

INCOME OPPORTUNITY REALTY INVESTORS INC /TX/
Form 10-Q
November 13, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

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

Incorporation or Organization) Identification No.)

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

(Address of principal executive offices)

(Zip Code)

(469) 522-4200

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer 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

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

Common Stock, \$.01 par value	4,168,214
(Class)	(Outstanding at November 6, 2015)

INCOME OPPORTUNITY REALTY INVESTORS, INC.

FORM 10-Q

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

	September 2015		December 31, 2014
	(dollars in thousands, except par value amount)		
Assets			
Real estate land holdings, at cost	\$ 22,717		\$ 25,717
Total real estate	22,717		25,717
Notes and interest receivable from related parties	26,143		27,461
Less allowance for doubtful accounts	(1,826)		(1,826)
Total notes and interest receivable	24,317		25,635
Cash and cash equivalents	2		7
Receivable and accrued interest from related parties	46,135		40,460
Other assets	1,067		1,257
Total assets	\$ 94,238		\$ 93,076
Liabilities and Shareholders' Equity			
Liabilities:			
Notes and interest payable - related parties	\$ 9,581		\$ 10,240
Accounts payable and other liabilities	21		37
Total liabilities	9,602		10,277
Shareholders' equity:			

Common stock, \$0.01 par value, authorized 10,000,000; issued 4,173,675 and outstanding 4,168,214 shares in 2015 and 2014	42	42
Treasury stock at cost, 5,461 shares in 2015 and 2014	(39)	(39)
Paid-in capital	61,955	61,955
Retained earnings	22,678	20,841
Total shareholders' equity	84,636	82,799
Total liabilities and shareholders' equity	\$ 94,238	\$ 93,076

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

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

	For the Three Months Ended September 30, 2015		For the Nine Months Ended September 30, 2015	
	2014	2014	2014	2014
	(dollars in thousands, except per share amounts)			
Revenues:				
Rental and other property revenues	\$—	\$—	\$—	\$—
Expenses:				
Property operating expenses (including \$11 and \$13 for the three months and \$25 and \$37 for the nine months ended 2015 and 2014, respectively, from related parties)	56	13	71	42
General and administrative (including \$45 and \$61 for the three months and \$171 and \$198 for the nine months ended 2015 and 2014, respectively, from related parties)	62	143	359	422
Net income fee to related party	51	51	142	152
Advisory fee to related party	176	173	526	516
Total operating expenses	345	380	1,098	1,132
Net operating loss	(345)	(380)	(1,098)	(1,132)
Other income (expenses):				
Interest income from related parties	1,137	1,179	3,376	3,547
Mortgage and loan interest	(112)	(176)	(441)	(538)
Total other income	1,025	1,003	2,935	3,009
Income tax expense	—	—	—	—
Net income	\$680	\$623	\$1,837	\$1,877
Earnings per share - basic				
Net income from continuing operations	\$0.16	\$0.15	\$0.44	\$0.45
Net income applicable to common shares	\$0.16	\$0.15	\$0.44	\$0.45
Earnings per share - diluted				
Net income from continuing operations	\$0.16	\$0.15	\$0.44	\$0.45
Net income applicable to common shares	\$0.16	\$0.15	\$0.44	\$0.45
Weighted average common shares used in computing earnings per share	4,168,214	4,168,214	4,168,214	4,168,214
Weighted average common shares used in computing diluted earnings per share	4,168,214	4,168,214	4,168,214	4,168,214

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

INCOME OPPORTUNITY REALTY INVESTORS, INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

For the Nine Months Ended September 30, 2015

(unaudited, dollars in thousands)

	Total	Common Stock Shares	Common Stock Amount	Treasury Stock	Paid-in Capital	Retained Earnings
Balance, December 31, 2014	\$82,799	4,173,675	\$ 42	\$ (39)	\$61,955	\$20,841
Net income	1,837	—	—	—	—	1,837
Balance, September 30, 2015	\$84,636	4,173,675	\$ 42	\$ (39)	\$61,955	\$22,678

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

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

	For the Nine Months Ended September 30, 2015 2014 (dollars in thousands)	
Cash Flow From Operating Activities:		
Net income	\$ 1,837	\$ 1,877
Adjustments to reconcile net income applicable to common shares to net cash flows from operating activities:		
Decrease in assets:		
Accrued interest receivable from related parties	1,318	4,002
Other assets	190	(35)
Increase (decrease) in liabilities:		
Other liabilities	(16)	(177)
Net cash provided by operating activities	3,329	5,667
Cash Flow From Investing Activities:		
Proceeds from easement transfer	3,000	—
Real estate improvements	—	(4)
Receivable and accrued interest from related parties	(5,675)	(3,546)
Net cash used in investing activities	(2,675)	(3,550)
Cash Flow From Financing Activities:		
Payments on notes payable to related parties		(2,117)
Payments on notes payable	(659)	—
Net cash used in financing activities	(659)	(2,117)
Net decrease in cash and cash equivalents	(5)	—
Cash and cash equivalents, beginning of period	7	3
Cash and cash equivalents, end of period	\$ 2	\$ 3
Supplemental disclosures of cash flow information:		
Cash paid for interest	\$ 404	\$ 519

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

As used herein, the terms “IOT”, “the Company”, “we”, “our”, “us” refer to Income Opportunity Realty Investors, Inc., a Nevada corporation which was formed in 1984. The Company is headquartered in Dallas, Texas, and its common stock trades on the NYSE MKT under the symbol (“IOT”).

Transcontinental Realty Investors, Inc. (“TCI”) owns approximately 81.1% of the Company’s common stock. Accordingly, IOT’s financial results are consolidated with those of TCI and its subsidiaries. IOT is a “C” corporation for U.S. federal income tax purposes and is included in the annual consolidated income tax return with of TCI’s parent American Realty Investors, Inc, (“ARL”) and its ultimate parent, May Realty Holdings, Inc. . We have no employees.

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

Our primary business is investing in real estate and mortgage receivables. Land held for development or sale is our sole operating segment. At September 30, 2015, our land consisted of 184.7 acres of land held for future development or sale. All of our land holdings are located in Farmers Branch, Texas. The principal source of revenue for the Company is interest income on approximately \$25.4 million of notes receivable due from related parties.

Basis of Presentation

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted in accordance with such rules and regulations, although management believes the disclosures are adequate to prevent the information presented from being misleading. In the opinion of management, all adjustments (consisting of normal recurring matters) considered necessary for a fair presentation have been included. The results of operations for the nine months ended September 30, 2015, are not necessarily indicative of the results that may be expected for other interim periods or for the full fiscal year.

The year-end Consolidated Balance Sheet at December 31, 2014, was derived from the audited Consolidated Financial Statements at that date, but does not include all of the information and disclosures required by U.S. GAAP for

complete financial statements. For further information, refer to the Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. Certain 2014 Consolidated Financial Statement amounts have been reclassified to conform to the 2015 presentation.

Principles of Consolidation

The accompanying Consolidated Financial Statements include our accounts, our subsidiaries, generally all of which are wholly-owned, and all entities in which we have a controlling interest. Arrangements that are not controlled through voting or similar rights are accounted for as a Variable Interest Entity ("VIE"), in accordance with the provisions and guidance of ASC Topic 810 "Consolidation", whereby we have determined that we are a primary beneficiary of the VIE and meet certain criteria of a sole general partner or managing member as identified in accordance with Emerging Issues Task Force ("EITF") Issue 04-5, Investor's Accounting for an Investment in a Limited Partnership when the Investor is the Sole General Partner and the Limited Partners have Certain Rights ("EITF 04-5"). VIEs are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders as a group lack adequate decision making ability, the obligation to absorb expected losses or residual returns of the entity, or have voting rights that are not proportional to their economic interests. The primary beneficiary generally is the entity that provides financial support and bears a majority of the financial risks, authorizes certain capital transactions, or makes operating decisions that materially affect the entity's financial results. All significant intercompany balances and transactions have been eliminated in consolidation.

In determining whether we are the primary beneficiary of a VIE, we consider qualitative and quantitative factors, including, but not limited to: the amount and characteristics of our investment; the obligation or likelihood for us or other investors to provide financial support; our and the other investors' ability to control or significantly influence key decisions for the VIE; and the similarity with and significance to the business activities of us and the other investors. Significant judgments related to these determinations include estimates about the current future fair values and performance of real estate held by these VIEs and general market conditions. As of September 30, 2015, IOT was not the primary beneficiary of a VIE.

Real Estate, Depreciation and Impairment

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

Real Estate Held For Sale

We periodically classify real estate assets as “held for sale”. An asset is classified as held for sale after the approval of our Board of Directors, after an active program to sell the asset has commenced and if the sale is probable. One of the deciding factors in determining whether a sale is probable is whether the firm purchase commitment is obtained and whether the sale is probable within the year. Upon the classification of a real estate asset as held for sale, the carrying value of the asset is reduced to the lower of its net book value or its estimated fair value, less costs to sell the asset. Subsequent to the classification of assets as held for sale, no further depreciation expense is recorded. Real estate assets held for sale are stated separately on the accompanying Consolidated Balance Sheets. Upon a decision that the sale is no longer probable, the asset is classified as an operating asset and depreciation expense is reinstated.

Prior to January 1, 2015, the operating results of real estate assets held for sale and sold are reported as discontinued operations in the accompanying Consolidated Statements of Operations. Income from discontinued operations includes the revenues and expenses, including depreciation and interest expense, associated with the assets. Subsequent to January 1, 2015, Accounting Standards Update 2014-08, “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity” (“ASU 2014-08”) substantially changed the criteria for determining whether a disposition qualifies for discontinued operations presentation. Adoption of this standard will result in substantially fewer of the Company's dispositions meeting the discontinued operations criteria.

Cost Capitalization

Costs related to planning, developing, leasing and constructing a property are capitalized and classified as Real Estate in the Consolidated Balance Sheets. We capitalize interest to qualifying assets under development based on average accumulated expenditures outstanding during the period. In capitalizing interest to qualifying assets, we first use the

interest incurred on specific project debt, if any, and next use the weighted average interest rate of non-project specific debt.

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

We capitalize leasing costs, which include commissions paid to outside brokers, legal costs incurred to negotiate and document a lease agreement and any internal costs that may be applicable. We allocate these costs to individual tenant leases and amortize them over the related lease term.

Fair Value Measurement

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

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

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

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

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

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.

Related Parties

We apply ASC Topic 805, “Business Combinations”, to evaluate business relationships. Related parties are persons or entities who have one or more of the following characteristics, which include entities for which investments in their equity securities would be required, trust for the benefit of persons including principal owners of the entities and members of their immediate families, management personnel of the entity and members of their immediate families and other parties with which the entity may deal if one party controls or can significantly influence the decision making of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests, or affiliates of the entity.

Newly Issued Accounting Pronouncements

In April 2014, the FASB issued ASU 2014-08, ”Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity”, which changes the criteria for determining which disposals qualify to be accounted for as discontinued operations and modifies related reporting and disclosure requirements.

Disposals representing a strategic shift in operations, such as change in a major line of business, a major geographical area or major equity investment, that have a major effect on a company’s operations and financial results will be presented as discontinued operations. If the disposal does qualify as a discontinued operation under ASU 2014-08, the company will be required to expand their disclosures about discontinued operations to provide more information on the assets, liabilities, income and expenses of the disposed of component. The classification of operating results as discontinued operations applied retroactively for all periods presented. The new standard was effective January 1, 2015. We adopted ASU 2014-08 as of January 1, 2015 and believe future sales of our individual operating properties will no longer qualify as discontinued operations. Adoption of this standard has resulted in substantially fewer of the Company’s dispositions meeting the discontinued operations criteria. See Note 7 below.

In May 2014, Accounting Standards Update No. 2014-09 (“ASU 2014-09”), “Revenue from Contracts with Customers,” was issued. This new guidance established a new single comprehensive revenue recognition model and provides for enhanced disclosures. Under the new guidance, the nature, timing and amount of revenue recognized for certain transactions could differ from those recognized under existing accounting guidance. This new guidance does not affect revenue recognized under lease contracts. ASU 2014-09 is effective for reporting periods beginning after December 15, 2017. The Company is currently evaluating the impact the adoption of this guidance, if any, on its financial position and results of operations.

In April 2015, the FASB issued ASU 2015-03, "Simplifying the Presentation of Debt Issuance Costs" ("ASU 2015-03"). ASU 2015-03 requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. Prior to the issuance of the standard, debt issuance costs were required to be presented in the balance sheet as an asset. The Company has adopted this standard effective June 30, 2015. The accompanying financials have been reclassified to reflect the adoption.

NOTE 2. REAL ESTATE ACTIVITY

On September 30, 2015, our real estate land holdings consisted of 184.7 contiguous acres of land, located in Farmers Branch, Texas, held for development or sale.

During the three months ended September 30, 2015 the Company, in exchange for a \$3.0 million payment, granted additional easement rights to the City of Farmers Branch, Texas. The Company retained title to the property and recorded the payment as a reduction in real estate land holdings.

NOTE 3. NOTES AND INTEREST RECEIVABLE FROM RELATED PARTIES

Notes and interest receivable from related parties is comprised of junior mortgage loans, which 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 guarantees.

All of the Company's notes receivable are with Unified Housing Foundation, Inc. ("UHF"). UHF is determined to be a related party to the Company due to our significant reliance in the performance of the collateral secured under the notes receivable. Payments are due from surplus cash flow from operations, sale or refinancing of the underlying properties. These notes are cross collateralized to the extent that any surplus cash available from any of the properties underlying these notes will be used to repay outstanding interest and principal for the remaining notes. Furthermore, any surplus cash available from any of the properties UHF owns, besides the properties underlying these notes, can be used to repay outstanding interest and principal for these notes. The allowance on the notes was a purchase allowance that was netted against the notes when acquired.

At September 30, 2015, we had junior mortgage loans and accrued interest receivable from related parties, net of allowances, totaling \$24.3 million. As of September 30, 2015, we recognized interest income of \$3.4 million related to these notes receivable. Below is a summary of notes and interest receivable from related parties (dollars in thousands):

Borrower	Maturity Date	Interest Rate	Amount	Collateral
Performing loans:				
Unified Housing Foundation, Inc. (Echo Station)	12 /32	12.00%	\$1,481	Secured
Unified Housing Foundation, Inc. (Lakeshore Villas)	12 /32	12.00%	2,000	Secured
Unified Housing Foundation, Inc. (Lakeshore Villas)	12 /32	12.00%	6,363	Secured
Unified Housing Foundation, Inc. (Limestone Canyon)	12 /32	12.00%	3,057	Secured
Unified Housing Foundation, Inc. (Limestone Ranch)	12 /32	12.00%	2,250	Secured
Unified Housing Foundation, Inc. (Parkside Crossing)	12 /32	12.00%	1,936	Secured
Unified Housing Foundation, Inc. (Sendero Ridge)	12 /32	12.00%	5,174	Secured
Unified Housing Foundation, Inc. (Timbers of Terrell)	12 /32	12.00%	1,323	Secured
Unified Housing Foundation, Inc. (Tivoli)	12 /32	12.00%	1,826	Secured
Accrued interest			733	
Total Performing			\$26,143	
Allowance for doubtful accounts			(1,826)	
Total			\$24,317	

All are related party notes.

NOTE 4. NOTES AND INTEREST PAYABLE

The following table lists the mortgage notes payable as of September 30, 2015 (dollars in thousands):

Lender	Maturity	Principal Balance
Realty Advisors, Inc - related party	12/30/16	\$9,581

The balance outstanding is net of \$0.08 million of unamortized deferred cost at September 30, 2015.

On December 31, 2013, Realty Advisors, Inc. (“RAI”), a related party, obtained a \$20 million mortgage on the Company’s behalf, secured by land owned by the Company and 100.05 acres of land owned by TCI. The Company and TCI have executed a promissory note to RAI for the same terms as the original loan with a maturity of December 30, 2016, and a variable interest rate of prime plus 1.5% with an interest rate floor of 6%. On May 28, 2014, a \$1.5 million principal payment was made and two additional land parcels, including 8.0 acres of land owned by TCI and 16.75 acres of land owned by ARL, were substituted as collateral under the note in exchange for a release of a \$4 million deposit account. The principal balance is allocated based on the land valuation.

NOTE 5. RECEIVABLE FROM AND PAYABLE TO RELATED PARTIES

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

	TCI	Pillar	Total
Related party receivable, December 31, 2014	\$40,460	\$—	\$40,460
Cash transfers	—	7,649	7,649
Advisory fees	—	(526)	(526)
Net income fee	—	(142)	(142)
Cost reimbursements	—	(171)	(171)
Expenses paid by advisor	—	(1,359)	(1,359)
Financing (mortgage payments)	—	(979)	(979)
Interest income	1,203	—	1,203
Purchase of obligation	4,472	(4,472)	—
Related party receivable, September 30, 2015	\$46,135	\$—	\$46,135

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

NOTE 6. OPERATING SEGMENTS

The Company's segments are based on management's 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. Significant differences among the accounting policies of the operating segments as compared to the Consolidated Financial Statements principally involve the calculation and allocation of administrative and other expenses. Management evaluates the performance of each of the operating segments and allocates resources to them based on their operating income and cash flow.

Items of income that are not reflected in the segments are interest, other income, gain on debt extinguishment, gain on condemnation award, equity in partnerships, and gains on sale of real estate. Expenses that are not reflected in the segments are provision for losses, advisory, net income and incentive fees, general and administrative, non-controlling interests and net loss from discontinued operations before gains on sale of real estate. The segment labeled as "Other" consists of revenue and operating expenses related to the notes receivable and corporate debt.

Presented below is the operating segment information for the three and nine months ended September 30, 2015 and 2014 (dollars in thousands):

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For the Three Months Ended September 30, 2015	Land	Other	Total
Rental and other property revenues	\$—	\$—	\$—
Property operating expenses	56	—	56
Mortgage and loan interest	112	—	112
Interest income from related parties	—	1,137	1,137
Segment operating income (loss)	\$(168)	\$1,137	\$969
Real estate assets	22,717	—	22,717

For the Three Months Ended September 30, 2014	Land	Other	Total
Rental and other property revenues	\$—	\$—	\$—
Property operating expenses	13	—	13
Mortgage and loan interest	176	—	176
Interest income from related parties	—	1,179	1,179
Segment operating income (loss)	\$(189)	\$1,179	\$990
Real estate assets	24,515	—	24,515

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

	For the Three Months Ended September 30,	
	2015	2014
Segment operating income	\$969	\$990
Other non-segment items of income (expense)		
General and administrative	(62)	(143)
Net income fee to related party	(51)	(51)
Advisory fee to related party	(176)	(173)
Net income from continuing operations	\$680	\$623

The table below reconciles the segment information to the corresponding amounts in the Consolidated Balance Sheets (dollars in thousands):

	September 30,	
	2015	2014
Real estate assets	\$22,717	\$24,515
Notes and interest receivable	24,317	24,865
Other assets	47,204	43,886
Total assets	\$94,238	\$93,266

For the Nine Months Ended September 30, 2015	Land	Other	Total
Rental and other property revenues	\$—	\$—	\$—
Property operating expenses	71	—	71
Mortgage and loan interest	441	—	441
Interest income from related parties	—	3,376	3,376
Segment operating income (loss)	\$(512)	\$3,376	\$2,864
Real estate assets	22,717	—	22,717

For the Nine Months Ended September 30, 2014	Land	Other	Total
Rental and other property revenues	\$—	\$—	\$—
Property operating expenses	42	—	42
Mortgage and loan interest	538	—	538
Interest income from related parties	—	3,547	3,547
Segment operating income (loss)	\$(580)	\$3,547	\$2,967

Real estate assets	24,515	—	24,515
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The table below reconciles the segment information to the corresponding amounts in the Consolidated Statements of Operations (dollars in thousands):

	For the Nine Months Ended September 30,	
	2015	2014
Segment operating income	\$2,864	\$2,967
Other non-segment items of income (expense)		
General and administrative	(359)	(422)
Net income fee to related party	(142)	(152)
Advisory fee to related party	(526)	(516)
Net income from continuing operations	\$1,837	\$1,877

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The table below reconciles the segment information to the corresponding amounts in the Consolidated Balance Sheets (dollars in thousands):

	September 30,	
	2015	2014
Real estate assets	\$22,717	\$24,515
Notes and interest receivable	24,317	24,865
Other assets	47,204	43,886
Total assets	\$94,238	\$93,266

NOTE 7. discontinued operations

Prior to January 1, 2015, we applied the provisions of ASC 360, "Property, Plant and Equipment", which requires that long-lived assets that are to be disposed of by sale be measured at the lesser of (1) book value or (2) fair value less cost to sell. In addition, it requires that one accounting model be used for long-lived assets to be disposed of by sale and broadens the presentation of discontinued operations to include more disposal transactions.

Effective January 1, 2015, the Company adopted the provisions of ASU 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity", which changes the criteria of ASC 360 related to determining which disposals qualify to be accounted for as discontinued operations and modifies related reporting and disclosure requirements.

Disposals representing a strategic shift in operations that have a major effect on a company's operations and financial results will be presented as discontinued operations. Companies will be required to expand their disclosures about discontinued operations to provide more information on the assets, liabilities, income and expenses of the discontinued operations. The new standard was effective January 1, 2015. Adoption of this standard will result in substantially fewer of the Company's dispositions meeting the discontinued operations criteria.

There have been no sales in 2015 or 2014.

NOTE 8. COMMITMENTS AND CONTINGENCIES

Litigation. 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.

ART and ART Midwest, Inc.

In August 2014, David M. Clapper and two entities related to Mr. Clapper (all, collectively, the “Clapper Parties”) filed a complaint in the U. S. District Court against the Company, its directors and certain of its officers alleging purported transactions to the detriment of the Clapper Parties and others by transferring assets, cash and diverting property. Management of the Company believes that there is no basis for this action against the Company and its officers and directors and intends to vigorously defend itself. The August 2014 complaint does not allege any facts relating to the Company, except that the named directors and officers are directors and officers of the Company and that the Company is a Nevada corporation, with its headquarters/principal place of business in Dallas, Texas.

The case arises over other litigation, commenced in 1999, among the Clapper Parties and American Realty Trust, Inc. (“ART”) and its former subsidiary, ART Midwest, Inc., originally arising out of a transaction in 1998, in which ART and the Clapper Parties were to form a partnership to own eight residential apartment complexes. Over the ensuing years, a number of rulings, both for and against ART and ART Midwest, Inc., were issued, resulting in a ruling in October 2011, under which the Clapper Parties were awarded an initial judgment for approximately \$74 million, including \$26 million in actual damages and \$48 million in interest. The 2011 ruling was only against ART and ART Midwest, Inc., but no other entity. During February 2014, the Court of Appeals affirmed a portion of

the judgment in favor of the Clapper Parties but also ruled that a double counting of a significant portion of the damages had occurred and remanded the case back to the trial court to recalculate the damage award, as well as pre- and post-judgment interest thereon. ART was also a significant owner of a partnership interest in the partnership that was awarded the initial damages in the matter.

ART and ART Midwest, Inc. are not and have never been subsidiaries of the Company. Management believes that the Company has no liability for any ultimate judgment in the proceeding involving the Clapper Parties.

NOTE 9. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through November 13, 2015, the date the Consolidated Financial Statements were available to be issued, and has determined that there are none to be reported.

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

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report.

This Report on Form 10-Q may contain forward-looking statements within the meaning of the federal securities laws, principally, but not only, under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations". We caution investors that any forward-looking statements in this report, or which management may make orally or in writing from time to time, are based on management's beliefs and on assumptions made by, and information currently available to, management. When used, the words "anticipate", "believe", "expect", "intend", "may", "might", "plan", "estimate", "project", "should", "will", "result" and similar expressions which do not relate solely to historical matters are intended to identify forward-looking statements. These statements are subject to risks, uncertainties and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated, or projected. We caution you that, while forward-looking statements reflect our good faith beliefs when we make them, they are not guarantees of future performance and are impacted by actual events when they occur after we make such statements. We expressly disclaim any responsibility to update our forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

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

- general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew leases, dependence on tenants' financial condition, and competition from other developers, owners and operators of real estate);

- risks associated with the availability and terms of construction and mortgage financing and the use of debt to fund acquisitions and developments;

- demand for apartments and commercial properties in the Company's markets and the effect on occupancy and rental rates;

- the Company's ability to obtain financing, enter into joint venture arrangements in relation to or self-fund the development or acquisition of properties;

- risks associated with the timing and amount of property sales and the resulting gains/losses associated with such sales;

- failure to manage effectively our growth and expansion into new markets or to integrate acquisitions successfully;

- risks and uncertainties affecting property development and construction (including, without limitation, construction delays, cost overruns, inability to obtain necessary permits and public opposition to such activities);

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

- costs of compliance with the Americans with Disabilities Act and other similar laws and regulations;

- potential liability for uninsured losses and environmental contamination; and

- risks associated with our dependence on key personnel whose continued service is not guaranteed.

The risks included here are not exhaustive. Some of the risks and uncertainties that may cause our actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements, include among others, the factors listed and described in Part I, Item 1A. "Risk Factors" in the Company's Annual Report on Form 10-K, which investors should review. There have been no changes from the risk factors previously described

in the Company's Form 10-K for the fiscal year ended December 31, 2014.

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

Overview

We are an externally advised and managed real estate investment company that currently owns land held for development or sale. As of September 30, 2015, we owned or had interests in 184.7 acres of land, located in Texas and held for future development or sale. We have no employees.

Our primary source of revenue is from the interest income on approximately \$25.4 million of notes receivable due from related parties. We have historically engaged in, and may continue to engage in, certain business transactions with related parties, including but not limited to asset acquisition and dispositions. Transactions involving related parties cannot be presumed to be carried out on an arm's length basis due to the absence of free market forces that naturally exist in business dealings between two or more unrelated entities. Related party transactions may not always be favorable to our business and may include terms, conditions and agreements that are not necessarily beneficial to or in our best interest.

Pillar is the Company's external Advisor and Cash Manager. Although the Board of Directors is directly responsible for managing the affairs of IOT, and for setting the policies which guide it, the day-to-day operations of IOT are performed by Pillar, as the contractual Advisor, under the supervision of the Board. Pillar's duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities and arranging debt and equity financing for the Company with third party lenders and investors. Additionally, Pillar serves as a consultant to the Board with regard to their decisions in connection with IOT's business plan and investment policy. Pillar also serves as an Advisor and Cash Manager to TCI and ARL.

Critical Accounting Policies

We present our Consolidated Financial Statements in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 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 U.S. GAAP.

The accompanying Consolidated Financial Statements include our accounts, our subsidiaries, generally all of which are wholly-owned, and all entities in which we have a controlling interest. Arrangements that are not controlled through voting or similar rights are accounted for as a Variable Interest Entity ("VIE"), in accordance with the provisions and guidance of ASC Topic 810 "Consolidation", whereby we have determined that we are a primary beneficiary of the VIE and meet certain criteria of a sole general partner or managing member as identified in accordance with Emerging Issues Task Force ("EITF") Issue 04-5, Investor's Accounting for an Investment in a Limited Partnership when the Investor is the Sole General Partner and the Limited Partners have Certain Rights ("EITF 04-5"). VIEs are generally entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders, as a group, lack adequate decision making ability, the obligation to absorb expected losses or residual returns of the entity, or have voting rights that are not proportional to their economic interests. The primary beneficiary generally is the entity that provides financial support and bears a majority of the financial risks, authorizes certain capital transactions, or makes operating decisions that materially affect the entity's financial results. All significant intercompany balances and transactions have been eliminated in consolidation.

In determining whether we are the primary beneficiary of a VIE, we consider qualitative and quantitative factors, including, but not limited to: the amount and characteristics of our investment; the obligation or likelihood for us or other investors to provide financial support; our and the other investors' ability to control or significantly influence key

decisions for the VIE; and the similarity with and significance to the business activities of us and the other investors. Significant judgments related to these determinations include estimates about the current future fair values and performance of real estate held by these VIEs and general market conditions.

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

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.

A variety of costs are incurred in the acquisition, development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. Our capitalization policy on development properties is guided by ASC Topic 835-20 "Interest – Capitalization of Interest" and ASC Topic 970 "Real Estate – General". The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We cease capitalization when a building is considered substantially complete and ready for its intended use, but no later than one year from the cessation of major construction activity.

Depreciation and Impairment

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

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

Recognition of Revenue

Our revenues are composed largely of interest income on notes receivable recorded in accordance with the terms of the notes.

Revenue Recognition on the Sale of Real Estate

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

Non-Performing Notes Receivable

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

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 from Related Parties" for details on our notes receivable.

Fair Value of Financial Instruments

We apply the guidance in ASC Topic 820, “Fair Value Measurements and Disclosures 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.

Related Parties

We apply ASC Topic 805, “Business Combinations”, to evaluate business relationships. Related parties are persons or entities who have one or more of the following characteristics, which include entities for which investments in their equity securities would be required, trust for the benefit of persons including principal owners of the entities and members of their immediate families, management personnel of the entity and members of their immediate families and other parties with which the entity may deal if one party controls or can significantly influence the decision making of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests, or affiliates of the entity.

Results of Operations

The following discussion is based on our “Statement of Operations” for the three months and nine months ended September 30, 2015 and 2014, as included in Part I, Item 1. “Financial Statements” of this report. It is not meant to be an all-inclusive discussion of the changes in our net income applicable to common shares. Instead, we have focused on significant fluctuations within our operations that we feel are relevant to obtain an overall understanding of the change in income applicable to common shareholders.

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

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

Comparison of the three months ended September 30, 2015 to the same period ended 2014:

We had net income of \$680,000 or \$0.16 per diluted earnings per share for the three months ended September 30, 2015, as compared to net income of \$623,000 or \$0.15 per diluted earnings per share for the same period ended 2014.

Revenues

Land held for development or sale is our sole operating segment. There was no income generated from this segment for the three months ended September 30, 2015, nor for the prior period ended 2014.

Expenses

Property operating expenses were \$56,000 for the three months ended September 30, 2015. This represents an increase of \$43,000, as compared to the prior period property operating expenses of \$13,000. This increase was primarily due to the refund real estate taxes in 2014.

General and administrative expenses were \$62,000 for the three months ended September 30, 2015. This represents a decrease of \$81,000, as compared to the prior period general and administrative expenses of \$143,000. This decrease was primarily due to a decrease in legal fees and professional fees.

Advisory fees were \$176,000 for the three months ended September 30, 2015. This represents an increase of \$3,000, as compared to the prior period advisory fees of \$173,000. Advisory fees are computed based on a gross asset fee of 0.0625% per month (0.75% per annum) of the average of the gross asset value.

Other income (expense)

Interest income was \$1.1 million for the three months ended September 30, 2015. This represents a decrease of \$0.1 million as compared to interest income of \$1.2 million for the three months ended September 30, 2014. The majority of this decrease was due to a decrease in the receivable amount owed from related parties.

Mortgage and loan interest was \$112,000 for the three months ending September 30, 2015. This represents a decrease of \$64,000 as compared to the prior period mortgage and loan interest expense of \$176,000. This reduction is due to reductions in the outstanding debt obligations from the 2014 balances.

Comparison of the nine months ended September 30, 2015 to the same period ended 2014:

We had net income of \$1.8 million or \$0.44 per diluted earnings per share for the nine months ended September 30, 2015, as compared to net income of \$1.9 million or \$0.45 per diluted earnings per share for the same period ended 2014.

Revenues

Land held for development or sale is our sole operating segment. There was no income generated from this segment for the nine months ended September 30, 2015, nor for the prior period ended 2014.

Expenses

Property operating expenses were \$71,000 for the nine months ended September 30, 2015. This represents an increase of \$29,000, as compared to the prior period property operating expenses of \$42,000. This increase was primarily due to the refund real estate taxes from 2014.

General and administrative expenses were \$359,000 for the nine months ended September 30, 2015. This represents a decrease of \$63,000, as compared to the prior period general and administrative expenses of \$422,000. This decrease was primarily due to a decrease in legal fees and professional fees.

Advisory fees were \$526,000 for the nine months ended September 30, 2015. This represents an increase of \$10,000, as compared to the prior period advisory fees of \$516,000. Advisory fees are computed based on a gross asset fee of 0.0625% per month (0.75% per annum) of the average of the gross asset value.

Other income (expense)

Interest income was \$3.4 million for the nine months ended September 30, 2015. This represents a decrease of \$0.1 million as compared to interest income of \$3.5 million for the nine months ended September 30, 2014. The majority of this decrease was due to a decrease in the receivable amount owed from related parties.

Mortgage and loan interest was \$441,000 for the nine months ending September 30, 2015. This represents a decrease of \$97,000 as compared to the prior period mortgage and loan interest expense of \$538,000. This reduction is due to reductions in the outstanding debt obligations from the 2014 balances.

Liquidity and Capital Resources

General

Our principal liquidity needs are:

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

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

Cash Flow Summary

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

	September 30,		
	2015	2014	Variance
Net cash provided by operating activities	\$3,329	\$5,667	\$(2,338)
Net cash used in investing activities	\$(2,675)	\$(3,550)	\$875
Net cash used in financing activities	\$(659)	\$(2,117)	\$1,458

The primary use of cash for operations is daily operating costs, general and administrative expenses, advisory fees, and land holding costs. Our primary source of cash is from interest income on notes receivable. We received less proceeds on notes receivable in the current period.

Our primary cash outlays for investing activities are for investment of excess cash with our Advisor. The investing activity in the current period was mainly due to the proceeds received on the notes receivable. We invested less cash with our Advisor in the current period.

Our primary sources of cash from financing activities are from proceeds on notes payables. Our primary cash outlays are for recurring debt payments and payments on maturing notes payable. In the prior period, the Company repaid certain debt obligations, outside of current accrued interest.

We did not pay quarterly dividends in 2015 or 2014.

Environmental Matters

Under various federal, state and local environmental laws, ordinances and regulations, we may be potentially liable for removal or remediation costs, as well as certain other potential costs, relating to hazardous or toxic substances (including governmental fines and injuries to persons and property) where property-level managers have arranged for the removal, disposal or treatment of hazardous or toxic substances. In addition, certain environmental laws impose liability for release of asbestos-containing materials into the air and third parties may seek recovery for personal injury associated with such materials.

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

Inflation

The effects of inflation on our operations are not quantifiable. Fluctuations in the rate of inflation affect the sales value of properties and the ultimate gain to be realized from property sales. To the extent that inflation affects interest rates, earnings from short-term investments and the cost of new financings, as well as the cost of variable interest rate debt, will be affected.

Tax Matters

In 2012, the predecessor of May Realty Holdings, Inc., (“MRHI”) acquired stock of ARL such that more than 80% of ARL was owned by the MRHI group. As a result, IOT is part of the tax sharing agreement for the MRHI consolidated group for federal income tax reporting.

Financial statement income varies from taxable income principally due to the accounting for income and losses of investees, gains and losses from asset sales, depreciation on owned properties, amortization of discounts on notes receivable and payable and the difference in the allowance for estimated losses. IOT has alternative minimum tax credit carryforwards available for 2015 and has a loss for federal income tax purposes after consolidation in the MRHI group for the first nine months of 2015; therefore, it recorded no provision for income taxes.

At September 30, 2015, IOT had a net deferred tax asset of approximately \$2.7 million due to tax deductions available to it in future years. However, as management cannot determine that it is more likely than not that IOT will realize the benefit of the deferred tax asset, a 100% valuation allowance has been established.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At September 30, 2015, IOT's exposure to a change in interest rates on its debt was as follows (dollars in thousands, except per share):

	Weighted Average Balance	Interest Rate	Effect of 1 % Increase In Base Rates
Notes payable:			
Variable rate	\$9,661	6.00%	\$ 96
Total decrease in IOT's annual net income			96
Per share			\$ 0.02

ITEM 4. CONTROLS AND PROCEDURES

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

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

PART II. OTHER INFORMATION**ITEM 5. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On December 5, 1989, the governing body of the predecessor of the Company approved a share repurchase program authorizing the repurchase of up to a total of 200,000 shares of the predecessor. In June 2000, the Board of Directors of the Company increased the authorization to 500,000 shares. With the 3-for-1 forward split of the Company's Common Stock in June 2005, such authorization would be appropriately increased to 1,500,000 shares and the number of shares previously purchased would be appropriately increased by the same ratio. On August 10, 2010, the Board of Directors approved an increase in the share repurchase program for up to an additional 150,000 shares of common stock which results in a total authorization under the repurchase program for up to 1,650,000 shares of our common stock. This repurchase program has no termination date. The following table represents shares repurchased on a monthly basis during the third quarter of 2015:

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 at June 30, 2015			1,034,761	615,239
July 31, 2015	—	\$ —	1,034,761	615,239
August 31, 2015	—	\$ —	1,034,761	615,239
September 30, 2015	—	\$ —	1,034,761	615,239
Total	—			

ITEM 6. EXHIBITS

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

Exhibit Number	Description
3.0	Articles of Incorporation of Income Opportunity Realty Investors, Inc., (incorporated by reference to Appendix C to the Registrant’s Registration Statement on Form S-4, dated February 12, 1996).
3.1	Bylaws of Income Opportunity Realty Investors, Inc. (incorporated by reference to Appendix D to the Registrant’s Registration Statement on Forms S-4 dated February 12, 1996).
10.3	Advisory Agreement dated as of April 30, 2011 between Income Opportunity Realty Investors, Inc. and Pillar Income Asset Management, Inc. (incorporated by reference to Exhibit 10.3 to the registrant’s current on Form 10-Q for event of May 2, 2011).
10.4	Loan Purchase Agreement (without exhibits), dated as of June 7, 2013 between IORI Operating Inc. and BDF TCI Mercer III, LLC.
10.5	Settlement and Release Agreement dated June 7, 2013 among TCI Mercer Crossing, Inc., Income Opportunity Realty Investors, Inc., Transcontinental Lamar, Inc., Transcontinental Realty Investors, Inc., Prime Income Asset Management, LLC, American Realty Investors, Inc., American Realty Trust, Inc., Transcontinental Realty Investors, Inc., BDF TCI Mercer III, LLC, and Transcontinental BDF III, LLC.
31.1	* <u>Certification by the Principal Executive Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.</u>
31.2	* <u>Certification by the Principal Financial Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.</u>
32.1	* <u>Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

*Filed herewith

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SIGNATURE PAGE

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

INCOME OPPORTUNITY REALTY INVESTORS, INC.

Date: November 13, 2015 By: /s/ Daniel J. Moos
Daniel J. Moos
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 13, 2015 By: /s/ Gene S. Bertcher
Gene S. Bertcher
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)