

INCOME OPPORTUNITY REALTY INVESTORS INC /TX/

Form 10-Q

May 16, 2011

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

FORM 10-Q

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

For the quarterly period ended March 31, 2011

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)

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Nevada
(State or Other Jurisdiction of
Incorporation or Organization)

75-2615944
(I.R.S. Employer
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)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). * Yes No

* The registrant has not yet been phased into the interactive data requirements

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 and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if 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

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 (Class)	4,168,214 (Outstanding at May 5, 2011)
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INCOME OPPORTUNITY REALTY INVESTORS, INC.

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Table of Contents**PART 1. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****INCOME OPPORTUNITY REALTY INVESTORS, INC.****CONSOLIDATED BALANCE SHEETS****(unaudited)**

	March 31, 2011	December 31, 2010
	(dollars in thousands, except share and par value amounts)	
Assets		
Real estate land holdings, at cost	\$ 24,511	\$ 24,511
Real estate subject to sales contracts, at cost	5,050	5,050
Total real estate	29,561	29,561
Notes and interest receivable from related parties	35,820	38,405
Less allowance for doubtful accounts	(1,826)	(1,826)
Total notes and interest receivable	33,994	36,579
Cash and cash equivalents	35	20
Investments in unconsolidated subsidiaries and investees, subject to sales contract	89	89
Receivable and accrued interest from related parties	50,677	48,598
Other assets	2,249	2,240
Total assets	\$ 116,605	\$ 117,087
Liabilities and Shareholders Equity		
Liabilities:		
Notes and interest payable	\$ 34,041	\$ 34,214
Notes and interest payable related to subject to sales contracts	2,393	2,390
Deferred revenue (from sales to related parties)	6,550	6,550
Accounts payable and other liabilities (including \$1 in 2011 and \$1 in 2010 to affiliated and related parties)	396	401
	43,380	43,555
Commitments and contingencies:		
Shareholders equity:		
Common stock, \$.01 par value, authorized 10,000,000 shares; issued		
4,173,675 shares in 2011 and 2010	42	42
Treasury stock at cost, 5,461 in 2011 and 2010	(39)	(39)
Paid-in capital	61,955	61,955

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Retained earnings	11,267	11,574
Total shareholders' equity	73,225	73,532
Total liabilities and shareholders' equity	\$ 116,605	\$ 117,087

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

Table of Contents**INCOME OPPORTUNITY REALTY INVESTORS, INC****CONSOLIDATED STATEMENTS OF OPERATIONS****(unaudited)**

	For the Three Months Ended March 31,	
	2011	2010
	(dollars in thousands, except share and per share amounts)	
Revenues:		
Rental and other property revenues (including \$77 and \$61 for the three months ended 2011 and 2010 respectively from affiliates and related parties)	\$ 83	\$ 61
Expenses:		
Property operating expenses (including \$2 and \$0 for the three months ended 2011 and 2010 respectively from affiliates and related parties)	57	52
General and administrative (including \$55 and \$9 for the three months ended 2011 and 2010 respectively from affiliates and related parties)	97	56
Advisory fee to affiliates	221	218
Total operating expenses	375	326
Operating loss	(292)	(265)
Other income (expense):		
Interest income (including \$294 and \$709 for the three months ended 2011 and 2010 respectively from affiliates and related parties)	294	709
Mortgage and loan interest	(309)	(332)
Earnings from unconsolidated subsidiaries and investees	-	3
Total other income (expenses)	(15)	380
Income (loss) before gain on land sales, non-controlling interest, and taxes	(307)	115
Income (loss) from continuing operations before tax	(307)	115
Income tax benefit	-	48
Net income (loss)	(307)	163
Earnings per share - basic		
Income (loss) from continuing operations	\$ (0.07)	\$ 0.04
Net income (loss) applicable to common shares	\$ (0.07)	\$ 0.04
Earnings per share - diluted		
Income (loss) from continuing operations	\$ (0.07)	\$ 0.04
Net income (loss) applicable to common shares	\$ (0.07)	\$ 0.04

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Weighted average common share used in computing earnings per share	4,168,214	4,168,214
Weighted average common share used in computing diluted earnings per share	4,168,214	4,168,214

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

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INCOME OPPORTUNITY REALTY INVESTORS, INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

For the Three Months Ended March 31, 2011

(unaudited)

(dollars in thousands)

	Total	Common Stock Shares	Common Stock Amount	Treasury Stock	Paid-in Capital	Retained Earnings
Balance, December 31, 2010	\$ 73,532	4,173,675	\$ 42	\$ (39)	\$ 61,955	\$ 11,574
Net income (loss)	(307)	-	-	-	-	(307)
Balance, March 31, 2011	\$ 73,225	4,173,675	\$ 42	\$ (39)	\$ 61,955	\$ 11,267

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

Table of Contents**INCOME OPPORTUNITY REALTY INVESTORS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(unaudited)**

	For the Three Months Ended March 31,	
	2011	2010
	(dollars in thousands)	
Cash Flow From Operating Activities:		
Net income (loss) applicable to common shares	\$ (307)	\$ 163
Adjustments to reconcile net income (loss) applicable to common shares to net cash used in operating activities:		
Earnings from unconsolidated subsidiaries and investees	-	(3)
(Increase) decrease in assets:		
Accrued interest receivable	1,959	(251)
Other assets	(9)	(67)
Increase (decrease) in liabilities:		
Accrued interest payable	(16)	-
Other liabilities	(5)	(39)
Net cash provided by (used in) operating activities	1,622	(197)
Cash Flow From Investing Activities:		
Proceeds from notes receivable	626	76
Affiliate receivable	(2,079)	274
Net cash provided by (used in) investing activities	(1,453)	350
Cash Flow From Financing Activities:		
Payments on notes payable	(154)	(159)
Deferred financing costs	-	5
Net cash used in financing activities	(154)	(154)
Net increase (decrease) in cash and cash equivalents	15	(1)
Cash and cash equivalents, beginning of period	20	2
Cash and cash equivalents, end of period	\$ 35	\$ 1
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 305	\$ 332
Cash received for income taxes	\$ -	\$ (48)

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

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NOTES TO FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

As used herein, the terms IOT, the Company, we, our, us refer to Income Opportunity Realty Investors, Inc., a Nevada corporation, individually or together with its subsidiaries. Income Opportunity Realty Investors, Inc. is the successor to a California business trust organized on December 14, 1984, which commenced operations on April 10, 1985. The Company is headquartered in Dallas, Texas and its common stock trades on the American Stock Exchange under the symbol AMEX: IOT .

Transcontinental Realty Investors, Inc. (TCI) owns approximately 85.2% of the Company s common stock. Effective July 17, 2009, IOT s financial results were consolidated with those of American Realty Investors, Inc. (ARL) and TCI and their subsidiaries. IOT is a C Corporation for U.S. federal income tax purposes and files an annual consolidated income tax return with ARL. ARL is the common parent for the consolidated group.

IOT invests in real estate through direct ownership, leases and partnerships and it also invests in mortgage loans on real estate. Prime Income Asset Management, LLC (Prime) is the Company s external Advisor and Cash Manager. Prime also serves as an Advisor and Cash Manager to ARL and TCI. Prior to December 31, 2010, Triad Realty Services, L.P. (Triad), managed the Company s commercial properties and Regis Realty I, LLC (Regis Realty), provided brokerage services. Triad and Regis Realty are affiliates of Prime. Effective January 1, 2011, Regis Realty Prime, LLC (Regis), an affiliate of Prime, manages our commercial properties and provides brokerage services under the same terms as the previous agreements with Triad and Regis Realty, for a term of five years. IOT engages third-party companies to lease and manage its apartment properties. We have no employees.

Our primary business is investing in real estate. Land held for development or sale is our sole operating segment. As of March 31, 2011, our land consisted of 203.3 acres. There is a warehouse located on one of the land parcels that is used for storage. All of our land holdings are located in Texas. The principal source of revenue for the Company is interest income on over \$35.8 million of note receivables due from affiliated and/or related parties.

Basis of presentation

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States, or GAAP, have been condensed or omitted in accordance with such rules and regulations, although management believes the disclosures are adequate to prevent the information presented from being misleading. In the opinion of management, all adjustments (consisting of normal recurring matters) considered necessary for a fair presentation have been included. The results of operations for the three months ended March 31, 2011, are not necessarily indicative of the results that may be expected for other interim periods or for the full fiscal year.

The year-end Balance Sheet at December 31, 2010, was derived from the audited financial statements at that date, but does not include all of the information and disclosures required by GAAP for complete financial statements. For further information, refer to the financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010. Certain 2010 financial statement amounts have been reclassified to conform to the 2011 presentation, including adjustments for discontinued operations.

Principles of consolidation

The accompanying Consolidated Financial Statements include our accounts, our subsidiaries, generally all of which are wholly-owned, and all entities in which we have a controlling interest. Arrangements that are not controlled through voting or similar rights are accounted for as a Variable Interest Entity (VIE), in accordance with the provisions and guidance of ASC Topic 810 Consolidation , whereby we have determined that we are a primary beneficiary of the VIE and meet certain criteria of a sole general partner or managing member as identified in accordance with Emerging Issues Task Force (EITF) Issue 04-5, Investor s Accounting for an Investment in a Limited Partnership when the Investor is the Sole General Partner and the Limited Partners have Certain Rights (EITF 04-5). VIEs are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders as a group lack adequate decision making ability, the obligation to absorb expected losses or residual returns of the entity, or have voting rights that are not proportional to their economic interests. The primary beneficiary generally is the entity that provides financial support and bears a majority of the financial risks, authorizes certain capital transactions, or makes operating decisions that materially affect the entity s financial results. All significant intercompany balances

and transactions have been eliminated in consolidation.