INCOME OPPORTUNITY REALTY INVESTORS INC /TX/
Form 10-Q
May 15, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2008

or

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

For the transition period from to

Commission File Number 001-14784

INCOME OPPORTUNITY REALTY INVESTORS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada	**75-2615944**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**

1800 Valley View Lane, Suite 300

Dallas, Texas 75234

(Address of principal executive offices)

(Zip Code)

(469) 522-4200

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a Smaller reporting company. See definitions of Large accelerated filer, accelerated filer , Non-accelerated filer and Smaller reporting company in Rule 12b-2 of the Exchange Act:

Large accelerated filer ¨	Accelerated filer x	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE

PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ¨. No ¨.

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer s classes of Common Stock, as of the latest practicable date.

Common Stock, $.01 par value	**4,162,574**
(Class)	**(Outstanding at April 30, 2008)**

Table of Contents

INCOME OPPORTUNITY REALTY INVESTORS, INC.

FORM 10-Q

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INCOME OPPORTUNITY REALTY INVESTORS, INC.

CONSOLIDATED BALANCE SHEETS

(unaudited)

	March 31, 2008	December 31, 2007
	(dollars in thousands)	
Assets		
Real estate held for investment	$ 43,027	$ 43,027
Less accumulated depreciation	(2,544)	(2,456)
	40,483	40,571
Real estate held for sale		17,032
Notes and interest receivable from affiliates	27,441	27,441
Investment in real estate partnerships	110	532
Cash and cash equivalents	101	267
Receivables from affiliates	43,882	27,801
Other assets	1,177	2,663
	$ 113,194	$ 116,307
Liabilities and Stockholders Equity		
Liabilities:		
Notes and interest payable	$ 44,439	$ 44,354
Liabilities related to assets held for sale		25,152
Other liabilities (including $1,888 in 2008 and $0 in 2007 from affiliates and related parties)	4,723	2,057
	49,162	71,563
Commitments and contingencies		
Minority interest		677
Stockholders equity:		
Common Stock, $.01 par value, authorized 10,000,000 shares; issued and outstanding 4,162,774 and 4,162,774 shares at 2008 and 2007, respectively.	42	42
Treasury stock	(37)	(37)
Paid-in capital	61,955	61,955
Accumulated earnings (deficit)	2,072	(17,893)
	64,032	44,067
	$ 113,194	$ 116,307

The notes are an integral part of the consolidated financial statements.

Table of Contents

INCOME OPPORTUNITY REALTY INVESTORS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(unaudited)

	For the Three Months Ended March 31 2008	2007
	(dollars in thousands)	
Property revenue		
Rents and other property revenues	$ 556	$ 579
Operating expenses:		
Property operations	1,053	496
Depreciation	88	87
General and administrative	115	135
Advisory fee to affiliate	227	211
Total operating expenses	1,483	929
Operating income (loss)	(927)	(350)
Other income (expense):		
Interest income (including $698 in 2008 and $514 in 2007 from affiliates and related parties)	698	1,099
Mortgage and loan interest	(904)	(836)
Net income fee		(5)
Total other income	(206)	258
Income (loss) before gain on land sales, equity in earnings of investees and minority interest	(1,133)	(92)
Minority interests		(38)
Income tax benefit	7,384	69
Net income (loss) from continuing operations	6,251	(61)
Discontinued operations	21,098	196
Income tax expense	(7,384)	(69)
Net income from discontinued operations	13,714	127
Net income applicable to common shares	$ 19,965	$ 66
Earnings per share		
Net income (loss) from continuing operations	1.50	(0.01)
Net income from discontinued operations	3.29	0.03
Net income applicable to common shares	$ 4.79	$ 0.02
Weighted average Common shares used in computing earnings per share	4,162,774	4,167,635

The notes are an integral part of the consolidated financial statements.

4

Table of Contents

INCOME OPPORTUNITY REALTY INVESTORS, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

For the Three Months Ended March 31, 2008

(dollars in thousands)

(Unaudited)

	Common Stock		Treasury Stock		Paid-in	Accumulated	Stockholders
	Shares	Amount	Shares	Amount	Capital	Deficit	Equity
Balance, December 31, 2007	4,168,035	$ 42	5,261	$ (37)	$ 61,955	$ (17,893)	$ 44,067
Net Income						19,965	19,965
Balance, March 31, 2008	4,168,035	$ 42	5,261	$ (37)	$ 61,955	$ 2,072	$ 64,032

The notes are an integral part of the consolidated financial statements.

5

Table of Contents

INCOME OPPORTUNITY REALTY INVESTORS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

	For the Three Months Ended March 31, 2008	2007
	(dollars in thousands)	
Cash Flows From Operating Activities		
Net income applicable to common shareholders	$ 19,965	$ 66
Adjustments to reconcile net income applicable to common shares to net cash used in operating activities		
Gain on sale of income producing properties	(29,367)	
Depreciation and amortization	88	283
(Increase) decrease in assets		
Accrued interest receivable		(481)
Other assets	1,486	487
Increase (decrease) in liabilities		
Accrued interest payable		50
Minority interests	(677)	37
Other liabilities	2,666	(1,087)
Net cash used in operating activities of continuing operations	(5,839)	(645)
Cash Flows From Investing Activities		
Proceeds from sale of real estate	46,399	
Advances/deposits from (to) advisors and affiliates	(16,081)	714
Net cash provided by investing activities	30,318	714
Cash Flows From Financing Activities		
Payments on notes payable	(25,067)	(84)
Sale of investments	422	
Net cash (used in) financing activities of continuing operations	(24,645)	(84)
Net decrease in cash and cash equivalents	(166)	(15)
Cash and cash equivalents, beginning of year	267	80
Cash and cash equivalents, end of year	$ 101	$ 65
Supplemental disclosure of noncash investing and financing activities		
Cash paid for interest expense	3,461	1,284
Cash paid for income taxes		

The notes are an intregal part of the consolidated financial statements

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

Income Opportunity Realty Investors, Inc. (IORI , we , us , our or the Company) a Nevada corporation, is the successor to a California business trust organized on December 14, 1984. Syntek West, Inc. (SWI) owns approximately 54% of the outstanding shares of IORI. SWI is also our contractual advisor. We are an externally advised and managed real estate investment company. We have no employees.

Properties

At March 31, 2008, the Company owned or had interests in a portfolio of four properties; one apartment complex, and three commercial buildings consisting of an office building, a shopping center, and an a Warehouse. The commercial properties have an aggregate 202,000 square feet of leasable space.

The accompanying interim financial statements are unaudited; however, the financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Accordingly, they do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting solely of normal recurring matters) necessary for a fair statement of the financial statements for these interim periods have been included. The results of operations for the interim periods are not necessarily indicative of the results to be obtained for other interim periods or for the full fiscal year. The year end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosure required by accounting principles generally accepted in the United States of America. These financial statements should be read in conjunction with the Company s financial statements and notes thereto contained in the Company s Annual Report in the Company s Form 10-K for its fiscal year ended December 31, 2007.

Dollar amounts in tables are in thousands, except per share amounts.

Certain balances from 2007 have been reclassified to conform to the 2008 presentation.

Newly issued accounting standards

In December 2007, the FASB issued SFAS No. 141 (revised 2007) (SFAS 141R), *Business Combinations.* SFAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combinations. SFAS 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008. Accordingly, any business combinations the Company engages in will be recorded and disclosed following existing accounting principles until January 1, 2009. The Company expects SFAS 141R will affect the Company s consolidated financial statements when effective, but the nature and magnitude of the specific effects will depend upon the nature, term and size of the acquisitions, if any, the Company consummates after the effective date.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* , effective for financial statements issued for fiscal years beginning after December 15, 2008. SFAS No. 160 states that accounting and reporting for minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS No. 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, and will impact the recording of minority interest. The Company is currently evaluating the effects the adoption of SFAS No. 160 will have on its financial position and results of operations.

NOTE 2 REAL ESTATE ACTIVITY

On January 25, 2008 we sold six apartment complexes which were all located in Midland, Texas in a single transaction. We sold the properties for an aggregate sales price of $50.0 million, receiving $20.7 million in cash after paying off $25.1 million in existing debt. We recorded a $29.4 million gain on sale as follows:

Property	Location	Number of Units	Sales price	Net Cash Received	Debt Discharged	Gain on Sale

Brighton Court	Midland, TX	60 Units	$ 5,886	$ 230	$ 2,727	$ 2,862
Del Mar	Midland, TX	92 Units	7,235	4,852	2,613	4,303
Enclave	Midland, TX	68 Units	7,068	4,687	2,765	4,138
Meridian	Midland, TX	230 Units	17,197	5,872	10,800	10,350
Signature Place	Midland, TX	57 Units	5,563	3,210	1,477	3,160
Sinclair Place	Midland, TX	114 Units	6,614	1,805	4,611	4,554
			$ 49,563	$ 20,656	$ 24,993	$ 29,367

Table of Contents

NOTE 3. DISCONTINUED OPERATIONS

The Company applies the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 requires that long-lived assets that are to be disposed of by sale be measured at the lesser of (1) book value or (2) fair value less cost to sell. In addition, it requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions.

During the three months ended March 31, 2008, the Company sold the following properties which were all located in Midland, Texas:

Brighton Court, a 60 unit apartment complex.

Del Mar, a 92 unit apartment complex.

Enclave, a 68 unit apartment complex.

Meridian, a 230 unit apartment complex.

Signature Place, a 57 unit apartment complex.

Sinclair Place, a 114 unit apartment complex.

The following table summarizes income from discontinued operations and the related realized gains on sales of real estate from discontinued operations for the three months ended March 31, 2008.

	For the Three Months Ended March 31, 2008	2007
Revenue		
Rental	$ 586	$ 1,509
Property operations	427	610
	159	899
Expenses		
Interest	(2,517)	(584)
G&A	(1,002)	(8)
Depreciation		(111)
	(3,519)	(703)
Net loss from discontinued operations before gains on sale of real estate	(3,360)	196
Gain on sale of discontinued operations	29,367	
Net Sales fee to affiliate	(4,909)	
Income (loss) from discontinued operations	21,098	196
Tax benefit	(7,384)	(69)

Income (loss) from discontinued operations	$ 13,714	$ 127

The Company s application of SFAS No. 144 results in the presentation of the net operating results of these qualifying properties sold or held for sale during 2008 as income from discontinued operations. The application of SFAS No. 144 does not have an impact on net income available to common shareholders. SFAS No. 144 only impacts the presentation of these properties within the Consolidated Statements of Operations.

Table of Contents

NOTE 4. NOTES AND INTEREST RECEIVABLE

The notes receivables consists of eight notes aggregating $26.0 million. The notes accrue interest at 10.0% to 12.0% with maturity dates ranging from December 2008 to December 2013. The notes are primarily excess cash flow notes.

Borrower	Maturity	Principal Balance	Interest Rate
Housing for Seniors of Humble, LLC	12/27/09	$ 2,000	11.50%
Housing for Seniors of Humble, LLC	12/27/09	6,363	11.50%
Unified Housing Foundation, Inc. (Marquis at VR)	12/10/13	2,734	12.00%
Unified Housing Foundation, Inc. (Echo Station)	12/26/13	1,668	12.00%
Unified Housing Foundation, Inc.	09/15/10	2,990	10.00%
Unified Housing Foundation, Inc. (Parkside Crossing)	12/29/13	1,936	12.00%
Unified Housing Foundation, Inc. (Timbers of Terrell)	12/18/08	1,323	12.00%
Centura Land Mortgage (due from Transcontinental Realty Investors, Inc - a related party)	08/22/08	7,000	Prime + 2%
Accrued Interest		1,427	
		$ 27,441	

NOTE 5. NOTES AND INTEREST PAYABLE

The following table lists the mortgage notes payable as of March 31, 2008;

Project	Maturity	Principal Balance
Falcon Point *	08/31/08	$ 950
2010 Valley View	10/03/08	2,131
Eagle Crest	11/01/11	2,419
Parkway Center	06/01/36	2,659
Centura Land	08/28/08	7,000
Travelers Land *	08/10/08	28,652
Accrued Interest		628
		$ 44,439

* Variable rate

NOTE 6 ADVISORY AGREEMENT

The Company has an Advisory Agreement with Syntek West, Inc. (SWI), wherein SWI is responsible for the Company s day-to-day operations. SWI must formulate and submit to IORI s Board of Directors for approval an annual budget and business plan containing a twelve month forecast of operations and cash flow with a general plan for asset sales and purchases, borrowing activity and other investments. SWI reports to the Board quarterly on IORI s performance against the business plan. The Advisory Agreement further places SWI in a fiduciary relationship to IORI s stockholders and contains a broad standard governing SWI s liability for any losses incurred by IORI.

SWI receives, as compensation for its management and advice, monthly advisory fees based on 6 $^{1}/2$% of IORI s assets annually as well as specific fees for assisting IORI in obtaining financing and completing acquisitions. If IORI s operating expenses exceed limits specified in the Advisory Agreement SWI is obligated to refund a portion of the advisory fees.

Effective July 1, 2005, the Company and SWI entered into a Cash Management Agreement to further define the administration of the Company s day-to-day investment operations, relationship contacts, flow of funds and deposit and borrowing of funds. Under the Cash Management Agreement, all funds of the Company are delivered to SWI which has a deposit liability to the Company and is responsible for investment of all excess funds, which earn interest at the *Wall Street Journal* Prime Rate plus one percent per annum, set quarterly on the first day of each calendar quarter. Borrowings for the benefit of the Company bear the same interest rate. The Cash Management Agreement and the Advisory Agreement are automatically renewed each year unless terminated by SWI and IORI.

Table of Contents

SWI also receives a Net Income Fee calculated as 7.5% of IORI s net income.

	For Three Months Ended March 31	
Revenue, fees, interest on cash advances and cost reimbursements to SWI	**2008**	**2007**
Advisory fees to SWI	$ 227	$ 211
Net sales fee to SWI	$ 3,100	$
Net income fee to SWI	$ 1,809	$ 5
Interest income on cash advances to IORI	$ (698)	$ (335)

NOTE 7. RECEIVABLE FROM AND PAYABLE TO AFFILIATES

From time to time, IORI and its affiliates and related parties have made unsecured advances to each other. In addition, IORI and its affiliates have entered into transactions involving the purchase, sale, and financing of property. The table below reflects the various transactions between IORI, SWI, and TCI.

	SWI	TCI	Total
Balance, December 31, 2007	$ 25,960	$ 1,841	$ 27,801
Cash received	(1,224)		(1,224)
Cash payments	19,547		19,547
Other additions	927	159	1,086
Other repayments	(3,328)		(3,328)
Balance, March 31, 2008	$ 41,882	$ 2,000	$ 43,882

NOTE 8. OPERATING SEGMENTS

Significant differences among the accounting policies of the operating segments as compared to the Consolidated Financial Statements principally involve the calculation and allocation of administrative expenses. Management evaluates the performance of each of the operating segments and allocates resources to them based on their operating income and cash flow. There are no intersegment revenues and expenses and IORI conducted all of its business within the United States.

Table of Contents

Presented below is operating segment information for the three months ended March 31, 2008 and 2007 (dollars in thousands):

	Commercial Properties	Apartments	Land	Corporate	Total
3/31/2008					
Operating revenue	$ 325	$ 231	$	$	$ 556
Operating expenses	358	278	319	98	1,053
Depreciation and amortization	59	29			88
Mortgage and loan interest	141	22	723	18	904
Interest income				698	698
Gain on land sales					
Segment operating income (loss)	$ (233)	$ (98)	$ (1,042)	$ 582	$ (791)
Capital expenditures					
Assets	9,803	3,323	25,304	72,535	110,965
Property Sales					
Sales price	$	$ 49,563	$	$	$ 49,563
Cost of sale		20,196			20,196
Deferred current gain					
Recognized prior deferred gain					
Gain on sale	$	$ 29,367	$	$	$ 29,367

	Commercial Properties	Apartments	Land	Corporate	Total
3/31/2007					
Operating revenue	$ 336	$ 243	$	$	$ 579
Operating expenses	167	248	75	6	496
Depreciation and amortization	57	30			87
Mortgage and loan interest	136		700		836
Interest income				1,099	1,099
Gain on land sales					
Segment operating income (loss)	$ (24)	$ (35)	$ (775)	$ 1,093	$ 259
Capital expenditures	24				24
Assets	9,760	5,220	26,598	47,345	88,923
Property Sales					
Sales price	$	$	$	$	$
Cost of sale					
Deferred current gain					
Recognized prior deferred gain					
Gain on sale	$	$	$	$	$

Table of Contents

The tables below reconcile the segment information to the corresponding amounts in the Consolidated Statements of Operations:

	3/31/2008	3/31/2007
Segment operating income (loss)	$ (791)	$ 259
Other non-segment items of income/(expense)		
General and administrative	(115)	(135)
Advisory Fee	(227)	(211)
Net income fee to affiliate		(5)
Equity in earnings of investees		(38)
Deferred tax	7,384	69
Minority interest		
Income (loss) from continuing operations	$ 6,251	$ (61)

SEGMENT ASSET RECONCILIATION TO TOTAL ASSETS

	3/31/2008	3/31/2007
Segment assets	$ 110,965	$ 88,923
Investments in real estate partnerships	110	515
Other Assets and Receivables	2,119	1,423
Assets held for sale		17,032
Total assets	$ 113,194	$ 107,893

NOTE 9. COMMITMENTS AND CONTINGENCIES

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

ITEM 2: MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
WARNING CONCERNING FORWARD-LOOKING STATEMENTS

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report.

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

Some of the risks and uncertainties that may cause our actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the factors listed and described at Item 1A. Risk Factors in the Company s Annual Report on Form 10-K, which investors should review. There have been no changes from the risk factors previously described in the Company s Form 10-K for the fiscal year ended December 31, 2007.