to TCI, treated as financing transaction for book, sale for tax.

**Property under construction, no depreciable assets in service.

(1)ADS = Alternative Depreciation System
MACRS = Modified Accelerated Cost Recovery System

MORTGAGE LOANS

In addition to real estate, a portion of ARL's assets are invested in mortgage notes receivable, secured by income-producing real estate, unimproved land and partnership interests. Management expects that the percentage of ARL's assets invested in mortgage loans will decline, as ARL will no longer seek to fund or acquire new mortgage loans. However, ARL may, in selected instances, originate mortgage loans or it may provide purchase money financing in conjunction with a property sale. Management intends to service and hold for investment the mortgage notes currently in the portfolio. Mortgage notes receivable consist of first mortgage loans.

TYPES OF PROPERTIES SUBJECT TO MORTGAGES. The types of properties securing mortgage notes receivable at December 31, 2001, consisted of apartments, a commercial building, unimproved land and partnership interests. The type of properties subject to mortgages in which ARL invests may be altered without a vote of stockholders.

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As of December 31, 2001, the obligors on \$25.9 million or 79% of the mortgage notes receivable portfolio were affiliates of ARL. Also at that date, \$10.3 million or 31% of the mortgage notes receivable portfolio was nonperforming.

The following table sets forth the percentages (based on the outstanding mortgage loan balance at December 31, 2001), by geographic region, of the commercial properties that serve as collateral for ARL's mortgage notes receivable. Excluded are \$26.1 million of mortgage notes secured by unimproved land and other security. See Schedule IV to the ARL consolidated financial statements included elsewhere in this joint proxy statement and prospectus for additional details of ARL's mortgage notes receivable portfolio.

REGION	COMMERCIAL PROPERTIES
Southwest	100.0% =====

A summary of the activity in the mortgage notes receivable portfolio during 2001 is as follows:

Mortgage notes receivable at January 1, 2001	11
Loans funded	5
Loans collected in full	(6)
Loans sold	--
	--
Mortgage notes receivable at December 31, 2001	10
	==

During 2001, \$1.8 million in interest and \$5.0 million in principal were collected on mortgage notes receivable.

FIRST MORTGAGE LOANS. These loans generally provide for level periodic payments of principal and interest sufficient to substantially repay the loan at or prior to maturity, but may involve interest-only payments or moderate or negative amortization of principal or all interest and a "balloon" principal payment at maturity. With respect to first mortgage loans, it is ARL's general policy to require that the borrower provide a title policy or an acceptable legal opinion of title as to the validity and the priority of ARL's mortgage lien over all other obligations, except liens arising from unpaid property taxes and other exceptions normally allowed by first mortgage lenders.

The following discussion briefly describes first mortgage loans funded in 2001, as well as events that affected previously funded first mortgage loans during 2001.

In July 2000, ARL sold a 749.1 acre tract of its Keller land parcel for \$10.0 million, receiving \$8.7 million in cash and providing purchase money financing of the remaining \$1.3 million of the sales price. The loan bore interest at 12.0% per annum. A payment of \$500,000 principal and interest was collected in September 2000 and all remaining principal and interest was due July 31, 2001. The loan was secured by 100% of the shares of DM Development, Inc. and an assignment of land sales proceeds. In March 2001, \$850,000 in principal and interest was collected. In June 2001, the loan was collected in full, including accrued but unpaid interest.

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In August 2000, ARL sold a 20.5 acre tract of its Mason Goodrich land parcel for \$3.6 million, receiving \$2.1 million in cash and providing purchase money financing of the remaining

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\$1.5 million of the sales price. The loan bore interest at 13.5% per annum, and matured in December 2000. All principal and interest were due at maturity. In February 2001, the loan was collected in full, including accrued but unpaid interest.

In March 2001, ARL sold a 20.0 acre tract of its Katrina land parcel for \$2.8 million, receiving \$700,000 in cash and providing purchase money financing of the remaining \$2.1 million of the sales price. The loan bears interest at 12.0% per annum and matured in July 2001. All principal and interest were due at maturity. In January 2002, \$274,000 in principal and \$226,000 in interest was collected. In March 2002, the note was collected in full, including accrued but unpaid interest.

In April 2001, ARL sold a 20.0 acre tract of its Katrina land parcel for \$2.9 million, receiving \$700,000 in cash and providing purchase money financing of the remaining \$2.2 million of the sales price. The loan bore interest at 10.0% per annum and matured in June 2001. In May 2001, ARL sold an 80% senior interest in the note to a financial institution. In June 2001, the interest rate was increased to 12.0% and the maturity date was extended to August 2001. All principal and accrued but unpaid interest were due at maturity. In July 2001, the note was collected in full, including accrued but unpaid interest.

In November 2001, ARL sold a 12.71 acre tract of its Santa Clarita parcel for \$1.9 million, receiving \$1.5 million in cash and providing purchase money financing of the remaining \$437,000 of the sales price. The loan bears interest at 8.0% per annum and matures in November 2002. All principal and accrued but unpaid interest are due at maturity.

Also in November 2001, ARL sold the Blackhawk Apartments for \$7.1 million, receiving \$1.5 million in cash after the assumption of \$4.0 million of mortgage debt and providing purchase money financing of the remaining \$1.6 million of the sales price. The loan bears interest at 10.0% per annum and matures in May 2002. Monthly principal and interest payments are required. All remaining principal and accrued but unpaid interest are due at maturity.

OTHER. In September 1999, in conjunction with the sale of two apartments in Austin, Texas, \$2.1 million in purchase money financing was provided, secured by limited partnership interests in two limited partnerships owned by the buyer. The financing bore interest at 16.0% per annum, required monthly payments of interest only at 6.0%, beginning in February 2000 and required a \$200,000 principal paydown in December 1999, which was not received, and matured in August 2000. ARL had the option of obtaining the buyer's general and limited partnership interests in the collateral partnerships in full satisfaction of the financing. In March 2000, ARL agreed to forbear foreclosing on the collateral securing the note and released one of the partnership interests, in exchange for a payment of \$250,000 and executed deeds of trusts on certain properties owned by the buyer. In March 2000, the borrower made a \$1.1 million payment, upon receipt of which ARL returned the deeds of trust. The borrower executed a replacement promissory note for the remaining note balance of \$1.0 million, which is unsecured, non-interest bearing and matures in April 2003. In April 2000, ARL funded a \$100,000 loan to the borrower. The loan was secured by five second lien deeds of trust, was non-interest bearing and matured in September

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2001. Payment was not received at maturity, and ARL began to accrue default interest. In December 2001, the \$100,000 loan was collected in full, including accrued but unpaid interest.

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In December 1999, a note with a principal balance of \$1.2 million, secured by a pledge of a partnership interest in a partnership which owns real estate in Addison, Texas, matured. The maturity date was extended to April 2000 in exchange for an increase in the interest rate to 14.0% per annum. All other terms remained the same. In February 2001, the loan amount was increased to \$1.6 million and the maturity date was extended to June 2001. In February 2002, \$1.5 million in principal and \$87,000 in interest were collected. ARL has demanded payment of the remaining \$84,000 in principal plus accrued but unpaid interest.

In August 1998, a \$635,000 loan was funded to La Quinta Partners, LLC. The loan was secured by interest bearing accounts prior to their being used as escrow deposits toward the purchase of 956 acres of land in La Quinta, California, and the personal guarantee of the manager of the borrower. The loan had an extended maturity date of November 1999. All principal and interest were due at maturity. In November and December 1998, \$250,000 in principal paydowns were received. In the second quarter of 1999, the loan was modified, increasing the interest rate to 15.0% per annum and extending the maturity to November 1999. Accrued but unpaid interest was added to the principal balance, increasing it by \$42,000 to \$402,000. In the fourth quarter of 1999, an additional \$2,000 was funded increasing the loan balance to \$404,000. In March 2000, \$25,000 in interest was collected and the loan's maturity was extended to April 2000. The borrower did not repay the loan at maturity. In March 2001, a settlement was reached, whereby ARL collected \$410,000 in full satisfaction of the note.

RELATED PARTY. Periodically, ARL has made secured and unsecured loans to parties deemed to be related parties. ARL makes these loans for investment and high return income purposes. See the specific loans below. In March 2001, ARL funded \$13.6 million of a \$15.0 million unsecured line of credit to One Realco Corporation ("One Realco"), which owns approximately 14.8% of the outstanding shares of ARL's common stock. The line of credit bears interest at 12.0% per annum. All principal and interest were due at maturity in February 2002. The line of credit is guaranteed by BCM. In June 2001, \$394,000 in principal and \$416,000 in interest was collected. In December 2001, \$21,000 in principal and \$804,000 in interest was collected. In February 2002, the maturity date was extended to February 2004. All principal and interest are due at maturity. Ronald E. Kimbrough, Executive Vice President and Chief Financial Officer of ARL, is a 10% stockholder of One Realco. During 2001, Mr. Kimbrough did not participate in day-to-day operations or management of One Realco.

In October 1999, ARL funded a \$4.7 million loan to Realty Advisors, Inc., an affiliate. The loan was secured by all of the outstanding shares of common stock of American Reserve Life Insurance Company. The loan bore interest at 10.25% per annum, and matured in November 2001. In January 2000, \$100,000 was collected. In November 2001, the maturity date was extended to November 2004. The collateral was changed to a subordinate pledge of 850,000 shares of ARL common stock owned by BCM. The shares are also pledged to a lender on ARL's behalf. The interest rate was changed to 2% over the prime rate, currently 6.75% per annum, and the accrued but unpaid interest of \$984,000 was added to the principal. The new principal balance is \$5.6 million. All principal and accrued interest are due at maturity.

In December 2000, an unsecured loan with a principal balance of \$1.7 million to Warwick of Summit, Inc. ("Warwick") matured. All principal and interest were due at maturity. At December 2001, the loan, and \$451,000 of

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accrued interest, remained unpaid. At March 2002,

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settlement terms are being negotiated. Richard D. Morgan, a Warwick stockholder, served as a director of ARL until October 2001.

In December 2000, a loan with a principal balance of \$1.6 million to Bordeaux Investments Two, L.L.C. ("Bordeaux"), matured. The loan is secured by (1) a 100% interest in Bordeaux, which owns a shopping center in Oklahoma City, Oklahoma; (2) 100% of the stock of Bordeaux Investments One, Inc., which owns 6.5 acres of undeveloped land in Oklahoma City, Oklahoma; and (3) the personal guarantees of the Bordeaux members. At December 2001, the loan, and \$471,000 of accrued interest, remained unpaid. At March 2002, settlement terms are being negotiated. Richard D. Morgan, a Bordeaux member, served as a director of ARL until October 2001.

In March 2000, a loan with a principal balance of \$2.5 million to Lordstown, L.P., matured. The loan is secured by a second lien on land in Ohio and Florida, by 100% of the general and limited partner interest in Partners Capital, Ltd., the limited partner of Lordstown, L.P., and a profits interest in subsequent land sales. At December 2001, the loan, and \$741,000 of accrued interest, remained unpaid. At March 2002, settlement terms are being negotiated. A corporation controlled by Richard D. Morgan is the general partner of Lordstown, L.P. Mr. Morgan served as a director of ARL until October 2001.

INVESTMENTS IN REAL ESTATE COMPANIES AND REAL ESTATE PARTNERSHIPS

REAL ESTATE ENTITIES. ARL's investment in real estate entities includes the equity securities of two publicly traded real estate companies, IOT and TCI, and interests in real estate joint venture partnerships. BCM, ARL's advisor, also serves as advisor to IOT and TCI.

Since acquiring its initial investments in IOT and TCI in 1989, ARL has made additional investments in the equity securities of both entities through private and open market purchases. The cost with respect to shares of IOT and TCI at December 31, 2001 totaled \$64.1 million. The aggregate carrying value (cost plus or minus equity in income or losses and less distributions received) of the equity securities of IOT and TCI was \$75.3 million at December 31, 2001 and the aggregate market value was \$71.9 million. The aggregate investee book value of IOT and TCI based upon the December 31, 2001 financial statements of each entity was \$118.4 million. See "Certain Relationships and Related Transactions of ARL, TCI and IOT - Related Party Transactions."

The board of directors has authorized the expenditure of up to an aggregate of \$50.0 million to acquire, in open market purchases, shares of IOT and TCI, excluding private purchase transactions which are separately authorized. As of December 31, 2001, ARL had expended an aggregate of \$8.6 million to acquire shares of IOT and TCI, in open market purchases, in accordance with these authorizations. ARL expects to make additional investments in the equity securities of IOT and TCI to the extent its liquidity permits.

On October 3, 2000, ARL and IOT entered into an agreement which provided IOT and ARL with an option to purchase 1,858,900 shares of common stock of TCI from a third party. On October 19, 2000, IOT assigned all of its rights to purchase such shares to ARL. The total cost to purchase the TCI shares was \$30.8 million. In October 2000, ARL paid \$5.6 million of

the option price. In April 2001, the remainder of the option price was paid, and ARL acquired the TCI shares. See "Business of ARL" for discussion of the proposed acquisition of TCI and IOT by ARL.

Pertinent information regarding ARL's investment in the equity securities of the IOT and TCI at December 31, 2001, is summarized below (dollars in thousands):

INVESTEES	PERCENTAGE OF ARL'S OWNERSHIP AT DECEMBER 31, 2001	CARRYING VALUE OF INVESTMENT AT DECEMBER 31, 2001	EQUIVALENT INVE BOOK VALUE A DECEMBER 31, 2
IOT	27.44%	\$ 6,789	\$ 10,
TCI	49.99	68,498	108,

IOT and TCI each own a considerable amount of real estate, much of which they have held for many years. Because of depreciation, these entities may earn substantial amounts in periods in which they sell real estate and will probably incur losses in periods in which they do not. ARL's reported income or loss attributable to these entities will differ materially from its cash flow attributable to them.

ARL does not have a controlling equity interest in either IOT or TCI; therefore, it cannot, acting by itself, determine either the individual investments or the overall investment policies of either of them. However, due to ARL's equity investments in, and the existence of common officers with, each of IOT and TCI and that IOT and TCI have the same advisor as ARL, ARL may be considered to have the ability to exercise significant influence over the operating and investing policies of IOT and TCI. ARL accounts for its investment in IOT and TCI using the equity method. Under the equity method, ARL recognizes its proportionate share of the income or loss from the operations of IOT and TCI currently, rather than when realized through dividends or on sale. The carrying value of ARL's investment in IOT and TCI, as set forth in the table above, is the original cost of investment in each adjusted for ARL's proportionate share of IOT's and TCI's income or loss and distributions received.

The following summary description of IOT and TCI is based upon information publicly reported by each entity.

IOT. IOT is a Nevada corporation which was originally organized on December 14, 1984, as a California business trust and commenced operations on April 10, 1985. IOT's business is investing in real estate through direct equity investments and partnerships. IOT holds equity investments in apartments and commercial properties (office buildings) in the Pacific, Southeast and Southwest regions of the continental United States with a concentration in the Southwest region. At December 31, 2001, IOT owned 16 income producing properties located in three states. These properties consisted of seven apartments comprising 777 units and seven office buildings with an aggregate of 459,549 sq. ft. In addition, IOT owned two parcels of unimproved land, totaling 205 acres.

IOT reported a net loss of \$(3.5) million in 2001 as compared to net income of \$16.8 million in 2000. IOT's net income in 2000 included gains on sale of real estate of \$20.9 million. IOT's cash flow from property operations was \$6.0 million in 2001. At December 31, 2001, IOT

had total assets of \$91.8 million, which consisted of \$87.3 million in real estate held for investment, \$4.5 million in investments in partnerships and other assets and \$66,000 in cash and cash equivalents.

ARL received no dividends from IOT in 2001.

TCI. TCI is a Nevada corporation which was originally organized on September 6, 1983, as a California business trust, and commenced operations on January 31, 1984. On November 30, 1999, TCI acquired, through merger, Continental Mortgage and Equity Trust ("CMET"), both of which, at the time, were equity investees of ARL. Pursuant to the merger agreement, TCI acquired all of the outstanding CMET shares of beneficial interest in a tax-free exchange of shares, issuing 1.181 shares of its common stock for each outstanding CMET share.

TCI has investment policies similar to those of IOT. TCI holds equity investments in apartments, commercial properties (office buildings, industrial warehouses and shopping centers) and hotels throughout the continental United States with a concentration in the Southeast and Southwest regions. At December 31, 2001, TCI owned 112 income producing properties located in 19 states. These properties consisted of 57 apartments comprising 10,714 units, 31 office buildings with an aggregate of 4.1 million sq. ft., 13 industrial warehouses with an aggregate of 2.0 million sq. ft., six shopping centers with an aggregate of 622,661 sq. ft., a fitness club with 56,532 sq. ft. and four hotels with a total of 209 rooms. In addition, TCI owned 26 parcels of unimproved land, totaling 840 acres. TCI also holds mortgage notes receivable secured by real estate located in the Midwest, Southeast and Southwest regions of the continental United States.

TCI reported net income of \$19.8 million in 2001 and \$29.8 million in 2000. TCI's net income in 2001 included gains from the sale of real estate of \$54.3 million, whereas its net income in 2000 included gains from the sale of real estate of \$50.6 million. TCI's cash flow from property operations was \$56.0 million in 2001. At December 31, 2001, TCI had total assets of \$709.2 million, which consisted of \$622.2 million in real estate held for investment, \$516,000 in real estate held for sale, \$14.2 million in investments in real estate entities, \$22.1 million in notes and interest receivable, \$39.9 million in other assets and \$10.3 million in cash and cash equivalents. At December 31, 2001, TCI owned 345,728 shares of IOT's common stock, approximately 24.0% of the shares then outstanding.

In 2001, ARL received a total of \$53,000 from TCI in accumulated dividends on shares of CMET that should have been exchanged for TCI common stock in 1999.

ELM FORK RANCH, L.P. In June 2000, ARL sold its partnership interests for \$2.0 million in cash, retaining an option to repurchase its interests. In January 2001, ARL purchased 100% of the partnership interests for \$9.2 million, including financing of \$9.0 million.

ART FLORIDA PORTFOLIO II, LTD. In January 2002, Investors Choice Florida Public Funds II, in which ART Florida Portfolio II, Ltd. owned an interest, sold Villas Continental Apartments. ARL received \$1.0 million in cash from the sale. ARL's share of the loss incurred on the sale was \$531,000, which will be included in equity in income of investees in the Consolidated Statement of Operations.

DOUBLE TAXATION OF CORPORATIONS

ARL is taxed as a regular corporation under the Code. Corporations are subject to complex federal income tax rules that cause the corporation to be taxed on its income and distributions, generally, to be taxable to recipients. As a general rule, a corporation is not entitled to a deduction for dividends paid to its shareholders. Corporations are subject to an additional tax on certain undistributed accumulated earnings. Currently, corporations are taxed on net capital gains at the regular corporate tax rates. Corporations are subject to the alternative minimum tax.

Cash distributions from a corporation to a shareholder depend upon whether the distribution is from the corporation's "earnings and profits." If the distribution is from the corporation's earnings and profits it is a dividend and is includable in the distributee shareholder's gross income. Cash distributions which are not dividends are treated as a return of the shareholder's investment in its stock. The distributions first reduce the tax basis of the shareholder in its stock. When the shareholder has recovered its basis in its stock, further distributions are treated as gain from the sale or exchange of property.

Generally a corporate shareholder will receive a "dividends received deduction" for dividends received. The percentage of the dividend which can be excluded through the dividends received deductions depends upon the percentage ownership of the distributee shareholder in the distributor corporation. A 100% deduction is available for dividends received by a member of the same affiliated group of corporations. If the distributee owns 20% or more of the distributor corporation, the distributee corporation is entitled to an 80% deduction for dividends received. A 70% dividends received deduction is available for most other dividends.

The above is intended only as a general summary of the "double taxation" of corporations and the tax treatment of cash distribution. It is not intended to be a thorough discussion of the numerous complex tax issues that affect corporations and their shareholders including accumulated earnings tax, alternative minimum tax, distributions of appreciated property, liquidations, reorganizations, issues pertaining to controlled groups of corporations and issues related to consolidated returns. Similarly, this summary should not be considered as a discussion of material federal income tax aspects or considerations for ARL. The above pertains only to "C" corporations under the Code and does not address state, local, or foreign tax issues. It is not applicable to regulated investment companies, real estate investment trusts, banks, insurance companies and other forms of entities for which special treatment is provided under the Code.

LEGAL PROCEEDINGS

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

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SELECTED 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 appearing elsewhere in this joint proxy statement and prospectus.

	FOR THE YEARS ENDED DEC		
	2001 ----	2000 ----	1999 ----
	(DOLLARS IN THOUSANDS, EXC		
EARNINGS DATA			
Revenue.....	\$ 166,018	\$ 172,750	\$ 193,980
Expense.....	243,166	272,045	324,789
	-----	-----	-----
(Loss) from operations.....	(77,148)	(99,295)	(130,809)
Equity in income of investees.....	8,803	5,246	11,847
Gain on sale of real estate.....	83,414	96,728	129,260
	-----	-----	-----
Income (loss) before extra-ordinary gain.....	15,069	2,679	10,298
Extraordinary gain.....	---	---	---
	-----	-----	-----
Net income (loss).....	15,069	2,679	10,298
Preferred dividend requirement.....	(2,485)	(2,327)	(2,281)
	-----	-----	-----
Income (loss) applicable to common shares.....	\$ 12,584	\$ 352	\$ 8,017
	=====	=====	=====
PER SHARE DATA			
(Loss) before extraordinary gain.....	\$ 1.07	\$.03	\$.75
Extraordinary gain.....	---	---	---
	-----	-----	-----
Net income (loss) applicable to common shares.....	\$ 1.07	\$.03	\$.75
	=====	=====	=====
Dividends per common share.....	\$ ---	\$ ---	\$.05
Weighted average shares outstanding.....		10,399,890	10,759,416
	-----	-----	-----
BALANCE SHEET DATA			
Real estate, net.....	\$ 588,203	653,744	\$ 771,630
Notes and interest receivable, net.....	30,382	13,831	38,604
Total assets.....	758,763	787,015	919,546
Notes and interest payable.....	564,298	616,331	706,196

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Margin borrowings.....	28,040	13,485		33,264
Stockholders' equity.....	85,884	73,402		46,266
Book value per share.....	\$ 7.33	7.06	\$	4.30

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF ARL

INTRODUCTION

ARL is the successor through merger to ART and NRLP. ART was organized in 1961 to provide investors with a professionally managed, diversified portfolio of real estate and mortgage loan investments selected to provide opportunities for capital appreciation as well as current income. ART owns a portfolio of real estate and mortgage loan investments. NRLP was organized in 1987, and subsequently acquired all of the assets and assumed all of the liabilities of 35 public and private limited partnerships. NRLP owns a portfolio of real estate and mortgage loan investments.

Effective December 18, 1998, a wholly-owned subsidiary of ART was elected general partner of NRLP. Prior to December 31, 1998, ART accounted for its investment in NRLP under the equity method. As of December 31, 1998, upon the election of its wholly-owned subsidiary as general partner of NRLP, ART began consolidation of NRLP's accounts and has consolidated its operations subsequent to that date.

LIQUIDITY AND CAPITAL RESOURCES

GENERAL. Cash and cash equivalents at December 31, 2001 totaled \$709,000, compared with \$4.2 million at December 31, 2000. Although ARL anticipates that during 2002 it will generate excess cash from operations, as discussed below, such excess cash is not sufficient to discharge all of ARL's debt obligations as they mature. ARL will therefore again rely on externally generated funds, including aggressive land sales, selected sales of income producing properties, borrowings against its investments in various real estate entities, refinancing of properties and, to the extent necessary, borrowings to meet its debt service obligations, pay taxes, interest and other non-property related expenses.

Notes payable totaling \$267.5 million are scheduled to mature during 2002. During the first quarter of 2002, ARL either extended, refinanced, paid down, paid off or received commitments from lenders to extend or refinance \$20.4 million of the debt scheduled to mature in 2002. In January 2002, the lender on three of ARL's residential properties located in Florida commenced foreclosure actions, due to ARL's failure to pay the loans at maturity on January 1, 2002. ARL has filed counterclaims asserting the lender had abruptly withdrawn from discussions for refinancing. The balance owed on the three loans is \$7.2 million. ARL is pursuing alternative financing for the properties. See Note 2. "Real Estate," Note 8. "Notes and Interest Payable" and Note 21. "Subsequent Events" to the ARL consolidated financial statements included elsewhere in this joint proxy statement and prospectus.

ARL expects a further decline in cash from property operations in 2002. This expected decrease results from the reduced number of apartment properties in ARL's real estate portfolio.

Net cash from operating activities was a deficit of \$48.6 million in 2001 compared to a deficit of \$54.6 million in 2000. Fluctuations in the components of cash from operating activities are discussed in the paragraphs

that follow.

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Net cash from pizza operations (sales less cost of sales) increased to \$6.4 million in 2001 from \$5.9 million in 2000. The increase was due to a price increase in October 2000, reduced interest costs after refinancing debt in 2001 and the closing of poor performing locations in 2000.

Net cash from property operations (rents collected less payments for expenses applicable to rental income) decreased to \$26.8 million in 2001 from \$32.7 million in 2000. This decrease was primarily attributable to apartment properties sold in 2001 and 2000.

Interest collected decreased to \$1.8 million in 2001 from \$4.4 million in 2000. The decrease was attributable to the reduced number of outstanding loans for which interest is due prior to maturity.

Interest paid decreased to \$62.6 million in 2001 from \$67.0 million in 2000. The decrease was due to the reduction in outstanding loan balances as properties were sold in 2001 and 2000.

Advisory fees paid increased to \$6.7 million in 2001 from \$5.1 million in 2000. The increase was due to inclusion of NRLP's assets in ARL's gross assets, the basis for such fee.

Incentive fees paid to affiliate were \$1.6 million in 2001. This was the first time that the requirements for this fee were met.

General and administrative expenses paid decreased to \$12.7 million in 2001 from \$18.1 million in 2000. The decrease was primarily attributable to a decrease in reimbursements paid to ARL's advisor.

Other cash from operating activities was \$4.4 million in 2001 compared to \$4.3 million used in other operating activities in 2000. The change was primarily due to a \$6.0 million decrease in escrow deposits in 2001, compared to a \$2.5 million increase in 2000.

Distributions from equity investees decreased to \$53,000 in 2001 from \$1.8 million in 2000. The decrease was due to the elimination of dividends paid by investees. Distributions from equity investees are expected to be minimal in 2002.

Distributions to minority interest holders decreased to \$4.1 million in 2001 from \$4.9 million in 2000. These distributions represent returns paid to limited partner unitholders of controlled consolidated partnerships. See Note 2. "Real Estate" to the ARL consolidated financial statements included elsewhere in this joint proxy statement and prospectus.

Payments for oil and gas operations was \$259,000 in 2001. See Note 5. "Oil and Gas Operations" to the ARL consolidated financial statements included elsewhere in this joint proxy statement and prospectus.

In 2001, ARL sold a total of 1,101.6 acres of land in Houston, Las Colinas, Plano, Collin County, Dallas County, Denton County, Harris County and Tarrant County, Texas; Palm Desert and Santa Clarita, California; Gulfport, Mississippi; and Nashville, Tennessee in 26 separate transactions for a total of \$51.8 million. ARL received net cash of \$13.6 million, after paying off or paying down \$29.0 million in mortgage debt secured by such land parcels and after providing purchase money financing of \$4.8 million. ARL also sold 17

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apartments, and a shopping center

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for a total of \$135.5 million. ARL received net cash of \$38.8 million, after the payoff or assumption by the purchaser of mortgage debt totaling \$81.2 million and after providing purchase money financing of \$1.6 million.

In 2001, ARL exchanged 8.9 acres of land in Farmers Branch, Texas and 10.5 acres of land in Lewisville, Texas for a 168 unit apartment in Addison, Texas. See Note 2. "Real Estate" to the ARL consolidated financial statements included elsewhere in this joint proxy statement and prospectus.

ARL expects that funds from existing cash resources, aggressive sales of land and selected income producing property sales, refinancing of real estate, and borrowings against its real estate will be sufficient to meet the cash requirements associated with ARL's current and anticipated level of operations, maturing debt obligations and existing commitments. To the extent that ARL's liquidity permits or financing sources are available, ARL will make investments in real estate, primarily in improved and unimproved land, will continue making investments in real estate entities and marketable equity securities, and will develop and construct income-producing properties.

ARL expects that it will be necessary for it to sell \$117.5 million, \$20.9 million and \$300,000 of its land holdings during each of the next three years to satisfy the debt on the land as it matures. If ARL is unable to sell at least the minimum amount of land to satisfy the land debt obligations as they mature, ARL, intends to extend such debt or sell other of its assets, specifically income producing properties to pay the debt.

LOANS PAYABLE. ARL has margin arrangements with various brokerage firms which provide for borrowings of up to 50% of the market value of marketable equity securities. The borrowings under the margin arrangements are secured by the equity securities and bear interest rates ranging from 5.75% to 24.0%. Margin borrowings totaled \$28.0 million (approximately 39.2% of market value) at December 31, 2001, compared to \$13.5 million at December 31, 2000. See Note 9. "Margin Borrowings" to the ARL consolidated financial statements included elsewhere in this joint proxy statement and prospectus.

EQUITY INVESTMENTS. During the fourth quarter of 1988, ARL began purchasing shares of IOT and TCI which have the same advisor as ARL. It is anticipated that additional equity securities of IOT and TCI may be acquired in the future through open-market and negotiated transactions to the extent ARL's liquidity permits. See "Business of ARL" for discussion of the proposed acquisition of TCI and IOT by ARL.

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

ARL's cash flow from these investments is dependent on the ability of each of IOT and TCI to make distributions. In 2001, ARL received total distributions from TCI of \$53,000 in

accumulated dividends on shares of CMET that should have been exchanged for TCI common stock in 1999. In December 2000, the boards of IOT and TCI suspended the payment of quarterly dividends. ARL anticipates receiving no distributions from IOT and TCI in 2002.

In 2001, ARL paid dividends to its preferred stockholders totaling \$2.5 million. ARL paid \$5,000 in accumulated back dividends in 2001 on previously unexchanged units of National Realty.

Management reviews the carrying values of ARL's properties and mortgage notes receivable at least annually and whenever events or a change in circumstances indicate that impairment may exist. Impairment is considered to exist if, in the case of a property, the future cash flow from the property (undiscounted and without interest) is less than the carrying amount of the property. For notes receivable impairment is considered to exist if it is probable that all amounts due under the terms of the note will not be collected. If impairment is found to exist, a provision for loss is recorded by a charge against earnings to the extent that the investment in the note exceeds management's estimate of the fair value of the collateral securing such note. The mortgage note receivable review includes an evaluation of the collateral property securing each note. The property review generally includes: (1) selective property inspections; (2) a review of the property's current rents compared to market rents; (3) a review of the property's expenses; (4) a review of maintenance requirements; (5) a review of the property's cash flow; (6) discussions with the manager of the property; and (7) a review of properties in the surrounding area.

COMMITMENTS. In October 1999, an agreement was reached with the Valley Ranch, L.P. Class A unitholders to acquire their eight million Class A units for \$1.00 per unit. Through December 31, 2001, six million units had been purchased with the remaining two million units to be purchased in May 2002.

On October 3, 2000, ARL and IOT entered into an agreement which provided IOT and ARL with an option to purchase 1,858,900 shares of common stock of TCI from a third party. On October 19, 2000, IOT assigned all of its rights to purchase such shares to ARL. The total cost to purchase the TCI shares was \$30.8 million. In October 2000, ARL paid \$5.6 million of the option price. In April 2001, the remainder of the option price was paid, and ARL acquired the TCI stock.

ARL will rely on externally generated funds, including aggressive land sales, selected sales of income producing properties, refinancing of properties and, to the extent necessary, borrowings to meet these commitments.

RESULTS OF OPERATIONS

2001 COMPARED TO 2000. ARL reported net income of \$13.3 million in 2001 compared to \$2.7 million in 2000. ARL's net income in 2001 included gains on the sale of real estate of \$83.4 million compared to gains on the sale of real estate of \$96.7 million in 2000. The primary factors contributing to ARL's net income are discussed in the following paragraphs.

Rents decreased to \$129.3 million in 2001 from \$138.2 million in 2000. Rent from commercial properties increased to \$34.0 million in 2001 from \$31.5 million in 2000, rent from

hotels increased to \$36.1 million in 2001 from \$33.1 million in 2000 and rent from apartments decreased to \$58.3 million in 2001 from \$69.8 million in 2000. The increase in rent from commercial properties was primarily attributable to completion of the Centura and Hickory Centre office buildings during 2000. The increase in rent from hotels is attributable to the opening of the Grand Hotel Sofia in 2001. Apartment rents decreased in 2001 as a result of the sale of nine apartments in 2000 and 17 apartments in 2001. Rents are expected to decrease in 2002 as a result of the apartment sales in 2001 and expected apartment and commercial property sales in 2002.

Property operations expense decreased to \$93.2 million in 2001 from \$94.1 million in 2000. Property operations expense for commercial properties of \$20.2 million in 2001 approximated the \$19.8 million expense in 2000, hotel expense increased to \$28.3 million in 2001 from \$24.1 million in 2000, land expense decreased to \$8.6 million in 2001 from \$9.7 million expense in 2000 and apartment expense decreased to \$35.5 million in 2001 from \$40.4 million in 2000. The increase in hotel operations expense was primarily due to the opening of the Grand Hotel Sofia in 2001. The decrease in land operations expense was primarily due to the sale of 26 land parcels in 2000 and 34 land parcels in 2001. The decrease in apartment property operations expense was primarily due to the sale of nine apartments in 2000 and 17 apartments in 2001. Property operations expense is expected to decrease in 2002 as a result of the apartment sales in 2001 and anticipated apartment and commercial property sales in 2002.

Pizza parlor sales and cost of sales were \$34.2 million and \$27.9 million in 2001 and \$32.6 million and \$26.8 million, in 2000. Pizza parlor operations gross margin in 2001 increased over the gross margin in 2000 primarily due to reduced interest costs after refinancing debt in 2001 and reduced occupancy costs. Pizza parlor gross margin in 2002 is expected to approximate 2001, unless cheese prices change significantly.

Interest income of \$2.8 million in 2001 approximated the \$3.0 million income in 2000. Interest income is expected to decrease in 2002 as a result of the notes collected in early 2002, and as no new loans are expected to be funded in 2002.

Oil and gas sales in 2001 were \$59,000 representing start-up production from six wells. Oil and gas operating expenses were \$269,000. Operating expenses include lifting costs and repairs and maintenance. See Note 5. "Oil and Gas Operations" to the ARL consolidated financial statements included elsewhere in this joint proxy statement and prospectus.

Equity in income of investees increased to \$8.8 million in 2001 from \$5.2 million in 2000. The increase in equity income was primarily due to increased ownership by ARL in TCI in 2001, due to purchases of TCI common stock. Equity investees reported gains on the sale of real estate in 2001 totaling \$54.3 million of which ARL's equity share was \$22.5 million. These gains were offset by operating losses totaling \$37.9 million, of which ARL's equity share was \$13.6 million. See Note 6. "Investments In Equity Investees" to the ARL consolidated financial statements included elsewhere in this joint proxy statement and prospectus.

Other income improved to a loss of \$369,000 in 2001 from a loss of \$926,000 in 2000. The increase was primarily due to a reduction in losses on the sale of marketable securities.

Interest expense of \$77.0 million in 2001 approximated the \$76.7 million expense in 2000.

Advisory fees increased to \$6.7 million in 2001 from \$5.9 million in 2000. The increase was attributable to the inclusion of NRLP assets in ARL's gross assets, the basis for such fee. Advisory fees are expected to decrease in 2002, as ARL's gross asset base is expected to decrease through property sales.

Net income fee to affiliate in 2001 was \$166,000. The income fee payable to ARL's advisor is 10% of the net income for the year, in excess of a 10% return on stockholders' equity. No net income fee was paid in 2000.

Incentive fees increased to \$3.8 million in 2001 from \$1.6 million in 2000. The increase was attributable to 18 eligible sales in 2001 compared to four eligible sales in 2000. This fee represents 10% of the excess of net capital gains over net capital losses from sales of operating properties. The amount of this fee, if any, in 2002 will be dependent on the number of operating properties sold and net capital gains realized.

General and administrative expenses decreased to \$12.7 million in 2001 from \$17.1 million in 2000. The decrease was primarily attributable to a decrease in cost reimbursements to ARL's advisor. General and administrative expenses in 2002 are expected to approximate 2001.

Depreciation, depletion and amortization increased to \$17.7 million in 2001 from \$16.9 million in 2000. The increase was primarily attributable to the completion of the Hickory Centre office buildings in 2000 and the Grand Hotel Sofia in 2001. Depreciation, depletion and amortization expense should decrease in 2002 as a result of continued property sales.

Provision for loss increased to \$2.5 million in 2001 from \$2.2 million in 2000. In 2001, the impairment of an asset was recognized. In 2000, a litigation reserve, related to a breach of contract dispute, was established, and the carrying value of an 11.3 acre tract of land in Plano, Texas, sold in the first quarter of 2001, was reduced to its net realizable value.

Minority interest decreased to \$972,000 in 2001 from \$30.7 million in 2000. Minority interest is the earnings attributable to limited partners, other than ARL, of certain controlled limited partnerships. Minority interest in 2001 and 2000 was attributable, in part, to the preferred return limited partner units of Ocean Beach Partners, L.P., Valley Ranch, L.P., Grapevine American, L.P., Edina Park Plaza Associates, L.P. and Hawthorne Lakes Associations, L.P., ART Florida Portfolio III and ART Palm, L.L.C. In 2000, minority interest includes, in addition to the preferred returns discussed above, \$29.8 million of earnings attributable to the limited partners in NRLP prior to the merger. Minority interest in 2001 declined due to the 2000 merger of NRLP into ARL.

Gains on sale of real estate decreased to \$83.4 million in 2001 from \$96.7 million in 2000. In 2001, gains of \$73.5 million were recognized on the sale of 15 apartments: Rockborough, Carriage Park, Kimberly Woods, Place One, Shadowood, Bent Tree, Club Mar, Covered Bridge, Crossing at Church, Chalet I, Chalet II, Nora Pines, Timbercreek, Blackhawk, and Woodstock; \$2.2 million on the sale of Regency Pointe Shopping Center; and \$16.0 million on the sale of land: two tracts totaling 27.2 acres of Chase Oaks land, 10.0 acres of Elm Fork

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land, 27.8 acres of Frisco Bridges land, 1.7 acres of Las Colinas land, 22.1 acres of Mason Goodrich land, 4.2 acres of Nashville land, 5 tracts totaling 49.7 acres of Katrina land, 6.6 acres of Rasor land, 12.7 acres of Santa Clarita land, 232.8 acres of Scoggins land, 408.0 acres of Scout land, 10.4 acres of Tree Farm land, and .4 acres of Waters Edge Apartment land. In 2001, losses of \$8.3 million were recognized on the sale of Glenwood Apartments, 12.0 acres of Plano Parkway land, 120.4 acres of Yorktown land, two tracts totaling 3.2 acres of Nashville land, Ashford Apartments, 6.7 acres of Santa Clarita land, 107.0 acres of Elm Fork land, and 27.4 acres of Vista Ridge land.

In 2000, gains of \$45.9 million were recognized on the sale of nine apartments: Summerwind, Windtree, The Pines, Whispering Pines, Four Seasons, Sherwood Glen, Fair Oaks, Hidden Valley and Candlelight Square; \$21.9 million on the sale of commercial properties: Katella Plaza, Marina Playa, Harbor Plaza and Preston Center; and \$30.6 million on the sale of land: 420 acres of Duchesne land, three tracts totaling 166.7 acres of Frisco Bridges land, 749.1 acres of Keller land, 0.02 acres of Katy land, four tracts totaling 41.2 acres of Mason/Goodrich land, 157.9 acres of Mastenbrook land, 82.0 acres of McKinney Corners I, II, III, IV and V land, 20.67 acres of Monterey land, four tracts totaling 8.69 acres of Nashville land, 182.5 acres of Pantex land, two tracts totaling 329.4 acres of Parkfield land, three tracts totaling 89.51 acres of Rasor land, 80.4 acres of Rowlett Creek land, 3.0 acres of Salmon River land, 126.6 acres of Vann Cattle land, 5.4 acres of Vista Business Park land, and 70.3 acres of Wakefield land. In 2000, losses of \$1.6 million were recognized on the sale of 14.6 acres of McKinney Corners II land, 377.15 acres of Pioneer Crossing land, 4.79 acres of Plano Parkway land, 22.4 acres of Valley Ranch land, and 36.43 acres of Vista Business Park land.

2000 COMPARED TO 1999. ARL reported net income of \$2.7 million in 2000 compared to \$10.3 million in 1999. ARL's net income in 2000 included gains on the sale of real estate of \$96.7 million compared to gains on the sale of real estate of \$129.3 million in 1999. The primary factors contributing to ARL's net income are discussed in the following paragraphs.

Rents decreased to \$138.2 million in 2000 from \$157.6 million in 1999. Rent from commercial properties increased to \$31.5 million in 2000 from \$30.2 million in 1999, rent from hotels increased to \$33.1 million in 2000 from \$31.6 million in 1999 and rent from apartments decreased to \$69.8 million in 2000 from \$93.9 million in 1999. The increase in rent from commercial properties was primarily attributable to completion of the Centura and Hickory Centre office buildings in 2000. The increase in rent from hotels is attributable to increased occupancy rates. Apartment rents decreased in 2000 as a result of 15 apartments being sold in 1999 and nine apartments sold in 2000.

Property operations expense decreased to \$94.1 million in 2000 from \$106.6 million in 1999. Property operations expense for commercial properties increased to \$19.8 million in 2000 from \$16.5 million in 1999, for hotels such expense of \$24.1 million in 2000 approximated the \$24.2 million expense in 1999, for land the expense of \$9.7 million in 2000 approximated the \$9.0 million expense in 1999 and apartments decreased to \$40.4 million in 2000 from \$56.4 million in 1999. The increase in commercial property operations expense was primarily due to the completion of the Centura and Hickory Centre office buildings in 2000. The decrease in apartment property operations expense was primarily due to 15 apartments being sold in 1999 and nine apartment sales in 2000.

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million in 2000 and \$30.8 million and \$26.3 million, in 1999. Pizza parlor operations experienced higher profit margins in 2000 due to lower pizza ingredient costs (primarily cheese), a price increase in October 2000, and the closing of underperforming locations.

Interest income decreased to \$3.0 million in 2000 from \$6.4 million in 1999. The decrease was attributable to the collection of \$39.9 million in notes in 2000, while originating and funding loans of \$14.7 million.

Equity in income of investees decreased to \$5.2 million in 2000 from \$11.8 million in 1999. The decrease in equity income was primarily due to reduced ownership by ARL in TCI in 2000, due to sales of ARL-owned securities by margin debt holders. Equity investees reported gains on the sale of real estate in 2000 totaling \$71.4 million of which ARL's equity share was \$18.6 million. These gains were offset by operating losses totaling \$23.8 million, of which ARL's equity share was \$5.3 million. Also, sales of stock of equity investees by margin debt holders of ARL resulted in losses of \$7.9 million. See Note 6. "Investments in Equity Investees" to the ARL consolidated financial statements included elsewhere in this joint proxy statement and prospectus.

Other income was a loss of \$926,000 in 2000 approximating the loss of \$846,000 in 1999.

Interest expense decreased to \$76.7 million in 2000 from \$91.7 million in 1999. This decrease is due to 36 land and nine apartment sales in 2000.

Advisory fees increased to \$5.9 million in 2000 from \$5.5 million in 1999. The increase was attributable to the addition of NRLP assets to ARL's gross assets, the basis for such fee.

Incentive fees in 2000 were \$1.6 million. This fee represents 10% of the excess of net capital gains over net capital losses from sales of operating properties.

General and administrative expenses of \$17.1 million in 2000 approximated the \$17.1 million expense in 1999.

Depreciation and amortization decreased to \$16.9 million in 2000 from \$17.4 million in 1999. The reduction is due to the sale of nine apartments in 2000.

In the fourth quarter of 2000, a provision for loss of \$2.2 million was recognized. Such loss relates to the reduction of the carrying value of an 11.3 acre tract of land in Plano, Texas, sold in the first quarter of 2001, to its net realizable value and a litigation reserve related to a breach of contract dispute. In the third and fourth quarter of 1999, provisions for loss of \$2.1 million and \$1.0 million were recognized, respectively. Such loss relates to the relinquishment by ARL of its general and Class B limited partner interests in a controlled partnership that owned two apartments in Indianapolis, Indiana.

In December 1998, upon the election of a wholly-owned subsidiary of ARL as general partner of NRLP, the subsidiary assumed liability for certain legal settlement payments. Such

obligation is included in litigation expense in the accompanying Consolidated Statement of Operations.

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Minority interest decreased to \$30.7 million in 2000 from \$56.7 million in 1999. Minority interest is the earnings attributable to limited partners, other than ARL, of certain controlled limited partnerships. Minority interest in 2000 and 1999 was attributable, in part, to the preferred return limited partner units of Ocean Beach Partners, L.P.; Valley Ranch, L.P.; Grapevine American, L.P.; Edina Park Plaza Associates, L.P.; Hawthorne Lakes Associations, L.P.; ART Florida Portfolio III and ART Palm, L.L.C. In 2000, minority interest includes, in addition to the preferred returns discussed above, \$29.8 million of earnings attributable to the limited partners in NRLP prior to the merger, compared to \$55.7 million in 1999.

Gains on sale of real estate decreased to \$96.7 million in 2000 from \$129.3 million in 1999. In 2000, gains of \$45.9 million were recognized on the sale of nine apartments: Summerwind, Windtree, The Pines, Whispering Pines, Four Seasons, Sherwood Glen, Fair Oaks, Hidden Valley and Candlelight Square; \$21.9 million on the sale of commercial properties: Katella Plaza, Marina Playa, Harbor Plaza and Preston Center; and \$30.6 million on the sale of land: 420 acres of Duchesne land, three tracts totaling 166.7 acres of Frisco Bridges land, 749.1 acres of Keller land, 0.02 acres of Katy land, four tracts totaling 41.2 acres of Mason/Goodrich land, 157.9 acres of Mastenbrook land, 82.0 acres of McKinney Corners I, II, III, IV and V land, 20.67 acres of Monterey land, four tracts totaling 8.69 acres of Nashville land, 182.5 acres of Pantex land, two tracts totaling 329.4 acres of Parkfield land, three tracts totaling 89.51 acres of Razor land, 80.4 acres of Rowlett Creek land, 3.0 acres of Salmon River land, 126.6 acres of Vann Cattle land, 5.4 acres of Vista Business Park land, and 70.3 acres of Wakefield land. In 2000, losses of \$1.6 million were recognized on the sale of 14.6 acres of McKinney Corners II land, 377.15 acres of Pioneer Crossing land, 4.79 acres of Plano Parkway land, 22.4 acres of Valley Ranch land, and 36.43 acres of Vista Business Park land.

In 1999, gains of \$96.5 million were recognized on the sale of 15 apartments: Olde Town, Sante Fe, Mesa Ridge, Horizon East, Lantern Ridge, Barcelona, Country Place, Lake Nora, Fox Club, Oak Hollow, Windridge, Tanglewood, Edgewater Garden, Bavarian Woods, and Manchester Commons; \$9.2 million on the sale of the Continental Hotel and Casino; and \$24.1 million on the sale of land: seven tracts totaling 46.9 acres of Plano Parkway land, 9.9 acres of Mason/Goodrich land, four tracts totaling 302.4 acres of McKinney Corners II, McKinney Corners IV and Dowdy land, 13.0 acres of Razor land, three tracts totaling 23.0 acres of Vista Ridge land, four tracts totaling 103.6 acres of Frisco Bridges land, .13 acres of JHL Connell land, 1.4 acres of Valley Ranch land, Sun City lots, 121.2 acres of Katrina land, five tracts totaling 187.7 acres of Keller, Scout and Scoggins land, and 205.4 acres of Yorktown land. In 1999, losses of \$545,000 were recognized on the sale of Stone Meadows land and 6.2 acres of Plano Parkway land.

ENVIRONMENTAL MATTERS

Under various federal, state and local environmental laws, ordinances and regulations, ARL may be potentially liable for removal or remediation costs, as well as certain other potential costs relating to hazardous or toxic substances (including governmental fines and injuries to persons and property) where property-level managers have arranged for the removal, disposal or

treatment of hazardous or toxic substances. In addition, certain environmental laws impose liability for release of asbestos-containing materials into the air, and third parties may seek recovery for personal injury associated with such materials.

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

INFLATION

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

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS OF ARL

ARL's future operations, cash flow and fair values of financial instruments are partially dependent upon the then existing market interest rates and market equity prices. Market risk is the changes in the market rates and prices and the affect of the changes on the future operations. Market risk is managed by matching a property's anticipated net operating income to an appropriate financing.

The following table contains only those exposures that existed at December 31, 2001. Anticipation of exposures of risk on positions that could possibly arise was not considered. ARL's ultimate interest rate risk and its effect on operations will depend on future capital market exposures, which cannot be anticipated with a probable assurance level. Dollars in thousands.

ASSETS

Trading Instruments--Equity Price Risk

Marketable securities at market value.....	\$	96
Notes receivable		
Variable interest rate-fair value	\$	4,352

	2002	2003	2004	2005	2006
	----	----	----	----	----
Instrument's maturities.....\$	--	\$ --	\$ 5,633	\$ --	\$ --
Instrument's amortization.....	--	--	--	--	--
Interest.....	380	380	318	--	--
Average rate.....	6.8 %	6.8	11.3 %	--	--

Fixed interest rate-fair value....

	2002	2003	2004	2005
	----	----	----	----

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Instrument's maturities.....	\$ 11,563	\$ 1,017	\$ 13,200	\$ --	\$ --
Instrument's amortization.....	--	--	--	--	--
Interest.....	2,095	1,562	213	--	--
Average rate.....	10.5 %	11.4 %	3.2 %	--	--
Liabilities					
Notes payable					
Variable interest rate-fair value....					

	2002	2003	2004	2005	2006
	----	----	----	----	----
Instrument's maturities.....	\$ 117,654	\$ --	\$ --	\$ --	\$ --
Instrument's amortization.....	1,413	1,297	1,305	1,508	
Interest.....	9,110	749	619	481	
Average rate.....	13.5 %	10.0 %	10.0 %	10.0 %	

Fixed interest rate-fair value.....

	2002	2003	2004	2005	2006
	----	----	----	----	----
Instrument's maturities.....	\$ 143,362	\$ 34,785	\$ 1,898	\$ 50,475	\$ 1,000
Instrument's amortization.....	5,097	4,784	4,950	5,018	
Interest.....	32,504	21,473	20,105	16,877	
Average rate.....	9.0 %	8.1 %	8.3 %	8.0 %	

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MANAGEMENT OF ARL

DIRECTORS AND EXECUTIVE OFFICERS

The following table sets forth certain information as of April 22, 2002 regarding ARL's executive officers and directors:

Name	Age	Position
----	---	-----
Mark W. Branigan*	47	Executive Vice President - Residential
Louis J. Corna*	54	Executive Vice President - Tax
Earl D. Cecil	72	Director
Collene C. Currie	53	Director
Richard W. Humphrey	54	Director
Ronald E. Kimbrough*	49	Acting Principal Executive Officer, Executive Vice President and Chief Financial Officer
Joseph Mizrachi	56	Director
David W. Starowicz*	46	Executive Vice President - Commercial Asset Management

EARL D. CECIL: Director (Independent) (since November 2001) of ARL. Financial and business consultant (since January 1994); Division Vice President (February 1987 to December 1993) of James Mitchell & Company, a financial services marketing organization; and director (since March 2002) of IOT and TCI.

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COLLENE C. CURRIE: Director (Independent) (since August 2000) of ARL. CEO (since January 2002) of Acorn Capital Company; CEO (since January 2001) of c3 Solutions; Associate Director (June 2000 to December 2001) of Cambridge Technology Partners; CFO (since June 1998) of Energy Partners Alliance; Vice President and Senior Relationship Manager (February 1996 to March 2000) of Bank of America Private Bank, (formerly NationsBank Private Client Group of Dallas); Director (April 1998 to August 2000) of NRLP Management Corp. ("NMC"), the former general partner of National Realty, L.P.; Director of Marketing and Communications (October 1993 to January 1999) of the Dallas Opera; and Director of ART (February 1999 to August 2000).

RICHARD W. HUMPHREY: Director (Affiliated) (since November 2001) of ARL. Real estate broker (since December 1999) of Regis Realty, Inc. and (June 1992 to November 1999) of Carmel Realty, Inc.

JOSEPH MIZRACHI: Director (Independent) (since August 2000) of ARL Registered Investment Advisor and Principal and President (since 1980) of PAZ Securities, Inc.; Chairman of the board (since 1980) of Midwest Properties Management, Inc.; Director (since June 2001) of Tarrant Apparel Group; and Director of ART (June 2000 to August 2000).

* See "The Advisor - BCM - Directors and Principal Officers of Advisor" for background and business experience information.

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The business address of each director and executive officer is 1800 Valley View Lane, Suite 300, Dallas, Texas 75234. The business telephone number of each person is 469-522-4200. Each director and executive officer is a citizen of the United States.

EXECUTIVE COMPENSATION OF ARL

ARL has no employees, payroll or benefit plans and pays no compensation to its executive officers. The directors and executive officers of ARL who are also officers or employees of BCM are compensated by BCM. Such affiliated directors and executive officers perform a variety of services for BCM and the amount of their compensation is determined solely by BCM. BCM does not allocate the cash compensation of its officers among the various entities for which it serves as advisor. See "The Advisor" for a more detailed discussion of compensation payable to BCM by ARL.

The only direct remuneration paid by ARL is to those directors who are not officers or employees of BCM or its affiliated companies. Until December 31, 2000, each independent director was compensated at the rate of \$20,000 per year, plus \$300 per Audit Committee meeting attended and the Chairman of the Audit Committee received an annual fee of \$500. Effective January 1, 2001, the annual fee was increased from \$20,000 to \$45,000. In addition, each independent director receives an additional fee of \$1,000 per day for any special services rendered outside of their ordinary duties as director, plus reimbursement of expenses. During 2001, \$302,318 was paid to independent directors in total directors' fees for all services including the annual fee for service during the period January 1, 2001 through December 31, 2001, and 2001 special service fees as follows: Roy E. Bode, \$59,873; Earl D. Cecil, \$7,003; Collene C. Currie, \$79,743; Cliff Harris, \$70,333; Joseph Mizrachi, \$50,716; and Richard D. Morgan, \$34,650.

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In January 1999, stockholders approved the Director's Stock Option Plan (the "Director's Plan") which provides for options to purchase up to 40,000 shares of common stock. Options granted pursuant to the Director's Plan are immediately exercisable and expire on the earlier of the first anniversary of the date on which a director ceases to be a director or ten years from the date of grant. Each independent director was granted an option to purchase 1,000 Common shares at an exercise price of \$17.71 per share on January 11, 1999, the date stockholders approved the plan. On January 1, 2000 and 2001, each independent director was granted an option to purchase 1,000 common shares at an exercise price of \$18.53 and \$13.625 per common share, respectively. Each independent director will be awarded an option to purchase an additional 1,000 shares on January 1 of each year. At December 31, 2001, 2,000 options were exercisable at \$17.71 per common share, 3,000 options were exercisable at \$18.53 per share and 5,000 options were exercisable at \$13.625 per share.

In January 1998, stockholders approved the 1997 Stock Option Plan (the "Option Plan") which provides for options to purchase up to 300,000 shares of common stock. At December 31, 2001, there were 173,750 options outstanding under the Option Plan. No options were granted under the Option Plan in 2001.

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT OF ARL

The following table sets forth the ownership of ARL's common stock both beneficially and of record, both individually and in the aggregate, for those persons or entities known by ARL to be the owner of more than 5% of the shares of ARL's common stock as of the close of business on March 15, 2002.

Name and Address of Beneficial Owner -----	Amount and Nature of Beneficial Ownership -----	Percent of Class(1) -----
Basic Capital Management, Inc.(2).....	6,269,344	55.1%
One Realco Corporation(3).....	1,681,859	14.8%
Transcontinental Realty Investors, Inc.(4)..	746,972	6.6%
Ryan T. Phillips(2)(5).....	6,296,946	55.4%

Assuming Conversion of all
and Series H Redeemable Convertible Preferred Stock

Name and Address of Beneficial Owner -----	Shares of ARL Common Stock Beneficially Owned After the TCI Merger -----	Percentage of Class -----	Shares of ARL Common Stock Beneficially Owned After the IOT Merger -----	Perce of C -----
--	--	---------------------------------	--	------------------------

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Basic Capital Management, Inc.(2).....	9,186,712	64.3%	6,509,649	56
One Realco Corporation(3).....	1,681,859	14.8%	1,681,859	14
Transcontinental Realty Investors, Inc.(4)..	746,972	6.6%	746,972	6
Ryan T. Phillips(2)(5).....	6,301,514	55.4%	6,296,946	55

- (1) Percentages are based upon 11,375,127 shares outstanding as of March 15, 2002.
- (2) Includes 6,269,344 shares owned by BCM over which each of the directors of BCM, Ryan T. Phillips and Mickey Ned Phillips, may be deemed to be beneficial owners by virtue of their positions as directors of BCM. The directors of BCM disclaim beneficial ownership of such shares. Based upon 1,166,947 shares of Series G redeemable convertible preferred stock and 106,802 shares of Series H redeemable convertible preferred stock to be received in the mergers. The business address of BCM is 1800 Valley View Lane, Suite 300, Dallas, Texas 75234.
- (3) Includes 1,447,209 shares owned by One Realco Corporation ("One Realco") and 234,650 shares owned by New Starr Corp., which is a company owned by One Realco. Each of the directors of One Realco, Ronald F. Akin and F. Terry Shumate, may be deemed to be the beneficial owners by virtue of their positions as directors of One Realco. Messrs. Akin and Shumate disclaim beneficial ownership of such shares. The business address of One Realco is 555 Republic Drive, Suite 490, Plano, Texas 75074.
- (4) Each of the directors of TCI, Henry A. Butler, Earl D. Cecil, Ted P. Stokely and Martin L. White, may be deemed to be the beneficial owners by virtue of their positions as directors of TCI. The directors of TCI disclaim such beneficial ownership. The business address of TCI is 1800 Valley View Lane, Suite 300, Dallas, Texas 75234.
- (5) Includes 27,602 shares owned by the Gene E. Phillips' Children's Trust. Ryan T. Phillips is a beneficiary of such trust. Based upon 1,827 shares of Series G redeemable convertible preferred stock to be received in the TCI merger.

SECURITY OWNERSHIP OF MANAGEMENT. The following table sets forth the ownership of shares of ARL's common stock, both beneficially and of record, both individually and in the aggregate, for the directors and executive officers of ARL, as of the close of business on March 15, 2002.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class(1)
-----	-----	-----
Mark W. Branigan (3)(4).....	7,016,316	61.7%
Earl D. Cecil(2).....	1,000	*

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Louis J. Corna(3) (4).....	7,016,316	61.7%
Collene C. Currie(2).....	3,000	*
Richard W. Humphrey(2).....	1,200	*
Ronald E. Kimbrough(3) (4).....	7,016,316	61.7%
Joseph Mizrachi(2).....	2,000	*
David W. Starowicz(2) (3) (4).....	7,019,316	61.7%
All Directors and Executive Officers as a group (8 persons) (3) (4).....	7,026,516	61.7%

Assuming Conversion of all Shares
and Series H Redeemable Convertible Preferred Stock, i

Name of Beneficial Owner -----	Shares of ARL Common Stock Beneficially Owned After the TCI merger -----	Percentage of Class -----	Shares of ARL Common Stock Beneficially Owned After the IOT merger -----	Percentage of Class -----
Mark W. Branigan (3) (4).....	9,933,684	69.5%	7,256,621	62.5%
Earl D. Cecil(2).....	1,000	*	1,000	*
Louis J. Corna(3) (4).....	9,933,684	69.5%	7,256,621	62.5%
Collene C. Currie(2).....	3,000	*	3,000	*
Richard W. Humphrey(2).....	1,200	*	1,200	*
Ronald E. Kimbrough(3) (4).....	9,933,684	69.5%	7,256,621	62.5%
Joseph Mizrachi(2).....	2,000	*	2,000	*
David W. Starowicz(2) (3) (4).....	9,936,684	69.5%	7,259,621	62.5%
All Directors and Executive Officers as a group (8 persons) (3) (4).....	9,943,884	69.6%	7,266,821	62.5%

*less than one percent

- (1) Percentage is based upon 11,375,127 shares outstanding at March 15, 2002.
- (2) Each of Ms. Currie and Messrs. Cecil, Humphrey, Mizrachi and Starowicz have options to purchase shares of ARL common stock which are exercisable within 60 days of March 15, 2002.
- (3) Includes 746,972 shares owned by TCI of which the executive officers of ARL may be deemed to be the beneficial owners by virtue of their positions as executive officers of TCI. The executive officers of ARL disclaim beneficial ownership of such shares.
- (4) Includes 6,269,344 shares owned by BCM of which the executive officers of ARL may be deemed to beneficially own by virtue of their positions as executive officers of BCM. The executive officers of ARL disclaim beneficial ownership of such shares. Also includes 7,200 shares which may be acquired by the directors of ARL pursuant to the Director Stock Option Plan or the 1997 Stock Option Plan and 3,000 shares which may be acquired by an executive officer of ARL pursuant to the 1997 Stock Option Plan.

RECENT SALES OF UNREGISTERED ARL SECURITIES

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Each issuance set forth below was made in reliance upon the exemptions from registration requirements of the Securities Act of 1933, as amended, contained in Section 4(2) on the basis that such transactions did not involve a public offering. When appropriate, ARL determined that the purchasers of securities described below were sophisticated investors who had the financial ability to assume the risk of their investment in ARL's securities and acquired such securities for their own account and not with a view to any distribution thereof to the public.

In 2000, ARL issued 50,000 shares of Series E 6% cumulative preferred stock to a private investor in exchange for a \$500,000 note receivable.

Also in 2000, ARL issued 121,332 shares of ARL Series A cumulative convertible preferred stock to unsecured creditors of EQK Realty Investors I. These shares were issued in ARL's acquisition of a 100% interest in EQK Realty Investors I for \$1.1 million in cash and

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\$1.21 million in Series A convertible preferred stock. At the date of the acquisition, EQK's assets consisted of \$2.0 million in cash.

In 2001, ARL issued 3,968.75 shares of Series F redeemable preferred stock in connection with the purchase of lease hold interests in 37 oil and gas mineral development properties. The Series F shares paid \$3,968,750 of the \$4.7 million purchase price.

In 2002, ARL issued 600,000 shares of Series A cumulative convertible preferred stock to ART Hotel Equities, Inc., a subsidiary of ARL. The shares were pledged as security for an ARL guarantee of a loan.

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PERFORMANCE GRAPH OF ARL

The following graph compares the cumulative total stockholder return on ARL's shares (ART's shares prior to August 2000) of common stock with the Dow Jones Equity Market Index ("DJ Equity Index") and the Dow Jones Real Estate Investment Index ("DJ Real Estate Index"). The comparison assumes that \$100 was invested on December 31, 1996 in shares of common stock and in each of the indices and further assumes the reinvestment of all dividends. Past performance is not necessarily an indicator of future performance.

[PERFORMANCE GRAPH OF ARL LINE CHART]

	12/31/96	12/31/97	12/31/98	12/31/99	1
American Realty Investors, Inc.	100	223	259	270	
Dow Jones US Realty Index	100	118	93	88	

Dow Jones US Total Market Index	100	132	165	202
---------------------------------	-----	-----	-----	-----

DESCRIPTION OF THE CAPITAL STOCK OF ARL

The description of ARL's capital stock set forth below is only a summary and is not intended to be complete. For a complete description of ARL's capital stock, we urge you to read ARL's articles of incorporation and bylaws and as appropriate the certificate of designation of the Series G or Series H redeemable convertible preferred stock, which are filed as an exhibit to the joint proxy statement and prospectus of which this document forms a part.

DESCRIPTION OF COMMON STOCK

There are currently 100,000,000 shares of ARL common stock authorized and 11,375,127 shares outstanding. Assuming conversion of all of the shares of Series G and Series H redeemable convertible preferred stock issuable in connection with the business combination, there will be 15,153,661 shares of ARL common stock outstanding.

VOTING RIGHTS. Holders of ARL common stock will be entitled to one vote per share on all matters voted on by stockholders, including the election of directors. The ARL charter does not provide for cumulative voting in the election of directors of ARL.

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DIVIDENDS. After giving effect to any preferential rights of any series of preferred stock outstanding, including the ARL preferred stock to be issued in the TCI merger, the holders of ARL common stock are entitled to participate in dividends, if any, as may be declared from time to time by the ARL board of directors and, upon liquidation, are entitled to receive a pro-rata share of all the assets of ARL that are available for distribution to these holders. All of the ARL common stock will, when issued, be fully paid and nonassessable. Holders of ARL common stock will have no preemptive rights with respect to future issuances of ARL capital stock.

DESCRIPTION OF PREFERRED STOCK

The board of directors is authorized to issue up to 50,000,000 shares of preferred stock from time to time, in one or more series, without stockholder approval, and to fix the designation, preferences, conversion or other rights, voting powers, restriction, limitations as to dividends, qualifications and terms and conditions of redemption of any series that may be established by the ARL board. As a result, without stockholder approval, the ARL board could authorize the issuance of preferred stock with voting, conversion and other rights that could dilute the voting power and other rights of the holders of ARL common stock. In addition, shares issued after the business combination may have the effect, under some circumstances, alone or in combination with other provisions of the ARL charter of rendering more difficult or discouraging an acquisition of ARL considered undesirable by the ARL board of directors.

SERIES A PREFERRED STOCK. There are authorized a total of 15,000,000 shares of Series A cumulative convertible preferred stock with a par value of \$2.00 per share and an adjusted liquidation value of \$10.00 per share plus payment of accrued and unpaid dividends. The Series A cumulative convertible preferred stock is non-voting except:

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- (1) as provided by law,
- (2) 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 A cumulative convertible preferred stock, and
- (3) at any time or times for the election of two directors when all or any portion of the dividends on the Series A cumulative convertible 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 Series A cumulative 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 A cumulative convertible preferred stock held. ARL is not obligated to maintain a sinking fund with respect to the Series A cumulative convertible preferred stock.

The Series A cumulative convertible preferred stock is convertible, at the option of the holder, into shares of ARL common stock at any time and from time to time, in whole or in part, after the earliest to occur of

- (1) August 15, 2003;

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- (2) the first business day, if any, occurring after a quarterly dividend payment date, on which an amount equal to or in excess of 5% of the \$10.00 liquidation value (i.e., \$.50 per share of Series A cumulative convertible preferred stock) is accrued and unpaid, or
- (3) when ARL becomes obligated to mail a statement, signed by an officer of ARL, to the holders of record of each of the shares of Series A cumulative convertible preferred stock because of a proposal by ARL at any time before all of the shares of Series A cumulative convertible preferred stock have been redeemed by or converted into common stock, to merge or consolidate with or into any other corporation (unless ARL is the surviving entity and holders of common stock continue to hold the shares of common stock without modification and without receipt of any additional consideration), or to sell, lease, or convey all or substantially all its property or business, or to liquidate, dissolve or wind up.

The Series A cumulative convertible preferred stock is convertible into that number of shares of ARL common stock obtained by multiplying the number of shares being converted by \$10.00, then adding all accrued and unpaid dividends, then dividing those sums by the conversion price, which is 90% of the simple average of the trading price of the common stock for 20 business days ending on the last calendar day of the week preceding the conversion date. Notwithstanding the foregoing, ARL, at its option, may elect to redeem any shares of Series A cumulative convertible preferred stock sought to be so converted by paying the holder of the Series A cumulative convertible preferred stock cash in an amount equal to the conversion price for each share of Series A cumulative convertible preferred stock redeemed.

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The Series A cumulative convertible preferred stock bears a cumulative compounded dividend per share equal to 10% per annum of the adjusted liquidation value, payable on each quarterly dividend payment date. The dividend accrues from the date of issuance to and including the date on which the redemption price of the shares is paid, whether or not those dividends have been declared and whether or not there are profits, surplus or other funds of ARL legally available for the payment of those dividends. Dividends on the Series A cumulative convertible preferred stock are in preference to and with priority over dividends payable on the common stock. Except as provided in the following sentence, the Series A cumulative convertible preferred stock ranks on a parity as to dividends and upon liquidation, dissolution or winding up with all other preferred stock issued by ARL. ARL will not issue any shares of preferred stock of any series which are superior to the Series A cumulative convertible preferred stock as to dividends or rights upon liquidation, dissolution or winding up of ARL as long as any shares of Series A cumulative convertible preferred stock are issued and outstanding, without the prior written consent of the holders of at least 66 2/3% of the shares of the Series A cumulative convertible preferred stock then outstanding voting separately as a class.

In addition to ARL's redemption rights described above upon a conversion of Series A cumulative convertible preferred stock, ARL may redeem any or all of the Series A cumulative convertible preferred stock at any time and from time to time, at its option, for cash upon no less than 20 days nor more than 30 days prior notice thereof. The redemption price of the Series A cumulative convertible preferred stock shall be an amount per share equal to 103% of the adjusted liquidation value.

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There were 2,724,901 shares of Series A cumulative convertible preferred stock outstanding at January 31, 2002. There are reserved 1,998,797 shares of Series A cumulative convertible preferred stock for issuance as future consideration in various business transactions of ARL.

SERIES B REDEEMABLE CONVERTIBLE PREFERRED STOCK. There are designated 80,000 shares of Series B redeemable convertible preferred stock with a par value of \$2.00 per share and a preference on liquidation of \$100 per share plus payment of all accrued and unpaid dividends. The Series B redeemable convertible preferred stock is non-voting except as required by law. ARL is not required to maintain a sinking fund for the stock.

Each share of Series B redeemable convertible preferred stock is convertible into that number of shares of ARL common stock obtained by multiplying the number of shares being converted by \$100, then adding all accrued and unpaid dividends on the shares, then dividing the sum by (in most instances) 80% of the average trading price of the ARL common stock for the 20 business days ending on the last business day of the calendar week immediately preceding the date of conversion.

The Series B redeemable convertible preferred stock bears a cumulative dividend per share equal to \$11.00 per annum (\$2.75 per quarter). Dividends on the Series B redeemable convertible preferred stock are in preference to and with priority over dividends upon the ARL common shares. The Series B redeemable convertible preferred stock ranks on a parity as to dividends and upon liquidation, dissolution or winding up with all other shares of preferred stock.

ARL may redeem any or all of the shares of Series B redeemable convertible preferred stock from time to time upon payment of \$100.00 per share

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plus all accrued and unpaid dividends. There is no restriction on the repurchase or redemption of the Series B redeemable convertible preferred stock by ARL while there is any arrearage in payment of dividends except that at the time of the repurchase or redemption ARL must pay all accrued and unpaid dividends on the shares being redeemed.

There were no shares of Series B redeemable convertible preferred stock outstanding at January 31, 2002.

SERIES C REDEEMABLE CONVERTIBLE PREFERRED STOCK. There are designated 231,750 shares of Series C redeemable convertible preferred stock with a par value of \$2.00 per share and a preference on liquidation of \$100.00 per share plus all accrued and unpaid dividends. The Series C redeemable convertible preferred stock is non-voting except as required by the law. ARL is not required to maintain a sinking fund for the stock.

Each share of Series C redeemable convertible preferred stock is convertible at the option of the holders thereof in the following amounts at any time on or after the respective dates:

- (1) 25,000 shares on or after December 31, 2000;
- (2) 25,000 shares on or after September 30, 2002;

- (3) 25,000 shares on or after September 30, 2003;
- (4) 25,000 shares on or after December 31, 2005; and
- (5) all remaining outstanding shares on or after December 31, 2006.

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These shares are convertible into that number of shares of ARL common stock obtained by multiplying the number of shares of Series C redeemable convertible preferred stock being converted by \$100 and then dividing the sum by (in most instances) 90% of the average of the daily closing price of the ARL common shares for the 20 trading days ending on the last trading day of the calendar week immediately preceding the conversion on the market where the ARL common stock is then regularly traded. The right of conversion terminates upon receipt of the notice of redemption from ARL and on the earlier of (1) the commencement of any liquidation, dissolution or winding up of ARL or (2) the adoption of any resolution authorizing the commencement thereof. ARL may elect to redeem the shares of Series C redeemable convertible preferred stock sought to be converted instead of issuing shares of ARL common stock.

The Series C redeemable convertible preferred stock bears a cumulative quarterly dividend per share in an amount equal to:

- (1) 8% per annum during the period from July 1, 1999 to September 30, 2000;
- (2) 9% per annum during the period from July 1, 2000 to September 30, 2001; and
- (3) 10% per annum from July 1, 2001 and thereafter.

In each case, the dividend per share is calculated on the basis of the adjusted liquidation value of the Series C redeemable convertible preferred stock, payable in arrears in cash on each quarterly dividend payment date. The

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dividend accrues from the date of issuance to and including the date on which the redemption price of the shares is paid. Dividends on the Series C redeemable convertible preferred stock are in preference to and with priority over dividends upon the ARL common shares. The Series C 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.

ARL may redeem all or a portion of the shares of the Series C redeemable convertible preferred stock issued and outstanding at any time and from time to time, at its option, for cash upon no less than 20 days nor more than 30 days prior notice thereof. The redemption price of the shares of the Series C redeemable convertible preferred stock shall be an amount per share equal to the sum of (1):

- (1) 104% of liquidation value during the period from January 1, 2000 through December 31, 2000;
- (2) 103% of liquidation value during the period from January 1, 2001 through December 31, 2001;
- (3) 102% of liquidation value during the period from January 1, 2002 through December 31, 2002;

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- (4) 101% of liquidation value during the period from January 1, 2003 through December 31, 2003; and
- (5) 100% of liquidation value from January 1, 2004 and thereafter,

and (2) all accrued and unpaid dividends on the shares through the redemption date. The right of ARL to redeem shares of Series C redeemable convertible preferred stock remains effective notwithstanding prior receipt by ARL of notice by any holder of Series C redeemable convertible preferred stock of the holder's intent to convert shares of Series C redeemable convertible preferred stock into shares of ARL common stock. There were no shares of Series C redeemable convertible preferred stock issued or outstanding at January 31, 2002.

SERIES D PREFERRED STOCK. There are 91,000 shares of Series D 9.50% cumulative preferred stock designated with a par value of \$2.00 per share and a preference on liquidation of \$20.00 per share plus payment of accrued and unpaid dividends. The Series D preferred stock is non-voting except as required by law and is not convertible. ARL is not required to maintain a sinking fund for the stock.

Each share of Series D preferred stock has a cumulative dividend per share of 9.50% per annum of the \$20.00 liquidation preference, payable quarterly in equal installments of \$0.475. Dividends on the Series D preferred stock are in preference to and with priority over dividends upon the shares of ARL common stock. The Series D preferred stock ranks on a parity as to dividends and upon liquidation, dissolution or winding up with all other shares of ARL preferred stock.

ARL may from time to time after June 1, 2001 redeem any or all of the Series D preferred stock upon payment of the liquidation value of \$20.00 per share plus all accrued and unpaid dividends. There is no restriction on the repurchase or redemption of the Series D preferred stock by ARL while there is any arrearage in payment of dividends except that at the time of the repurchase or redemption ARL must pay all accrued and unpaid dividends on the shares being redeemed. As of January 31, 2002, there were no shares of Series D preferred stock issued or outstanding.

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SERIES E PREFERRED STOCK. There are 500,000 shares of Series E cumulative preferred stock designated with a par value of \$2.00 per share and a preference on liquidation of \$10.00 per share plus payment of accrued and unpaid dividends. The Series E preferred stock is non-voting except as required by law and is not convertible. ARL is not required to maintain a sinking fund for the stock.

Each share of Series E preferred stock has a cumulative dividend per share of 6.0% per annum of the \$10.00 liquidation preference, payable quarterly. Dividends on the Series E preferred stock are in preference to and with priority over dividends upon the ARL common stock. The Series E preferred stock ranks on a parity as to dividends and upon liquidation, dissolution or winding up with all other shares of preferred stock.

ARL may at any time and from time to time redeem any or all of the Series E preferred stock upon payment of the liquidation value of \$10.00 per share plus all accrued and unpaid dividends. There is no restriction on the repurchase or redemption of the Series E preferred

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stock by ARL while there is any arrearage in payment of dividends except that at the time of the repurchase or redemption ARL must pay all accrued and unpaid dividends on the shares being redeemed. As of January 31, 2002, there were 50,000 shares of Series E preferred stock issued and outstanding.

SERIES F REDEEMABLE PREFERRED STOCK. There are 4,961 shares of Series F redeemable preferred stock designated with a par value of \$2.00 per share and a preference on liquidation of \$1,000.00 per share. The Series F redeemable preferred stock is non-voting except as required by law. ARL is not required to maintain a sinking fund for the stock.

The holders of Series F redeemable preferred stock are not entitled to receive any dividends or distributions. The Series F redeemable preferred stock ranks on a parity upon a liquidation, dissolution or winding up with all other shares of preferred stock.

ARL may redeem at anytime, any or all of the Series F redeemable preferred stock upon payment of the liquidation value of \$1,000.00 per share by giving the holder thereof not less than 20 days nor more than 30 days notice thereof prior to the date on which ARL desires such shares redeemed. There is no restriction on the repurchase or redemption of the Series F redeemable preferred stock by ARL while there is any arrearage in payment of dividends, if any.

From and after January 1, 2002, within 10 calendar days of the filing of ARL's report on Form 10-Q or Form 10-K, ARL shall call for redemption that number of shares of the Series F redeemable preferred stock having an aggregate liquidation value equal to 20% of the net cash flow generated by the assets acquired from MJR Oil & Gas 2001, LLC during the preceding fiscal quarter after the payment of any current payment due under the two promissory notes which ARL issued to MJR Oil & Gas 2001, LLC in connection with the acquisition of such assets. Such shares of Series F redeemable preferred stock shall be redeemed at the liquidation value of \$1,000.00 per share.

In the event that ARL engages in a transfer of more than 10% the assets acquired from MJR Oil & Gas 2001, LLC, whether by sale, merger, consolidation or other similar transaction, ARL shall prior to such transaction call for redemption each outstanding shares of Series F redeemable preferred stock at a price per share equal to the liquidation price of \$1,000.00.

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As of January 31, 2002 there were 3,968.75 shares of Series F redeemable preferred stock issued and outstanding.

10% SERIES G CUMULATIVE CONVERTIBLE PREFERRED STOCK. There are 4,050,000 shares of the Series G redeemable convertible preferred stock designated with a par value of \$2.00 per share and a preference on liquidation of \$20.00 per share plus payment of accrued and unpaid dividends. There are currently no shares of Series G redeemable convertible preferred stock outstanding. The Series G redeemable convertible preferred stock is non-voting except:

- (1) as provided by law,
- (2) 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 redeemable convertible preferred stock, and

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- (3) 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.

In the latter event, 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. ARL is not required to maintain a sinking fund for the stock.

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. Dividends on the Series G redeemable convertible preferred stock are 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 preferred stock.

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, the Series G redeemable convertible preferred stock may be converted at the option of the holder of Series G redeemable convertible preferred stock into 2.5 shares of ARL common stock for each share of Series G redeemable convertible preferred stock.

ARL may provide notice of its intention to redeem the Series G redeemable convertible preferred stock no earlier than 45 days after ARL publicly files its first Form 10-Q with the SEC following the consummation of the TCI merger. After that time, ARL may redeem any or all of the Series G redeemable convertible preferred stock upon payment of the liquidation value of \$20.00 per share 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.

ARL will make an application with the NYSE to list the Series G redeemable convertible preferred stock provided that there are an adequate

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number of Series G redeemable convertible preferred stock stockholders and shares of Series G redeemable convertible preferred stock outstanding to list the Series G redeemable convertible preferred stock on the NYSE.

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10% SERIES H REDEEMABLE CONVERTIBLE PREFERRED STOCK. There are 1,030,000 shares of the Series H redeemable convertible preferred stock designated with a par value of \$2.00 per share and a preference on liquidation of \$21.50 per share plus payment of accrued and unpaid dividends. There are currently no shares of Series H redeemable convertible preferred stock outstanding. The Series H redeemable convertible preferred stock is non-voting except:

- (1) as provided by law,
- (2) 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 H redeemable convertible preferred stock, and
- (3) 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 latter event, 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. ARL is not required to maintain a sinking fund for the 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. 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 preferred stock.

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 IOT merger, the Series H redeemable convertible preferred stock may be converted at the option of the holder of Series H redeemable convertible preferred stock into 2.25 shares of ARL common stock for each share of Series H redeemable convertible preferred stock.

ARL may provide notice of its intention to redeem the Series H redeemable convertible preferred stock no earlier than 45 days after ARL publicly files its first Form 10-Q with the SEC following the consummation of the IOT merger. After that time, ARL may redeem any or all of the Series H redeemable convertible preferred stock upon payment of the liquidation value of \$21.50 per share 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.

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ARL will make an application with the NYSE to list the Series H redeemable convertible preferred stock provided that there are an adequate number of Series H redeemable convertible preferred stock stockholders and shares of Series H redeemable convertible preferred stock outstanding to list the Series H redeemable convertible preferred stock on the NYSE. ARL will

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also make an application with the NYSE to list the shares of ARL common stock issuable upon conversion of the Series H redeemable convertible preferred stock.

The description of the foregoing provisions of each series of the preferred stock does not purport to be complete and is subject to and qualified in its entirety by reference to the provisions of ARL's articles of incorporation relating to the series of preferred stock.

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CHARTER AND BYLAWS OF ARL

The following is a summary of the terms of ARL's articles of incorporation and bylaws. The summary contains all material terms, but does not set forth all the provisions of the articles of incorporation or bylaws.

AUTHORIZED STOCK

ARL's charter authorizes it to issue 150,000,000 shares of capital stock, consisting of 100,000,000 shares of common stock, par value \$.01 per share, and 50,000,000 shares of preferred stock, par value \$2.00 per share. Shares of preferred stock may be issued from time to time, in one or more series, each having specific voting powers, designations, preferences and restrictions as approved by the ARL board.

DIRECTORS

The bylaws provide that the number of directors serving on ARL's board will be not less than three nor more than twelve. The exact number of directors will be fixed by the board from time to time. The bylaws provide that, unless otherwise provided by law or the charter, a quorum consists of a majority of the entire board. The act of a majority of the directors present at any meeting at which there is a quorum shall be the act of the board. Cumulative voting is not authorized in the election of directors to the board. Vacancies and any newly-created directorships resulting from an increase in the authorized number of directors may be filled by a majority of the directors then in office, even if less than a quorum.

STOCKHOLDER MEETINGS AND SPECIAL VOTING REQUIREMENTS

The annual meetings of stockholders are held on a date established by the board. Special meetings of stockholders may be called by the chairman of the board, by the president, by a resolution adopted by a majority of the board of directors or by the holders of 25% or more of the ARL common stock. In general, the presence of a majority of stockholders in person or by proxy voting constitutes a quorum at any stockholders' meeting. Amendments to the charter or

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the bylaws must be approved by stockholders holding a majority of the shares outstanding and entitled to be cast thereon.

Directors may be removed with or without cause and by the affirmative vote of the holders of not less than two-thirds of the outstanding stock of ARL voting for the election of the director.

AMENDMENT OF THE CHARTER AND BYLAWS

The charter provides that approval of 51% of the stockholders voting is required to amend the articles. A bylaw may be amended or repealed, or a new bylaw adopted, by the affirmative vote of 51% of the stock voting or by a majority of the board.

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TRANSACTIONS WITH INTERESTED OFFICERS OR DIRECTORS

The charter provides that ARL shall not, directly or indirectly, contract or engage in any transaction with any advisor of ARL, any director, officer or employee of ARL or any advisor or any affiliate or associate of any director, officer or employee of ARL or any advisor, unless:

- the material facts as to the relationship or interest are disclosed or are known to the board and the board authorizes the contract or transaction in good faith; the contract or transaction is deemed fair by the board; and
- the board simultaneously authorizes or ratifies the transaction by the affirmative vote of a majority of independent directors voting on the matter.

ANTI-TAKEOVER EFFECT OF AUTHORIZED BUT UNDESIGNATED PREFERRED STOCK

The board is authorized to provide for the issuance of shares of preferred stock, in one or more series, and fix the terms and conditions of each series. Management believes that the availability of preferred stock will provide ARL with increased flexibility in structuring financings and acquisitions and in meeting other corporate needs. Authorized but unissued shares of preferred stock and common stock will be available for issuance without further action by stockholders, unless required by applicable law or the rules of any stock exchange or automated quotation system.

Although the board has no present intention of doing so, it will be able to issue a series of preferred stock that could either impede or facilitate the completion of a merger, tender offer or other takeover attempt. For instance, these new shares might impede a business combination by including class voting rights which would enable the holder to block the transaction. The board will make any determination to issue these shares based on its judgment as to the best interests of ARL and its stockholders. The board will be able to issue preferred stock having terms which would discourage an acquisition attempt or other transaction that a majority of the stockholders might believe to be in their best interests or in which stockholders might receive a premium for their stock.

LIABILITY FOR MONETARY DAMAGES

No director will be personally liable to ARL or its stockholders for monetary damages arising out of a breach of fiduciary duty as a director. A

director's liability, however, is not limited (1) for acts or omissions which involve intentional misconduct, fraud or a knowing violation of law, or (2) for the payment of dividends in violation of Nevada law. If Nevada law is amended to permit additional limitation or elimination of a director's personal liability, the liability of a director will be eliminated or limited to the fullest extent permitted by the amended Nevada law. Any repeal or modification of the existing Nevada law provisions will not increase the personal liability of any director for any act or occurrence taking place prior to the repeal or modification, or otherwise adversely affect any right or protection of a director existing at the time of the repeal or modification.

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INDEMNIFICATION AND ADVANCEMENT OF EXPENSES

Present and former directors and officers of ARL and persons serving as directors, officers, employees or agents of another corporation or entity at the request of ARL are indemnified to the fullest extent permitted by Nevada law. The ARL charter and the bylaws specifically indemnify these persons for expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by them (1) in connection with a threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact that he is or was a director or officer of ARL or is or was serving as a director, officer, employee or agent of another corporation or entity at the request of ARL, or (2) in connection with the defense or settlement of a threatened, pending or completed action or suit by or in the right of ARL, provided that the party is adjudged to be liable to ARL. To be indemnified a person must have acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of ARL and, with respect to any criminal action or proceeding, must have had no reasonable cause to believe his conduct was unlawful.

Indemnification is only available if the applicable standard of conduct has been met by the indemnified party. Indemnification is mandatory where a director or officer is successful in the defense of an action, suit or proceeding or any claim or matter asserted against the person. A determination of the availability of indemnification may be made by the majority vote of a quorum of directors not a party to the suit, action or proceeding, by a written opinion of independent legal counsel or by the stockholders.

In the event that a determination is made that a director or officer is not entitled to indemnification, the director or officer may seek a judicial determination of his right to indemnification. If successful, a director or officer is entitled to indemnification for all expenses, including attorney's fees, incurred in any proceeding seeking to collect an indemnity claim under the indemnification provisions. Other than proceedings to enforce rights to indemnification, ARL is not obligated to indemnify any person in connection with a proceeding initiated by that person.

ARL will pay expenses incurred by a director or officer of ARL, or a former director or officer, in advance of the final disposition of an action, suit or proceeding, if he undertakes to repay amounts advanced in the event it is ultimately determined that indemnification is not available.

The indemnification provisions and provisions for advancing expenses in the ARL charter and bylaws are not exclusive of any other similar rights pursuant to any agreement, vote of the stockholders or disinterested directors or pursuant to judicial direction.

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Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling the registrants pursuant to the foregoing provisions, the registrant has been informed that in the opinion of the SEC such indemnification is against public policy as expressed in the Act and is therefore unenforceable.

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Section 78.7502 of the Nevada Law permits a corporation to indemnify any of its directors, officers, employees and agents against costs and expenses arising from claims, suits and proceedings if such persons acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. Notwithstanding the foregoing, no indemnification may be made in respect of any claim, issue or matter, as to which such person is adjudged to be liable to the corporation unless and only to the extent that a court of competent jurisdiction determines that in view of all the circumstances of the case, the person is fairly and reasonably entitled to indemnity for such expenses as the court deems proper.

ANTI-TAKEOVER PROVISIONS OF THE ORGANIZATIONAL DOCUMENTS OF ARL

The ARL articles of incorporation and bylaws contain a number of provisions that may inhibit or impede the acquisition or attempted acquisition of control of ARL by means of a tender offer, proxy contest or otherwise. These provisions are expected to discourage coercive takeover practices and inadequate takeover bids and to encourage persons seeking to acquire control of ARL to negotiate first with the ARL board. These provisions may increase the likelihood that proposals initially will be on more attractive terms than would be the case in their absence and increase the likelihood of negotiations. This might outweigh the potential disadvantages of discouraging these proposals because, among other things, negotiation of the proposals might result in an improvement of their terms. The discussion below highlights some of these anti-takeover provisions in the ARL charter documents. Because it is a summary, it may not contain all of the information that might be important to you. We urge you to read the ARL articles of incorporation and bylaws, as well as the Nevada General Corporation Law for a complete description of these anti-takeover provisions.

NUMBER OF DIRECTORS; REMOVAL; FILLING VACANCIES

After giving preference to any rights of holders of preferred shares of ARL to elect additional directors under specified circumstances, the ARL articles of incorporation and bylaws provide that the number of directors must not be less than three nor more than 12. In addition, the ARL bylaws provide that, after giving preference to rights of holders of preferred stock, any vacancies will be filled by majority of the remaining directors, even though less than a quorum, or by a sole director, and any vacancies created by an increase in the total number of directors may be filled only by the ARL board. Accordingly, the ARL board could temporarily prevent any stockholder from enlarging the ARL board and then filling the new positions with the stockholder's own nominees.

The ARL articles of incorporation and bylaws also provide that, after giving preference to any rights of holders of preferred shares, directors may be removed only for cause, and only upon the affirmative vote of holders of eighty percent 80% of the then outstanding shares voting in the election of directors.

ADVANCE NOTICE PROVISIONS FOR DIRECTOR NOMINATIONS AND STOCKHOLDER PROPOSALS

The ARL bylaws provide for an advance notice procedure for stockholders to make nominations of candidates for director or to bring other business before the annual meeting of stockholders. According to this procedure (1) only persons who are nominated by, or at the direction of, the ARL board, or by a stockholder who has given timely written notice containing specified information to the secretary of ARL prior to the meeting at which directors are to be elected, will be eligible to nominate candidates for directors of ARL, and (2) at an annual meeting, only that business may be conducted as has been brought before the meeting by, or at the direction of, the ARL board or by a stockholder who has given timely written notice to the secretary of ARL of his intention to bring the business before the meeting. In general, for notice of stockholder nominations or proposed business to be conducted at an annual meeting to be timely, the notice must be received by ARL not less than 60 days nor more than 90 days prior to the scheduled date of the meeting.

The purpose of requiring stockholders to give advance notice of nominations and other business is to afford the ARL board a meaningful opportunity to consider the qualifications of the proposed nominees or the advisability of the other proposed business. To the extent necessary or considered desirable by the ARL board, the advance notice provision will allow the ARL board to inform stockholders and make recommendations about the nominees or business, as well as to ensure an orderly procedure for conducting meetings of stockholders. Although the ARL bylaws do not give the ARL board power to block stockholder nominations for the election of directors or proposals for action, the advance notice procedure may have the effect of discouraging a stockholder from proposing nominees or business, precluding a contest for the election of directors or the consideration of stockholder proposals if procedural requirements are not met. This might also deter third parties from soliciting proxies for a non-management proposal or slate of directors, without regard to the merits of the proposal or slate.

Any action required or permitted to be taken by the ARL stockholders must be taken at a properly called annual or special meeting of the ARL stockholders and may not be taken by written consent. Special meetings of the ARL stockholders may be called at any time, but only by the chairman of the board, the president, or by a majority of the directors then in office.

BUSINESS COMBINATIONS UNDER NEVADA LAW

ARL's articles expressly elect not to be governed by the Nevada "Corporate Combinations Law" contained in Sections 78.411 to 78.444, inclusive, of the NRS and the Nevada "Control Shares Statute" contained in the NRS Sections 78.378 to 78.3792.

ARL POLICIES WITH RESPECT TO CERTAIN ACTIVITIES

The following is a discussion of the current policies of ARL with respect to investments, financing, affiliate transactions and other activities. These policies may be amended or waived from time to time at the discretion of the ARL board without a vote of the ARL stockholders. No assurance can be given that these investment objectives will be attained or that the value of ARL will not decrease.

ARL intends to purchase or lease properties for long-term investment, develop or redevelop its properties or sell these properties, in whole or in part, when circumstances warrant. ARL may participate with other entities in property ownership, through joint ventures or other types of co-ownership. Equity investments may be subject to existing mortgage financing and other indebtedness that have priority over ARL's equity interest.

ARL may repurchase or otherwise reacquire shares of ARL common stock, or other ARL securities and may also invest in securities of other entities including those engaged in real estate. ARL may invest in the securities of other issuers in connection with acquisitions of indirect interests in real estate, consisting generally of general or limited partnership interests in special purpose partnerships owning one or more properties. ARL may acquire all or substantially all of the securities or assets of real estate investment trusts, management companies or similar entities where these investments would be consistent with its investment policies. ARL may also invest in securities of other issuers from time to time for the purpose of exercising control. It is not intended that ARL's investments in securities will require it to register as an "investment company" under the Investment Company Act of 1940, as amended, and it is intended that ARL would divest securities before any registration would be required.

The ARL board may devote available assets to particular investments or types of investments, without restriction. ARL's investment objectives and policies may be changed at any time by the ARL board without the approval of ARL's stockholders.

Additional capital may be raised through additional equity offerings, debt financing or retention of cash flow, or a combination of these methods. If the ARL board determines to raise additional equity capital, it may, without stockholder approval, issue additional shares of common stock or preferred stock up to the amount of its authorized capital in any manner and on whatever terms and for whatever consideration as it deems appropriate, including in exchange for property. These securities may be senior to the outstanding ARL common stock and may include additional series of preferred stock which may be convertible into ARL common stock. Existing stockholders of ARL will have no preemptive right to purchase ARL shares in any subsequent securities offering by ARL, and any offering of this type could cause a dilution of a stockholder's investment in ARL.

To the extent that the ARL board determines to obtain additional debt financing, ARL intends to do so generally by mortgaging its existing properties. These mortgages may be recourse, non-recourse or cross-collateralized. Although ARL does not have a policy limiting the number or amount of mortgages that may be placed on any particular property, mortgage financing instruments typically limit additional indebtedness on these properties. ARL may also borrow funds through bank borrowings, publicly and privately placed debt instruments or purchase money obligations, any of which indebtedness may be secured by ARL's assets or the assets of any entity in which ARL holds an interest.

ARL may seek to obtain unsecured or secured lines of credit or may determine to issue debt securities, which may be convertible into common stock or preferred stock or be accompanied by warrants to purchase stock, or to sell or securitize its receivables. The proceeds from any borrowings may be used for the following purposes:

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- to finance acquisitions
- to develop or redevelop properties
- to refinance existing indebtedness for working capital or capital improvements
- the payment of distributions
- to refinance existing indebtedness

ARL may make loans to joint ventures or other entities in which it participates. ARL does not intend to engage in (1) trading, underwriting or agency distribution or sale of securities of other issuers or (2) the active trade of loans and investments.

The specific composition of ARL's real estate and mortgage notes receivable portfolios following the merger will depend largely on the judgment of ARL's management as to changing investment opportunities and the level of risk associated with specific investments. ARL's management intends to maintain real estate and mortgage notes receivable portfolios diversified by location and type of property.

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INFORMATION ABOUT TCI

BUSINESS OF TCI

TCI, a Nevada corporation, is the successor by merger on March 24, 1992 of a corporation by the same name, which was the successor to a California business trust named Transcontinental Realty Investors Trust which was formerly named Johnstown/Consolidated Realty Trust that was organized on September 6, 1983 and commenced operations on January 31, 1984. On November 30, 1999, TCI acquired all of the outstanding shares of beneficial interest of Continental Mortgage and Equity Trust ("CMET"), a real estate company, in a tax-free exchange of shares, issuing 1.181 shares of its common stock for each outstanding CMET share.

TCI files annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any document filed by TCI at the SEC's public reference room in Washington, D.C. The public reference room at the SEC's office in Washington, D.C. is located at 450 Fifth Street, N.W. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. The company's SEC filings are also available to the public from commercial document retrieval services and at the web site maintained by the SEC at "<http://www.sec.gov>." In addition, because the common stock of TCI is listed on the NYSE, reports and other information concerning TCI (symbol: "TCI") can also be inspected at the office of the NYSE, Inc., 20 Broad Street, New York, New York 10005.

Prior to January 1, 2000, TCI elected to be treated as a Real Estate Investment Trust ("REIT") under Sections 856 through 860 of the Internal Revenue

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Code of 1986, as amended (the "Code"). Section 856(a)(6) of the Code provides that a corporation or other entity wishing to qualify for treatment as a REIT must not be "closely held," as that term is defined in the REIT provisions. A corporation or other entity will be considered closely held for this purpose if it meets the stock ownership test for a personal holding company under Section 542(a)(2) of the Code. This test is met if more than 50% in value of the outstanding shares or certificates of beneficial interest is held directly or indirectly by or for five or fewer individuals at any time during the last half of the tax year. For purposes of determining whether or not a REIT is closely held, an individual also will be attributed ownership of stock that is owned by a family member pursuant to Section 544(a)(2) of the Code. In addition, an individual is deemed to own the proportionate share of the equity interests owned by a corporation, partnership, estate, or trust in which the individual has an interest pursuant to Section 544(a)(1) of the Code. During the third quarter of 2000, it was determined that the top five individual holders, for purposes of the 50% test, held an aggregate ownership interest of 51.5232%. Accordingly, TCI deviated from the REIT requirement by 1.5232% the equivalent of 131,457 shares. Under the Code, TCI cannot re-qualify for REIT tax status for at least five years.

TCI's real estate at December 31, 2001, consisted of 136 properties held for investment, three partnership properties and three properties held for sale that were primarily obtained through foreclosure. In 2001, TCI purchased 17 properties held for investment. TCI's mortgage notes receivable portfolio at December 31, 2001, consisted of ten mortgage loans. In addition, TCI has an interest in a partnership that holds a wraparound mortgage note receivable. TCI's real estate and mortgage notes receivable portfolios are more fully discussed in "Properties of TCI."

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On October 23, 2001, TCI, IOT and ARL jointly announced a preliminary agreement with the plaintiff's legal counsel of the derivative action entitled Olive et al. V. National Income Realty Trust, et al. for complete settlement of all disputes in the lawsuit. In February 2002, the court granted final approval of the proposed settlement. Under the proposal, ARL would acquire all of the outstanding shares of IOT and TCI not currently owned by ARL for a cash payment or shares of ARL Preferred Stock. ARL will pay \$17.50 cash per TCI share and \$19.00 cash per IOT share for the stock held by nonaffiliated stockholders. ARL would issue one share of Series G redeemable convertible preferred stock with a liquidation value of \$20.00 per share for each share of TCI common stock for stockholders who elect to receive ARL preferred stock in lieu of cash. ARL would issue one share of Series H redeemable convertible preferred stock with a liquidation value of \$21.50 per share for each share of IOT common stock for stockholders who elect to receive ARL preferred stock in lieu of cash. Each share of Series G redeemable convertible preferred stock will be convertible into 2.5 shares of ARL common stock during a 75-day period that commences fifteen days after the date of the first ARL Form 10-Q filing that occurs after the closing of the merger transaction. Upon the acquisition of IOT and TCI shares, TCI and IOT would become wholly-owned subsidiaries of ARL. The transaction is subject to the negotiation of a definitive merger agreement and a vote of the stockholders of all three entities. TCI has the same board as IOT and the same advisor as IOT and ARL.

BUSINESS PLAN AND INVESTMENT POLICY

TCI's business is investing in real estate through direct equity

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ownership and partnerships and financing real estate and real estate related activities through investments in mortgage loans, including first, wraparound and junior mortgage loans. TCI's real estate is located throughout the continental United States and one property is located in Poland. Information regarding TCI's real estate and mortgage notes receivable portfolios is set forth in "-- Properties of TCI", and in Schedules III and IV to the TCI consolidated financial statements included elsewhere in this joint proxy statement and prospectus.

TCI's business is not seasonal. Management has determined to continue to pursue a balanced investment policy, seeking both current income and capital appreciation. With respect to new real estate investments, management's plan of operation is to consider all types of real estate with an emphasis on properties generating current cash flow. Management expects to invest in and improve these properties to maximize both their immediate and long-term value. Management will also consider the development of apartment properties in selected markets primarily in Texas.

Management also expects to consider property sales opportunities for properties in stabilized real estate markets where TCI's properties have reached their potential. Management also expects to be an opportunistic seller of properties in markets that have become overheated, i.e. an abundance of buyers.

Management's operating strategy with regard to TCI's properties is to maximize each property's operating income by aggressive property management through closely monitoring expenses while at the same time making property renovations and/or improvements where appropriate. While such expenditures increase the amount of revenue required to cover operating

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expenses, management believes that such expenditures are necessary to maintain or enhance the value of the properties.

Management does not expect that TCI will seek to fund or acquire new mortgage loans in 2002. However, TCI may originate mortgage loans in conjunction with providing purchase money financing of a property sale. Management intends to service and hold for investment the mortgage notes in TCI's portfolio. However, TCI may borrow against its mortgage notes, using the proceeds from such borrowings for property acquisitions or for general working capital needs. Management also intends to pursue TCI's rights vigorously with respect to mortgage notes that are in default. TCI's Articles of Incorporation impose no limitations on its investment policy with respect to mortgage loans and does not prohibit it from investing more than a specified percentage of its assets in any one mortgage loan.

MANAGEMENT OF THE COMPANY

Although the board of directors is directly responsible for managing the affairs of TCI and for setting the policies which guide it, its day-to-day operations are performed by BCM, a contractual advisor under the supervision of the Board. The duties of BCM include, among other things, locating, investigating, evaluating and recommending real estate and mortgage note investment and sales opportunities, as well as financing and refinancing sources. BCM also serves as a consultant in connection with TCI's business plan

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and investment decisions made by the Board.

BCM is a company owned by a trust for the benefit of the children of Gene E. Phillips. Mr. Phillips serves as a representative of his children's trust, which owns BCM and in such capacity, has substantial contact with the management of BCM and input with respect to its performance of advisory services to TCI. BCM is more fully described in "The Advisor -- BCM."

BCM has been providing advisory services to TCI since March 28, 1989. BCM also serves as advisor to IOT and ARL. The directors of TCI are also directors of IOT. The officers of TCI also serve as officers of ARL, IOT, and BCM. As of March 15, 2002, TCI owned approximately 24.0% of IOT's outstanding shares of common stock and ARL owned approximately 50.0% and BCM owned approximately 14.5% of the outstanding shares of TCI's common stock.

Since February 1, 1990, affiliates of BCM have provided property management services to TCI. Currently, Triad Realty Services, Ltd. ("Triad") provides such property management services. Triad subcontracts with other entities for the provision of property-level management services to TCI. The general partner of Triad is BCM. The limited partner of Triad is GS Realty Services, Inc. ("GS Realty"), a related party. Triad subcontracts the property-level management and leasing of 51 of TCI's commercial properties and the two commercial properties owned by real estate partnerships in which TCI and IOT are partners to Regis Realty, Inc. ("Regis"), a related party, which is a company owned by GS Realty. Regis is entitled to receive property and construction management fees and leasing commissions in accordance with the terms of its property-level management agreement with Triad. Regis also is entitled to receive real estate

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brokerage commissions in accordance with the terms of a non-exclusive brokerage agreement. Regis Hotel Corporation, a related party, manages TCI's five hotels. See "The Advisor."

TCI has no employees. Employees of BCM render services to TCI.

COMPETITION

The real estate business is highly competitive and TCI competes with numerous entities engaged in real estate activities (including certain entities described in "Certain Relationships and Related Transactions of ARL, TCI and IOT--Related Party Transactions"), some of which have greater financial resources than those of TCI. Management believes that success against such competition is dependent upon the geographic location of the property, the performance of property-level managers in areas such as marketing, collections and control of operating expenses, the amount of new construction in the area and the maintenance and appearance of the property. Additional competitive factors with respect to commercial properties are the ease of access to the property, the adequacy of related facilities, such as parking, and sensitivity to market conditions in setting rent levels. With respect to apartments, competition is also based upon the design and mix of units and the ability to provide a community atmosphere for the tenants. Management believes that beyond general economic circumstances and trends, the rate at which properties are renovated or the rate new properties are developed in the vicinity of each of TCI's properties also are competitive factors.

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

As described above and in "Certain Relationships and Related Transactions of ARL, TCI and IOT -- Related Party Transactions," the officers and directors of TCI also serve as officers or directors of certain other entities, also advised by BCM, and which have business objectives similar to those of TCI. TCI's directors, officers and advisor owe fiduciary duties to such other entities as well as to TCI under applicable law. In determining to which entity a particular investment opportunity will be allocated, the officers, directors and advisor consider the respective investment objectives of each such entity and the appropriateness of a particular investment in light of each such entity's existing real estate portfolio. To the extent that any particular investment opportunity is appropriate to more than one of the entities, the investment opportunity will be allocated to the entity which has had funds available for investment for the longest period of time or, if appropriate, the investment may be shared among all or some of the entities.

In addition, as also described in "Certain Relationships and Related Transactions of ARL, TCI and IOT -- Certain Business Relationships," TCI also competes with other entities which are affiliates of BCM and which have investment objectives similar to TCI's and that may compete with it in purchasing, selling, leasing and financing of real estate and real estate related investments. In resolving any potential conflicts of interest which may arise, BCM has informed management that it intends to continue to exercise its best judgment as to what is fair and reasonable under the circumstances in accordance with applicable law.

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CERTAIN FACTORS ASSOCIATED WITH REAL ESTATE AND RELATED INVESTMENTS

TCI is subject to all the risks incident to ownership and financing of real estate and interests therein, many of which relate to the general illiquidity of real estate investments. These risks include, but are not limited to, changes in general or local economic conditions, changes in interest rates and the availability of permanent mortgage financing which may render the purchase, sale or refinancing of a property difficult or unattractive and which may make debt service burdensome, changes in real estate and zoning laws, increases in real estate taxes, federal or local economic or rent controls, floods, earthquakes, hurricanes and other acts of God and other factors beyond the control of management or BCM. The illiquidity of real estate investments may also impair the ability of management to respond promptly to changing circumstances. Management believes that such risks are partially mitigated by the diversification by geographic region and property type of TCI's real estate and mortgage notes receivable portfolios. However, to the extent new property investments or mortgage lending is concentrated in any particular region or property type, the advantages of diversification may be mitigated.

PROPERTIES OF TCI

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TCI's principal offices are located at 1800 Valley View Lane, Suite 300, Dallas, Texas 75234 and are, in the opinion of management, suitable and adequate for TCI's present operations.

Details of TCI's real estate and mortgage notes receivable portfolios at December 31, 2001, are set forth in Schedules III and IV to the TCI consolidated financial statements included elsewhere in this joint proxy statement and prospectus. The discussions set forth below under the headings "Real Estate" and "Mortgage Loans" provide certain summary information concerning TCI's real estate and mortgage notes receivable portfolios.

TCI's real estate portfolio consists of properties held for investment, properties held for sale, which were primarily obtained through foreclosure of the collateral securing mortgage notes receivable, and investments in partnerships. The discussion set forth below under the heading "Real Estate" provides certain summary information concerning TCI's real estate and further summary information with respect to its properties held for investment, properties held for sale and its investment in partnerships.

At December 31, 2001, none of TCI's properties, mortgage notes receivable or investment in partnerships exceeded 10% of total assets. At December 31, 2001, 88% of TCI's assets consisted of properties held for investment, less than 1% consisted of properties held for sale, 3% consisted of mortgage notes and interest receivable and 2% consisted of investments in partnerships. The remaining 7% of TCI's assets were invested in cash, cash equivalents and other assets. The percentage of TCI's assets invested in any one category is subject to change and no assurance can be given that the composition of TCI's assets in the future will approximate the percentages listed above.

TCI's real estate is geographically diverse. At December 31, 2001, TCI held investments in apartments and commercial properties in each of the geographic regions of the continental United States, although its apartments and commercial properties were concentrated in the

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Southeast and Southwest regions, as shown more specifically in the table under "Real Estate" below. At December 31, 2001, TCI held mortgage notes receivable secured by apartments and commercial properties in the Southwest and Midwest regions of the continental United States, as shown more specifically in the table under "Mortgage Loans" below.

GEOGRAPHIC REGIONS

TCI has divided the continental United States into the following geographic regions.

Northeast region comprised of the states of Connecticut, Delaware, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island and Vermont, and the District of Columbia. TCI owns a commercial property in this region.

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Southeast region comprised of the states of Alabama, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee and Virginia. TCI owns 8 apartments and 19 commercial properties in this region.

Southwest region comprised of the states of Arizona, Arkansas, Louisiana, New Mexico, Oklahoma and Texas. TCI owns 45 apartments and 22 commercial properties in this region.

Midwest region comprised of the states of Illinois, Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, West Virginia and Wisconsin. TCI owns 2 apartments, 4 commercial properties and 3 hotels in this region.

Mountain region comprised of the states of Colorado, Idaho, Montana, Nevada, Utah and Wyoming. TCI owns 3 commercial properties in this region.

Pacific region comprised of the states of California, Oregon and Washington. TCI owns 2 apartments, a hotel and 2 commercial properties in this region.

Excluded from the above are 26 parcels of unimproved land and one hotel in Wroclaw, Poland, as described below.

REAL ESTATE

At December 31, 2001, approximately 93% of TCI's assets were invested in real estate. TCI invests primarily in real estate located throughout the continental United States, either on a leveraged or nonleveraged basis. TCI's real estate portfolio consists of properties held for investment, investments in partnerships and properties held for sale (which were primarily obtained through foreclosure of the collateral securing mortgage notes receivable).

Excluded from the above are 26 parcels of unimproved land and one hotel in Wroclaw, Poland, as described below.

TYPES OF REAL ESTATE INVESTMENTS. TCI's real estate consists of commercial properties (office buildings, industrial warehouses and shopping centers), hotels and apartments having established income-producing capabilities. In selecting real estate for investment, the location, age and type of property, gross rents, lease terms, financial and business standing of tenants,

operating expenses, fixed charges, land values and physical condition are among the factors considered. TCI may acquire properties subject to or assume existing debt and may mortgage, pledge or otherwise obtain financing for its properties. The board of directors may alter the types of and criteria for selecting new real estate investments and for obtaining financing without a vote of stockholders.

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TCI typically invests in developed real estate. However, TCI has recently invested in apartment development and construction. To the extent that TCI continues to invest in development and construction projects, it will be subject to business risks, such as cost overruns and construction delays, associated with such higher risk projects.

At December 31, 2001, TCI had the following properties under construction:

PROPERTY -----	LOCATION -----	UNITS/ROOMS -----	AMOUNT EXPENDED -----	ADDITIONAL AMOUNT TO EXPEND -----	CONS LOAN -----
APARTMENTS					
Falcon Lakes	Arlington, TX	284 Units	\$ 1,688	\$ 14,057	\$ 1
Limestone Ranch	Lewisville, TX	252 Units	8,225	6,396	1
River Oaks	Wiley, TX	180 Units	2,228	9,763	1
Sendero Ridge	San Antonio, TX	384 Units	6,561	22,100	2
Tivoli	Dallas, TX	190 Units	4,299	9,135	1
Verandas at City View	Fort Worth, TX	314 Units	2,570	20,380	1
Waters Edge IV	Gulfport, MS	80 Units	1,979	2,104	
HOTEL					
Akademia	Wroclaw, Poland	165 Rooms	11,761	6,974	1

In the opinion of management, the properties owned by TCI are adequately covered by insurance.

The following table sets forth the percentages, by property type and geographic region, of TCI's real estate (other than four hotels in the Pacific and Midwest regions, one hotel in Poland and 26 parcels of unimproved land, as described below) at December 31, 2001.

REGION -----	APARTMENTS -----	COMMERCIAL PROPERTIES -----
Pacific	2%	1%
Midwest	2	11
Northeast	--	1
Southwest	83	51
Southeast	13	31
Mountain	--	5
	-----	-----
	100%	100%
	===	===

The foregoing table is based solely on the number of apartment units

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and amount of commercial square footage and does not reflect the value of TCI's investment in each region. TCI owns 26 parcels of unimproved land, 1 parcel of 4.66 acres in the Southeast region and 25 parcels of .67 acres, .68 acres, 14.39 acres, 2.89 acres, 2.14 acres, 4.7 acres, 6.8 acres, 18.99 acres, 34.58 acres, 36.38 acres, 97.97 acres, 55.8 acres, 160.38 acres, 97.0 acres, 101.94 acres, 16.16 acres, 18 acres, 17.07 acres, 9.96 acres, 108.9 acres, 6.07 acres, 10.5 acres, 5.36 acres, 7.11

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acres, and 18,000 sq. ft. in the Southwest region. See Schedule III to the TCI consolidated financial statements to the ARL consolidated financial statements included elsewhere in this joint proxy statement and prospectus for a detailed description of TCI's real estate portfolio.

A summary of activity in TCI's owned real estate portfolio during 2001 is as follows:

Owned properties at January 1, 2001	144
Properties purchased	17
Properties sold	(22)

Owned properties at December 31, 2001	139
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PROPERTIES HELD FOR INVESTMENT. Set forth below are TCI's properties held for investment and the monthly rental rate for apartments, the average annual rental rate for commercial properties and the average daily room rate and room revenue divided by total available rooms for hotels and occupancy at December 31, 2001, 2000 and 1999, for apartments and commercial properties and average occupancy during 2001, 2000 and 1999 for hotels:

PROPERTY -----	LOCATION -----	UNITS/ SQUARE FOOTAGE -----	RENT PER SQUA -----	
			2001 ----	2000 ----
APARTMENTS				
4242 Cedar Springs	Dallas, TX	76 Units/60,600 Sq. Ft.	\$.89	\$.

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4400	Midland, TX	92 Units/94,472 Sq. Ft.	.49	.
Apple Lane	Lawrence, KS	75 Units/30,000 Sq. Ft.	1.04	1.
Arbor Point	Odessa, TX	195 Units/178,920 Sq. Ft.	.41	.
Ashton Way	Midland, TX	178 Units/138,964 Sq. Ft.	.43	.
Autumn Chase	Midland, TX	64 Units/58,652 Sq. Ft.	.53	.
Bay Walk	Galveston, TX	192 Units/153,120 Sq. Ft.	.74	*
By the Sea	Corpus Christi, TX	153 Units/123,945 Sq. Ft.	.83	*
Camelot	Largo, FL	120 Units/141,024 Sq. Ft.	.56	.
Cliffs of Eldorado	McKinney, TX	208 Units/182,288 Sq. Ft.	.84	.
Country Crossing	Tampa, FL	227 Units/199,952 Sq. Ft.	.61	.
Courtyard	Midland, TX	133 Units/111,576 Sq. Ft.	.43	*
Coventry	Midland, TX	120 Units/105,608 Sq. Ft.	.43	.
El Chapparal	San Antonio, TX	190 Units/174,220 Sq. Ft.	.72	.
Fairway View Estates	El Paso, TX	264 Units/204,000 Sq. Ft.	.62	.
Fairways	Longview, TX	152 Units/134,176 Sq. Ft.	.54	.
Falcon Lakes	Arlington, TX	284 Units/207,960 Sq. Ft.	**	*
Fountain Lake	Texas City, TX	166 Units/161,220 Sq. Ft.	.59	.
Fountains of Waterford	Midland, TX	172 Units/129,200 Sq. Ft.	.53	.
Gladstell Forest	Conroe, TX	168 Units/121,536 Sq. Ft.	.72	.
Grove Park	Plano, TX	188 Units/143,556 Sq. Ft.	.86	.
Harper's Ferry	Lafayette, LA	122 Units/112,500 Sq. Ft.	.58	.
Heritage on the River	Jacksonville, FL	301 Units/289,490 Sq. Ft.	.65	.
Hunters Glen	Midland, TX	212 Units/174,180 Sq. Ft.	.38	.
In the Pines	Gainesville, FL	242 Units/294,860 Sq. Ft.	.54	.
Island Bay	Galveston, TX	458 Units/374,784 Sq. Ft.	.81	*
Limestone Canyon	Austin, TX	260 Units/216,000 Sq. Ft.	1.06	1.
Limestone Ranch	Lewisville, TX	252 Units/219,600 Sq. Ft.	**	*
Marina Landing	Galveston, TX	256 Units/205,504 Sq. Ft.	.87	*
Mountain Plaza	El Paso, TX	188 Units/220,710 Sq. Ft.	.49	.
Oak Park IV	Clute, TX	108 Units/78,708 Sq. Ft.	.54	.
Paramount Terrace	Amarillo, TX	181 Units/123,840 Sq. Ft.	.57	.
Plantation	Tulsa, OK	138 Units/103,500 Sq. Ft.	.59	.
Primrose	Bakersfield, CA	162 Units/144,836 Sq. Ft.	.59	.
Quail Creek	Lawrence, KS	95 Units/113,416 Sq. Ft.	.57	.
Quail Oaks	Balch Springs, TX	131 Units/72,848 Sq. Ft.	.81	.
River Oaks	Wiley, TX	180 Units/164,604 Sq. Ft.	**	*
Sandstone	Mesa, AZ	238 Units/146,320 Sq. Ft.	.90	.
Sendero Ridge	San Antonio, TX	384 Units/340,880 Sq. Ft.	**	*
Somerset	Texas City, TX	200 Units/163,368 Sq. Ft.	.66	.
Southgate	Odessa, TX	180 Units/151,656 Sq. Ft.	.42	.
Southgreen	Bakersfield, CA	80 Units/66,000 Sq. Ft.	.80	.
Stone Oak	San Antonio, TX	252 Units/187,686 Sq. Ft.	.68	.
Summerfield	Orlando, FL	224 Units/204,116 Sq. Ft.	.75	.
Sunchase	Odessa, TX	300 Units/223,048 Sq. Ft.	.44	.

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PROPERTY	LOCATION	UNITS/ SQUARE FOOTAGE	RENT PER SQUA	
			2001	2000
Terrace Hills	El Paso, TX	310 Units/233,192 Sq. Ft.	\$.67	\$.
Tivoli	Dallas, TX	190 Units/168,862 Sq. Ft.	**	*
Timbers	Tyler, TX	180 Units/101,666 Sq. Ft.	.57	.

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Trails at Windfern	Houston, TX	240 Units/173,376 Sq. Ft.	.73	.
Treehouse	Irving, TX	160 Units/153,072 Sq. Ft.	.78	.
Verandas at City View	Fort Worth, TX	314 Units/295,170 Sq. Ft.	**	*
Waters Edge IV	Gulfport, MS	80 Units/76,400 Sq. Ft.	**	*
Westwood	Odessa, TX	79 Units/49,001 Sq. Ft.	.48	.
Willow Creek	El Paso, TX	112 Units/103,140 Sq. Ft.	.54	.
Willo-Wick Gardens	Pensacola, FL	152 Units/153,360 Sq. Ft.	.54	.
Willow Wick	North Augusta, SC	104 Units/94,128 Sq. Ft.	.56	.
Woodview	Odessa, TX	232 Units/165,840 Sq. Ft.	.48	.
OFFICE BUILDINGS				
1010 Common	New Orleans, LA	494,579 Sq. Ft.	11.28	10.
225 Baronne	New Orleans, LA	416,834 Sq. Ft.	9.77	9.
4135 Beltline Road	Addison, TX	90,000 Sq. Ft.	10.33	10.
9033 Wilshire	Los Angeles, CA	44,253 Sq. Ft.	27.67	26.
Ambulatory Surgery Center	Sterling, VA	33,832 Sq. Ft.	20.37	34.
Amoco	New Orleans, LA	378,244 Sq. Ft.	12.07	11.
Atrium	Palm Beach, FL	74,603 Sq. Ft.	12.69	11.
Bay Plaza	Tampa, FL	75,780 Sq. Ft.	15.96	15.
Bay Plaza II	Tampa, FL	78,882 Sq. Ft.	13.03	12.
Bonita Plaza	Bonita, CA	47,777 Sq. Ft.	19.50	18.
Brandeis	Omaha, NE	319,234 Sq. Ft.	10.88	15.
Corporate Pointe	Chantilly, VA	65,918 Sq. Ft.	19.72	18.
Countryside Retail Center	Sterling, VA	133,422 Sq. Ft.	16.02	18.
Durham Center	Durham, NC	207,171 Sq. Ft.	17.65	17.
Eton Square	Tulsa, OK	222,654 Sq. Ft.	11.27	10.
Forum	Richmond, VA	79,791 Sq. Ft.	15.99	15.
Harmon	Sterling, VA	72,062 Sq. Ft.	19.72	19.
Hartford	Dallas, TX	174,513 Sq. Ft.	11.08	10.
Institute Place	Chicago, IL	144,915 Sq. Ft.	16.23	14.
Jefferson	Washington, DC	71,877 Sq. Ft.	31.65	31.
Lexington Center	Colorado Springs, CO	74,603 Sq. Ft.	12.88	12.
Mimado	Sterling, VA	35,127 Sq. Ft.	19.97	19.
NASA	Clear Lake, TX	78,159 Sq. Ft.	11.86	11.
One Steeplechase	Sterling, VA	103,376 Sq. Ft.	17.19	16.
Parkway North	Dallas, TX	71,041 Sq. Ft.	17.00	14.
Plaza Towers	St. Petersburg, FL	186,281 Sq. Ft.	15.54	14.
Remington Tower	Tulsa, OK	90,009 Sq. Ft.	11.61	11.
Savings of America	Houston, TX	68,634 Sq. Ft.	12.63	11.
Venture Center	Atlanta, GA	38,272 Sq. Ft.	17.85	17.
Westgrove Air Plaza	Addison, TX	78,326 Sq. Ft.	13.54	12.
Windsor Plaza	Windcrest, TX	80,522 Sq. Ft.	13.72	13.
INDUSTRIAL WAREHOUSES				
5360 Tulane	Atlanta, GA	30,000 Sq. Ft.	2.75	2.
5700 Tulane	Atlanta, GA	67,850 Sq. Ft.	2.93	2.
Addison Hanger	Addison, TX	23,650 Sq. Ft.	10.07	11.
Addison Hanger II	Addison, TX	29,000 Sq. Ft.	7.21	*
Central Storage	Dallas, TX	216,035 Sq. Ft.	2.40	1.

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PROPERTY	LOCATION	UNITS/ SQUARE FOOTAGE	RENT PER SQUA	
			2001	2000

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Encon	Fort Worth, TX	256,410 Sq. Ft.	\$ 3.08	\$ 2.
Kelly	Dallas, TX	294,899 Sq. Ft.	3.61	3.
McLeod	Orlando, FL	110,914 Sq. Ft.	8.01	7.
Ogden Industrial	Ogden, UT	107,112 Sq. Ft.	2.94	3.
Space Center	San Antonio, TX	101,500 Sq. Ft.	3.18	3.
Texstar	Arlington, TX	97,846 Sq. Ft.	2.11	2.
Tricon	Atlanta, GA	570,877 Sq. Ft.	3.87	3.
SHOPPING CENTERS				
Dunes Plaza	Michigan City, IN	223,869 Sq. Ft.	5.81	5.
K-Mart	Cary, NC	92,033 Sq. Ft.	3.28	3.
Parkway Center	Dallas, TX	28,374 Sq. Ft.	15.08	14.
Plaza on Bachman Creek	Dallas, TX	80,278 Sq. Ft.	12.11	11.
Promenade	Highland Ranch, CO	133,558 Sq. Ft.	13.06	10.
Sadler Square	Amelia Island, FL	70,295 Sq. Ft.	7.21	7.
Sheboygan	Sheboygan, WI	74,532 Sq. Ft.	2.36	1.
OTHER				
Signature Athletic Club	Dallas, TX	56,532 Sq. Ft.		

PROPERTY	LOCATION	ROOMS	AVERAGE ROOM RATE			OCCUPANCY %		
			2001	2000	1999	2001	2000	
HOTELS								
Willows	Chicago, IL	52 Rooms	\$130.37	\$131.78	\$115.12	53	52	
City Suites	Chicago, IL	45 Rooms	131.16	125.32	111.45	61	74	
Majestic Inn	San Francisco, CA	57 Rooms	174.85	170.08	162.58	41	79	
The Majestic	Chicago, IL	55 Rooms	129.63	120.67	105.27	55	65	
Akademia	Wroclaw, Poland	165 Rooms	**	*	*	***	*	

PROPERTY	LOCATION	SQUARE
		FOOTAGE/ACRES
LAND		
1013 Common	New Orleans, LA	18,000 Sq. Ft.
Alamo Springs	Dallas, TX	.678 Acres
Dominion	Dallas, TX	14.39 Acres
Eagle Crest	Farmers Branch, TX	18.99 Acres
Folsom	Dallas, TX	36.38 Acres
Lamar/Parmer	Austin, TX	17.07 Acres
Las Colinas	Las Colinas, TX	4.7 Acres
Lemmon Carlisle	Dallas, TX	2.14 Acres
Limestone Canyon II	Austin, TX	9.96 Acres
Manhattan	Farmers Branch, TX	108.9 Acres

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McKinney 36	Collin County, TX	34.58 Acres
Mira Lago	Farmers Branch, TX	8.88 Acres
Pac Trust	Farmers Branch, TX	7.11 Acres
Red Cross	Dallas, TX	2.89 Acres
Sandison	Collin County, TX	97.97 Acres

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PROPERTY	LOCATION	SQUARE FOOTAGE/ACRES
Seminary West	Fort Worth, TX	5.36 Acres
Solco - Allen	Collin County, TX	55.8 Acres
Solco - Valley Ranch	Dallas, TX	6.07 Acres
Stacy Road	Allen, TX	160.38 Acres
State Highway 121	Collin County, TX	101.94 Acres
Watters Road	Collin County, TX	97.00 Acres
West End	Dallas, TX	6.8 Acres
Whisenant	Collin County, TX	16.16 Acres

* Property was either purchased or under construction in 2000 or 2001.

** Property was under construction in 2001.

Occupancy presented here and throughout this Section is without reference to whether leases in effect are at, below or above market rates.

In 2001, TCI purchased the following properties:

PROPERTY	LOCATION	UNITS/ ROOMS/ACRES	PURCHASE PRICE	NET CASH PAID	DEBT INCURRED
APARTMENTS					
Baywalk	Galveston, TX	192 Units	\$6,590	\$390	\$5,856
By the Sea	Corpus Christi, TX	153 Units	6,175	862	5,538
Courtyard	Midland, TX	133 Units	1,425	425	1,051
Falcon Lakes(1)	Arlington, TX	284 Units	1,435	1,437	--
Island Bay	Galveston, TX	458 Units	20,360	3,225	16,232
Limestone Ranch(1)	Lewisville, TX	252 Units	505	--	--
Marina Landing	Galveston, TX	256 Units	12,050	518	10,912
River Oaks(1)	Wiley, TX	180 Units	531	578	--
Sendero Ridge(1)	San Antonio, TX	384 Units	1,850	2,635	--
Tivoli(1)	Dallas, TX	190 Units	3,000	2,475	1,000
Verandas at City View(1)	Fort Worth, TX	314 Units	\$2,544	\$276	\$2,197
Waters Edge IV(1)	Gulfport, MS	80 Units	441	441	--

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HOTEL						
Akademia (3)	Wroclaw, Poland	165 Rooms	2,184	2,669	--	--
LAND						
Mira Lago	Farmers Branch, TX	8.88 Acres	541	--	--	--
Pac Trust	Farmers Branch, TX	7.11 Acres	1,175	1,231	--	--
Seminary West	Fort Worth, TX	5.36 Acres	222	232	--	--
Solco-Valley Ranch	Dallas, TX	6.07 Acres	1,454	1,525	--	--

- (1) Land purchased for apartment construction.
- (2) Land was received from ARL, a related party, in exchange for the Glenwood Apartments.
- (3) Land purchased for hotel construction.

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In 2001, TCI sold the following properties:

PROPERTY	LOCATION	UNITS/SQ.FT./ ACRES	SALES PRICE	NET CASH RECEIVED	DEBT DISCHARGED
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APARTMENTS					
Bent Tree Gardens	Addison, TX	204 Units	\$9,000	\$2,669	\$6,065 (
Carseka	Los Angeles, CA	54 Units	4,000	2,138	1,4
Fontenelle Hills	Bellevue, NE	338 Units	16,500	3,680	12,454 (
Forest Ridge	Denton, TX	56 Units	2,000	682	1,1
Glenwood	Addison, TX	168 Units	3,659	--	2,537 (
Heritage	Tulsa, OK	136 Units	2,286	206	1,9
Madison at Bear Creek	Houston, TX	180 Units	5,400	828	3,442 (
McCallum Glen	Dallas, TX	275 Units	8,450	2,633	5,004 (
McCallum Crossing	Dallas, TX	322 Units	11,500	1,841	8,101 (
Oak Run	Pasadena, TX	160 Units	5,800	1,203	4,3
Park Lane	Dallas, TX	97 Units	2,750	1,526	1,1
Park at Colonade	San Antonio, TX	211 Units	5,800	927	4,0
South Cochran	Los Angeles, CA	64 Units	4,650	1,897	1,8
Summerstone	Houston, TX	242 Units	7,225	1,780	5,180 (
Sunset Lakes	Waukegan, IL	414 Units	15,000	6,089	7,2
OFFICE BUILDINGS					
Chesapeake Center	San Diego, CA	57,493 Sq.Ft.	6,575	3,111	2,8
Daley	San Diego, CA	64,425 Sq.Ft.	6,211	2,412	3,3
Valley Rim	San Diego, CA	54,194 Sq.Ft.	5,500	1,367	3,5