

INCOME OPPORTUNITY REALTY INVESTORS INC /TX/  
Form 10-Q  
May 15, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended March 31, 2018

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

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**INCOME OPPORTUNITY REALTY INVESTORS, INC.**

**(Exact Name of Registrant as Specified in Its Charter)**

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Nevada 75-2615944  
(State or Other Jurisdiction of (I.R.S. Employer

Incorporation or Organization) Identification No.)

1603 Lyndon B. Johnson Freeway, Suite 800, Dallas, Texas 75234

(Address of principal executive offices)

(Zip Code)

(469) 522-4200

(Registrant's telephone number, including area code)

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

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

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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

Common Stock, \$.01 par value	4,168,214
(Class)	(Outstanding at May 15, 2018)

**INCOME OPPORTUNITY REALTY INVESTORS, INC.**

**FORM 10-Q**

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

	March 31, 2018	December 31, 2017
	<b>(dollars in thousands, except par value amount)</b>	
Assets		
Real estate land holdings subject to sales contract, at cost	\$22,717	\$ 22,717
Total real estate	22,717	22,717
Notes and interest receivable from related parties	13,568	14,030
Total notes and interest receivable	13,568	14,030
Cash and cash equivalents	2	2
Receivable and accrued interest from related parties	50,790	49,631
Other assets	1,517	1,517
Total assets	\$88,594	\$ 87,897
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable and other liabilities	\$5	\$ 10
Total liabilities	5	10
Shareholders' equity:		
Common stock, \$0.01 par value, authorized 10,000,000 shares; issued 4,173,675 and outstanding 4,168,214 shares in 2018 and 2017	42	42
Treasury stock at cost, 5,461 shares in 2018 and 2017	(39 )	(39 )
Paid-in capital	61,955	61,955
Retained earnings	26,631	25,929
Total shareholders' equity	88,589	87,887
Total liabilities and shareholders' equity	\$88,594	\$ 87,897

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



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

	For the Years Ended March 31,	
	2018	2017
	(dollars in thousands, except per share amounts)	
Revenues:		
Rental and other property revenues	\$—	\$—
Expenses:		
Property operating expenses (including \$0 and \$0 for the three months ended 2018 and 2017, respectively, from related parties)	—	—
General and administrative (including \$42 and \$54 for the three months ended 2018 and 2017, respectively, from related parties)	123	130
Net income fee to related party	53	60
Advisory fee to related party	164	162
Total operating expenses	340	352
Net operating loss	(340 )	(352 )
Other income (expenses):		
Interest income from related parties	1,042	1,089
Total other income	1,042	1,089
Income before taxes	702	737
Net income	\$702	\$737
Earnings per share - basic and diluted		
Net income	\$0.17	\$0.18
Weighted average common shares used in computing earnings per share	4,168,214	4,168,214

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

**INCOME OPPORTUNITY REALTY INVESTORS, INC.**

**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**

**For the Three Months Ended March 31, 2018**

**(dollars in thousands)**

**(Unaudited)**

	Total	Common Stock Shares	Common Stock Amount	Treasury Stock	Paid-in Capital	Retained Earnings
Balance, December 31, 2017	\$87,887	4,173,675	\$ 42	\$ (39 )	\$61,955	\$25,929
Net income	702	—	—	—	—	702
Balance, March 31, 2018	\$88,589	4,173,675	\$ 42	\$ (39 )	\$61,955	\$26,631

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



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

	For the Three Months Ended March 31, 2018    2017 (dollars in thousands)	
Cash Flow From Operating Activities:		
Net income	\$702	\$737
Adjustments to reconcile net income applicable to common shares to net cash used in operating activities:		
Decrease (increase) in assets:		
Accrued interest receivable from related parties	462	743
Increase (decrease) in other liabilities	(5 )	10
Net cash provided by operating activities	1,159	1,490
Cash Flow From Investing Activities:		
Related party receivables	(1,159)	(1,487)
Net cash provided by (used in) investing activities	(1,159)	(1,487)
Net increase in cash and cash equivalents	—	3
Cash and cash equivalents, beginning of period	2	1
Cash and cash equivalents, end of period	\$2	\$4

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

#### Organization

As used herein, the terms “IOR”, “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 NYSE MKT under the symbol (“IOR”).

Transcontinental Realty Investors, Inc. (“TCI”) owns approximately 81.25% of the Company’s common stock. Effective July 17, 2009, IOR’s financial results were consolidated with those of American Realty Investors, Inc. (“ARL”) and TCI and their subsidiaries. IOR is a “C” corporation for U.S. federal income tax purposes and files an annual consolidated income tax return with ARL and its ultimate parent, May Realty Holdings, Inc. (“MRHI”). We have no employees.

IOR invests in real estate through direct ownership, leases and partnerships and also invests in mortgage loans on real estate. Pillar Income Asset Management, Inc. (“Pillar”) is the Company’s external Advisor and Cash Manager. Although the Board of Directors is directly responsible for managing the affairs of IOR, and for setting the policies which guide it, the day-to-day operations of IOR are performed by Pillar, as the contractual Advisor, under the supervision of the Board. Pillar’s duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities and arranging debt and equity financing for the Company with third party lenders and investors. Additionally, Pillar serves as a consultant to the Board with regard to their decisions in connection with IOR’s business plan and investment policy. Pillar also serves as an Advisor and Cash Manager to TCI and ARL.

Our primary business is investing in real estate and mortgage receivables. Land held for development or sale is our sole operating segment. At March 31, 2018, our land consisted of 131.1 acres of developable land held subject to a sales contract. All of our land holdings are located in Farmers Branch, Texas. The principal source of revenue for the Company is interest income on approximately \$13.6 million of notes receivable due from related parties.

#### Basis of Presentation

The accompanying unaudited Consolidated 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 of America (“U.S. GAAP”) have been condensed or omitted in accordance with such rules and regulations, although management believes the disclosures are adequate to prevent the information presented from being misleading. In the opinion of management, all adjustments (consisting of normal recurring matters) considered necessary for a fair presentation have been included. The results of operations for the three months ended March 31, 2018, are not necessarily indicative of the results that may be expected for other interim periods or for the full fiscal year. As of December 31, 2017, IOR was not the primary beneficiary of a variable interest entity (“VIE”).

The year-end Consolidated Balance Sheet at December 31, 2017, was derived from the audited Consolidated Financial Statements at that date, but does not include all of the information and disclosures required by U.S. GAAP for complete financial statements. For further information, refer to the Consolidated Financial Statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. Certain 2017 Consolidated Financial Statement amounts have been reclassified to conform to the 2018 presentation.

### **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). The Company continually evaluates 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, after an active program to sell the asset has commenced and if the sale is probable. One of the deciding factors in determining whether a sale is probable is whether a firm purchase commitment is obtained and whether the sale is probable within the year. 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 that the sale is no longer probable, the asset is classified as an operating asset and depreciation expense is reinstated.

Prior to January 1, 2015, the operating results of real estate assets held for sale and sold are reported as discontinued operations in the accompanying Consolidated Statements of Operations. Income from discontinued operations includes the revenues and expenses, including depreciation and interest expense, associated with the assets. Effective January 1, 2015, Accounting Standards Update 2014-08, “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity” (“ASU 2014-08”) substantially changed the criteria for determining whether a disposition qualifies for discontinued operations presentation. Since the Company adopted ASU 2014-08, effective January 1, 2015, we have had no dispositions that met the discontinued operations criteria.

## **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.