

INCOME OPPORTUNITY REALTY INVESTORS INC /TX/

Form 10-Q

May 15, 2008

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2008

or

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

For the transition period from to

Commission File Number 001-14784

INCOME OPPORTUNITY REALTY INVESTORS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada
(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, Non-accelerated filer and Smaller reporting company in Rule 12b-2 of the Exchange Act:

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

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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
(Class)

4,162,574
(Outstanding at April 30, 2008)

Table of Contents

INCOME OPPORTUNITY REALTY INVESTORS, INC.

FORM 10-Q

TABLE OF CONTENTS

Item 1. <u>Financial Statements</u>	
<u>Consolidated Balance Sheets at March 31, 2008 (unaudited) and December 31, 2007</u>	3
<u>Consolidated Statements of Operations for the three months ended March 31, 2008 and 2007 (unaudited)</u>	4
<u>Consolidated Statement of Stockholders' Equity for the three months ended March 31, 2008 (unaudited)</u>	5
<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2008 and 2007 (unaudited)</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	12
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	17
Item 4. <u>Controls and Procedures</u>	17
<u>PART II. OTHER INFORMATION</u>	
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	18
Item 6. <u>Exhibits</u>	18
<u>SIGNATURE PAGE</u>	19
<u>CERTIFICATIONS</u>	

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

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

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

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

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

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

Table of Contents

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

For the Three Months Ended March 31, 2008

(dollars in thousands)

(Unaudited)

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

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

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

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

The notes are an integral part of the consolidated financial statements

Table of Contents**NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION**

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

Properties

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

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

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

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

Newly issued accounting standards

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

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

NOTE 2 REAL ESTATE ACTIVITY

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

Property	Location	Number of Units	Sales price	Net Cash Received	Debt Discharged	Gain on Sale
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Brighton Court	Midland, TX	60 Units	\$ 5,886	\$ 230	\$ 2,727	\$ 2,862
Del Mar	Midland, TX	92 Units	7,235	4,852	2,613	4,303
Enclave	Midland, TX	68 Units	7,068	4,687	2,765	4,138
Meridian	Midland, TX	230 Units	17,197	5,872	10,800	10,350
Signature Place	Midland, TX	57 Units	5,563	3,210	1,477	3,160
Sinclair Place	Midland, TX	114 Units	6,614	1,805	4,611	4,554
			\$ 49,563	\$ 20,656	\$ 24,993	\$ 29,367

Table of Contents

NOTE 3. DISCONTINUED OPERATIONS

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

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

Brighton Court, a 60 unit apartment complex.

Del Mar, a 92 unit apartment complex.