

INCOME OPPORTUNITY REALTY INVESTORS INC /TX/

Form 10-Q

August 14, 2008

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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 June 30, 2008

or

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

For the transition period from            to

Commission File Number 001-14784

**INCOME OPPORTUNITY REALTY INVESTORS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Nevada**  
(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)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of Large accelerated filer, Accelerated filer, 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

**APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE  
PRECEDING FIVE YEARS:**

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

**APPLICABLE ONLY TO CORPORATE ISSUERS:**

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

**Common Stock, \$.01 par value**

**4,162,574**

(Class)

(Outstanding at July 31, 2008)

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**INCOME OPPORTUNITY REALTY INVESTORS, INC.**

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	<b>June 30, 2008</b>	<b>December 31, 2007</b>
	<b>(dollars in thousands)</b>	
<b>Assets</b>		
Real estate held for investment	\$ 39,514	\$ 43,027
Less accumulated depreciation	(2,373)	(2,456)
	37,141	40,571
Real estate held for sale		17,032
Notes and interest receivable from affiliates	28,000	27,441
Investment in real estate partnerships	99	532
Cash and cash equivalents	392	267
Receivables from affiliates	42,279	27,801
Other assets	4,258	2,663
	\$ 112,169	\$ 116,307
<b>Liabilities and Shareholders Equity</b>		
<b>Liabilities:</b>		
Notes and interest payable	\$ 43,423	\$ 44,354
Liabilities related to assets held for sale	975	25,152
Other liabilities	3,869	2,057
	48,267	71,563
Commitments and contingencies		
Minority interest		677
<b>Shareholders equity:</b>		
Common stock, \$.01 par value, authorized 10,000,000 shares; issued and outstanding 4,162,574 and 4,162,774 shares at 2008 and 2007, respectively.	42	42
Treasury stock	(39)	(37)
Paid-in capital	61,955	61,955
Accumulated earnings (deficit)	1,944	(17,893)
	63,902	44,067
	\$ 112,169	\$ 116,307

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



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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2008 (dollars in thousands)	2007 (dollars in thousands)	2008 (dollars in thousands)	2007 (dollars in thousands)
Property revenue				
Rents and other property revenues	\$ 304	\$ 363	\$ 629	\$ 699
Operating expenses:				
Property operations	125	189	900	436
Depreciation	60	57	123	114
General and administrative	169	168	414	283
Advisory fee to affiliate	222	367	449	578
Total operating expenses	576	781	1,886	1,411
Operating income (loss)	(272)	(418)	(1,257)	(712)
Other income (expense):				
Interest income (including \$836 and \$80 for the three months ended, \$1,534 and \$1,179 for the six months ended 2008 and 2007 respectively from affiliates and related parties)	836	1,247	1,534	2,215
Other income	230		230	
Mortgage and loan interest	(981)	(1,040)	(1,863)	(1,995)
Net income fee	182		182	(5)
Total other income	267	207	83	215
Income (loss) before gain on land sales, equity in earnings of investees and minority interest	(5)	(211)	(1,174)	(497)
Minority interests		(6)		(44)
Equity in investees	(432)	(15)	(432)	(15)
Income tax (benefit) expense	121	(184)	7,505	(115)
Net income (loss) from continuing operations	(316)	(416)	5,899	(671)
Discontinued operations	309	(719)	21,443	(329)
Income tax (benefit) expense	(121)	184	(7,505)	115
Net income (loss) from discontinued operations	188	(535)	13,938	(214)
Net income (loss) applicable to common shares	\$ (128)	\$ (951)	\$ 19,837	\$ (885)
Earnings per share				
Net income (loss) from continuing operations	(0.08)	(0.10)	1.42	(0.16)
Net income (loss) from discontinued operations	0.05	(0.13)	3.35	(0.05)
Net income (loss) applicable to common shares	\$ (0.03)	\$ (0.23)	\$ 4.77	\$ (0.21)
	4,162,574	4,166,525	4,162,674	4,166,525

Weighted average common shares used in computing earnings per share

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

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**INCOME OPPORTUNITY REALTY INVESTORS, INC.  
CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY**

**For the Six Months Ended June 30, 2008**

(dollars in thousands)

(Unaudited)

	Common Stock		Treasury Stock		Paid-in	Accumulated	Shareholders
	Shares	Amount	Shares	Amount	Capital	Deficit	Equity
<b>Balance, December 31, 2007</b>	4,168,035	\$ 42	5,261	\$ (37)	\$ 61,955	\$ (17,893)	\$ 44,067
Purchase of treasury stock			200	(2)			(2)
Net income						19,837	19,837
<b>Balance, June 30, 2008</b>	4,168,035	\$ 42	\$ 5,461	\$ (39)	\$ 61,955	\$ 1,944	\$ 63,902

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

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	<b>For the Six Months Ended June 30,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(dollars in thousands)</b>	
<b>Cash Flows From Operating Activities</b>		
Net income applicable to common shareholders	\$ 19,837	\$ (885)
Adjustments to reconcile net income applicable to common shares to net cash used in operating activities		
Gain on sale of income producing properties	(29,789)	
Loss on equity partnerships		
Change in investment	433	
Depreciation and amortization	172	710
(Increase) decrease in assets		
Accrued interest receivable	(559)	(848)
Other assets	2,084	850
Increase (decrease) in liabilities		
Accrued interest payable	108	(16)
Minority interests	(677)	59
Other liabilities	1,812	(592)
<b>Net cash used in operating activities of continuing operations</b>	<b>(6,579)</b>	<b>(722)</b>
<b>Cash Flows From Investing Activities</b>		
Proceeds from sale of real estate	46,399	
Acquisition of real estate		(24)
<b>Net cash (used in) provided by investing activities</b>	<b>46,399</b>	<b>(24)</b>
<b>Cash Flows From Financing Activities</b>		
Payments on notes payable	(25,215)	(7,322)
Proceeds from notes payables		15,413
Stock buyback	(2)	(23)
Advances from (to) advisors and affiliates	(14,478)	(7,204)
Finance fees paid		(161)