

INCOME OPPORTUNITY REALTY INVESTORS INC /TX/

Form 10-K/A

September 29, 2005

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 5(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2004

OR

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

**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
Incorporation or organization)

(IRS Employer
Identification Number)

1755 Wittington Place, Suite 340, Dallas, Texas

75234

(Address of principal executive offices)

(Zip Code)

Registrant's Telephone Number, including area code **214-750-5800**

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

Title of Each Class
Common Stock, \$0.01 par value

Name of each exchange on which registered
American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). **Yes** **No**

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

The aggregate market value of the shares of voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the closing sales price of the Common Stock on the American Stock Exchange as of June 30, 2004 (the last business day of the Registrant's most recently completed second fiscal quarter) was \$4,034,394 based upon a total of 298,844 shares held as of June 30, 2004 by persons believed to be non-affiliates of the Registrant. The basis of the calculation does not constitute a determination by the Registrant as defined in Rule 405 of the Securities Act of 1933, as amended, such calculation, if made as of a date within sixty days of this filing, would yield a different value. As of March 18, 2005, there were 1,389,345 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

**AMENDMENT NO. 4 TO
ANNUAL REPORT ON FORM 10-K FOR
INCOME OPPORTUNITY REALTY INVESTORS, INC.**

The undersigned Registrant hereby further amends the following items, exhibits, or other portions of its Annual Report on Form 10-K for the fiscal year ended December 31, 2004 as set forth below and as reflected in the substituted pages attached hereto which replace the same numbered pages in the original filing as previously amended by Amendment Nos. 1, 2 and 3 (this Amendment No. 4 is necessitated by virtue of certain comments of the Staff of the Securities and Exchange Commission by letter dated September 19, 2005):

Pages 30-31 Reports of Independent Registered Public Accounting Firm has been amended to provide the city and state where each report is issued.

Pages 46-47 Item 8. Financial Statements. Note 5 to the consolidated financial statements is further amended to provide enhanced disclosure with respect to the Metra transaction.

Exhibit 31.1 Certification required by Exchange Act Rules 13a-14(a) and 15d-14(a).

SIGNATURES

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

Date: September 28, 2005.

INCOME OPPORTUNITY REALTY
INVESTORS, INC.

By: /s/ R. Neil Crouch, II
R. Neil Crouch, II, Executive Vice
President
and Chief Financial Officer and Acting
Principal Executive Officer

REPORT INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors of

Income Opportunity Realty Investors, Inc.

We have audited the accompanying consolidated balance sheet of Income Opportunity Realty Investors, Inc. and Subsidiaries as of December 31, 2004, and the related consolidated statements of operations, stockholders' equity and cash flows for the year ended December 31, 2004. We have also audited the schedules listed in the accompanying index. These financial statements and the schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedules. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Income Opportunity Realty Investors, Inc. and Subsidiaries as of December 31, 2004 and the consolidated results of their operations and their cash flows for the year ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the schedules referred to above present fairly, in all material respects, the information set forth therein.

/s/ Swalm & Associates, P.C.

Swalm & Associates, P.C.

Plano, Texas

March 2, 2005, except for the effects of the changes contained in Notes 5 and 18, which are dated August 19, 2005

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors of
Income Opportunity Realty Investors, Inc.

We have audited the accompanying consolidated balance sheet of Income Opportunity Realty Investors, Inc. and Subsidiaries as of December 31, 2003, and the related consolidated statements of operations, stockholders' equity and cash flows for year ended December 31, 2003. We have also audited the schedules listed in the accompanying index. These financial statements and the schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedules. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Income Opportunity Realty Investors, Inc. and Subsidiaries as of December 31, 2003 and the consolidated results of their operations and their cash flows for year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the schedules referred to above present fairly, in all material respects, the information set forth therein.

/s/ Farmer, Fuqua & Huff, P.C.

Farmer, Fuqua & Huff, P.C.

Plano, Texas

March 12, 2004, except for the effects of the changes contained in Notes 5 and 18, which are dated August 19, 2005

INCOME OPPORTUNITY REALTY INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

NOTE 5. *NOTES AND INTEREST PAYABLE* (Continued)

Scheduled notes payable principal payments are due as follows:

2005	\$ 6,446
2006	6,101
2007	717
2008	2,833
2009	742
Thereafter	27,503
	\$ 44,342

Notes payable at December 31, 2004, bear interest at rates ranging from 4.48% to 9.56% and mature between 2005 and 2012. The mortgages are collateralized by deeds of trust on real estate with a net carrying value of \$31.4 million. As indicated in the foregoing schedule, the book value of notes payable decreased \$16.1 million in 2004 from 2003 due to retirement of notes payable resulting from sale of four properties during 2004. See ITEM 7. **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS** Obligations and Commitments and ITEM 7A. **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK** Liabilities.

In April 2002, the Company transferred all of its residential properties to partnerships formed with Metra Capital LLC (Metra). The properties included the 60-unit Brighton Court, the 92-unit Del Mar, the 68-unit Enclave, the 280-unit Meridian, the 57-unit Signature, and the 114-unit Sinclair, all located in Midland, Texas, and the 106-unit Treehouse located in San Antonio, Texas. Innovo Realty, Inc., a subsidiary of Innovo Group, Inc. (Innovo) is a limited partner in the partnerships that purchased the properties. A former director of ARI, a related party, controlled approximately 11.67% of the outstanding common stock of Innovo. The transfer constituted 23% of the total assets of the Company as of December 31, 2001. The transfer price for the properties totaled \$26.2 million, of which the Company received \$5.3 million in cash after the payment of \$15.9 million in debt and various closing costs. Management determined to account for the transaction as a refinancing transaction (rather than a sale) in accordance with SFAS 66 Accounting for Sales of Real Estate. At the time of the transaction in April 2002, ARI was a related party to the Company by virtue of ARI's subsidiaries' ownership of approximately 28.5% of the then outstanding common stock of the Company, and the fact that ARI and the Company had the same persons as executive officers. The compensation price for the properties transferred totaled \$26.2 million and possible additional contingent consideration depending upon the sale price of the properties by the Metra partnerships. The Company also received \$5.2 million in value of 8% in non-recourse, non-convertible preferred stock of Innovo. Based upon the prospect of additional consideration, ultimate continued involvement through the preferred stock and the related-party nature of the former ARI director's involvement, as well as the Company retaining a right to approve the price of any ultimate sale by a Metra partnership of the properties, and a process by which the Company effectively guaranteed a preferential return to the Metra investors, management determined that the transaction must be classified as a financing transaction and not a sale. The Company continued to be able to exert control over the Metra partnerships, and no sale was recorded. The Treehouse property was subsequently sold to a non-related party in February 2004, and all of its debts have been repaid to the lenders at the time of the sale. During August 2004, certain entities, including the Company, instituted an action in a Texas state court against Innovo and Metra and others over the process, as well as distribution questions. During April 2005, a resolution of the litigation occurred settling all liabilities remaining from the original partnership arrangements which included a return of the Metra investor equity, prepayment of prospective asset management fees and miscellaneous fees and transaction costs from the Company and the other plaintiffs as a payment of the Preferential Return along with the delegation of management to another entity. Of the payment made, the Company recognized expense of \$56,000 and a reduction of \$1,476,000 in liabilities during the second quarter of 2005.

INCOME OPPORTUNITY REALTY INVESTORS, INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

In 2004, IORI refinanced the following property:

Property	Location	Sq.Ft/ Acres	Debt Incurred	Debt Discharged	Net Cash Received/ (Paid)	Interest Rate	Maturity Date
Office Building Chuck Yeager	Chantilly, VA	60,060	\$ 5,500	\$ 4,307	\$ 1,193	5.25%(1)	1/07

(1) Variable Rate

NOTE 6. RELATED PARTY TRANSACTIONS

On September 30, 2004, a Secured Promissory Note in the amount of \$1,222,500 given by UHF for Unified Housing of Parkside Crossing, LLC to Regis I and the accrued interest receivable of \$112,878 were assigned from Regis I to IORI as a paydown in the same amount of certain intercompany receivables due to IORI.

On September 30, 2004, a Secured Promissory Note in the amount of \$1,053,616 given by UHF for Unified Housing of Temple, LLC to Regis I and the accrued interest receivable of \$98,338 were assigned from Regis I to IORI as a paydown in the same amount of certain intercompany receivables due to IORI.

On September 30, 2004, a Secured Promissory Note in the amount of \$835,668 given by UHF for Unified Housing of Terrell, LLC to Regis I and the accrued interest receivable of \$80,223 were assigned from Regis I to IORI as a paydown in the same amount of certain intercompany receivables due to IORI.

On September 30, 2004, a Secured Promissory Note in the amount of \$1,770,000 given by UHF for Housing for Seniors of Lewisville, LLC to Regis I and the accrued interest receivable of \$174,640 were assigned from Regis I to IORI as a paydown in the same amount of certain intercompany receivables due to IORI.

On May 24, 2004, a Secured Promissory Note in the amount of \$2,990,000 given by UHF for UHM to Transcontinental Eldorado, Inc. was assigned from TCI to IORI as a partial payment for TCI's repurchase of 100% of the outstanding common shares of Treehouse-IR from IORI.