

INCOME OPPORTUNITY REALTY INVESTORS INC /TX/

Form 10-Q

November 14, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTER ENDED SEPTEMBER 30, 2007

Or

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

Commission File Number 001-14784

INCOME OPPORTUNITY REALTY INVESTORS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada
(State or Other Jurisdiction of
Incorporation or Organization)

1755 Wittington Place, Suite 340

Dallas, Texas 75234

75-2615944
(I.R.S. Employer

Identification No.)

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(Address of principal executive offices)

(Zip Code)

(469) 522-4200

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Common Stock, \$.01 par value
(Class)

4,163,175
(Outstanding at November 1, 2007)

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INCOME OPPORTUNITY REALTY INVESTORS, INC.

FORM 10-Q

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

The accompanying Consolidated Financial Statements as of and for the nine months ended September 30, 2007 have not been audited by independent certified public accountants but, in the opinion of the management of Income Opportunity Realty Investors, Inc. (IORI or the Company), all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of IORI s consolidated financial position, consolidated results of operations and consolidated cash flows at the dates and for the periods indicated, have been included.

INCOME OPPORTUNITY REALTY INVESTORS, INC.**CONSOLIDATED BALANCE SHEETS**

(amounts in thousands, except per share data)

	September 30, 2007 (Unaudited)	December 31, 2006
Assets		
Real estate held for investment	\$ 63,458	\$ 63,682
Less accumulated depreciation	(5,656)	(5,061)
	57,802	58,621
Notes and interest receivable related parties	29,011	27,777
Investment in real estate partnerships	490	515
Cash and cash equivalents	104	80
Receivables from affiliates	26,353	17,766
Other assets	2,708	4,152
	\$ 116,468	\$ 108,911
Liabilities and Stockholders Equity		
Liabilities:		
Notes and interest payable	\$ 70,020	\$ 61,546
Other liabilities	1,685	1,921
	71,705	63,467
Commitments and contingencies		
Minority interest	666	605
Stockholders equity:		
Common Stock, \$.01 par value; authorized, 100,000,000 shares; issued 4,168,035 shares; outstanding 4,163,175 and 4,168,035 shares at September 30, 2007 and December 31, 2006	42	42
Additional paid-in capital	61,918	61,955
Accumulated deficit	(17,863)	(17,158)
	44,097	44,839
	\$ 116,468	\$ 108,911

The accompanying notes are an integral part of these Consolidated Financial Statements.

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

(amounts in thousands, except per share data)

	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2007	2006	2007	2006
	(unaudited)		(unaudited)	
Property revenue				
Rents and other property revenues	\$ 2,214	\$ 2,028	\$ 6,463	\$ 5,648
Operating expenses				
Property operations	1,225	1,196	3,428	3,032
Depreciation	199	191	595	551
General and administrative	98	109	381	391
Advisory fees related party	227	261	805	886
Total operating expenses	1,749	1,757	5,209	4,860
Operating income	465	271	1,254	788
Other income (expense):				
Interest income related	1,279	707	3,514	2,913
Mortgage and loan interest expense	(1,537)	(1,255)	(5,387)	(3,303)
Net income fee related party		17		(38)
Total other income (expense)	(258)	(531)	(1,873)	(428)
Income (loss) before equity in earnings (loss) of investees and minority interest	207	(260)	(619)	360
Equity in earnings (loss) of investees	(9)	29	(24)	110
Minority interest	(18)	2	(62)	(40)
Net income (loss)	\$ 180	\$ (229)	\$ (705)	\$ 430
Earnings per share:				
Net earnings (loss) from continuing operations	\$ 0.04	\$ (0.06)	\$ (0.17)	\$ 0.10
Weighted average common shares used in computing earnings				
per share	4,163,175	4,168,035	4,163,175	4,168,035

The accompanying notes are an integral part of these Consolidated Financial Statements.

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

For the Nine Months Ended September 30, 2007

(amounts in thousands)

(Unaudited)

	Common Stock		Additional		Total Stockholders Equity
	Shares	Amount	Paid-in Capital	Accumulated Deficit	
Balance, December 31, 2006	4,168,035	\$ 42	\$ 61,955	\$ (17,158)	\$ 44,839
Repurchased shares	(4,860)		(37)		(37)
Net income				(705)	(705)
Balance, September 30, 2007	4,163,175	\$ 42	\$ 61,918	\$ (17,863)	\$ 44,097

The accompanying notes are an integral part of these Consolidated Financial Statements.

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

(amounts in thousands)

	For the Nine Months Ended September 30, 2007 2006 (unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (705)	\$ 430
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation	595	551
Amortization	416	239
Loss (gain) on equity partnerships	24	(110)
Minority interest	61	40
Increase in interest receivable	(1,234)	(480)
Decrease (increase) in other assets	1,407	(1,390)
Increase in interest payable	688	213
Increase (decrease) in other liabilities	(236)	273
Net cash provided by (used in) operating activities	1,016	(234)
CASH FLOWS FROM INVESTING ACTIVITIES		
Real estate improvements		(237)
Real estate acquisition	(26)	
Payments to advisor and affiliates	(8,734)	(18,024)
Net cash used in investing activities	(8,760)	(18,261)
CASH FLOWS FROM FINANCING ACTIVITIES		
Financing fees paid	(231)	
Notes payable payments	(7,377)	31,352
Notes payable proceeds	15,413	(13,001)
Stock buyback	(37)	
Net cash provided by financing activities	7,768	18,351
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	24	(144)
CASH AND CASH EQUIVALENTS, beginning of period	80	201
CASH AND CASH EQUIVALENTS, end of period	\$ 104	\$ 57
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest	\$ 4,701	\$ 2,560
Acquisition of real estate in exchange for notes receivable		37,200
Sale of office building		(12,200)
Mortgage note payable assumed on acquisition of real estate		(22,802)

The accompanying notes are an integral part of these Consolidated Financial Statements.

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INCOME OPPORTUNITY REALTY INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

The accompanying Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, accordingly, do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. Dollar amounts in tables are in thousands, except per share amounts.

Operating results for the nine month period ended September 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. For further information, refer to the Consolidated Financial Statements and Notes included in IORI's Annual Report on Form 10-K for the year ended December 31, 2006 (the 2006 Form 10-K).

Certain balances from 2006 have been reclassified to conform to the 2007 presentation.

Newly issued accounting standards.

In September 2006, the FASB issues SFAS No. 157, Fair Value Measurements (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of SFAS No. 157 to have a material impact on the Company's cash flows, results of operations, financial position or liquidity.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS No. 159). SFAS No. 159 permits entities to choose, at specified election dates, to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses shall be reported on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating and assessing the impact of this statement.

NOTE 2. REAL ESTATE

On March 31, 2006, IORI acquired a 218-unit apartment complex located in Indianapolis, Indiana (Falcon Point) from Syntek West, Inc. (SWI), a related party, for \$3,750,000, which included the assumption of a \$1,500,000 existing mortgage. IORI did not acquire any properties during the nine months ended September 30, 2007.

IORI sold no properties during the nine months ended September 30, 2007 or 2006.

Table of Contents**INCOME OPPORTUNITY REALTY INVESTORS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(continued)

The following is a list of properties owned by IORI on September 30, 2007 (\$000 s):

Property	Location	Units / Sq. Ft. / Acres	Cost Basis	Accumulated Depreciation
Apartments				
Brighton Court	Midland, TX ¹	60 Units / 90,672 Sq. Ft.	\$ 3,392	\$ 553
Del Mar	Midland, TX ¹	92 Units / 105,348 Sq. Ft.	3,243	530
Enclave	Midland, TX ¹	68 Units / 89,734 Sq. Ft.	3,243	530
Falcon Point	Indianapolis, IN	218 Units / 162,425 Sq. Ft.	3,643	173
Meridian	Midland, TX ¹	280 Units / 264,000 Sq. Ft.	5,690	882
Signature Place	Midland, TX ¹	57 Units / 72,480 Sq. Ft.	2,211	433
Sinclair Place	Midland, TX ¹	114 Units / 91,529 Sq. Ft.	2,653	361
Office Buildings				
2010 Valley View	Farmers Branch, TX	40,666 Sq. Ft.	3,651	1,660
Shopping Centers				
Parkway Center	Dallas, TX	28,374 Sq. Ft.	3,970	357
Industrial Warehouse				
Eagle Crest	Farmers Branch, TX	133,000 Sq. Ft.	4,070	177
Land				
Three Hickory Centre	Farmers Branch, TX	9 Acres	3,119	
Travelers Land	Farmers Branch, TX	202 Acres	24,573	
			\$ 63,458	\$ 5,656

¹ The Company transferred these six residential properties along with another residential property to partnerships formed with Metra Capital LLC (Metra); the transaction was recorded as a financing transaction under SFAS 66 Accounting for Real Estate Sales . The participation in the transaction by a former director of American Realty Investors Inc. (ARI), a related party, as well as the fact that at the time ARI was a related party to the Company, required the treatment as a financing transaction, although title to the residential properties was transferred to another entity. The effect is for these properties to remain as assets on the financial statements of the Company and liabilities associated with the financing transaction recorded.

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(continued)

NOTE 3. NOTES AND INTEREST RECEIVABLE RELATED PARTIES

The following is a list of notes and interest receivable due IORI on September 30, 2007:

Borrower	Maturity	Principal Balance	Accrued Interest	Interest Rate
Housing for Seniors of Humble, LLC	12/27/09	\$ 2,000	\$ 13	11.20%
Housing for Seniors of Humble, LLC	12/27/09	6,363	2,652	11.50%
Unified Housing Foundation, Inc. (Marquis at VR)	12/10/13	2,438	240	12.00%
Unified Housing Foundation, Inc. (Echo Station)	12/26/13	1,488	138	12.00%
Unified Housing Foundation, Inc.	9/15/10	2,990	513	10.00%
Unified Housing Foundation, Inc. (Parkside Crossing)	12/29/13	1,726	158	12.00%
Unified Housing Foundation, Inc. (Timbers of Terrell)	12/18/08	1,180	112	12.00%
Centura Land Mortgage (due from Transcontinental Realty Investors, Inc a related party)	8/22/08	7,000		Prime + 2%
		\$ 25,185	\$ 3,826	

NOTE 4. NOTES AND INTEREST PAYABLE

The following is a list of notes and interest payable owed by IORI on September 30, 2007:

Project	Maturity	Principal Balance	Accrued Interest
Brighton Court	5/1/12	\$ 2,736	\$ 17
Del Mar	5/1/12	2,622	17
Enclave	5/1/12	2,774	17
Signature Place	5/1/12	1,485	5
Sinclair Place	6/28/08	4,612	33
Meridian	7/1/37	10,800	63
Falcon Point	11/30/07	950	
2010 Valley View	10/3/08	2,171	
Eagle Crest	11/1/11	2,430	
Parkway Center	6/1/36	2,671	
Centura Land	8/28/08	7,000	
Travelers Land	8/10/08	28,652	965
		\$ 68,903	\$ 1,117

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(continued)

NOTE 5. ADVISORY AGREEMENT

The Company is a party to an Advisory Agreement with Syntek West, Inc. (SWI), wherein SWI is responsible for the Company's day-to-day operations. SWI owns 57.17% of the Company's common stock. In accordance with the Advisory Agreement, SWI must formulate and submit to IORI's Board of Directors for approval an annual budget and business plan containing a twelve-month forecast of operations and cash flow with a general plan for asset sales and purchases, borrowing activity and other investments. SWI reports to the Board quarterly on IORI's performance against the business plan. The Advisory Agreement further places SWI in a fiduciary relationship to IORI's stockholders and contains a broad standard governing SWI's liability for any losses incurred by IORI.

SWI receives, as compensation for its management and advice, monthly advisory fees based on .75% of IORI's assets annually as well as specific fees for assisting IORI in obtaining financing and completing acquisitions. If IORI's operating expenses exceed limits specified in the Advisory Agreement, SWI is obligated to refund a portion of the advisory fees.

Effective July 1, 2005, the Company and SWI entered into a 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 borrowing of funds. Under the Cash Management Agreement, all funds of the Company are delivered to SWI which has a deposit liability to the Company and is responsible for investment of all excess funds, which earn interest at the *Wall Street Journal* Prime Rate plus one percent per annum, set quarterly on the first day of each calendar quarter. Borrowings for the benefit of the Company bear the same interest rate. The term of the Cash Management Agreement is coterminous with the Advisory Agreement, and is automatically renewed each year unless terminated by SWI and IORI.

SWI also receives a Net Income Fee calculated as 7.5% of IORI's net income for the year.

	For Nine Months Ended September 30,	
	2007	2006
Revenue, fees, interest on cash advances and cost reimbursements to SWI:		
Advisory	\$ 650	\$ 572
Mortgage brokerage fee	155	314
Net income fee		38
Income on cash advances from IORI	(1,372)	(227)
	\$ (567)	\$ 697

NOTE 6. RECEIVABLES FROM AND PAYABLE TO AFFILIATES

From time to time, IORI and its affiliates and related parties have made unsecured advances to each other. In addition, IORI and its affiliates have entered into transactions involving the purchase, sale and financing of property. The table below reflects the various transactions between IORI, SWI and Transcontinental Realty Investors (TCI).

	SWI	TCI	Total
Balance, December 31, 2006	\$ 16,654	\$ 1,112	\$ 17,766
Cash received	(6,391)		(6,391)
Cash payments	15,102		15,102
Other additions	1,015	563	1,578
Other repayments	(1,702)		(1,702)

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Balance, September 30, 2007

\$ 24,678 \$ 1,675 \$ 26,353

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(continued)

NOTE 7. OPERATING SEGMENTS

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 expenses. Management evaluates the performance of each of the operating segments and allocates resources to them based on their operating income and cash flow. There are no intersegment revenues and expenses and IORI conducted all of its business within the United States.

Presented below is the operating income of each operating segment for the three and nine months ended September 30, 2007 and 2006 and each segment's assets at September 30, of each year (amounts in thousands).

	Land	Commercial Properties	Apartments	Total
Three Months Ended September 30, 2007				
Rental and other property revenues	\$	\$ 378	\$ 1,836	\$ 2,214
Property operating expenses	18	115	1,092	1,225
Depreciation		59	140	199
Interest expense	1,239	(221)	519	1,537
Segment operating income (loss)	(1,257)	425	85	(747)
Real estate assets, net of depreciation	27,692	9,497	20,613	57,802
Nine Months Ended September 30, 2007				
Rental and other property revenues	\$	\$ 1,077	\$ 5,386	\$ 6,463
Property operating expenses	18	551	2,859	3,428
Depreciation		173	422	595
Interest expense	2,589	425	2,373	5,387
Segment operating loss	(2,607)	(72)	(268)	(2,947)
Real estate assets, net of depreciation	27,692	9,497	20,613	57,802
Three Months Ended September 30, 2006				
Rental and other property revenues	\$	\$ 349	\$ 1,679	\$ 2,028
Property operating expenses		204	992	1,196
Depreciation		51	140	191
Interest expense	921	(88)	422	1,255
Segment operating income (loss)	(921)	182	125	(614)
Real estate assets, net of depreciation	24,122	12,815	21,426	58,363
Nine Months Ended September 30, 2006				
Rental and other property revenues	\$ 448	\$ 561	\$ 4,639	\$ 5,648
Property operating expenses		524	2,508	3,032
Depreciation		160	391	551
Interest expense	1,051	1,121	1,131	3,303
Segment operating income (loss)	(603)	(1,244)	609	(1,238)
Real estate assets, net of depreciation	24,122	12,815	21,426	58,363

Table of Contents**INCOME OPPORTUNITY REALTY INVESTORS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following table reconciles the segment information to the corresponding amounts in the consolidated statements of operations:

	For the Nine Months Ended September 30,	
	2007	2006
Segment operating loss	\$ (2,947)	\$ (1,238)
Interest income	3,514	2,913
General and administrative	(381)	(391)
Advisory fees	(805)	(886)
Net income fee		(38)
Equity in earnings (loss) of investees	(24)	110
Minority interest	(62)	(40)
Net income (loss)	\$ (705)	\$ 430

NOTE 8. COMMITMENTS AND CONTINGENCIES

Liquidity. Management anticipates that IORI may not generate sufficient excess funds from operations in 2007 to be sufficient to discharge all of IORI's debt obligations as they mature. Management may selectively sell income producing assets, refinance real estate, and/or incur additional borrowings against real estate to meet its cash requirements.

Litigation. IORI is also involved in various lawsuits arising in the ordinary course of business. Management is of the opinion that the outcome of these lawsuits will have no material impact on the Company's financial condition, results of operations or liquidity.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
WARNING CONCERNING FORWARD-LOOKING STATEMENTS

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 factors listed and described at 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, 2006.

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 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 Securities and Exchange Commission (SEC) and to other materials we may furnish to the public from time to time through Forms 8-K or otherwise.

Overview

IORI invests in equity interests in real estate through acquisitions, leases, partnerships and in mortgage loans. IORI is the successor to a California business trust organized on December 14, 1984, which commenced operations on April 10, 1985.

At September 30, 2007, IORI owned seven residential apartment communities totaling 1,319 units, one office building, one shopping center, one industrial property and 211 acres of land held for development. Except for a single apartment property located in Indiana, all of the Company's real estate assets are located in Texas.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or GAAP, requires management to use judgment in the application of accounting policies,

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including making estimates and assumptions. We base our estimates on historical experience and on various other assumptions believed to be reasonable under the circumstances. These judgments affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied resulting in a different presentation of our financial statements. From time to time, we evaluate our estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current information. Below is a discussion of accounting policies that we consider critical in that they may require complex judgment in their application or require estimates about matters that are inherently uncertain.

Real Estate Held for Investment

Real estate held for investment is carried at cost. Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144) requires that a property be considered impaired if the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the property. If impairment exists, an impairment loss is recognized, by a charge against earnings, equal to the amount by which the carrying amount of the property exceeds the fair value less cost to sell the property. If impairment of a property is recognized, the carrying amount of the property is reduced by the amount of the impairment, and a new cost for the property is established. Such new cost is depreciated over the property's remaining useful life. Depreciation is provided by the straight-line method over estimated useful lives, which range from 5 to 40 years.

Real Estate Held-for-Sale

Foreclosed real estate is initially recorded at new cost, defined as the lower of original cost or fair value minus estimated costs of sale. SFAS No. 144 also requires that properties held-for-sale be reported at the lower of carrying amount or fair value less costs of sale. If a reduction in a held-for-sale property's carrying amount to fair value less costs of sale is required, a provision for loss is recognized by a charge against earnings. Subsequent revisions, either upward or downward, to a held-for-sale property's estimated fair value less costs of sale are recorded as an adjustment to the property's carrying amount, but not in excess of the property's carrying amount when originally classified as held-for-sale. A corresponding charge against or credit to earnings is recognized. Properties held-for-sale are not depreciated.

Investments in Equity Investees

IORI may be considered to have the ability to exercise significant influence over the operating and investment policies of certain of its investees. Those investees are accounted for using the equity method. Under the equity method, an initial investment, recorded at cost, is increased by a proportionate share of the investee's operating income and any additional investment and decreased by a proportionate share of the investee's operating losses and distributions received.

Recognition of Rental Income

Rental income for commercial property leases is recognized on a straight-line basis over the respective lease terms. Rental income for residential property leases is recorded when due from residents and is recognized monthly as earned, which is not materially different than on a straight-line basis, as lease terms are generally for periods of one year or less.

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Revenue Recognition on the Sale of Real Estate

Sales of real estate are recognized when and to the extent permitted by Statement of Financial Accounting Standards No. 66, Accounting for Sales of Real Estate (SFAS No. 66), as amended by SFAS No. 144. Until the requirements of SFAS No. 66 for full profit recognition have been met, transactions are accounted for using the deposit, installment, cost recovery or financing method, whichever is appropriate. When IORI provides seller financing, gain is not recognized at the time of sale unless the buyer's initial investment and continuing investment are deemed to be adequate as determined by SFAS 66 guidelines.

Non-performing Notes Receivable

IORI 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. Any new note receivable that results from a modification or extension of a note considered non-performing will also be considered non-performing, without regard to the borrower's adherence to payment terms.

Interest Recognition on Notes Receivable

Interest income is not recognized on notes receivable that have been delinquent for 60 days or more. In addition, accrued but unpaid interest income is only recognized to the extent that the net realizable value of the underlying collateral exceeds the carrying value of the receivable.

Allowance for Estimated Losses

A valuation allowance is provided for estimated losses on notes receivable considered to be impaired. Impairment is considered to exist when it is probable that all amounts due under the terms of the note will not be collected. Valuation allowances are provided for estimated losses on notes receivable to the extent that the investment in the note exceeds management's estimate of fair value of the collateral securing such note.

Fair Value of Financial Instruments

The following assumptions were used in estimating the fair value of its notes receivable, marketable equity securities and notes payable. For performing notes receivable, the fair value was estimated by discounting future cash flows using current interest rates for similar loans. For non-performing notes receivable, the estimated fair value of IORI's interest in the collateral property was used. For marketable equity securities, fair value was based on the year-end closing market price of each security. For notes payable, the fair value was estimated using current rates for mortgages with similar terms and maturities.

Liquidity and Capital Resources

Cash and cash equivalents at September 30, 2007 were \$104,000 compared to \$80,000 at December 31, 2006. IORI's principal sources of cash have been and will continue to be property operations, proceeds from asset sales, interest earned on notes receivable, proceeds from financings and refinancings and partnership distributions. Management anticipates that IORI will generate excess cash from operations in 2007 due to increased rental receipts at its properties. However, such excess may not be sufficient to discharge all of IORI's debt obligations as they mature. Management may selectively sell income-producing assets, refinance real estate and/or incur additional borrowings against real estate to meet its cash requirements.

The Company reported a net loss of (\$705,000) for the nine months ended September 30, 2007, which included the following non-cash items: depreciation and amortization of \$1 million, loss of investees of \$24,000 and minority interest of \$62,000.

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For the nine months ended September 30, 2007, net cash provided by operating activities totaled \$1 million; net cash used in investing activities was \$8.7 million, consisting almost entirely of advances to the Company's Advisor under the terms of the Cash Management Agreement (see Note 5. Advisory Agreements) and net cash provided by financing activities was \$7.8 million which represents net proceeds from refinancing of properties. In June 2007, the Company refinanced \$6.4 million of existing debt on two apartment communities located in Midland, Texas. The new loans total \$15.4 million and bear interest at rates currently averaging 7.8 percent per annum. The loans mature in June 2008 (\$4.6 million) and July 2037 (\$10.8 million).

Management reviews the carrying values of IORI's properties at least annually or whenever events or a change in circumstances indicate that impairment may exist. Impairment is considered to exist if, in the case of a property, the future cash flow from the property (undiscounted and without interest) is less than the carrying amount of the property. If impairment is found to exist, a provision for loss is recorded by a charge against earnings. The property review generally includes selective property inspections, discussions with the manager of the property, visits to selected properties in the area and a review of the following: (1) the property's current rents compared to market rents, (2) the property's expenses, (3) the property's maintenance requirements and (4) the property's cash flows.

Results of Operations

IORI had a net income (loss) of \$180,000 and (\$705,000) for the three and nine months ended September 30, 2007 as compared to a net income (loss) of (\$229,000) and \$430,000 for the corresponding periods in 2006. Fluctuations in components of revenue and expense between September 30, 2007 and the corresponding periods in 2006 are discussed below.

Rental income for the three and nine months ended September 30, 2007 was \$2.2 million and \$6.5 million, respectively, compared to \$2.0 million and \$5.6 million in the corresponding periods in 2006. The increase is primarily due to revenue from the Falcon Point Apartments, which was acquired on March 31, 2006, as well as an overall increase in rents at the residential properties.

Property operating expense for the three and nine months ended September 30, 2007 was \$1.2 million and \$3.4 million as compared to \$1.2 million and \$3.0 million for the corresponding periods in 2006. The increase in the nine month amounts is primarily due to operating expenses from the Falcon Point Apartments.

Interest income for the three and nine months ended September 30, 2007 was \$1.3 million and \$3.5 million, respectively, compared to \$707,000 and \$2.9 million for the corresponding periods in 2006. The increase was due almost entirely to the interest earned on monies advanced to the Company's financial advisor in accordance with the cash management agreement (See Note 5. Advisory Agreement).

Interest expense for the three and nine months ended September 30, 2007 was \$1.5 million and \$5.4 million, respectively, compared to \$1.3 million and \$3.3 million for the corresponding periods in 2006. The increase was primarily due to the additional debt incurred by IORI during 2006 and 2007 due to new loans, refinancings and the acquisition of the Falcon Point Apartments. The increase was also due to increased interest rates for IORI's variable interest rate debt.

The overall increase in interest expense was partially offset by the elimination of interest expense on the debt to Transcontinental Realty Investors, Inc. (TCI), which was cancelled when One Hickory Center, an office building located in Dallas, Texas, was transferred to TCI in May 12, 2006. TCI owns approximately 25 percent of IDRI's outstanding common stock.

Advisory fees to affiliate for the three and nine months ended September 30, 2007 were \$227,000 and \$805,000, respectively, compared to \$261,000 and \$886,000 for the corresponding periods in 2006. The advisory fee for the three and nine months ended September 30, 2007 increased by \$34,000 and \$81,000, respectively, due to a net increase in gross assets which is the basis of the advisory fee. This increase was offset by a decrease of fees for refinancing certain mortgage obligations (See Note 5. Advisory Agreement).

There was no net income fee to affiliates for the three and nine months ended September 30, 2007, compared to \$17,000 and \$38,000 for the corresponding periods in 2006. The net income fee is based on .75% of IORI's net income (See Note 5. Advisory Agreement).

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Related Party Transactions

Historically, IORI, ARI, Regis Realty I, LLC (Regis I) and TCI have each engaged in and may continue to engage in business transactions, including real estate partnerships with related parties. Management believes that all of the related party transactions represented the best investments available at the time and were at least as advantageous to IORI, ARI, Regis I and TCI as could have been obtained from unrelated third parties.

Taxes

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. IORI has alternative minimum tax credit carryforwards available for 2007 and has a loss for federal income tax purposes for the first nine months of 2007; therefore, it recorded no provision for income taxes.

At September 30, 2007, IORI had a net deferred tax asset of approximately \$1.4 million due to tax deductions available to it in future years. However, as management cannot determine that it is more likely than not that IORI will realize the benefit of the deferred tax asset, a 100% valuation allowance has been established.

Inflation

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

Environmental Matters

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

Table of Contents**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES REGARDING MARKET RISK**

At September 30, 2007, IORI's exposure to a change in interest rates on its debt was as follows:

	Balance	Weighted Average Interest Rate	Effect of 1% Increase In Base Rates
Notes payable			
Variable rate	\$ 12,562,000	9.68%	\$ 125,620
Total decrease in IORI's annual net income			125,620
Per share			\$ 0.03

ITEM 4. CONTROLS AND PROCEDURES

Based upon their most recent evaluation completed as of the end of the period covered by this Report, the Principal Executive Officer and Principal Financial and Accounting Officer concluded that the Company's disclosure controls and procedures were effective at September 30, 2007 to ensure that information required to be disclosed in reports that the Company files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time period specified in Securities and Exchange Commission rules and forms. There were no changes in the Company's internal controls over financial reporting during the quarter ended September 30, 2007 that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

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

During the period of time covered by the Report, IORI purchased 1,840 shares of its equity securities. The following table sets forth a summary for the quarter indicating the repurchases made, and that at the end of the period covered by this Report, a specified number of shares may yet be purchased under the programs specified below:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of	Maximum Number
			Shares Purchased	of Shares that May
			as Part of Publicly	Yet be Purchased
			Announced Program	Under the Program
Balance at June 30, 2007	3,020	\$ 6.81	3,020	215,670
July 1-31, 2007	1,353	\$ 5.51	1,353	214,317
August 1-31, 2007	487	\$ 5.43	487	213,829
September 1-30, 2007		\$		213,829
Total	4,860	\$ 6.31	4,860	213,829

- (a) On June 23, 2000, the IORI Board of Directors approved a share repurchase program for up to 1,409,000 shares of the Company's common stock. This repurchase program has no termination date.

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 Form S-4 dated February 12, 1996).
10.0	Advisory Agreement dated as of July 1, 2003 between Income Opportunity Realty Investors, Inc. and Syntek West, Inc. (incorporated by reference to Exhibit 10.0 to the Registrant's current Report on Form 10-Q for event of July 1, 2003).
31.1*	Certification by President and Chief Operating Officer and Principal Executive Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
31.2*	Certification by Executive Vice President and Chief Financial Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
32.1*	Certification pursuant to 18 U.S.C. Section 1350.

* 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 14, 2007

By: /s/ Daniel J. Moos
Daniel J. Moos
President and Chief Operating Officer
(Principal Executive Officer)

By: /s/ Steven A. Abney
Steven A. Abney
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

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