

INCOME OPPORTUNITY REALTY INVESTORS INC /TX/
Form 10-Q
November 14, 2011

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

FORM 10-Q

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

For the quarterly period ended September 30, 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)

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

INCOME OPPORTUNITY REALTY INVESTORS, INC.
FORM 10-Q
TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Item 1.	Financial Statements	
	Consolidated Balance Sheets at September 30, 2011 (unaudited) and December 31, 2010	3
	Consolidated Statements of Operations for the three months ended September 30, 2011 and 2010 and the nine months ended September 30, 2011 and 2010 (unaudited)	4
	Consolidated Statement of Shareholders' Equity for the nine months ended September 30, 2011 (unaudited)	5
	Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010 (unaudited)	6
	Notes to Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	21
Item 4.	Controls and Procedures	21

PART II. OTHER INFORMATION

Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	22
Item 6.	Exhibits	23
SIGNATURES		24

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INCOME OPPORTUNITY REALTY INVESTORS, INC.
CONSOLIDATED BALANCE SHEETS
(unaudited)

	September 30, 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
Total real estate	24,511	29,561
Notes and interest receivable from related parties	28,920	38,405
Less allowance for doubtful accounts	(1,826)	(1,826)
Total notes and interest receivable	27,094	36,579
Cash and cash equivalents	2	20
Investments in unconsolidated subsidiaries and investees, subject to sales contract	67	89
Receivable and accrued interest from related parties	53,331	48,598
Other assets	1,548	2,240
Total assets	\$ 106,553	\$ 117,087
Liabilities and Shareholders' Equity		
Liabilities:		
Notes and interest payable	\$ 28,630	\$ 34,214
Notes and interest payable related to subject to sales contracts	-	2,390
Deferred gain (from sales to related parties)	6,550	6,550
Accounts payable and other liabilities (including \$0 in 2011 and \$1 in 2010 to affiliated and related parties)	188	401
	35,368	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
Retained earnings	9,227	11,574
Total shareholders' equity	71,185	73,532
Total liabilities and shareholders' equity	\$ 106,553	\$ 117,087

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

INCOME OPPORTUNITY REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
	(dollars in thousands, except share and per share amounts)			
Revenues:				
Rental and other property revenues	\$-	\$-	\$-	\$-
Expenses:				
Property operating expenses	6	7	18	39
General and administrative (including \$52 and \$30 for the three months ended, \$167 and \$92 for the nine months ended 2011 and 2010 respectively from affiliates and related parties)	94	70	370	247
Advisory fee to affiliates	219	217	650	650
Total operating expenses	319	294	1,038	936
Operating loss	(319)	(294)	(1,038)	(936)
Other income (expense):				
Interest income from related party notes receivable	543	512	1,560	1,842
Mortgage and loan interest	(282)	(279)	(928)	(841)
Earnings from unconsolidated subsidiaries and investees	28	(8)	(22)	(5)
Total other income (expenses)	289	225	610	996
Income (loss) from continuing operations before tax	(30)	(69)	(428)	60
Income tax benefit (expense)	(170)	13	(672)	49
Net income (loss) from continuing operations	(200)	(56)	(1,100)	109
Discontinued operations:				
Income (loss) from discontinued operations	(10)	37	(1,444)	4
Loss on sale of real estate from discontinued operations	(475)	-	(475)	-
Income tax benefit (expense) from discontinued operations	170	(13)	672	(1)
Net income (loss) from discontinued operations	(315)	24	(1,247)	3
Net income (loss)	\$(515)	\$(32)	\$(2,347)	\$112
Earnings per share - basic				
Income (loss) from continuing operations	\$(0.05)	\$(0.01)	\$(0.26)	\$0.03
Income (loss) from discontinued operations	(0.08)	0.01	(0.30)	-
Net income (loss) applicable to common shares	\$(0.13)	\$-	\$(0.56)	\$0.03
Earnings per share - diluted				
Income (loss) from continuing operations	\$(0.05)	\$(0.01)	\$(0.26)	\$0.03
Income (loss) from discontinued operations	(0.08)	0.01	(0.30)	-
Net income (loss) applicable to common shares	\$(0.13)	\$-	\$(0.56)	\$0.03
	4,168,214	4,168,214	4,168,214	4,168,214

Weighted average common share used in computing
earnings per share

Weighted average common share used in computing diluted
earnings per share

4,168,214	4,168,214	4,168,214	4,168,214
-----------	-----------	-----------	-----------

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

INCOME OPPORTUNITY REALTY INVESTORS, INC.
 CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
 For the Nine Months Ended September 30, 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 loss	(2,347)	-	-	-	-	(2,347)
Balance, September 30, 2011	\$71,185	4,173,675	\$42	\$(39)	\$61,955	\$9,227

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

INCOME OPPORTUNITY REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the Nine Months Ended September 30, 2011 2010 (dollars in thousands)	
Cash Flow From Operating Activities:		
Net income (loss) applicable to common shares	\$(2,347	) \$112
Adjustments to reconcile net income (loss) applicable to common shares to net cash used in operating activities:		
Loss on sale of income producing properties	(475) -
Depreciation and amortization	-	7
Earnings from unconsolidated subsidiaries and investees	22	5
Provision on impairment of real estate assets	1,474	-
(Increase) decrease in assets:		
Accrued interest receivable	-	(751
Other assets	686	) 147
Increase (decrease) in liabilities:		
Accrued interest payable	886	94
Other liabilities	(213	) 46
Net cash provided by (used in) operating activities	1,280	(343
Cash Flow From Investing Activities:		
Proceeds from notes receivable	2,585	2,371
Proceeds from income producing properties	1,892	-
Proceeds from sales of land	1,210	-
Real estate improvements	-	(58
Affiliate receivable	(4,733	) (1,585
Net cash provided by investing activities	954	) 728
Cash Flow From Financing Activities:		
Payments on notes payable	414	(391
Payments or debt assumption on maturing notes payable	(2,374) -
Deferred financing costs	6	5
Net cash used in financing activities	(1,954	) (386
Net increase (decrease) in cash and cash equivalents	(18	) 2
Cash and cash equivalents, beginning of period	20	2
Cash and cash equivalents, end of period	\$2	\$4
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$998	\$977
Cash received for income taxes	\$22	\$-

Schedule of noncash investing and financing activities

Satisfaction of notes receivable related to Centura land	\$6,900	\$-
Satisfaction of notes payable related to Centura Land	\$(6,900) \$-

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

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 82.7% 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. Prior to April 30, 2011, Prime Income Asset Management, LLC (“Prime”) was the Company’s external Advisor and Cash Manager. Prime also served as an Advisor and Cash Manager to ARL and TCI. Effective April 30, 2011, Pillar Income Asset Management, Inc. (“Pillar”) became the Company’s external Advisor and Cash Manager under the same terms as the previous agreement with Prime. Pillar 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. 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 September 30, 2011, our land consisted of 178.1 acres. All of our land holdings are located in Texas. The principal source of revenue for the Company is interest income on over \$28.9 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 nine months ended September 30, 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.

In determining whether we are the primary beneficiary of a VIE, we consider qualitative and quantitative factors, including, but not limited to: the amount and characteristics of our investment; the obligation or likelihood for us or other investors to provide financial support; our and the other investors’ ability to control or significantly influence key decisions for the VIE; and the similarity with and significance to the business activities of us and the other investors. Significant judgments related to these determinations include estimates about the current future fair values and performance of real estate held by these VIEs and general market conditions. As of September 30, 2011, IOT was not the primary beneficiary of a VIE.

For entities in which we have less than a controlling financial interest or entities where we are not deemed to be the primary beneficiary, the entities are accounted for using the equity method of accounting. Accordingly, our share of the net earnings or losses of these entities is included in net income. Our investment in TCI Eton Square, LP is accounted for under the equity method.

Real estate, depreciation, and impairment

Real estate assets are stated at the lower of depreciated cost or fair value, if deemed impaired. Major replacements and betterments are capitalized and depreciated over their estimated useful lives. Depreciation is computed on a straight-line basis over the useful lives of the properties (buildings and improvements – 10-40 years; furniture, fixtures and equipment – 5-10 years). We continually evaluate the recoverability of the carrying value of our real estate assets using the methodology prescribed in ASC Topic 360, “Property, Plant and Equipment”. Factors considered by management in evaluating impairment of our existing real estate assets held for investment include significant declines in property operating profits, annually recurring property operating losses and other significant adverse changes in general market conditions that are considered permanent in nature. Under ASC Topic 360, a real estate asset held for investment is not considered impaired if the undiscounted, estimated future cash flows of an asset (both the annual estimated cash flow from future operations and the estimated cash flow from the theoretical sale of the asset) over its estimated holding period are in excess of the asset’s net book value at the balance sheet date. If any real estate asset held for investment is considered impaired, a loss is provided to reduce the carrying value of the asset to its estimated fair value.

Real estate held for sale

We periodically classify real estate assets as “held for sale”. An asset is classified as held for sale after the approval of our board of directors and after an active program to sell the asset has commenced. Upon the classification of a real estate asset as held for sale, the carrying value of the asset is reduced to the lower of its net book value or its estimated fair value, less costs to sell the asset. Subsequent to the classification of assets as held for sale, no further depreciation expense is recorded. Real estate assets held for sale are stated separately on the accompanying Consolidated Balance Sheets. Upon a decision to no longer market as an asset for sale, the asset is classified as an operating asset and depreciation expense is reinstated. The operating results of real estate assets held for sale and sold are reported as discontinued operations in the accompanying statements of operations. Income from discontinued operations includes the revenues and expenses, including depreciation and interest expense, associated with the assets. This classification of operating results as discontinued operations applies retroactively for all periods presented. Additionally, gains and losses on assets designated as held for sale are classified as part of discontinued operations.

Cost capitalization

Costs related to planning, developing, leasing and constructing a property are capitalized and classified as Real Estate in the Consolidated Balance Sheets. We capitalize interest to qualifying assets under development based on average accumulated expenditures outstanding during the period. In capitalizing interest to qualifying assets, we first use the interest incurred on specific project debt, if any, and next use the weighted average interest rate of non-project specific debt.

We capitalize interest, real estate taxes and certain operating expenses until building construction is substantially complete and the building is ready for its intended use, but no later than one year from the cessation of major construction activity.

We capitalize leasing costs which include commissions paid to outside brokers, legal costs incurred to negotiate and document a lease agreement and any internal costs that may be applicable. We allocate these costs to individual

tenant leases and amortize them over the related lease term.

Fair value measurement

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

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

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

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

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

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

Newly issued accounting pronouncements

We have considered all other newly issued accounting guidance that is applicable to our operations and the preparation of our statements, including that which we have not yet adopted. We do not believe that any such guidance will have a material effect on our financial position or results of operation.

NOTE 2. REAL ESTATE ACTIVITY

Our properties consist of 178.1 acres of land held for future development or sale.

On July 5, 2011, we recognized the September 21, 2010 13.0 acres of land with a 29,784 square foot storage warehouse know as Eagle Crest located in Farmers Branch, Texas, to Warren Road Farm, Inc., a related party under common control, for a sale price of \$3.8 million . The buyer assumed the existing mortgage of \$2.4 million secured by the property. We recorded a loss of \$0.5 million when ownership transferred to the existing lender.

On July 5, 2011, we recognized the December 23, 2010 sale of 6.6 acres of land known as Three Hickory land located in Farmers Branks, Texas, to Fenton Real Estate, Inc., a related party under common control, for a sales price of \$1.3 million. There was no gain or loss recorded when ownership transferred to the existing lender.

In 2005, IOT purchased 10.08 acres of Centura land, located in Dallas County, Texas, from TCI (a related party) for \$13.0 million. The purchase price was paid with cash of \$6.1 million and the conveyance, to the seller, of \$6.9 million in notes receivable held by IOT. The cash was obtained from financing the land acquired in the transaction. The agreement includes a put option whereby IOT has the right to resell the property to the seller for a price of \$13.0 million plus a preferred return of 9% per annum accruing from the closing date. Due to the related party nature of the transaction, including the likelihood that IOT will exercise its put option; this transaction has been treated as a financing transaction. IOT continued to carry the \$6.9 million as a note payable and has recorded the \$6.9 million as a receivable from TCI. TCI pays IOT interest in an amount equal to what IOT pays for its loan on the property. On August 2, 2011, we recognized the sale of 10.08 acres of land known as Centura land located in Dallas, Texas, to ABCLD Real Estate, LLC (ABCLD), a related party under common control, for a sales price of \$13.0 million. The buyer assumed the existing mortgage fo \$7.2 million secured by the property. Ownership of this property was then transferred from ABCLD to the lender. There was no gain or loss recorded on the sale.

As of September 30, 2011, there are no remaining properties that we have treated as “subject to sales contract” on the Consolidated Balance Sheets and deferred recognition of the sale to a related party. For asset listings of properties treated as “subject to sales contract” in prior periods, on the Consolidated Balance Sheets, they are listed in detail in Schedule III, “Real Estate and Accumulated Depreciation” in the Company’s Annual Report on Form 10-K. These properties were sold to a related party in order to help facilitate an appropriate debt or organizational restructure and have been ultimately resulted in ownership transfer to the lender or satisfactory resolution. These properties have mortgages that are secured by the property and many have corporate guarantees. We do not believe that IOT is liable for any deficiencies that may have resulted from corporate guarantees after the lender took possession of the property from the related party owner.

NOTE 3. DISCONTINUED OPERATIONS

We apply the provisions of ASC Topic 360, "Property, Plant and Equipment", which 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.

Discontinued operations relates to properties that were either sold or held for sale as of the period ended September 30, 2011. Included in discontinued operations is one property for 2011 and 2010. Properties sold in 2011 have been reclassified to discontinued operations for current and prior year reporting periods. In 2011, we sold 13.0 acres of land with a storage warehouse (Eagle Crest). There were no properties sold in 2010. The gain on sale of the properties is also included in discontinued operations for those years. The following table summarizes revenue and expense information for the properties sold and held for sale (dollars in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenue				
Rental	\$-	\$110	\$159	\$236
Property operations	7	22	42	78
	(7	) 88	117	158
Expenses				
Interest	(2	) (51	) (85	) (151
General and administration	(1	) -	(2	) (3
Provision on impairment of real estate assets	-	-	(1,474) -
	(3	) (51	) (1,561	) (154
Income (loss) from discontinued operations before gains on sale of real estate, taxes, and fees	(10	) 37	(1,444	) 4
Loss on sale of discontinued operations	(475	) -	(475) -
Income (loss) from discontinued operations	\$(485	) \$37	\$(1,919	) \$4
Tax benefit (expense)	170	(13	) 672	(1
Net income (loss) from discontinued operations	\$(315	) \$24	\$(1,247	) \$3

Our application of ASC Topic 360 results in the presentation of the net operating results of these qualifying properties sold or held for sale during 2011 as income from discontinued operations. This does not have an impact on net income available to common shareholders and only impacts the presentation of these properties within the Consolidated Statements of Operations.

NOTE 4. NOTES AND INTEREST RECEIVABLE FROM AFFILIATE

Junior Mortgage Loans. Junior mortgage loans are loans secured by mortgages that are subordinate to one or more prior liens on the underlying real estate. Recourse on the loans ordinarily includes the real estate which secures the loan, other collateral and personal guarantees of the borrower.

At September 30, 2011, we had junior mortgage loans and accrued interest receivable from affiliates, net of allowances, totaling \$27.1 million. The loans mature at various dates through December 2027 with interest rates of 5.25%. Payments are due from surplus cash flow or sale or refinancing of the underlying properties. These notes are cross-collateralized to the extent that any surplus cash available from the sale or refinance of any of the properties underlying these notes will be used to repay outstanding interest and principal for the remaining notes. The allowance on the notes was a purchase allowance that was netted against the notes when acquired (dollars in thousands):

Borrower	Date	Rate	Amount	Security
Performing loans:				
Unified Housing Foundation, Inc. (Lakeshore Villas)	12/27	5.25%	2,000	Unsecured
Unified Housing Foundation, Inc. (Lakeshore Villas)	12/27	5.25%	6,363	Membership interest in Housing for Seniors of Humble, LLC
United Housing Foundation, Inc. (Cliffs of El Dorado)	12/27	5.25%	2,990	100% Interest in Unified Housing of McKinney, LLC
United Housing Foundation, Inc. (Echo Station)	12/27	5.25%	1,481	100% Interest in Unified Housing of Temple, LLC
	07/15	5.25%	3,057	

Edgar Filing: INCOME OPPORTUNITY REALTY INVESTORS INC /TX/ - Form 10-Q

United Housing Foundation, Inc. (Limestone Canyon)				100% Interest in Unified Housing of Austin, LLC
United Housing Foundation, Inc. (Limestone Ranch)	07/15	5.25%	2,250	100% Interest in Unified Housing of Vista Ridge, LLC
United Housing Foundation, Inc. (Parkside Crossing)	12/27	5.25%	1,936	100% Interest in Unified Housing of Parkside Crossing, LLC
United Housing Foundation, Inc. (Sendero Ridge)	07/15	5.25%	5,174	100% Interest in Unified Housing of Sendero Ridge, LLC
United Housing Foundation, Inc. (Timbers of Terrell)	12/27	5.25%	1,323	100% Interest in Unified Housing of Terrell, LLC
United Housing Foundation, Inc. (Tivoli)	12/27	5.25%	1,826	100% Interest in Unified Housing of Tivoli, LLC
Accrued interest			520	
Total Performing			\$ 28,920	
Allowance for estimated losses			(1,826)	
Total			\$ 27,094	

All are related party notes.

NOTE 5. NOTES AND INTEREST PAYABLE

The following table lists the mortgage notes payable as of September 30, 2011 (dollars in thousands):

Project	Principal Balance
Mercer Crossing/Travelers Land *	27,635
Accrued interest	995
	\$ 28,630

* This mortgage note represents the allocation of a note with an aggregate outstanding balance of \$36.0 million as of September 30, 2011. The remaining balance of this note of \$8.4 million is held on the books of Transcontinental Realty Investors, Inc., an affiliated entity. As a joint grantor of the mortgage loan, we have joint and several liability of the obligations and liabilities of the loan in its entirety, which include, but are not limited to, payment of all unpaid and accrued interest and principal for the entire outstanding loan balance. Since April 11, 2010, interest has accrued on the loan and as of April 12, 2011, the borrower is in default under the current loan documents and the lender accelerated the maturity of the indebtedness. On April 28, 2011, a forbearance agreement was entered into between the borrower, the guarantor and the lender in order to temporarily suspend the lender from the exercise of its rights and remedies under the loan documents and foreclose on the property. The forbearance period expires April 17, 2012 and requires the borrower to make monthly payments of \$150,000. Upon reconciliation of the balance due to the lender, an adjustment was made to the allocation of the loan balance between TCI and IOT. The total amount did not change but the allocations of payments were corrected to reflect the pro-rata share in correlation to the original loan balance allocation.

As of September 30, 2011, there are no remaining properties that we have treated as “subject to sales contract” on the Consolidated Balance Sheets and deferred recognition of the sale to a related party. For asset listings of properties treated as “subject to sales contract” in prior periods on the Consolidated Balance Sheets, they are listed in detail in Schedule III, “Real Estate and Accumulated Depreciation” in the Company’s Annual Report on Form 10-K. These properties were sold to a related party in order to help facilitate an appropriate debt or organizational restructure and have been ultimately resulted in ownership transfer to the lender or satisfactory resolution. These properties have mortgages that are secured by the property and many have corporate guarantees. We do not believe that IOT is liable for any deficiencies that may have resulted from corporate guarantees after the lender took possession of the property from the related party owner.

NOTE 6. RECEIVABLE FROM AND PAYABLE TO AFFILIATES

From time to time, IOT and its affiliates and related parties have made unsecured advances to each other which include transactions involving the purchase, sale, and financing of property. In addition, we have a cash management agreement with our advisor. The agreement provides for excess cash to be invested in and managed by our advisor Pillar, an affiliated entity. The table below reflects the various transactions between IOT, Pillar, Prime, and TCI (dollars in thousands):

	TCI	Prime	Pillar	Total
Balance, December 31, 2010	\$48,598	\$-	\$-	\$48,598
Cash transfers	-	2,409	(159)	2,250
Advisory fees	-	(293)	(357)	(650)
Cost reimbursements	-	(116)	(51)	(167)
Expenses paid by advisor	-	73	78	151

Edgar Filing: INCOME OPPORTUNITY REALTY INVESTORS INC /TX/ - Form 10-Q

Financing (mortgage payments)	-	718	(320	)	398
Sales/Purchases transactions	-	-	1,202		1,202	
Interest income	567	640	352		1,559	
POA fees	-	(2)	(5) (7)
Property transfers	-	-	(3)	(3)
Purchase of obligation	4,166	(3,429)	(737)	-
Balance, September 30, 2011	\$53,331	\$-	\$-		\$53,331	

NOTE 7. OPERATING SEGMENTS

Our segments are based on our method of internal reporting which classifies our operations by property type. Our segments are land and other. Presented below is the operating segment information for the three and nine months ended September 30, 2011 and 2010 (dollars in thousands):

For the Three Months Ended September 30, 2011	Land	Other	Total
Operating revenue	\$-	\$-	\$-
Operating expenses	6	-	6
Depreciation and amortization	-	-	-
Mortgage and loan interest	282	-	282
Interest income	-	543	543
Gain on land sales	-	-	-
Segment operating income (loss)	\$(288)	) \$543	\$255
Capital expenditures	-	-	-
Assets	24,511	-	24,511

For the Three Months Ended September 30, 2010	Land	Other	Total
Operating revenue	\$-	\$-	\$-
Operating expenses	4	3	7
Depreciation and amortization	-	-	-
Mortgage and loan interest	279	-	279
Interest income	-	512	512
Gain on land sales	-	-	-
Segment operating income (loss)	\$(283)	) \$509	\$226
Capital expenditures	-	-	-
Assets	29,561	-	29,561

The table below reconciles the segment information to the corresponding amounts in the Statements of Operations:

	For the Three Months Ended	
	September 30,	
	2011	2010
Segment operating income	\$255	\$226
Other non-segment items of income (expense)		
General and administrative	(94)	(70)
Advisory fee	(219)	(217)
Equity in earnings of investees	28	(8)
Income tax benefit (expense)	(170)	13
Loss from continuing operations	\$(200)	\$(56)

The table below reconciles the segment assets to total assets:

	September 30,	
	2011	2010
Segment assets	\$24,511	\$29,561
Investments in real estate partnerships	67	89

Other assets and receivables	81,990	87,437
Total assets	\$106,553	\$115,527

For the Nine Months Ended September 30, 2011	Land	Other	Total
Operating revenue	\$-	\$-	\$-
Operating expenses	10	8	18
Mortgage and loan interest	928	-	928
Interest income	-	1,560	1,560
Segment operating income (loss)	\$(938	) \$1,552	\$614
Capital expenditures	-	-	-
Assets	24,511	-	24,511

For the Nine Months Ended September 30, 2010	Land	Other	Total
Operating revenue	\$-	\$-	\$-
Operating expenses	35	4	39
Mortgage and loan interest	841	-	841
Interest income	-	1,842	1,842
Segment operating income (loss)	\$(876	) \$1,838	\$962
Capital expenditures	-	-	-
Assets	29,561	-	29,561

The table below reconciles the segment information to the corresponding amounts in the Statements of Operations:

	For the Nine Months Ended September 30,	
	2011	2010
Segment operating income	\$614	\$962
Other non-segment items of income (expense)		
General and administrative	(370	) (247
Advisory fee	(650	) (650
Equity in earnings of investees	(22	) (5
Income tax benefit (expense)	(672	) 49
Income (loss) from continuing operations	\$(1,100	) \$109

The table below reconciles the segment assets to total assets:

	September 30,	
	2011	2010
Segment assets	\$24,511	\$29,561
Investments in real estate partnerships	67	89
Other assets and receivables	81,975	85,879
Total assets	\$106,553	\$115,527

NOTE 8. RELATED PARTY TRANSACTIONS

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

interest of our company.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Litigation. IOT is 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.

NOTE 10. SUBSEQUENT EVENTS

There were no subsequent events for the period ending September 30, 2011.

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

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 matters are intended to identify forward-looking statements. These statements are subject to risks, uncertainties and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. We caution you that, while forward-looking statements reflect our good faith beliefs when we make them, they are not guarantees of future performance and are impacted by actual events when they occur after we make such statements. We expressly disclaim any responsibility to update our forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

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

- general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew leases, dependence on tenants' financial condition, and competition from other developers, owners and operators of real estate);
- risks associated with the availability and terms of construction and mortgage financing and the use of debt to fund acquisitions and developments;
- demand for apartments and commercial properties in the Company's markets and the effect on occupancy and rental rates;
- the Company's ability to obtain financing, enter into joint venture arrangements in relation to or self-fund the development or acquisition of properties;
- risks associated with the timing and amount of property sales and the resulting gains/losses associated with such sales;
- failure to manage effectively our growth and expansion into new markets or to integrate acquisitions successfully;
 - risks and uncertainties affecting property development and construction (including, without limitation, construction delays, cost overruns, inability to obtain necessary permits and public opposition to such activities);
 -

risks associated with downturns in the national and local economies, increases in interest rates, and volatility in the securities markets;

- costs of compliance with the Americans with Disabilities Act and other similar laws and regulations;
 - potential liability for uninsured losses and environmental contamination; and
- risks associated with our dependence on key personnel whose continued service is not guaranteed.

The risks included here are not exhaustive. Some of the risks and uncertainties that may cause our actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements, include among others, the factors listed and described in Part I, 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, 2010.

Other sections of this report may also include suggested factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time and it is not possible for management to predict all such matters; nor can we assess the impact of all such matters on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Investors should also refer to our quarterly reports on Form 10-Q for future periods and to other materials we may furnish to the public from time to time through Forms 8-K or otherwise as we file them with the SEC.

Overview

We are an externally advised and managed real estate investment company that currently owns land held for development or sale. As of September 30, 2011, we owned or had interests in 178.1 acres of land held for future development or sale.

Our primary source of revenue is from the interest income on over \$28.9 million of notes receivable due from affiliated and/or related parties.

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

Prior to April 30, 2011, Prime Income Asset Management, LLC ("Prime") was the Company's external Advisor and Cash Manager. Prime also served as an Advisor and Cash Manager to ARL and TCI. Effective April 30, 2011, Pillar Income Asset Management, Inc. ("Pillar") became the Company's external Advisor and Cash Manager under the same terms as the previous agreement with Prime. Pillar 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.

Critical Accounting Policies

We present our financial statements in accordance with generally accepted accounting principles in the United States ("GAAP"). In June 2009, the Financial Accounting Standards Board ("FASB") completed its accounting guidance codification project. The FASB Accounting Standards Codification ("ASC") became effective for our financial statements issued subsequent to June 30, 2009, and is the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. As of the effective date, we no longer refer to the authoritative guidance dictating our accounting methodologies under the previous accounting standards hierarchy. Instead, we refer to the ASC guidance as the sole source of authoritative literature.

The accompanying 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.

In determining whether we are the primary beneficiary of a VIE, we consider qualitative and quantitative factors, including, but not limited to: the amount and characteristics of our investment; the obligation or likelihood for us or other investors to provide financial support; our and the other investors' ability to control or significantly influence key decisions for the VIE; and the similarity with and significance to the business activities of us and the other investors. Significant judgments related to these determinations include estimates about the current future fair values and performance of real estate held by these VIEs and general market conditions.

For entities in which we have less than a controlling financial interest or entities where we are not deemed to be the primary beneficiary, the entities are accounted for using the equity method of accounting. Accordingly, our share of the net earnings or losses of these entities are included in net income. Our investment in TCI Eton Square, LP is accounted for under the equity method.

Real Estate

Upon acquisitions of real estate, we assess the fair value of acquired tangible and intangible assets, including land, buildings, tenant improvements, "above-market" and "below-market" leases, origination costs, acquired in-place leases, other identified intangible assets and assumed liabilities in accordance with ASC Topic 805 "Business Combinations", and allocate the purchase price to the acquired assets and assumed liabilities, including land at appraised value and buildings at replacement cost.

We assess and consider fair value based on estimated cash flow projections that utilize appropriate discount and/or capitalization rates, as well as available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known and anticipated trends, and market and economic conditions. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant. We also consider an allocation of purchase price of other acquired intangibles, including acquired in-place leases that may have a customer relationship intangible value, including (but not limited to) the nature and extent of the existing relationship with the tenants, the tenants' credit quality and expectations of lease renewals. Based on our acquisitions to date, our allocation to customer relationship intangible assets has been immaterial.

We record acquired "above-market" and "below-market" leases at their fair values (using a discount rate which reflects the risks associated with the leases acquired) equal to the difference between (1) the contractual amounts to be paid pursuant to each in-place lease and (2) management's estimate of fair market lease rates for each corresponding in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market fixed rate renewal options for below-market leases.

Other intangible assets acquired include amounts for in-place lease values that are based on our evaluation of the specific characteristics of each tenant's lease. Factors to be considered include estimates of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, we consider leasing commissions, legal and other related expenses.

Depreciation and Impairment

Real estate is stated at depreciated cost. The cost of buildings and improvements includes the purchase price of property, legal fees and other acquisition costs. Costs directly related to the development of properties are capitalized. Capitalized development costs include interest, property taxes, insurance, and other project costs incurred during the period of development.

Management reviews its long-lived assets used in operations for impairment when there is an event or change in circumstances that indicates impairment in value. An impairment loss is recognized if the carrying amount of its assets is not recoverable and exceeds its fair value. If such impairment is present, an impairment loss is recognized based on the excess of the carrying amount of the asset over its fair value. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods.

ASC Topic 360 "Property, Plant and Equipment" requires that qualifying assets and liabilities and the results of operations that have been sold, or otherwise qualify as held for sale, be presented as discontinued operations in all periods presented if the property operations are expected to be eliminated and we will not have significant continuing involvement following the sale. The components of the property's net income that is reflected as discontinued operations include the net gain (or loss) upon the disposition of the property held for sale, operating results, depreciation and interest expense (if the property is subject to a secured loan). We generally consider assets to be held for sale when the transaction has been approved by our Board of Directors, or a committee thereof, and there are no known significant contingencies relating to the sale, such that the property sale within one year is considered probable. Following the classification of a property as held for sale, no further depreciation is recorded on the assets.

A variety of costs are incurred in the acquisition, development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a

development project is substantially complete and capitalization must cease involves a degree of judgment. Our capitalization policy on development properties is guided by ASC Topic 835-20 “Interest – Capitalization of Interest” and ASC Topic 970 “Real Estate – General”. The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We cease capitalization when a building is considered substantially complete and ready for its intended use, but no later than one year from the cessation of major construction activity.

Recognition of Revenue

Our revenues are composed of interest income on notes receivable. In accordance with ASC 805 “Business Combinations”, we recognize rental revenue of acquired in place and “above-market” and “below-market” leases at their fair values over the terms of the respective leases, as applicable.

Revenue Recognition on the Sale of Real Estate

Sales and the associated gains or losses of real estate assets are recognized in accordance with the provisions of ASC Topic 360-20, “Property, Plant and Equipment – Real Estate Sale”. The specific timing of a sale is measured against various criteria in ASC Topic 360-20 related to the terms of the transaction and any continuing involvement in the form of management or financial assistance associated with the properties. If the sales criteria for the full accrual method are not met, we defer some or all of the gain recognition and account for the continued operations of the property by applying the finance, leasing, deposit, installment or cost recovery methods, as appropriate, until the sales criteria are met.

Non-performing Notes Receivable

We consider a note receivable to be non-performing when the maturity date has passed without principal repayment and the borrower is not making interest payments in accordance with the terms of the agreement.

Interest Recognition on Notes Receivable

For notes other than surplus cash notes, we record interest income as earned in accordance with the terms of the related loan agreements. On cash flow notes where payments are based upon surplus cash from operations, accrued but unpaid interest income is only recognized to the extent that cash is received.

Allowance for Estimated Losses

We assess the collectability of notes receivable on a periodic basis, of which the assessment consists primarily of an evaluation of cash flow projections of the borrower to determine whether estimated cash flows are sufficient to repay principal and interest in accordance with the contractual terms of the note. We recognize impairments on notes receivable when it is probable that principal and interest will not be received in accordance with the contractual terms of the loan. The amount of the impairment to be recognized generally is based on the fair value of the partnership's real estate that represents the primary source of loan repayment. See Note 4 "Notes and Interest Receivable Affiliated" for details on our notes receivable.

Fair Value of Financial Instruments

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

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

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

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

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

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

Results of Operations

The following discussion is based on our "Statement of Operations" for the nine months ended September 30, 2011, as included in Part I, Item 1. "Financial Statements" of this report. It is not meant to be an all-inclusive discussion of the changes in our net income applicable to common shares. Instead, we have focused on significant fluctuations within

our operations that we feel are relevant to obtain an overall understanding of the change in income applicable to common shareholders.

Our current operations consist of land held for future development or sale. Our operating expenses relate mainly to the administration and maintenance costs associated with the land held for development or sale and storage space.

We also have other income and expense items. We receive interest income from the funds deposited with our advisor at a rate of prime plus 1%. We have receivables from our affiliates which also provide interest income. Our other significant expense item is from the mortgage expense which includes interest payments on the debt secured by our land portfolio.

Comparison of the three months ended September 30, 2011 to the same period ended 2010

We had a net loss applicable to common shares of \$0.5 million or \$0.13 per diluted earnings per share for the period ended September 30, 2011, as compared to a net loss applicable to common shares of \$32,000 or \$0.00 per diluted earnings per share for the same period ended 2010.

Revenues

Land held for development or sale is our sole operating segment. There was no income generated from this segment for the three months ended September 30, 2011, nor for the prior period ended September 30, 2010.

Expenses

Property operating expenses were \$6,000 for the three months ended September 30, 2011. This represents a decrease of \$1,000, as compared to the prior period operating expenses of \$7,000. There was an increase in the land portfolio of \$2,000 and a decrease in the other portfolio of \$3,000. The increase in the land portfolio was due to an increase in POA fees. The decrease in the other portfolio was due to a decrease in professional fees.

Other income (expense)

Interest income was \$543,000 for the three months ended September 30, 2011. This represents an increase of \$31,000 as compared to the prior period interest income of \$512,000. The increase was due to accrued interest on affiliate receivables.

General and administrative expenses were \$94,000 for the three months ended September 30, 2011. This represents an increase of \$24,000 as compared to the prior period general and administrative expenses of \$70,000. This change was due to an increase in cost reimbursements to our Advisor in the current period.

Other

Mortgage loan and interest expense was \$282,000 for the three months ended September 30, 2011. This represents an increase of \$3,000 as compared to the prior period expense of \$279,000.

Earnings from unconsolidated subsidiaries and investees relate to IOT's 10.0% investment in TCI Eton Square, LP. This investment is accounted for under the equity method and recognizes its portion of the current period earnings.

Discontinued operations relates to properties that were either sold or held for sale as of the period ended September 30, 2011. Included in discontinued operations is one property for 2011 and 2010. Properties sold in 2011 have been reclassified to discontinued operations for current and prior year reporting periods. In 2011, we sold 13.0 acres of land with a storage warehouse (Eagle Crest). There were no properties sold in 2010. The gain on sale of the properties is also included in discontinued operations for those years. The following table summarizes revenue and expense information for the properties sold and held for sale (dollars in thousands):

	For the Three Months Ended September 30,	
	2011	2010
Revenue		
Rental	\$ -	\$ 110
Property operations	7	22
	(7)	88
Expenses		
Interest	(2)	(51)
General and administrative	(1)	-
	(3)	(51)
Income (loss) from discontinued operations before gains on sale of real estate, taxes, and fees	(10)	37
Loss on sale of discontinued operations	(475)	-
Income (loss) from discontinued operations	\$ (485)	\$ 37
Tax benefit (expense)	170	(13)
Net income (loss) from discontinued operations	\$ (315)	\$ 24

Comparison of the nine months ended September 30, 2011 to the same period ended 2010

We had a net loss applicable to common shares of (\$2.3) million or (\$0.56) per diluted earnings per share for the period ended September 30, 2011, as compared to a net gain applicable to common shares of \$112,000 or \$0.03 per diluted earnings per share for the same period ended 2010.

Revenues

Land held for development or sale is our sole operating segment. There was no income generated from this segment for the nine months ended September 30, 2011, nor for the prior period ended September 30, 2010.

Expenses

Property operating expenses were \$18,000 for the nine months ended September 30, 2011. This represents a decrease of \$21,000, as compared to the prior period operating expenses of \$39,000. There was a decrease in the land portfolio of \$25,000 and an increase in the other portfolio of \$4,000. The decrease in the land portfolio was due to a decrease in professional services and POA fees. The increase in the other portfolio was related to professional fees.

Other income (expense)

Interest income was \$1.6 million for the nine months ended September 30, 2011. This represents a decrease of \$0.2 million as compared to the prior period interest income of \$1.8 million. This change is due to a decrease of \$0.5 million of interest earned on the note receivables from Unified Housing Foundation, Inc., offset by an increase of \$0.3 million of accrued interest on affiliate receivables in the current period. The notes are excess cash flow notes and interest on the notes is recorded as cash is received. Less cash was received in the current period as compared to the prior period.

General and administrative expenses were \$370,000 for the nine months ended September 30, 2011. This represents an increase of \$123,000 as compared to the prior period general and administrative expenses of \$247,000. This change was due to an increase in cost reimbursements to our Advisor in the current period.

Mortgage loan and interest expense was \$928,000 million for the nine months ended September 30, 2011. This represents an increase of \$87,000 as compared to the prior period expense of \$841,000. This increase was due to the reconciliation of the Mercer Crossing/Travelers loan balance due to the lender, an adjustment was made to re-allocate the accrued interest balance between TCI and IOT.

Earnings from unconsolidated subsidiaries and investees relate to IOT's 10.0% investment in TCI Eton Square, LP. This investment is accounted for under the equity method and recognizes its portion of the current period earnings.

Discontinued operations relates to properties that were either sold or held for sale as of the period ended September 30, 2011. Included in discontinued operations is one property for 2011 and 2010. Properties sold in 2011 have been reclassified to discontinued operations for current and prior year reporting periods. In 2011, we sold 13.0 acres of land with a storage warehouse (Eagle Crest). There were no properties sold in 2010. The gain on sale of the properties is also included in discontinued operations for those years. The following table summarizes revenue and expense information for the properties sold and held for sale (dollars in thousands):

	For the Nine Months Ended September 30,	
	2011	2010
Revenue		
Rental	\$ 159	\$ 236
Property operations	42	78
	117	158
Expenses		
Interest	(85)	(151)
General and administration	(2)	(3)
Provision on impairment of real estate assets	(1,474)	-
	(1,561)	(154)
Income (loss) from discontinued operations before gains on sale of real estate, taxes, and fees	(1,444)	4
Loss on sale of discontinued operations	(475)	-
Income (loss) from discontinued operations	\$ (1,919)	\$ 4
Tax benefit (expense)	672	(1)
Net income (loss) from discontinued operations	\$ (1,247)	\$ 3

Liquidity and Capital Resources

General

Our principal liquidity needs are:

- meet debt service requirements including balloon payments;
- fund normal recurring expenses;
- fund capital expenditures; and
- fund new property acquisitions.

Our primary source of cash is from rents, collection on receivables, sale of assets, and the refinancing of existing mortgages. We will refinance debt obligations as they become due and generate cash from interest payments on notes receivable, storage rents and sale of properties. However, if refinancing and excess cash from operations does not prove to be sufficient to satisfy all our obligations as they mature, we may sell real estate, refinance real estate, and incur additional borrowings secured by real estate to meet our cash requirements.

Cash flow summary

The following summary discussion of our cash flows is based on the Statement of Cash Flows from Part I, Item 1. "Financial Statements" and is not meant to be an all inclusive discussion of the changes in our cash flows (dollars in thousands):

	September 30,		
	2011	2010	Variance
Net cash provided by (used in) operating activities	\$ 982	\$ (340)	\$ 1,322
Net cash provided by investing activities	\$ 954	\$ 728	\$ 226
Net cash used in financing activities	\$ (1,954)	\$ (386)	\$ (1,568)

The variance in the operating cash is primarily due to the increase in accrued interest payable relating to the Travelers land loan. Loan payments were made in full by TCI and IOT was billed their portion via an intercompany receivable. TCI is no longer holding the obligation for IOT's accrued interest, the affiliate payable was reduced and accrued interest was recorded.

The variance in investing cash is due to the additional amount of cash that was invested with our advisor. In the prior period, we had withdrawn amounts previously invested.

The variance in financing cash is due to decrease in payments on recurring debt obligations and due to the reconciliation of the loan balance due to the lender, an adjustment was made to re-allocate the balance between TCI and IOT. There was an increase in cash used in financing activities due to payoff or assumption of debt related to the sales of income producing properties and land in the current period.

We did not pay quarterly dividends in 2011 or 2010.

Environmental Matters

Under various federal, state and local environmental laws, ordinances and regulations, we 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.

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

Inflation

The effects of inflation on our operations are not quantifiable. Revenues from apartment operations tend to fluctuate proportionately with inflationary increases and decreases in housing costs. Fluctuations in the rate of inflation also affect the sales value of properties and the ultimate gain 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.

Tax Matters

Financial statement income varies from taxable income principally due to the accounting for income and losses of investees, gains and losses from asset sales, depreciation on owned properties, amortization of discounts on notes receivable and payable and the difference in the allowance for estimated losses. IOT has alternative minimum tax credit carry forwards available for 2011 and has a loss for federal income tax purposes after consolidation in the ARL group for the first nine months of 2011; therefore, it recorded no provision for income taxes.

At September 30, 2011, IOT had a net deferred tax asset of approximately \$1,743,000 due to tax deductions available to it in future years. However, as management cannot determine that it is more likely than not that IOT will realize the benefit of the deferred tax asset, a 100% valuation allowance has been established.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES REGARDING MARKET RISK

At September 30, 2011, IOT's exposure to a change in interest rates on its debt was as follows (dollars in thousands, except per share):

	Balance	Weighted Average Interest Rate	Effect of 1% Increase In Base Rates
Notes payable:			
Variable rate	\$ 27,635	4.25 %	\$ 276
Total decrease in IOT's annual net income			276
Per share			\$ 0.07

ITEM 4. CONTROLS AND PROCEDURES

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

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

PART II. OTHER INFORMATION

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

On December 5, 1989, the governing body of the predecessor of the Company approved a share repurchase program authorizing the repurchase of up to a total of 200,000 shares of the predecessor. In June 2000, the Board of Directors of the Company increased the authorization to 500,000 shares. With the 3-for-1 forward split of the Company's Common Stock in June 2005, such authorization would be appropriately increased to 1,500,000 shares and the number of shares previously purchased would be appropriately increased by the same ratio. On August 10, 2010, the Board of Directors approved an increase in the share repurchase program for up to an additional 150,000 shares of common stock which results in a total authorization under the repurchase program for up to 1,650,000 shares of our common stock. This repurchase program has no termination date. The following table represents shares repurchased on a monthly basis during the third quarter of 2011:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet be Purchased Under the Program
Balance as of June 30, 2011			1,034,761	615,239
July 31, 2011	-	-	1,034,761	615,239
August 31, 2011	-	-	1,034,761	615,239
September 30, 2011	-	-	1,034,761	615,239
Total	-			

ITEM 6. EXHIBITS

The following documents are filed herewith as exhibits or incorporated by reference as indicated:

Exhibit Number	Description
3.0	Articles of Incorporation of Income Opportunity Realty Investors, Inc., (incorporated by reference to Appendix C to the Registrant's Registration Statement on Form S-4, dated February 12, 1996).
3.1	Bylaws of Income Opportunity Realty Investors, Inc. (incorporated by reference to Appendix D to the Registrant's Registration Statement on Forms S-4 dated February 12, 1996).
10.0	Advisory Agreement dated as of April 30, 2011 between Income Opportunity Realty Investors, Inc. and Pillar Income Asset Management, Inc. (incorporated by reference to Exhibit 10.3 to the registrant's current on Form 10-Q for event of May 2, 2011).
31.1*	Certification by the Principal Executive Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
31.2*	Certification by the Principal Financial Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
32.1*	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files pursuant to Rule 405 of Regulation S-T.

* Filed herewith

SIGNATURE PAGE

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

INCOME OPPORTUNITY REALTY INVESTORS, INC.

Date: November 14, 2011

By: /s/ Daniel J. Moos
Daniel J. Moos
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 14, 2011

By: /s/ Gene S. Bertcher
Gene S. Bertcher
Executive Vice President and Chief Financial
Officer
(Principal Financial Officer)

INCOME OPPORTUNITY REALTY INVESTORS, INC.
EXHIBITS TO
QUARTERLY REPORT ON FORM 10-Q
For the Quarter Ended September 30, 2011

The following documents are filed herewith as exhibits or incorporated by reference as indicated:

Exhibit Number	Description
31.1*	Certification by the Principal Executive Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
31.2*	Certification by the Principal Financial Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
32.1*	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files pursuant to Rule 405 of Regulation S-T.

* Filed herewith

