

INCOME OPPORTUNITY REALTY INVESTORS INC /TX/

Form 10-K

March 31, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2010

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

75-2615944
(IRS Employer

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Incorporation or organization
1800 Valley View Lane, Suite 300
Dallas, Texas
(Address of principal executive offices)

Identification Number)
75234
(Zip Code)

(469) 522-4200

Registrant's Telephone Number, including area code

Securities registered pursuant to Section 12(b) of the Act:

<i>Title of Each Class</i>	<i>Name of each exchange on which registered</i>
Common Stock, \$0.01 par value	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of the shares of voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the closing sales price of the Common Stock on the American Stock Exchange as of June 30, 2010 (the last business day of the Registrant's most recently completed second fiscal quarter) was \$3,427,738 based upon a total of 612,096 shares held as of June 30, 2010 by persons believed to be non-affiliates of the Registrant. The basis of the calculation does not constitute a determination by the Registrant as defined in Rule 405 of the Securities Act of 1933, as amended, such calculation, if made as of a date within sixty days of this filing, would yield a different value.

As of March 25, 2011, there were 4,168,214 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

None.

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FORWARD-LOOKING STATEMENTS

Certain Statements in this Form 10-K are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. The words estimate, plan, intend, expect, anticipate, believe and similar expressions are intended to identify forward-looking statements. The forward-looking statements are found at various places throughout this Report and in the documents incorporated herein by reference. The Company disclaims any intention or obligations to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Although we believe that our expectations are based upon reasonable assumptions, we can give no assurance that our goals will be achieved. Important factors that could cause our actual results to differ from estimates or projections contained in any forward-looking statements are described under Part I, Item 1A. Risk Factors.

PART I

ITEM 1. BUSINESS

As used herein, the terms IOT, the Company, We, Our, or 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).

On July 17, 2009, Transcontinental Realty Investors, Inc. (TCI), acquired from Syntek West, Inc., (SWI), 2,518,934 shares of common stock, par value \$0.01 per share of Income Opportunity Realty Investors, Inc. (IOT) at an aggregate price of \$17,884,431 (approximately \$7.10 per share), the full amount of which was paid by TCI through an assumption of an aggregate amount of indebtedness of \$17,884,431 of the outstanding balance owed by SWI to IOT. The 2,518,934 shares of IOT common stock acquired by TCI constituted approximately 60.4% of the issued and outstanding common stock of IOT. TCI had owned for several years an aggregate of 1,037,184 shares of common stock of IOT (approximately 25% of the issued and outstanding stock). After giving effect to the transaction on July 17, 2009, TCI owned an aggregate of 3,556,118 shares of IOT common stock which constituted approximately 85.3% of the shares of common stock of IOT outstanding. In 2010, TCI sold 5,000 shares of IOT stock resulting in an ownership of 3,551,118 shares which constitutes approximately 85.2% of the shares of common stock of IOT outstanding (which is a total of 4,168,214 shares).

IOT is a C Corporation for U.S. federal income tax purposes. With TCI's acquisition of the additional shares on July 17, 2009, TCI increased its aggregate ownership of IOT to in excess of 80%; therefore, beginning July 2009, IOT's results of operations are now consolidated with those of ARL and TCI and their subsidiaries. ARL is the common parent for the consolidated group.

IOT's Board of Directors represents the Company's shareholders and is responsible for directing the overall affairs of IOT and for setting the strategic policies that guide the Company. The Board of Directors has delegated the day-to-day management of the Company to Prime Income Asset Management, LLC, a Nevada limited liability company (Prime) under a written Advisory Agreement that is reviewed annually by IOT's Board of Directors. The directors of IOT are also directors of ARL and TCI. The Chairman of the Board of Directors of IOT also serves as the Chairman of the Board of Directors of ARL and TCI. The officers of IOT also serve as officers of ARL, TCI and Prime.

SWI served as the Company's external advisor from July 1, 2003 until July 1, 2009. Effective July 1, 2009, the Advisory Agreement and the Cash Management Agreement with SWI was terminated. IOT's contractual advisor is now Prime, the sole member of which is Prime Income Asset Management, Inc., a Nevada corporation

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(PIAMI), which is owned 100% by Realty Advisors, LLC, a Nevada limited liability company, the sole member of which is Realty Advisors, Inc., a Nevada corporation, which is owned 100% by a Trust known as the May Trust. Prime's duties include but are not limited to locating, evaluating and recommending real estate and real estate-related investment opportunities. Prime also arranges, for IOT's benefit, debt and equity financing with third party lenders and investors. Prime also serves as advisor to ARL and TCI. As the contractual advisor, Prime is compensated by IOT under an Advisory Agreement that is more fully described in Part III, Item 10. Directors, Executive Officers and Corporate Governance The Advisor . IOT has no employees. Employees of Prime render services to IOT in accordance with the terms of the Advisory Agreement.

To the extent we own operating properties, Triad Realty Services, LP (Triad), an affiliate of Prime, provides property management services. The general partner of Triad is PIAMI, the sole member of Prime. The limited partner of Triad is HRS Holdings, LLC (HRSHLLC). Triad subcontracts the property-level management and leasing of commercial properties to Regis Realty I, LLC (Regis I), which is owned by HRSHLLC. Triad is entitled to receive a fee for its property management services. Regis I is entitled to receive property and construction management fees and leasing commissions in accordance with the terms of its property-level management agreement with Triad. Regis I is also entitled to receive real estate brokerage commissions in accordance with the terms of a non-exclusive brokerage agreement. See Part III, Item 10. Directors, Executive Officers and Corporate Governance .

Our primary business is investing in real estate. We divested ourselves of our commercial segment with the sale of the 2010 Valley View office building and the Parkway Centre retail shopping center in October 2009, resulting in land held for development or sale remaining as our sole operating segment. At December 31, 2010, our land consisted of 203.3 acres of land held for future development or sale. All of our land holdings are located in Texas. The principal source of revenue for the Company is interest income on over \$38.4 million of note receivables due from affiliated and/or related parties.

Significant transactions

A summary of some of the significant transactions for the year ended December 31, 2010 are discussed below:

On May 18, 2010, we sold our 10.0% investment in TCI Eton Square, L.P. to TX Highland RS Corp, a related party under common control, for a sales price of \$1.37 million. This entity owns a 225,566 square foot office and retail center known as Eton Square located in Tulsa, Oklahoma. A three-year note receivable for the full sales price was given as consideration, with an interest rate of prime plus 2.0%, payable at maturity on May 18, 2013. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, the inadequate initial investment and questionable recovery of investment cost.

On September 21, 2010, we sold our investment in Transcontinental Brewery, Inc. to Warren Road Farm, Inc., a related party under common control, for a sales price of \$3.8 million. This entity owns a 29,784 square foot storage warehouse and 13.0 acres of land known as Eagle Crest located in Farmers Branch, Texas. The buyer assumed the existing mortgage of \$2.4 million, secured by the property. A five-year note receivable for \$1.4 million was given as consideration, with an interest rate of 6.0%, payable at maturity on September 21, 2015. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, the inadequate initial investment and questionable recovery of investment cost.

On December 24, 2010, we sold 6.6 acres of land known as Three Hickory land located in Farmers Branch, Texas to Fenton Real Estate, Inc., a related party under common control, for a sales price of \$1.2 million. A five-year note receivable for \$1.2 million was given as consideration, with an interest rate of 6.0%, payable at maturity on December 24, 2015. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, the inadequate initial investment and questionable recovery of investment cost.

The properties that we have sold to a related party under common control and have deferred the recognition of the sale are treated as subject to sales contract on the Consolidated Balance Sheets and are listed in detail in

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Schedule III, Real Estate and Accumulated Depreciation . These properties were sold to a related party in order to help facilitate an appropriate debt or organizational restructure and may or may not be transferred back to the seller upon resolution. These properties have mortgages that are secured by the property and many have corporate guarantees by its parent, TCI. According to the loan documents, we are currently in default on these mortgages primarily due to lack of payment although we are actively involved in discussions with every lender in order to settle or cure the default situation. We have reviewed each asset and taken impairment to the extent we feel the value of the property was less than our current basis.

Business Plan

Our business is investing in equity interests in real estate through direct equity investments and partnerships, and financing real estate and real estate-related activities through investments in mortgage loans. All of our real estate is located in the southwest region of the continental United States. The land portfolio is currently our sole operating segment.

Our business is not seasonal. Management has determined to pursue a balanced investment strategy, seeking both current income and capital appreciation. With respect to new investments, management's plan of operation is to acquire above average apartment and commercial properties, in keeping with the current class of properties in our real estate portfolio. Management intends to focus on income-producing property acquisitions to maintain a balance between income-producing and non-income-producing properties. Management does not expect that we will seek to fund or acquire additional mortgage loans. We may, however, originate mortgage loans in conjunction with providing purchase money financing of a property acquisition.

Competition

The real estate business is highly competitive and IOT competes with numerous entities engaged in real estate activities (including certain entities described in Part III, Item 13. Certain Relationships and Related Transactions, and Director Independence), some of which have greater financial resources than IOT. We believe that success against such competition is dependent upon the geographic location of the property, the performance of the property-level managers in areas such as leasing and marketing, collection of rents and control of operating expenses, the amount of new construction in the area and the maintenance and appearance of the property. Additional competitive factors include ease of access to the property, the adequacy of related facilities such as parking and other amenities, and sensitivity to market conditions in determining rent levels. With respect to apartments, competition is also based upon the design and mix of the units and the ability to provide a community atmosphere for the residents. We believe that beyond general economic circumstances and trends, the degree to which properties are renovated or new properties are developed in the competing submarket are also competitive factors. See also Part I, Item 1A. Risk Factors .

To the extent that the Company seeks to sell any of its properties, the sales prices for such properties may be affected by competition from other real estate owners and financial institutions also attempting to sell properties in areas where IOT's properties are located, as well as aggressive buyers attempting to penetrate or dominate a particular market.

As described above and in Part III, Item 13. Certain Relationships and Related Transactions, and Director Independence the officers and directors of IOT also serve as officers or directors of ARL and TCI. Both ARL and TCI have business objectives similar to those of IOT. IOT's officers and directors owe fiduciary duties to both ARL and TCI as well as to IOT under applicable law. In determining whether a particular investment opportunity will be allocated to IOT, ARL, or TCI, management considers the respective investment objectives of each Company and the appropriateness of a particular investment in light of each Company's existing real estate and mortgage notes receivable portfolio. To the extent that any particular investment opportunity is appropriate to more than one of the entities, the investment opportunity may be allocated to the entity which has had funds available for investment for the longest period of time, or, if appropriate, the investment may be shared among all three or two of the entities.

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In addition, as described in Part III, Item 13. Certain Relationships and Related Transactions, and Director Independence, TCI competes with affiliates of Prime having similar investment objectives related to the acquisition, development, disposition, leasing and financing of real estate and real estate-related investments. In resolving any potential conflicts of interest which may arise, Prime has informed TCI that it intends to exercise its best judgment as to what is fair and reasonable under the circumstances in accordance with applicable law.

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 interests of our company.

Available Information

IOT maintains an internet website at <http://www.incomeopp-realty.com>. We make available through our website, free of charge, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, reports filed pursuant to Section 16 and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such materials to the Securities and Exchange Commission. In addition, we have posted the Charters of our Audit Committee, Compensation Committee, and our Governance and Nominating Committee, as well as our Code of Business Conduct and Ethics, Corporate Governance Guidelines on Director Independence and other information on our website. These charters and principles are not incorporated in this Report by reference. We will also provide a copy of these documents free of charge to stockholders upon written request. The Company issues Annual Reports containing audited financial statements to its common shareholders.

ITEM 1A. RISK FACTORS

Risk Factors Related to Our Business

An investment in our securities involves various risks. All investors should carefully consider the following risk factors in conjunction with the other information in this report before trading our securities.

We may not be able to compete successfully with other entities that operate in our industry.

We experience a great deal of competition in attracting purchasers for our properties and in locating land to develop and properties to acquire.

In our effort to lease our properties, we compete with a broad spectrum of other entities in each of our markets. These competitors include, among others, publicly held REITs, privately held entities and individual property owners. Some of these competitors may be able to offer more attractive financial terms than we are able to offer.

If the availability of land or high quality properties in our markets diminishes, our operating results could be adversely affected.

We may experience increased operating costs, which could adversely affect our financial results and the value of our properties.

Our properties are subject to increases in operating expenses such as insurance, administrative costs and other costs associated with security and maintenance of our properties. While our current tenants generally are obligated to pay a portion of these costs, there is no assurance that these tenants will make such payments or

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agree to pay these costs upon renewal or that new tenants will agree to pay these costs. If operating expenses increase in our markets, we may not be able to increase rents or reimbursements in all of these markets so as to meet increased expenses without, at the same time, decreasing occupancy rates. If this occurs, our ability to make distributions to shareholders and service our indebtedness could be adversely affected.

We face risks associated with property acquisitions.

We acquire individual properties and portfolios of properties and intend to continue to do so. Our acquisition activities and their successes are subject to the following risks:

when we are able to locate a desired property, competition from other real estate investors may significantly increase the purchase price;

acquired properties may fail to perform as expected;

the actual costs of repositioning or redeveloping acquired properties may be higher than original estimates;

acquired properties may be located in new markets where we face risks associated with an incomplete knowledge or understanding of the local market, a limited number of established business relationships in the area and a relative unfamiliarity with local governmental and permitting procedures; and

we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into existing operations, and results of operations and financial condition could be adversely affected.

We may acquire properties subject to liabilities and without any recourse, or with only limited recourse, with respect to unknown liabilities. As a result, if a liability were asserted against us based upon ownership of those properties, we may be required to pay substantial sums to settle it, which could adversely affect our cash flow.

Many of our properties are concentrated in our primary markets, and we therefore may suffer economic harm as a result of adverse conditions in those markets.

Our properties are located principally in a specific geographic area in the southwestern United States. Due to the concentration of our properties in this area, performance is dependent on economic conditions. This area has experienced periods of economic decline in the past, and may do so in the future.

We are leveraged and we may not be able to meet our debt service obligations.

We had total indebtedness at December 31, 2010 of approximately \$36.6 million. Substantially all assets have been pledged to secure debt. These borrowings increase the risk of loss because they represent a prior claim on assets and most require fixed payments regardless of profitability. Our leveraged position makes us vulnerable to declines in the general economy and may limit the Company's ability to pursue other business opportunities in the future.

We may not be able to access financial markets to obtain capital on a timely basis, or on acceptable terms.

We rely on proceeds from property dispositions and third party capital sources for a portion of our capital needs, including capital for acquisitions and development. The public debt and equity markets are among the sources on which we rely. There is no guarantee that we will be able to access these markets, or any other source of capital. The ability to access the public debt and equity markets depends on a variety of factors, including:

general economic conditions affecting these markets;

our own financial structure and performance;

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the market's opinion of real estate companies in general; and

the market's opinion of real estate companies that own properties like ours.

We may suffer adverse effects as a result of the terms of and covenants relating to our indebtedness.

Required payments on our indebtedness generally are not reduced if the economic performance of the portfolios declines. If the economic performance declines, net income, cash flow from operations and cash available for distribution to stockholders will be reduced. If payments on debt cannot be made, we could sustain a loss, or in the case of mortgages, suffer foreclosures by mortgagees or suffer judgments. Further, some obligations contain cross-default and/or cross-acceleration provisions, meaning that a default on one obligation may constitute a default on other obligations.

We anticipate that only a small portion of the principal of our debt will be repaid prior to maturity. Therefore, we are likely to need to refinance at least a portion of our outstanding debts as they mature. There is a risk that we may not be able to refinance existing debt or that the terms of any refinancing will not be as favorable as the terms of our existing debt. If principal payments due at maturity cannot be refinanced, extended or repaid with proceeds from other sources, such as the proceeds of sales of assets or new equity securities, our cash flow will not be sufficient to repay all maturing debt in years when significant balloon payments come due.

Our credit facilities and unsecured debt securities contain customary restrictions, requirements and other limitations on our ability to incur indebtedness, including total debt to asset ratios, secured debt to total asset ratios, debt service coverage ratios and minimum ratios of unencumbered assets to unsecured debt, which we must maintain. Our continued ability to borrow is subject to compliance with our financial and other covenants. In addition, our failure to comply with such covenants could cause a default under credit facilities and we may then be required to repay such debt with capital from other sources. Under those circumstances, other sources of capital may not be available to us, or be available only on unattractive terms.

Our degree of leverage could limit our ability to obtain additional financing or affect the market price of our common stock.

The degree of leverage could affect our ability to obtain additional financing for working capital, capital expenditures, acquisitions, development or other general corporate purposes. The degree of leverage could also make us more vulnerable to a downturn in business or the economy.

An increase in interest rates would increase our interest costs on variable rate debt and could adversely impact our ability to refinance existing debt.

We currently have, and may incur more, indebtedness that bears interest at variable rates. Accordingly, if interest rates increase, so will our interest costs, which would adversely affect our cash flow and our ability to pay principal and interest on our debt and our ability to make distributions to our stockholders. Further, rising interest rates could limit our ability to refinance existing debt when it matures.

We may need to sell properties from time to time for cash flow purposes.

Because of the lack of liquidity of real estate investments generally, our ability to respond to changing circumstances may be impaired. Real estate investments generally cannot be sold quickly. In the event that we must sell assets to generate cash flow, we cannot predict whether there will be a market for those assets in the time period we desire or need to sell them, or whether we will be able to sell them at a price that will allow us to fully recoup our investment. We may not be able to realize the full potential value of our assets and we may incur costs related to the early pay-off of the debt secured by such assets.

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The overall business is subject to all of the risks associated with the real estate industry.

We are subject to all risks incident to investment in real estate, many of which relate to the general lack of liquidity of real estate investments, including, but not limited to:

changes in general or local economic conditions because our real estate assets are concentrated in the southwest, any deterioration in the general economic conditions in any of those states could have an adverse effect on our business and assets in a given state;

changes in interest rates that may make our ability to satisfy our debt service requirements materially more burdensome;

lack of availability of financing that may render the purchase, sale or refinancing of a property more difficult or unattractive;

changes in real estate and zoning laws;

increases in real estate taxes and insurance costs;

federal or local economic or rent control; and

hurricanes, tornadoes, floods, earthquakes and other similar natural disasters.

Adverse economic conditions and dislocations in the credit markets could have a material adverse effect on our results of operations, and financial condition.

Our business may be affected by market and economic challenges experienced by the U.S. economy or real estate industry as a whole or by the local economic conditions in the markets in which our properties are located, including the current dislocations in the credit markets and general global economic recession. These current conditions, or similar conditions existing in the future, may adversely affect our results of operations, and financial condition as a result of the following, among other potential consequences:

our ability to borrow on terms and conditions that we find acceptable, or at all, may be limited, which could reduce our ability to pursue acquisition and development opportunities and refinance existing debt, reduce our returns from our acquisition and development activities and increase our future interest expense;

reduced values of our properties may limit our ability to dispose of assets at attractive prices or to obtain debt financing secured by our properties and may reduce the availability of unsecured loans; and

one or more lenders could refuse to fund their financing commitment to us or could fail and we may not be able to replace the financing commitment of any such lenders on favorable terms, or at all.

Real estate investments are illiquid, and we may not be able to sell properties if and when it is appropriate to do so.

Real estate generally cannot be sold quickly. We may not be able to dispose of properties promptly in response to economic or other conditions. In addition, provisions of the Internal Revenue Code may limit our ability to sell properties (without incurring significant tax costs) in some situations when it may be otherwise economically advantageous to do so, thereby adversely affecting returns to stockholders and adversely

impacting our ability to meet our obligations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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On December 31, 2010, our portfolio consisted of 203.3 acres of land held for development or sale. The table below shows information relating to the land owned:

Land	Location	Acres
Mercer Crossing Multi-Tracts	Farmers Branch, TX	203.3
Total Land/Development		203.3

ITEM 3. LEGAL PROCEEDINGS

The Company and its subsidiaries, from time to time, have been involved in various items of litigation incidental to and in the ordinary course of its business and, in the opinion of Management; the outcome of such litigation will not have a material adverse impact upon the Company's financial condition, results of operations or liquidity.

During the fourth quarter of the fiscal year covered by this Report, no proceeding previously reported was terminated.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Registrant's Annual Meeting of Stockholders occurred on September 16, 2010, for which proxies were solicited pursuant to Regulation 14 under the Securities Exchange Act of 1934 (the Exchange Act). There was no solicitation in opposition to the management nominees listed in the Proxy Statement and all of such nominees were elected. At the annual meeting, stockholders were asked to consider and vote upon the election of directors and the ratification of the selection of the independent registered public accounting firm for IOT for the fiscal year ending December 31, 2010 and any interim period. With respect to each nominee for election as a director, the following information sets forth the number of votes cast for or withheld:

Director	Shares Voting	
	For	Withheld Authority
Robert A. Jakuszewski	3,648,404	28,426
Peter L. Larsen	3,648,104	28,726
Ted R. Munselle	3,648,404	28,426
Martha C. Stephens	3,648,254	28,576

There were no broker non-votes on the election of directors. All nominees were elected.

With respect to the ratification of Swalm & Associates, P.C., as the independent registered public accountant for the Company for the fiscal year ending December 31, 2010 and any interim period, 3,835,043 votes were received in favor of such proposal, 27,227 votes were received against such proposal and 10,020 votes abstained; there were no broker non-votes on this issue.

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The Company's Common Stock is listed and traded on the AMEX under the symbol IOT. The following table sets forth the high and low closing sales prices for the Company's Common Stock for each full, quarterly period within the two most recent fiscal years and any subsequent interim period as reported by published financial sources.

	2010		2009	
	High	Low	High	Low
First Quarter	\$ 8.40	\$ 5.01	\$ 8.10	\$ 3.60
Second Quarter	\$ 6.78	\$ 5.08	\$ 9.83	\$ 3.40
Third Quarter	\$ 6.60	\$ 4.12	\$ 7.97	\$ 4.11
Fourth Quarter	\$ 4.72	\$ 3.35	\$ 8.40	\$ 4.08

On March 25, 2011, the closing sale price of the Company's Common Stock on the AMEX was \$3.25 per share. The approximate number of record holders of our common stock at March 25, 2011 was 700.

Performance Graph

The following graph compares the cumulative total stockholder return on shares of Common Stock of the Company with the Dow Jones Industrial Average (Dow Jones Industrial) and the Dow Jones Real Estate Investment Index (Dow Jones Real Estate). The comparison assumes that \$100 was invested on December 31, 2005, in shares of Common Stock of the Company, and in each of the indices, and further assumes the reinvestment of all distributions. Past performance is not necessarily an indicator of future performance.

\$100 invested on 12/31/05 in stock or index-including reinvestment of dividends.
Fiscal year ending December 31.

	12/05	12/06	12/07	12/08	12/09	12/10
Income Opportunity Realty Investors, Inc.	\$ 100.00	\$ 105.56	\$ 85.71	\$ 90.48	\$ 133.33	\$ 65.87
Dow Jones Real Estate	\$ 100.00	\$ 133.15	\$ 106.72	\$ 63.46	\$ 78.27	\$ 95.38
Dow Jones Industrial	\$ 100.00	\$ 116.29	\$ 123.77	\$ 81.89	\$ 97.30	\$ 108.02

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IOT's Board of Directors established a policy that dividend declarations on common stock would be determined on an annual basis following the end of each year. In accordance with that policy, no dividends on IOT's common stock were declared for 2010, 2009, or 2008. Future distributions to common stockholders will be determined by the Board of Directors in light of conditions then existing, including the Company's financial condition and requirements, future prospects, restrictions in financing agreements, business conditions and other factors deemed relevant by the Board.

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 during each of the three months of the last quarter ended December 31, 2010:

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 September 30, 2010			1,034,761	615,239
October 31, 2010			1,034,761	615,239
November 30, 2010			1,034,761	615,239
December 31, 2010			1,034,761	615,239
Total				

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA****INCOME OPPORTUNITY REALTY INVESTORS, INC.**

	For the Years Ended December 31,				
	2010	2009	2008	2007	2006
	(dollars in thousands, except share and per share amounts)				
EARNINGS DATA					
Total operating revenues	\$ 313	\$ 246	\$ 310	\$ 402	\$ 503
Total operating expenses	1,432	1,517	1,935	2,032	1,279
Operating loss	(1,119)	(1,271)	(1,625)	(1,630)	(776)
Other income	2,909	2,681	6,837	1,454	405
Income (loss) before gain on land sales, non-controlling interest, and taxes	1,790	1,410	5,212	(176)	(371)
Income tax benefit (expense)	48	(493)	7,524	(170)	222
Net income (loss) from continuing operations	1,838	917	12,736	(346)	(149)
Net income (loss) from discontinuing operations		3	13,973	(317)	413
Net income (loss)	1,838	920	26,709	(663)	264
Net (income) loss attributable to non-controlling interest				(72)	(92)
Net income (loss) applicable to common shares	\$ 1,838	\$ 920	\$ 26,709	\$ (735)	\$ 172
PER SHARE DATA					
Earnings per share basic					
Net income (loss) from continuing operations	\$ 0.44	\$ 0.22	\$ 3.06	\$ (0.10)	\$ (0.04)
Net income (loss) from discontinued operations			3.35	(0.08)	0.08
Net income (loss) applicable to common shares	\$ 0.44	\$ 0.22	\$ 6.41	\$ (0.18)	\$ 0.04
Weighted average common share used in computing earnings per share	4,168,214	4,168,214	4,168,264	4,168,414	4,173,675
Earnings per share diluted					
Net income (loss) from continuing operations	\$ 0.44	\$ 0.22	\$ 3.06	\$ (0.10)	\$ (0.04)
Net income (loss) from discontinued operations			3.35	(0.08)	0.08
Net income (loss) applicable to common shares	\$ 0.44	\$ 0.22	\$ 6.41	\$ (0.18)	\$ 0.04
Weighted average common share used in computing diluted earnings per share	4,168,214	4,168,214	4,168,264	4,168,414	4,173,675
BALANCE SHEET DATA					
Real estate, net	\$ 29,561	\$ 29,503	\$ 36,942	\$ 57,603	\$ 58,621
Notes and interest receivable, net	\$ 36,579	\$ 36,992	\$ 38,015	\$ 27,441	\$ 27,777
Total assets	\$ 117,087	\$ 115,665	\$ 113,962	\$ 116,307	\$ 108,911
Notes and interest payables	\$ 36,604	\$ 37,080	\$ 42,319	\$ 69,506	\$ 61,546
Shareholders' equity	\$ 73,532	\$ 71,694	\$ 70,774	\$ 44,744	\$ 45,444
Book value per share	\$ 17.64	\$ 17.20	\$ 16.98	\$ 10.73	\$ 10.89

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ITEM 7. 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-K contains forward-looking statements within the meaning of the federal securities laws, principally, but not only, under the captions Business, Risk Factors and 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 refer 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 financing and the use of debt to fund acquisitions and developments;

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;

risks associated with our dependence on key personnel whose continued service is not guaranteed; and

the other risk factors identified in this Form 10-K, including those described under the Part I, Item 1A. Risk Factors. The risks included here are not exhaustive. Other sections of this report, including Part I, Item 1A. Risk Factors include additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can we assess the impact of all such risk

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factors 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 current reports on Form 8-K as we file them with the SEC, and to other materials we may furnish to the public from time to time through Forms 8-K or otherwise.

Overview

We are an externally advised and managed real estate investment company that currently owns land held for development or sale. As of December 31, 2010, we owned or had interests in 203.3 acres of land held for future development or sale, including a storage warehouse.

Our primary source of revenue is from the interest income received on our notes receivable and the rents collected on our storage warehouse, and sales of properties.

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.

We are advised by Prime under a contractual arrangement that is reviewed annually by our Board of Directors. Our commercial properties are managed by Triad Realty Services, L.P. (Triad), an affiliate of Prime. Triad subcontracts the property-level management and leasing of our commercial properties to Regis Realty I, LLC (Regis I).

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 the Company's 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 its accounting methodologies under the previous accounting standards hierarchy. Instead, we refer to the ASC Codification as the sole source of authoritative literature.

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.

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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 December 31, 2010, IOT is not the primary beneficiary of a VIE.

For entities in which we have less than a controlling financial interest or entities where it is not deemed to be the primary beneficiary, the entities are accounted for using the equity method of accounting. Accordingly, the Company's share of the net earnings or losses of these entities is included in consolidated net income. IOT's investment in Eton Square 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.

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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. If we determine that impairment has occurred, the affected assets must be reduced to their face value.

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 the Company 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 consider a construction project as substantially completed and held available for occupancy upon the receipt of certificates of occupancy, but no later than one year from cessation of major construction activity. We cease capitalization on the portion (1) substantially completed and (2) occupied or held available for occupancy, and we capitalize only those costs associated with the portion under construction.

Recognition of Revenue

Our revenues are composed largely of interest income on notes receivable and also include rents received on a storage warehouse. In accordance with ASC 805 Business Combinations, we recognize rental revenue of acquired in-place above- 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 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 accounts 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

The Company considers 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.

Table of Contents**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 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 3 for details on our Notes Receivable.

Fair Value Measurement

The company applies 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

Contractual Obligations

We have contractual obligations and commitments primarily with regards to the payment of mortgages. The following table aggregates our expected contractual obligations and commitments and includes items not accrued, per Generally Accepted Accounting Principles, through the term of the obligation such as interest expense. Our aggregate obligations subsequent to December 31, 2010 are shown in the table below (dollars in thousands):

	Total	2011	2012	2013-2015	Thereafter
Long-term debt obligation	\$ 38,943	\$ 31,503	\$ 685	\$ 6,750	\$ 5
Capital lease obligation					
Operating lease obligation					
Purchase obligation					
Other long-term debt liabilities reflected on the Registrant's Balance Sheet under GAAP					
Total	\$ 38,943	\$ 31,503	\$ 685	\$ 6,750	\$ 5

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Results of Operations

The following discussion is based on our Consolidated Financial Statements Consolidated Statement of Operations for the years ended December 31, 2010, 2009, and 2008 from Part II, Item 8., Financial Statements and Supplementary Data and 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. There is a warehouse located on one of the land parcels that is used for storage and generates some revenues through the leasing of that storage space. 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 1.0%. 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 properties.

Comparison of the year ended December 31, 2010 to the year ended December 31, 2009

We had a net income applicable to common shares of \$1.84 million or \$0.44 per diluted earnings per share for the year ended December 31, 2010, as compared to a net income applicable to common shares of \$0.92 million or \$0.22 per diluted earnings per share for the same period ended 2009.

Revenue

Rental and other property revenues were \$313,000 for the twelve months ended December 31, 2010. This represents an increase of \$67,000 as compared to the prior period revenues of \$246,000, due to an increase in our rental income received from the leasing of our storage warehouse.

Expenses

Property operations expenses were \$164,000 for the twelve months ended December 31, 2010. This represents a decrease of \$27,000, as compared to the prior period operating expenses of \$191,000, due to an overall decrease in costs and additional repairs and maintenance incurred in our storage warehouse.

There was no depreciation or amortization expense for the twelve months ended December 31, 2010, as compared to \$40,000 in the prior period. In 2009, we divested ourselves of our commercial segment with the sale of the 2010 Valley View office building and the Parkway Centre retail shopping center, resulting in land held for development or sale remaining as our sole operating segment.

Other income (expense)

Our interest income was \$4.3 million for the twelve months ended December 31, 2010. This represents a decrease of \$0.4 million in the current year, as compared to interest income of \$4.7 million in the prior period. The decrease is due to fewer payments received on our notes receivables from Unified Housing Foundation, an affiliated entity. The receivables are surplus cash flow notes. The entity is required to pay on the notes when they generate surplus cash flow, thus interest income is recorded when received. Less surplus cash flow was generated in the current year, as compared to the prior year.

Mortgage loan interest expense was \$1.3 million for the twelve months ended December 31, 2010. This represents a decrease of \$0.6 million in the current year, as compared to interest expense of \$1.9 million in the prior period. The majority of this decrease is due to the modification of the Mercer Crossing land loan, lowering the interest rate by 250 basis points during the later part of 2009.

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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.

Due to the overall positive income, we had a net income fee expense due to our advisor. This fee is based on a percentage of total net income. The net income fee in the current year included a \$45,000 credit for the prior year's fee related primarily to the tax expense calculated after the net income fee was billed for the prior year's net income.

Discontinued operations

There were no properties included in discontinued operations for 2010. Our discontinued operations for 2009 consist of two commercial properties, an office building and shopping center, 2010 Valley View and Parkway Centre, which were sold in October 2009. The results of operations from these properties are shown below (dollars in thousands):

	For Years Ended December 31,	
	2010	2009
Revenue		
Rental	\$	\$ 964
Property operations		354
		610
Expenses		
Interest		(448)
General and administration		(11)
Depreciation		(146)
		(605)
Net income from discontinued operations, before tax		5
Income tax expense		(2)
Income from discontinued operations	\$	\$ 3

Comparison of the year ended December 31, 2009 to the year ended December 31, 2008

We had net income applicable to common shares of \$920,000 or \$0.22 per diluted earnings per share in 2009, which includes income from discontinued operations of \$5,000, as compared to a net income applicable to common shares of \$26.71 million or \$6.41 per diluted earnings per share in 2008, which includes income from discontinued operations of \$13.97 million for the same period ended 2008.

Revenue

Rental and other property revenues decreased from \$310,000 in 2008 to \$246,000 in 2009. The decrease was due to a loss in rental revenues within our storage property.

Expenses

Property operating expenses decreased from \$381,000 in 2008 to \$191,000 in 2009. The decrease was due to an overall decrease in costs and additional repairs and maintenance incurred.

Advisory fees decreased from \$895,000 in 2008 to \$881,000 in 2009. The advisory fees are based on the total net assets. We sold six apartment complexes in January 2008 and one in November 2008, reducing our asset base, thus reducing our fee.

Table of Contents**Other income (expense)**

Interest income increased from \$3.0 million in 2008 to \$4.7 million in 2009. The increase is due to cash received on our surplus cash flow notes receivable from Unified Housing Foundation, an affiliated entity. This entity is required to pay on the notes when they generate surplus cash flow, thus interest income is recorded when payments received.

Mortgage and loan interest decreased in 2009 due to a decrease in the interest rate on the Travelers land mortgage.

Discontinued operations

Our discontinued operations for 2009 consist of two commercial properties sold. In 2008, discontinued operations consist of the two commercial properties sold in 2009 and seven apartment complexes sold in 2008. The office building and shopping center, 210 Valley View and Parkway Centre, were sold in October 2009. Six of the apartment complexes; Brighton Court, Del Mar, Enclave, Meridian, Signature Place, and Sinclair Place, which are known as the Midland/Odessa properties, were sold in January 2008. One of the apartments, Falcon Point, was reclassified to discontinued operations in May 2008 due to the condemnation of the property as a result of tornado damage and management's subsequent decision to sell the property. The property was sold As-Is in November 2008. The statements of operations for all prior periods presented have been restated to reflect the reclassification to discontinued operations. Included in discontinued operations for 2008 is a gain of \$29.8 million, net of non-controlling interest, on the sale of the Midland/Odessa properties. The results of operations from these properties are shown below (dollars in thousands):

	For Years Ended December 31,	
	2009	2008
Revenue		
Rental	\$ 964	\$ 1,963
Property operations	354	1,725
	610	238
Expenses		
Interest	(448)	(2,900)
General and administration	(11)	(885)
Depreciation	(146)	(194)
	(605)	(3,979)
Net income (loss) from discontinued operations before gains on sale of real estate, taxes and fees	5	(3,741)
Gain on sale of discontinued operations		29,750
Net income/sales fee to affiliate		(4,512)
Net income from discontinued operations, before tax	5	21,497
Income tax expense	(2)	(7,524)
Net income from discontinued operations	\$ 3	\$ 13,973

Liquidity and Capital Resources**General**

Our principal liquidity needs are:

fund normal recurring expenses;

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meet debt service and principal repayment obligations including balloon payments on maturing debt;

fund capital expenditures; and

fund possible property acquisitions.

Our principal sources of cash have been and will continue to be:

property operations;

proceeds from land and income-producing property sales;

collection of mortgage notes receivable;

collections of receivables from affiliated companies;

refinancing of existing mortgage notes payable; and

additional borrowings, including mortgage notes payable, and lines of credit.

It is important to realize that the current status of the banking industry has had a significant effect on our industry. The banks' willingness and/or ability to originate loans affects our ability to buy and sell property, and refinance existing debt. We are unable to foresee the extent and length of this down-turn. A continued and extended decline could materially impact our cash flows. We draw on multiple financing sources to fund our long-term capital needs.

We may also issue additional equity securities, including common stock. Management anticipates that our cash as of December 31, 2010, along with cash that will be generated in 2011 from property operations, may not be sufficient to meet all of our cash requirements. Management intends to selectively sell land and income producing assets, refinance or extend real estate debt and seek additional borrowings secured by real estate to meet its liquidity requirements. Although history cannot predict the future, historically, we have been successful at refinancing and extending a portion of the Company's current maturity obligations.

Financial Position

The following impacted our balance sheet as of December 31, 2010:

Our real estate increased by \$58,000 for the costs associated with the demolition of a portion of the warehouse space. The demolition of this building added value to the vacant land located adjacent to the building.

The Notes and interest payable balance decreased due to amortization payments made on the recurring property loans.

Cash Flow Summary

The following summary discussion of our cash flows is based on the Consolidated Statements of Cash Flows as presented in Part I, Item 8.

Financial Statements and Supplementary Data and is not meant to be an all-inclusive discussion of the changes in our cash flows for the periods presented.

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Our cash and cash equivalents were \$20,000 and \$2,000 as of December 31, 2010 and December 31, 2009, respectively. The increase was a result of the following increases and decreases in cash flows (dollars in thousands)

	Year ended December 31,		
	2010	2009	Variance
	(amounts in thousands)		
Net cash provided by (used in) operating activities	\$ 217	\$ 1,566	\$ (1,349)
Net cash provided by (used in) investing activities	\$ 392	\$ 3,623	\$ (3,231)
Net Cash provided by (used in) financing activities	\$ (591)	\$ (5,239)	\$ 4,648

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Our cash from operating activities has decreased from the prior year. This change is primarily due to a decrease in the receipt of interest income from our notes receivable from Unified Housing Foundation. In 2010 we received the UHF surplus cash flow payments on the note receivables subsequent to year end. We recorded the interest income as earned in anticipation of the receipt of cash.

Our cash from investing activities decreased from the prior year as there were no sales in the current period to generate sales proceeds, as occurred in the prior year. In the current year, we did receive proceeds from notes receivable that were invested with our advisor.

Our cash used by financing activities decreased from the prior period. In the current year, we made regular monthly debt payments. In 2009, cash was used to pay off the mortgages on the two commercial properties.

We paid no dividends in 2010, 2009, or 2008. It is unlikely that we will pay any quarterly dividends in 2011.

Management reviews the carrying values of our properties and mortgage notes receivable at least annually and whenever events or a change in circumstances indicates that impairment may exist. Impairment is considered to exist if the future cash flow from a property (undiscounted and without interest) is less than the carrying amount of the property. For notes receivable, impairment is considered to exist if it is probable that all amounts due under the terms of the note will not be collected. The note receivable review includes an evaluation of the collateral property securing such note. If impairment is found to exist, a provision for loss is recorded by a charge against earnings. The property review generally includes: (1) selective property inspections; (2) a review of the property's current rents compared to market rents; (3) a review of the property's expenses; (4) a review of maintenance requirements; (5) a review of the property's cash flow; (6) discussions with the manager of the property; and (7) a review of properties in the surrounding area.

Environmental Matters

Under various federal, state and local environmental laws, ordinances and regulations, IOT 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 IOT's business, assets or results of operations.

Inflation

The effects of inflation on IOT's operations are not quantifiable. Revenues from property operations tend to fluctuate proportionately with inflationary increases and decreases in housing costs. Fluctuations in the rate of inflation also affect the sales values 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.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

IOT's future operations, cash flow and fair values of financial instruments are partially dependent upon the then existing market interest rates and market equity prices. Market risk is the change in the market rates and prices and the affect of these changes on future operations. Market risk is managed by matching a property's anticipated net operating income to an appropriate financing.

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IOT is exposed to interest rate risk associated with variable rate notes payable and maturing debt that has to be refinanced. IOT does not hold financial instruments for trading or other speculative purposes, but rather issues these financial instruments to finance its portfolio of real estate assets. Interest rate sensitivity is the relationship between changes in market interest rates and the fair value of market rate-sensitive assets and liabilities. IOT's earnings are affected as changes in short-term interest rates impact its cost of variable rate debt and maturing fixed rate debt. A large portion of IOT's market risk is exposure to short-term interest rates from variable rate borrowings. If market interest rates for variable rate debt average 100 basis points more in 2011 than they did during 2010, IOT's interest expense would increase and net income would decrease by \$341,208. This amount is determined by considering the impact of hypothetical interest rates on IOT's borrowing cost. This analysis did not consider the effects of the reduced level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, management would likely take actions to further mitigate its exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no change in IOT's financial structure.

The following table contains only those exposures that existed at December 31, 2010. Anticipation of exposures or risk on positions that could possibly arise was not considered. IOT's ultimate interest rate risk and its affect on operations will depend on future capital market exposures, which cannot be anticipated with a probable assurance level (dollars in thousands):

	2011	2012	2013	2014	2015	Thereafter	Total
Note Receivable							
Variable interest rate fair value							\$ 6,900
Instrument's maturities	\$	\$	\$	\$ 6,900	\$	\$	\$ 6,900
Instrument's amortization							
Interest	362	362	362	272			1,358
Average Rate	5.25%	5.25%	5.25%	5.25%	0.00%	0.00%	
Fixed interest rate fair value							\$ 29,026
Instrument's maturities	\$	\$	\$	\$	\$	\$ 29,026	\$ 29,026
Instrument's amortization							
Interest	1,524	1,524	1,524	1,524	1,524	40,927	48,546
Average Rate	5.25%	5.25%	5.25%	5.25%	5.25%	12.00%	
	2011	2012	2013	2014	2015	Thereafter	Total
Notes Payable							
Variable interest rate fair value							\$ 34,121
Instrument's maturities	\$ 26,807	\$	\$	\$ 5,796	\$	\$	\$ 32,603
Instrument's amortization	966	276	276				1,518
Interest	1,194	408	390	283			2,275
Average Rate	5.38%	6.50%	6.50%	6.50%	0.00%	0.00%	
Fixed interest rate fair value							\$ 2,374
Instrument's maturities	\$ 2,343	\$	\$	\$	\$	\$	\$ 2,343
Instrument's amortization	26			1	1	3	31
Interest	167	1	1	1	1	2	173
Average Rate	10.11%	12.50%	12.50%	12.50%	12.50%	12.50%	

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**ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors of

Income Opportunity Realty Investors, Inc.

Dallas, Texas

We have audited the accompanying consolidated balance sheets of Income Opportunity Realty Investors, Inc. and Subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2010. Income Opportunity Realty Investors, Inc.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in the notes to the financial statements, Income Opportunity Realty Investors, Inc. has significant transactions with and balances due from affiliates.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Income Opportunity Realty Investors, Inc. as of December 31, 2010 and 2009, and the results of its operations, changes in stockholders' equity and its cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. Schedules III and IV are presented for the purpose of complying with the Securities and Exchange Commission's rules and is not a required part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, fairly states, in all material respects, the financial data required to be set forth therein in relation to the consolidated financial statements taken as a whole.

/s/ Swalm & Associates, P.C.

Swalm & Associates, P.C.

Plano, Texas

March 31, 2011

Table of Contents**INCOME OPPORTUNITY REALTY INVESTORS, INC.****BALANCE SHEETS**

	December 31, 2010	December 31, 2009
	(dollars in thousands, except share and par value amounts)	
Assets		
Real estate land holdings, at cost	\$ 29,561	\$ 29,503
Total real estate	29,561	29,503
Notes and interest receivable from related parties	38,405	38,818
Less allowance for doubtful accounts	(1,826)	(1,826)
Total notes and interest receivable	36,579	36,992
Cash and cash equivalents	20	2
Investments in unconsolidated subsidiaries and investees	89	92
Receivable and accrued interest from related parties	48,598	46,676
Other assets	2,240	2,400
Total assets	\$ 117,087	\$ 115,665
Liabilities and Shareholders' Equity		
Liabilities:		
Notes and interest payable	\$ 36,604	\$ 37,080
Deferred revenue (from sales to related parties)	6,550	6,550
Accounts payable and other liabilities (including \$1 in 2010 and \$2 in 2009 from affiliated and related parties)	401	341
	43,555	43,971
Commitments and contingencies:		
Shareholders' equity:		
Common stock, \$.01 par value, authorized 10,000,000 shares; issued 4,173,675 shares in 2010 and 2009	42	42
Treasury stock at cost, 5,461 shares in 2010 and 2009	(39)	(39)
Paid-in capital	61,955	61,955
Retained earnings	11,574	9,736
Total shareholders' equity	73,532	71,694
Total liabilities and shareholders' equity	\$ 117,087	\$ 115,665

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

Table of Contents**INCOME OPPORTUNITY REALTY INVESTORS, INC.****STATEMENTS OF OPERATIONS**

	For the Years Ended December 31, 2010		
	2010	2009	2008
	(dollars in thousands, except share and per share amounts)		
Revenues:			
Rental and other property revenues (including \$313 and \$243 and \$282 for the year ended 2010 and 2009 and 2008 respectively from affiliates and related parties)	\$ 313	\$ 246	\$ 310
Expenses:			
Property operating expenses (including \$2 and \$5 and \$8 for the year ended 2010 and 2009 and 2008 respectively from affiliates and related parties)	164	191	381
Depreciation and amortization		40	60
General and administrative (including \$178 and \$117 and \$28 for the year ended 2010 and 2009 and 2008 respectively from affiliates and related parties)	402	405	599
Advisory fee to affiliates	866	881	895
Total operating expenses	1,432	1,517	1,935
Operating loss	(1,119)	(1,271)	(1,625)
Other income (expense):			
Interest income (including \$4,292 and \$4,661 and \$2,964 for the year ended 2010 and 2009 and 2008 respectively from affiliates and related parties)	4,292	4,661	2,993
Mortgage and loan interest	(1,281)	(1,883)	(2,043)
Gain on involuntary conversion			7,356
Earnings from unconsolidated subsidiaries and investees	(3)	18	(458)
Net income fee to affiliates	(99)	(115)	(1,011)
Total other income	2,909	2,681	6,837
Income before gain on land sales, non-controlling interest, and taxes	1,790	1,410	5,212
Income from continuing operations before tax	1,790	1,410	5,212
Income tax benefit (expense)	48	(493)	7,524
Net income from continuing operations	1,838	917	12,736
Discontinued operations:			
Income from discontinued operations		5	21,497
Income tax expense from discontinued operations		(2)	(7,524)
Net income from discontinued operations		3	13,973
Net income	1,838	920	26,709
Earnings per share basic			
Income from continuing operations	\$ 0.44	\$ 0.22	\$ 3.06
Discontinued operations			3.35

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Net income applicable to common shares	\$ 0.44	\$ 0.22	\$ 6.41
Earnings per share diluted			
Income from continuing operations	\$ 0.44	\$ 0.22	\$ 3.06
Discontinued operations			3.35
Net income applicable to common shares	\$ 0.44	\$ 0.22	\$ 6.41
Weighted average common share used in computing earnings per share	4,168,214	4,168,214	4,168,264
Weighted average common share used in computing diluted earnings per share	4,168,214	4,168,214	4,168,264

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

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INCOME OPPORTUNITY REALTY INVESTORS, INC.

STATEMENTS OF SHAREHOLDERS EQUITY

For the Three Years Ended December 31, 2010

(dollars in thousands)

	Total	Common Stock Shares	Amount	Treasury Stock	Paid-in Capital	Retained Earnings
Balance, December 31, 2007	\$ 44,067	4,173,675	\$ 42	\$ (37)	\$ 61,955	\$ (17,893)
Net income	26,709					26,709
Repurchase of treasury stock	(2)			(2)		
Balance, December 31, 2008	\$ 70,774	4,173,675	\$ 42	\$ (39)	\$ 61,955	\$ 8,816
Net income	920					920
Balance, December 31, 2009	\$ 71,694	4,173,675	\$ 42	\$ (39)	\$ 61,955	\$ 9,736
Net income	1,838					1,838
Balance, December 31, 2010	\$ 73,532	4,173,675	\$ 42	\$ (39)	\$ 61,955	\$ 11,574

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

Table of Contents**INCOME OPPORTUNITY REALTY INVESTORS, INC.****STATEMENTS OF CASH FLOWS**

	For the Years Ended December 31,		
	2010	2009	2008
	(dollars in thousands)		
Cash Flow From Operating Activities:			
Net income applicable to common shares	\$ 1,838	\$ 920	\$ 26,709
Adjustments to reconcile net income applicable to common shares to net cash used in operating activities:			
Depreciation and amortization	18	186	255
Earnings from unconsolidated subsidiaries and investees	3	(18)	458
Earnings on non-controlling interest			(677)
Gain on the sale of income-producing properties			(29,750)
(Increase) decrease in assets:			
Accrued interest receivable	(1,959)	2,292	(1,537)
Other assets	148	(1,205)	1,970
Increase (decrease) in liabilities:			
Accrued interest payable	109		(167)
Other liabilities	60	(609)	403
Net cash provided by (used in) operating activities	217	1,566	(2,336)
Cash Flow From Investing Activities:			
Proceeds from sales of income-producing properties		6,860	49,679
Proceeds from sales of land		6,891	
Proceeds from notes receivable	2,372	(440)	(10,628)
Real estate improvements	(58)	(156)	458
Affiliate receivable	(1,922)	(9,532)	(10,366)
Net cash provided by investing activities	392	3,623	29,143
Cash Flow From Financing Activities:			
Payments on notes payable	(585)	(5,239)	(27,020)
Deferred financing costs	(6)		
Repurchase of treasury stock			(2)
Net cash used in financing activities	(591)	(5,239)	(27,022)
Net increase in cash and cash equivalents	18	(50)	(215)
Cash and cash equivalents, beginning of period	2	52	267
Cash and cash equivalents, end of period	\$ 20	\$ 2	\$ 52
Supplemental disclosures of cash flow information:			
Cash paid for interest	\$ 1,154	\$ 2,139	\$ 5,612
Cash paid for income taxes	\$	\$ 84	\$

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

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INCOME OPPORTUNITY REALTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying Consolidated Financial Statements of Income Opportunity Realty Investors, Inc. and consolidated entities were prepared in conformity with accounting principles generally accepted in the United States of America, the most significant of which are described in Note 1. Summary of Significant Accounting Policies. The Notes to Consolidated Financial Statements are an integral part of these Consolidated Financial Statements. The data presented in the Notes to Consolidated Financial Statements are as of December 31 of each year and for the year then ended, unless otherwise indicated. Dollar amounts in tables are in thousands, except per share amounts.

Certain balances in the 2009 and 2008 presentation have been reclassified to conform to the 2010 presentation.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FASB Accounting Standards Codification. The Company presents its 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 the Company s 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, the company will no longer refer to the authoritative guidance dictating its accounting methodologies under the previous accounting standards hierarchy. Instead, the Company will refer to the ASC Codification as the sole source of authoritative literature.

Organization and business. 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).

On July 17, 2009, Transcontinental Realty Investors, Inc. (TCI), acquired from Syntek West, Inc., (SWI), 2,518,934 shares of common stock, par value \$0.01 per share of Income Opportunity Realty Investors, Inc. (IOT) at an aggregate price of \$17,884,431 (approximately \$7.10 per share), the full amount of which was paid by TCI through an assumption of an aggregate amount of indebtedness of \$17,884,431 of the outstanding balance owed by SWI to IOT. The 2,518,934 shares of IOT common stock acquired by TCI constituted approximately 60.4% of the issued and outstanding common stock of IOT. TCI had owned for several years an aggregate of 1,037,184 shares of common stock of IOT (approximately 25% of the issued and outstanding stock). After giving effect to the transaction on July 17, 2009, TCI owned an aggregate of 3,556,118 shares of IOT common stock which constituted approximately 85.3% of the shares of common stock of IOT outstanding. In 2010, TCI sold 5,000 shares of IOT stock resulting in an ownership of 3,551,118 shares which constitutes approximately 85.2% of the shares of common stock of IOT outstanding (which is a total of 4,168,214 shares).

IOT is a C corporation for U.S. federal income tax purposes. With TCI s acquisition of the additional shares on July 17, 2009, TCI increased its aggregate ownership of IOT to in excess of 80%; therefore, beginning July 2009, IOT s results of operations are now consolidated with those of ARL and TCI and their subsidiaries. ARL is the common parent for the consolidated group.

IOT s Board of Directors represents the Company s shareholders and is responsible for directing the overall affairs of IOT and for setting the strategic policies that guide the Company. The Board of Directors has delegated the day-to-day management of the Company to Prime Income Asset Management, LLC, a Nevada limited

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liability company (Prime) under a written Advisory Agreement that is reviewed annually by IOT’s Board of Directors. The directors of IOT are also directors of ARL and TCI. The Chairman of the Board of Directors of IOT also serves as the Chairman of the Board of Directors of ARL and TCI. The officers of IOT also serve as officers of ARL, TCI and Prime.

SWI served as the Company’s external advisor from July 1, 2003 until July 1, 2009. Effective July 1, 2009, the Advisory Agreement and the Cash Management Agreement with SWI was terminated. IOT’s contractual advisor is now Prime, the sole member of which is Prime Income Asset Management, Inc., a Nevada corporation (PIAMI), which is owned 100% by Realty Advisors, LLC, a Nevada limited liability company, the sole member of which is Realty Advisors, Inc., a Nevada corporation, which is owned 100% by a Trust known as the May Trust. Prime’s duties include but are not limited to locating, evaluating and recommending real estate and real estate-related investment opportunities. Prime also arranges, for IOT’s benefit, debt and equity financing with third party lenders and investors. Prime also serves as advisor to ARL and TCI. As the contractual advisor, Prime is compensated by IOT under an Advisory Agreement that is more fully described in Part III, Item 10.

Directors, Executive Officers and Corporate Governance The Advisor . IOT has no employees. Employees of Prime render services to IOT in accordance with the terms of the Advisory Agreement.

To the extent we own operating properties, Triad Realty Services, LP (Triad), an affiliate of Prime, provides property management services. The general partner of Triad is PIAMI, the sole member of Prime. The limited partner of Triad is HRS Holdings, LLC (HRSHLLC). Triad subcontracts the property-level management and leasing of commercial properties to Regis Realty I, LLC (Regis I), which is owned by HRSHLLC. Triad is entitled to receive a fee for its property management services. Regis I is entitled to receive property and construction management fees and leasing commissions in accordance with the terms of its property-level management agreement with Triad. Regis I is also entitled to receive real estate brokerage commissions in accordance with the terms of a non-exclusive brokerage agreement. See Part III, Item 10.

Directors, Executive Officers and Corporate Governance .

Our primary business is investing in real estate. We divested ourselves of our commercial segment with the sale of the 2010 Valley View office building and the Parkway Centre retail shopping center in October 2009, resulting in land held for development or sale remaining as our sole operating segment. At December 31, 2010, our land consisted of 203.3 acres of land held for future development or sale. We also own a storage warehouse that generates a small amount of rental revenue. All of our land holdings are located in Texas.

Basis of presentation. 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

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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 December 31, 2010 IOT was not the primary beneficiary of a VIE.

For entities in which we have less than a controlling financial interest or entities where it is 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 consolidated net income. IOT's investment in Eton Square 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 its real estate assets using the methodology prescribed in ASC Topic 360,

Property, Plant and Equipment. Factors considered by management in evaluating impairment of its 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 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 Properties 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

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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.

Recognition of revenue. Our revenues are composed largely of interest income on notes receivable and also include rents received on a storage warehouse. 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.

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 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, the Company defers some or all of the gain recognition and accounts 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 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 3 Notes and Interest Receivable Affiliated for details on our notes receivable.

Cash equivalents. For purposes of the Consolidated Statements of Cash Flows, all highly liquid investments purchased with an original maturity of three months or less are considered to be cash equivalents.

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Earnings per share. Earnings per share (EPS) have been computed pursuant to the provisions of ASC 620 Earnings Per Share. The computation of basic EPS is calculated by dividing income available to common shareholders by the weighted-average number of common shares outstanding during the period. Shares issued during the period shall be weighted for the portion of the period that they were outstanding.

Use of estimates. In the preparation of Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America, it is necessary for management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expense for the year ended. Actual results could differ from those estimates.

Income Taxes. IOT is a C Corporation for U.S. federal income tax purposes. IOT files an annual consolidated income tax return with ARL and TCI and their subsidiaries. ARL is the common parent for the consolidated group. IOT is part of a tax sharing and compensating agreement with respect to federal income taxes between ARL, TCI and IOT and their subsidiaries that was entered into in July of 2009. Prior to July of 2009, ARL and TCI and their subsidiaries were in a tax sharing and compensating agreement with respect to federal income taxes and IOT was the parent company of its own consolidated filing group. The agreement specifies the manner in which the group will share the consolidated tax liability and also how certain tax attributes are to be treated among members of the group.

Recent Accounting Pronouncements. There were no recent accounting pronouncements that our company has not implemented that materially affect our financial statements.

NOTE 2. REAL ESTATE

Real estate consisted of the following at December 31, (dollars in thousands):

	2010	2009
Land held for development or sale	\$ 29,561	\$ 29,503
	\$ 29,561	\$ 29,503

Below is a summary of the real estate transactions for the year ended December 31, 2010:

On September 21, 2010, we sold our investment in Transcontinental Brewery, Inc. to Warren Road Farm, Inc., a related party under common control, for a sales price of \$3.8 million. This entity owns a 29,784 square foot storage warehouse and 13.0 acres of land known as Eagle Crest located in Farmers Branch, Texas. The buyer assumed the existing mortgage of \$2.4 million, secured by the property. A five-year note receivable for \$1.4 million was given as consideration, with an interest rate of 6.0%, payable at maturity on September 21, 2015. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, the inadequate initial investment and questionable recovery of investment cost.

On December 24, 2010, we sold 6.6 acres of land known as Three Hickory land located in Farmers Branch, Texas to Fenton Real Estate, Inc., a related party under common control, for a sales price of \$1.2 million. A five-year note receivable for \$1.2 million was given as consideration, with an interest rate of 6.0%, payable at maturity on December 24, 2015. We have deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, the inadequate initial investment and questionable recovery of investment cost.

Concentration of investment risk. IOT has a high concentration of investment risk on properties in the southwest region of the United States, specifically Texas. This risk includes, but is not limited to, changes in local economic conditions, changes in real estate and zoning laws, increases in real estate taxes, floods, tornados and other acts of God and other factors beyond the control of management. In the opinion of management, this investment risk is partially mitigated by the diversification of property types in other geographical regions of the United States, management's review of additional investments, acquisitions in other areas and by insurance.

Table of Contents**NOTE 3. NOTES AND INTEREST RECEIVABLE FROM AFFILIATES**

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 December 2010 and 2009, we had junior mortgage loans and accrued interest receivable from affiliates, net of allowances, totaling \$36.6 million and \$36.9 million, respectively. The loans mature at various dates through December 2027 and have an average interest rate 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. See Schedule IV to the financial statements Mortgage Loans on Real Estate.

Borrower	Maturity	Principal Balance	Interest Rate
Transcontinental Realty Investors, Inc. (Centura Land)	09/18/14	\$ 6,900	prime + 2.00%
Unified Housing Foundation, Inc. (Lakeshore Villas)	12/31/27	2,000	5.25%
Unified Housing Foundation, Inc. (Lakeshore Villas)	12/31/27	6,363	5.25%
United Housing Foundation, Inc. (Cliffs of El Dorado)	12/31/27	2,990	5.25%
United Housing Foundation, Inc. (Echo Station)	12/31/27	1,668	5.25%
United Housing Foundation, Inc. (Limestone Canyon)	12/31/27	3,057	5.25%
United Housing Foundation, Inc. (Limestone Ranch)	12/31/27	2,250	5.25%
United Housing Foundation, Inc. (Marquis at Vista Ridge)	12/31/27	439	5.25%
United Housing Foundation, Inc. (Parkside Crossing)	12/31/27	1,936	5.25%
United Housing Foundation, Inc. (Sendero Ridge)	12/31/27	5,174	5.25%
United Housing Foundation, Inc. (Timbers of Terrell)	12/31/27	1,323	5.25%
United Housing Foundation, Inc. (Tivoli)	12/31/27	1,826	5.25%
Accrued interest		2,479	
Less: purchase allowance		(1,826)	
			\$ 36,579

All are related party notes.

NOTE 4. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND INVESTEEES

Investments in unconsolidated subsidiaries, jointly owned companies and other investees in which we have a 20% to 50% interest or otherwise exercise significant influence are carried at cost, adjusted for the Company's proportionate share of their undistributed earnings or losses, via the equity method of accounting.

Investee	Percent ownership		
	2010	2009	2008
TCI Eton Square, L.P. (Eton Square)	10%	10%	10%

Our interest in Eton Square in the amount of 10% is accounted for under the equity method, because the general partner is an affiliated entity, thus allowing us to exercise significant influence over the operations and financial activities. Accordingly, the investment is carried at cost, adjusted for the companies' proportionate share of earnings or losses.

On May 18, 2010, we sold our 10.0% investment in TCI Eton Square, LP to TX Highland RS Corp, a related party under common control, for a sales price of \$1.37 million. This entity owns a 225,566 square foot office and retail center known as Eton Square located in Tulsa, Oklahoma. A three-year note receivable for the full sales price was given as consideration, with an interest rate of prime plus 2%, payable at maturity on May 18, 2013. IOT has deferred the recognition of the sale in accordance with ASC 360-20 due to our continuing involvement, the inadequate initial investment and questionable recovery of investment cost.

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The market values as of the year ended December 31, 2010 and 2009 were not determinable as there were no traded markets, either active or inactive, for this investment.

The following is a summary of the financial position and results of operations from our investees (dollars in thousands):

	2010	2009	2008
Real Estate, net of accumulated depreciation	\$ 13,318	\$ 13,747	\$ 14,362
Notes Receivable			
Other assets	576	319	597
Notes payable	(9,363)	(9,253)	(9,494)
Other liabilities	(3,641)	(3,895)	(4,690)
Shareholders equity/partners capital	\$ (890)	\$ (918)	\$ (775)
Rents	\$ 1,893	\$ 1,929	\$ 2,066
Interest income			
Depreciation	(504)	(536)	(667)
Operating expenses	(817)	(638)	(1,057)
Gain on land sales			
Interest expense	(601)	(611)	(626)
Income (loss) from continuing operations	(29)	144	(284)
Income from discontinued operations			
Net income (loss)	\$ (29)	\$ 144	\$ (284)
Company's proportionate share of earnings	\$ (3)	\$ 18	\$ (43)

NOTE 5. NOTES AND INTEREST PAYABLE

The following table shows the principal payments due on our notes payable through the next five years and thereafter (dollars in thousands):

2011	\$ 30,142
2012	276
2013	276
2014	5,797
2015	1
Thereafter	3
	 \$ 36,495

Notes payable at December 31, 2010, bear interest at rates ranging from 4.25% to 12.0% and mature between 2011 and 2020. As of December 31, 2010, there was accrued interest of \$109,000. The mortgages are collateralized by deeds of trust on real estate with a net carrying value of \$36.5 million. Of the total notes payable, the senior debt is \$36.5 million and included in the senior debt is \$4,000 of property tax loans.

NOTE 6. RELATED PARTY TRANSACTIONS AND FEES

The Advisory agreement provides for Prime or an affiliate of Prime to receive fees and cost reimbursements as defined in Part III, Item 10.

Directors, Executive Officers and Corporate Governance The Advisor. Cost reimbursements are allocated based on the relative market values of

the Company's assets. The Company and SWI entered into an Advisory Agreement and Cash Management Agreement to further define the administration of the Company's day-to-day investment operations, relationship contacts, flow of funds and deposit and

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borrowing of funds. Effective July 1, 2009, the Advisory Agreement and Cash Management Agreement with SWI was terminated. IOT has engaged Prime as Cash Manager under the substantially same terms as under the SWI Agreement. The fees and cost reimbursements paid to Prime, SWI and affiliates are detailed below (dollars in thousands):

	2010	2009	2008
Fees:			
Advisory fee	866	\$ 881	\$ 895
Incentive fee			3,100
Net income fee		115	2,422
Commission on property sale	99		1,319
Mortgage brokerage and equity refinancing		20	
Property & construction mgt. and leasing commission	2	51	70
	\$ 967	\$ 1,067	\$ 7,806
Cost reimbursements	178	117	(1)
Rental revenue	313	431	391
Interest paid (received)	\$ (995)	\$ (973)	\$ (2,353)

The following table reconciles the beginning and ending balances of amounts receivable from affiliates as of December 31, 2010 dollars in thousands):

	TCI	Arcadian*	Prime	Total
Balance, December 31, 2009	\$ 18,267	\$ 5,877	\$ 22,532	\$ 46,676
Cash receipts			(1,207)	(1,207)
Cash payments			3,623	3,623
Advisory fees			(866)	(866)
Net income fee			(100)	(100)
Cost reimbursements			(178)	(178)
Expenses paid by advisor			(1,426)	(1,426)
Interest income	760		995	1,755
Note receivable		(5,877)	6,095	218
POA fees			(24)	(24)
Property transfers	127			127
Purchase of obligations	29,444		(29,444)	
Balance, December 31, 2010	\$ 48,598	\$	\$	\$ 48,598

* Arcadian Energy, Inc. was formerly known as International Health Products, Inc.

As of December 31, 2010 IOT has notes and interest receivable of \$38.4 million due from related parties. See discussion in Part 2, Item 8. Notes and Interest Receivable .

NOTE 7. DIVIDENDS

IOT's Board of Directors established a policy that dividend declarations on common stock would be determined on an annual basis following the end of each year. In accordance with that policy, no dividends on IOT's common stock were declared for 2010, 2009, or 2008. Future distributions to common stockholders will be determined by the Board of Directors in light of conditions then existing, including the Company's financial condition and requirements, future prospects, restrictions in financing agreements, business conditions and other factors deemed relevant by the Board.

Table of Contents**NOTE 8. RENTAL INCOME UNDER OPERATING LEASES**

Operations include the leasing of office buildings. Due to the sale of the 2010 Valley View office building and Parkway Centre retail shopping center; there is no future rental income on operating leases. There is a storage warehouse that generates rental income due from Prime, the lessor.

NOTE 9. INCOME TAXES

For tax periods before July 17, 2009, IOT was required to file a consolidated federal return. Due to change of ownership in July, 2009, IOT has joined the American Realty Investors, Inc. (ARL) consolidated group for tax purposes. The income tax expense (benefit) for 2009 and 2010 in the accompanying financial statement was calculated under a tax sharing and compensating agreement between ARL, TCI and IOT. For 2010, ARL, TCI and IOT had a net taxable loss. For 2010, IOT recorded a current tax benefit of (\$202,000). The benefit or expense is calculated based on the amount of losses absorbed by taxable income multiplied by the statutory rate of 35%.

Current income tax expense (benefit) is attributable to:

	2010	2009	2008
Income from continuing operations	\$ 626	\$ 494	Not applicable
Income from discontinued operations	(\$ 828)	1	
	(\$ 202)	\$ 495	

Due to the use net loss carryforwards and the alternative minimum tax credit carry forwards for 2008, IOT recorded no provision for income taxes in 2008. IOT's tax basis in its net assets differs from the amount at which its net assets are reported for financial statement purposes, principally due to the accounting for gains and losses on property sales, and depreciation on owned properties.

Deferred income taxes reflect the tax effects of temporary timing differences between carrying amounts of assets and liabilities reflected on the financial statements and the amounts used for income tax purposes. The tax effects of temporary differences and net operating loss carry forwards that give rise to the deferred tax assets are presented below (amounts in thousands):

	2010	December 31, 2009	2008
Accumulated depreciation and amortization	(\$ 2,433)	\$ 203	\$ 382
Allowance for loss	694	694	0
Other	1,077	203	79
Federal benefit of NOL carryforward	1,081	984	689
Federal benefit of AMT carryforward	164	164	164
Deferred tax asset	583	2,248	1,314
Less valuation allowance	(583)	(2,248)	(1,314)

Total deferred tax asset

Recognition of the benefits of deferred tax assets will require the Company to generate future taxable income. There is no assurance that the Company will generate earnings in future years. Therefore, the Company has established a valuation allowance for deferred tax assets of approximately \$583,000, \$2,248,000 and \$1,314,000 as of December 31, 2010, 2009 and 2008, respectively.

In 2010, the company used no current losses from the ARL consolidated group. In 2009, IOT used approximately 1,415,000 of current losses from the consolidated group. In 2008 and prior, the company generated taxable loss carryforwards totaling \$2,589,587. The most recent loss year is 2010, which, if not used, will expire in 2030. The alternative minimum tax credit balance did not change in 2010 and remains at approximately \$164,000. The credit has no expiration date.

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The following table presents the principal reasons for the differences between the Company's effective tax rate and the United States statutory income tax rate of 35% (amounts in thousands).

	2010	2009	2008
Federal income tax at statutory rate	(202)	495	
State tax expense	33	19	55
Gain on sale differences			
Other	(33)	(19)	(55)
Utilization of net operating loss and minimum tax credit carry forwards			
Effective income tax rate	35%	35%	0%

NOTE 10. OPERATING SEGMENTS

The Company's segments are based on our method of internal reporting which classifies operations by the type of property in the portfolio. The Company's segments by use of property are; land and other (dollars in thousands).

	Commercial Properties	Apartments	Land	Other	Total
For year ended 2010					
Operating revenue	\$	\$	\$ 313	\$	\$ 313
Operating expenses			160	4	164
Depreciation and amortization					
Mortgage and loan interest			1,281		1,281
Interest income				4,292	4,292
Segment operating income (loss)	\$	\$	\$ (1,128)	\$ 4,288	\$ 3,160
Capital expenditures			58		58
Assets			29,561		29,561
Property Sales					
Sales price	\$	\$	\$	\$	\$
Cost of sale					
Deferred current gain					
Gain on sale	\$	\$	\$	\$	\$
For year ended 2009					
Operating revenue	\$	\$	\$ 243	\$ 3	\$ 246
Operating expenses			165	26	191
Depreciation and amortization			40		40
Mortgage and loan interest			1,883		1,883
Interest income				4,661	4,661
Segment operating income (loss)	\$	\$	\$ (1,845)	\$ 4,638	\$ 2,793
Capital expenditures			(56)		(56)

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Assets				29,503	29,503
Property Sales					
Sales price	\$	7,150	\$	6,891	\$ 14,041
Cost of sale		5,727		1,973	7,700
Deferred current gain		1,423		4,918	6,341
Gain on sale	\$		\$		\$

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	Commercial Properties	Apartments	Land	Other	Total
For year ended 2008					
Operating revenue	\$	\$	\$ 281	\$ 29	\$ 310
Operating expenses			276	105	381
Depreciation and amortization			60		60
Mortgage and loan interest			1,990	53	2,043
Interest income				2,993	2,993
Gain on land sales					
Segment operating income (loss)	\$	\$	\$ (2,045)	\$ 2,864	\$ 819
Capital expenditures			18		18
Assets			31,515		31,515
Property Sales					
Sales price	\$	\$ 49,679	\$	\$	\$ 49,679
Cost of sale		19,929			19,929
Deferred current gain					
Gain on sale	\$	\$ 29,750	\$	\$	\$ 29,750

The tables below reconcile the segment information to the corresponding amounts in the Consolidated Statements of Operations (dollars in thousands):

	2010	2009	2008
Segment operating income	\$ 3,160	\$ 2,793	\$ 819
Other non-segment items of income (expense)			
General and administrative	(402)	(405)	(599)
Advisory fee	(866)	(881)	(895)
Net income fee to affiliate	(99)	(115)	(1,011)
Equity in earnings of investees	(3)	18	(458)
Involuntary conversion			7,356
Income tax benefit (expense)	48	(493)	7,524
Income from continuing operations	\$ 1,838	\$ 917	\$ 12,736

SEGMENT ASSET RECONCILIATION TO TOTAL ASSETS

	2010	2009	2008
Segment assets	\$ 29,561	\$ 29,503	\$ 31,515
Investments in real estate partnerships	89	92	74
Other assets and receivables	87,437	86,070	76,946
Assets held for sale			5,427
Total assets	\$ 117,087	\$ 115,665	\$ 113,962

NOTE 11. DISCONTINUED OPERATIONS

IOT adopted ASC 360, Property, Plant and Equipment, which established a single accounting model for the impairment or disposal of long-lived assets, including discontinued operations. This statement requires that the operations related to properties that have been sold or properties that are intended to be sold be presented as discontinued operations in the statement of operations for all periods presented, and properties intended to be sold are to be designated as held-for-sale on the balance sheet.

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The discontinued operations for the three years reported below consist of seven apartment complexes, an office building and a shopping center. The office building and shopping center, 2010 Valley View and Parkway Centre, were sold in October 2009. Six of the apartment complexes; Brighton Court, Del Mar, Enclave, Meridian, Signature Place, and Sinclair Place, which are known as the Midland/Odessa properties, were sold in January 2008. One of the apartments, Falcon Point, was reclassified to discontinued operations in May 2008 due to the condemnation of the property as a result of tornado damage and management's subsequent decision to sell the property. The property was sold As-Is in November 2008. The statements of operations for all prior periods presented have been restated to reflect the reclassification to discontinued operations. Included in discontinued operations for 2008 is a gain of \$29.8 million, net of non-controlling interest, on the sale of the Midland/Odessa properties. The results of operations from these properties are shown below (dollars in thousands):

	For Years Ended December 31,		
	2010	2009	2008
Revenue			
Rental	\$	\$ 964	\$ 1,963
Property operations		354	1,725
		610	238
Expenses			
Interest		(448)	(2,900)
General and administration		(11)	(885)
Depreciation		(146)	(194)
		(605)	(3,979)
Net income (loss) from discontinued operations before gains on sale of real estate, taxes, fees and non-controlling interest		5	(3,741)
Gain on sale of discontinued operations			29,750
Net income/sales fee to affiliate			(4,512)
Net income from discontinued operations, net of non-controlling interest before tax		5	21,497
Income tax expense		(2)	(7,524)
Net income from discontinued operations, net of non-controlling interest	\$	\$ 3	\$ 13,973

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The following is a table of quarterly results of operations for the years 2010, 2009, and 2008 (dollars in thousands except per share data):

	March 31,	Three Months Ended 2010		
	June 30,	September 30,	December 31,	
	(dollars in thousands, except share and per share amounts)			
2010				
Total operating revenues	\$ 61	\$ 65	\$ 110	\$ 77
Total operating expenses	326	374	317	415
Operating (loss) income	(265)	(309)	(207)	(338)
Other income (expense)	377	291	183	2,061
Income (loss) before gain on land sales, non-controlling interest, and taxes	112	(18)	(24)	1,723
Gain on land sales				
Income tax expense	48			
Net income (loss) from continuing operations	160	(18)	(24)	1,723
Net income (loss) from discontinuing operations, net of non-controlling interest				
Net income (loss)	160	(18)	(24)	1,723
Less: net income (loss) attributable to non-controlling interest	3		(8)	2
Net income (loss) applicable to common shares	\$ 163	\$ (18)	\$ (32)	\$ 1,725
PER SHARE DATA				
Earnings per share basic				
Income (loss) from continuing operations	\$ 0.04	\$	\$ (0.01)	\$ 0.41
Discontinued operations				
Net income (loss) applicable to common shares	\$ 0.04	\$	\$ (0.01)	\$ 0.41
Weighted average common shares used in computing earnings per share	4,168,214	4,168,214	4,168,214	4,168,214
Earnings per share diluted				
Income (loss) from continuing operations	\$ 0.04	\$	\$ (0.01)	\$ 0.41
Discontinued operations				
Net income (loss) applicable to common shares	\$ 0.04	\$	\$ (0.01)	\$ 0.41
Weighted average common shares used in computing diluted earnings per share	4,168,214	4,168,214	4,168,214	4,168,214

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	Three Months Ended 2009			
	March 31,	June 30,	September 30,	December 31,
	(dollars in thousands, except share and per share amounts)			
2009				
Total operating revenues	\$ 69	\$ 70	\$ 69	\$ 38
Total operating expenses	242	475	311	489
Operating (loss) income	(173)	(405)	(242)	(451)
Other income (expense)	(202)	(148)	(142)	3,156
Income (loss) before gain on land sales, non-controlling interest, and taxes	(375)	(553)	(384)	2,705
Gain on land sales				
Income tax benefit (expense)	2	58	(5)	(548)
Net income (loss) from continuing operations	(373)	(495)	(389)	2,157
Net income (loss) from discontinuing operations, net of non-controlling interest	5	109	(10)	(101)
Net income (loss)	(368)	(386)	(399)	