INCOME OPPORTUNITY REALTY INVESTORS INC /TX/
Form 10-K/A
September 07, 2005

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 5(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2004

OR

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

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 Incorporation or organization)	(IRS Employer Identification Number)
1755 Wittington Place, Suite 340, Dallas, Texas	**75234**
(Address of principal executive offices)	(Zip Code)

Registrant s Telephone Number, including area code **214-750-5800**

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

Title of Each Class	Name of each exchange on which registered
Common Stock, $0.01 par value	**American Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: **None**

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** þ **No** o

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

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

The aggregate market value of the shares of voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the closing sales price of the Common Stock on the American Stock Exchange as of June 30, 2004 (the last business day of the Registrant s most recently completed second fiscal quarter) was $4,034,394 based upon a total of 298,844 shares held as of June 30, 2004 by persons believed to be non-affiliates of the Registrant. The basis of the calculation does not constitute a determination by the Registrant as defined in Rule 405 of the Securities Act of 1933, as amended, such calculation, if made as of a date within sixty days of this filing, would yield a different value. As of March 18, 2005, there were 1,389,345 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

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AMENDMENT NO. 3 TO
ANNUAL REPORT ON FORM 10-K FOR
INCOME OPPORTUNITY REALTY INVESTORS, INC.

The undersigned Registrant hereby further amends the following items, exhibits, or other portions of its Annual Report on Form 10-K for the fiscal year ended December 31, 2004 as set forth below and as reflected in the substituted pages attached hereto which replace the same numbered pages in the original filing as previously amended by Amendment Nos. 1 and 2 (this Amendment No. 3 is necessary by virtue of an identified accounting error in the financial statements related to formation of certain partnerships with Metra Capital LLC in April 2002, which error evolved in the establishment of the process relating to accounting for a deferral of operating income or expense from the properties in question until the sale of the applicable property; the error correction necessitates the changes described below):

- Page 20 Item 6. Selected Financial Data. The table under this subcaption has been replaced based upon changes in the financial statements described below with respect to the years 2004 and 2003.

- Pages 21-27 Item 7. Management s Discussion and Analysis of Results of Operations. This item has been amended to conform the appropriate references to the financial statement changes described below.

- Pages 29-62 Item 8. Financial Statements and Supplementary Data. The Reports of Independent Registered Public Accounting Firms (Pages 30-32) have been updated for a subsequent review. The consolidated balance sheets, consolidated statements of operations, consolidated statements of stockholders equity and consolidated statements of cash flows (Pages 33-38) and Notes to Consolidated Financial Statements (Pages 39-59) have been revised in the following respects:

  Increase in interest expense by $79,000 from a reported $3,491,000 to $3,570,000.

  Decrease in advisory fee by $2,000 from a reported $743,000 to $741,000.

  Decrease in net income fee by $13,000 from a reported $453,000 to $440,000.

  Increase in total other expense by $64,000 from a reported $5,990,000 to $6,054,000.

  Decrease in net income by $64,000 from a reported $5,492,000 to $5,428,000.

  Decrease in net income per share by $0.04 from a reported $3.95/sh to $3.91/sh.

  Decrease in other assets by $563,000 from a reported $3,658,000 to $3,095,000 (includes $73,000 decrease in 2003).

  Decrease in total assets by $563,000 from a reported $91,201,000 to $90,638,000 (includes $73,000 decrease in 2003).

  Decrease in payable to affiliates by $38,000 from a reported $1,288,000 to $1,248,000 (includes $22,000 decrease in 2003).

  Decrease in other liabilities by $24,000 from a reported $1,553,000 to $1,529,000 (includes $385,000 increase in 2003).

  Increase in accumulated deficit by $501,000 from a reported $18,206,000 to $18,707,000 (includes $436,000 increase in 2003).

Such changes are necessitated on the basis of an accounting error relating to the Metra Transactions described in Notes 5 and 6 to the consolidated financial statements.

- Page 64 Item 9A. This item has been revised to disclose the identification of a control deficiency in internal controls over financial reporting as of April 2002 which continued through March 2005 which was an undetected error in the recordation of an April 2002 transaction.

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SIGNATURE

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

Date: September 7, 2005.

INCOME OPPORTUNITY REALTY INVESTORS, INC.

By: /s/ Robert N. Crouch II
Robert N. Crouch II
Executive Vice President, Chief Financial Officer,
and Acting Principal Executive Officer

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ITEM 6. *SELECTED FINANCIAL DATA*

	For the Years Ended December 31,				
	2004	2003	2002	2001	2000
	(dollars in thousands, except per share)				
	(Restated)	(Restated)			
EARNINGS DATA					
Rents	$ 5,905	$ 5,224	$ 5,298	$ 4,956	$ 8,761
Property expense	3,129	3,331	2,748	2,637	4,652
Operating income	2,776	1,893	2,550	2,319	4,109
Interest income	3,325	626	270	194	319
Income (loss) from equity partnerships	(3)	(7)	862	(9)	(61)
Recovery of A/R written off		1,569			
Other expense	6,054	4,788	5,694	3,868	9,580
Net income (loss) from continuing operations	44	(707)	(2,012)	(1,364)	(4,086)
Discontinued operations	5,384	2,053	4,097	(2,098)	20,880
Net income (loss)	$ 5,428	$ 1,346	$ 2,085	$ (3,462)	$ 16,794
PER SHARE DATA					
Net income (loss)	$ 3.91	$ 0.94	$ 1.45	$ (2.32)	$ 11.03
Dividends per share	$	$	$	$	$ .45
Weighted average common shares outstanding	1,389,345	1,438,945	1,438,945	1,493,675	1,522,510

Earnings data reflects the retroactive changes in the discontinued operations from 2000 to 2004.

	As of December 31,				
	2004	2003	2002	2001	2000
	(dollars in thousands, except per share)				
	(Restated)	(Restated)			
BALANCE SHEET DATA					
Real estate held for investment, net	$ 31,368	$ 50,365	$ 74,750	$ 87,315	$ 86,277
Notes and interest receivable, net	54,911	45,531		505	1,500
Total assets	90,638	101,093	90,185	91,833	96,519
Notes and interest payable	44,571	60,825	51,432	54,426	54,206

Stockholders equity	43,290	38,653	37,307	35,222	39,998
Book value per share	$ 31.16	$ 26.86	$ 25.93	$ 24.48	$ 26.42

IORI purchased four properties for a total of $21.0 million in 2003, and nine properties for a total of $46.5 million in 2000. IORI sold five properties for a total of $ 24.5 million in 2004, four properties for a total of $55.7 million in 2003, two properties for a total of $19.2 million in 2002, and seven properties for a total of $66.6 million in 2000. See ITEM 2. PROPERTIES Real Estate and ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

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.

Critical Accounting Policies

Critical accounting policies are those that are both important to the presentation of IORI s financial condition and results of operations and require management s most difficult, complex or subjective judgments. IORI s critical accounting policies relate to the evaluation of impairment of long-lived assets and the evaluation of the collectibility of accounts and notes receivable.

If events or changes in circumstances indicate that the carrying value of a rental property to be held and used or land held for development may be impaired, management performs a recoverability analysis based on estimated undiscounted cash flows to be generated from the property in the future. If the analysis indicates that the carrying value is not recoverable from future cash flows, the property is written down to estimated fair value and an impairment loss is recognized. If management decides to sell rental properties or land held for development, management evaluates the recoverability of the carrying amounts of the assets. If the evaluation indicates that the carrying value is not recoverable from estimated net sales proceeds, the property is written down to estimated fair value less costs to sell and an impairment loss is recognized within income from continuing operations. IORI s estimates of cash flow and fair values of the properties are based on current market conditions and considers matters such as rental rates and occupancies for comparable properties, recent sales data for comparable properties and, where applicable, contracts or the results of negotiations with purchasers or prospective purchasers. IORI s estimates are subject to revision as market conditions and IORI s assessments of them change.

IORI s allowance for doubtful accounts receivable and notes receivable is established based on analysis of the risk of loss on specific accounts. The analysis places particular emphasis on past due accounts. Management considers such information as the nature and age of the receivable, the payment history of the tenant or other debtor, the financial condition of the tenant or other debtor and IORI s assessment of its ability to meet its lease or interest obligations. IORI s estimate of the required allowance, which is reviewed on a quarterly basis, is subject to revision as these factors change and is sensitive to the effects of economic and market conditions.

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Obligations and Commitments

IORI has contractual obligations and commitments primarily with regards to the payment of mortgages.

The following table aggregates IORI s expected contractual obligations and commitments subsequent to December 31, 2004. (Dollars in thousands) See ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK-Liabilities and NOTE 5. NOTES AND INTEREST PAYABLE .

	PAYMENTS DUE BY PERIOD (in thousands)						
	2005	2006	2007	2008	2009	Thereafter	Total
Variable interest rate notes							
Instrument s maturities	$5,175	$3,542	$	$	$	$	$ 8,717
Instrument s amortization	500	458					958
Interest	493	243					736
Fixed interest rate notes							
Instrument s maturities		1,371		2,083		25,536	28,990
Instrument s amortization	771	730	717	750	742	1,966	5,676
Interest	2,337	2,204	2,093	2,006	1,852	3,947	14,439
Principal payments	6,446	6,101	717	2,833	742	27,502	44,341

Liquidity and Capital Resources

Cash and cash equivalents totaled $399,000, $58,000, and $10,000 at December 31, 2004, 2003 and 2002. IORI s principal sources of cash have been and will continue to be property operations, proceeds from property sales and refinancings and partnership distributions. Management anticipates that IORI will generate excess cash from operations in 2005 due to increased interest income and increased rental rates and occupancy at its properties, however, if such excess does not prove to be sufficient to satisfy all IORI s obligations as they mature, when necessary, management also may selectively sell income producing assets, refinance real estate and incur additional borrowings secured by real estate to meet cash requirements.

Net cash (used in) provided by operating activities was ($124,000) in 2004, $92,000 in 2003, and ($2.5) million in 2002. The primary factors affecting cash flow from operating activities are discussed in the following paragraphs.

Cash flow from property operations (rents collected less payments for property operating expenses) was $3.0 million in 2004, $4.8 million in 2003, and $3.4 million in 2002. The decrease of $1.8 million in 2004 from 2003 was primarily due to a decrease in rental income caused by sale of five properties during the year. The increase of $1.4 million in 2003 from 2002 was primarily due to a decrease in property operating expenses.

Interest collected was $2.4 million in 2004, $262,000 in 2003, and $291,000 in 2002. The significant increase in 2004 was due to the increase in notes receivable from sale of properties throughout 2004. The decrease in 2003 was due to the reduction of two notes from 2002, offset by funding of a new note in 2003.

Interest paid on notes payable was $3.9 million in 2004, $3.7 million in 2003, and $4.3 million in 2002. Of the decrease in 2003 from 2002, $300,000 was due to the sale of three commercial properties in 2003 and the sale of two commercial properties in 2002, and $300,000 was the effect of Metra refinancing in 2002 and the payments to Metra for its return on capital.

Advisory and net income fee paid to affiliate was $1.1 million in 2004, $451,000 in 2003, and $868,000 in 2002. The increase in 2004 from 2003 was due to $323,000 increase in net income fee and $269,000 increase in advisory fee incurred. The decrease in 2003 from 2002 was due to a decrease in advisory fees caused by the increase in the operating expenses over the specified limit. See NOTE 8. ADVISORY AGREEMENT.

General and administrative expenses paid was $562,000 in 2004, $785,000 in 2003, and $1.0 million in 2002. The decrease in 2004 from 2003 was primarily due to a decrease in legal expense and advisor cost reimbursement paid. The decrease in 2003 from 2002 was primarily due to a decrease in director insurance expense.

Net cash provided by investing activities was $1.8 million in 2004, $60,000 in 2003, and $6.8 million in 2002. Cash from investing activities increased in 2004 from 2003 due to less payments were made to the advisor and the affiliates. The cash increases were partially offset by less proceeds received from sale of real estate in 2004 than in 2003.

Net cash used in financing activities was $1.3 million in 2004, $104,000 in 2003, and $4.3 million in 2002. The increase of cash spending on financing activities in 2004 from 2003 was primarily due to repurchase of IORI common stock and more payments were made on notes payable in 2004.

Scheduled principal payments on notes payable of $6.5 million are due in 2005. For those mortgages that come due in 2005, it is management s intent to either seek an extension of the due dates by one or more years, or refinance the debt on a long-term basis, or pay off the debt at maturity, or selectively sell income producing assets. Management believes it will continue to be successful in obtaining loan extensions and/or refinancings.

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Management expects that funds from existing cash resources, selective sales of income producing assets, refinancing of real estate, and additional borrowings against real estate will be sufficient to meet IORI s cash requirements associated with its current and anticipated level of operations, maturing debt obligations and existing commitments. To the extent that IORI s liquidity permits or financing sources are available, management intends to make new real estate investments.

IORI owned a 36.3% general partner interest in the Tri-City partnership until it was sold in 2002. IORI received a distribution of $25,000 in 2002 from Tri-City s operating cash flow. In 2002, IORI received $752,000 as a distribution from the sales proceeds. IORI owns a 40% general partner interest in the NIA partnership. IORI received no distributions and made no contributions to the partnership in from 2002 to 2004. IORI owns a 10% limited partnership interest in the TCI Eton Square partnership. IORI received no distributions and made no contributions to the partnership from 2002 to 2004. See NOTE 4. INVESTMENT IN EQUITY METHOD PARTNERSHIPS.

IORI paid no dividends in 2004 and 2003. In December 2000, the Board of Directors determined not to pay a fourth quarter dividend to holders of IORI s Common Stock. The non-payment decision was based on the Board determining that IORI needed to retain cash for acquisitions that were anticipated in 2001 and that IORI had no REIT taxable income that required a distribution. It is unlikely that IORI will pay any cash dividends for 2005.

In 2001, IORI repurchased 75,100 shares of Common Stock in a private block purchase for a total of $1.3 million. In 2004, IORI repurchased 49,600 shares of IORI Common Stock for a total cost of $791,327. Through December 31, 2004, a total of 268,404 shares had been repurchased at a cost of $2.7 million.

Management reviews the carrying values of IORI s properties at least annually and whenever events or a change in circumstances indicate that impairment may exist. Impairment is considered to exist if the future cash flow from a property (undiscounted and without interest) is less than the carrying amount of the property. 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 and visits to selected properties in the area and a review of (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 reported a net income of $5.4 million in 2004, net income of $1.3 million in 2003, and net income of $2.1 million in 2002. Fluctuations in these and the other components of revenue and expense are discussed in the following paragraphs.

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Rents were $5.9 million in 2004, $5.2 million in 2003 and $5.3 million in 2002. Rents in 2005 are expected to increase if IORI selectively buys properties.

Property operations expense was $3.1 million in 2004, $3.3 million in 2003, and $2.8 million in 2002. The slight decrease in 2004 from 2003 was due to a decrease in property taxes. The increase in 2003 from 2002 was due to an overall increase in various operating expenses including property taxes. Property operations expense is expected to increase in 2005 if IORI purchases more properties.

Interest income was $3.3 million in 2004, $626,000 in 2003, and $270,000 in 2002. The significant increase in 2004 from 2003 was due to additional interest earned from the additional notes receivable obtained from affiliates of IORI. The increase in 2003 from 2002 was due to interest income earned from the payment of the notes receivable on Rosedale Towers. Interest income is expected to increase in 2005 due to the increase in notes receivable during 2004.

Interest expense was $3.6 million in 2004, $1.8 million in 2003, and $1.5 million in 2002. The increase in 2004 from 2003 was due to increase in Metra net income, purchase of Parkway Centre and One Hickory Center in late 2003. Interest expense in 2005 is expected to decrease due to the retirement of four notes payable from sale of properties during 2004, however, it may possibly increase if IORI purchases additional properties in 2005.

Depreciation expense was $740,000 in 2004, $816,000 in 2003, and $748,000 in 2002. The decrease in 2004 from 2003 was due to sale of properties and fully depreciated tenant improvements in 2004. Depreciation expense in 2005 is expected to approximate 2004 and/or increase if IORI adds more properties.

Advisory fees to affiliates were $741,000 in 2004, $424,000 in 2003, and $714,000 in 2002. The increase in 2004 was due to decrease in the operating expenses which resulted in no refund from SWI for the cost reimbursement payment IORI had made to SWI during the year. See NOTE 8. ADVISORY AGREEMENT.

IORI paid net income fees to its contractual advisors of $440,000 in 2004, $109,000 in 2003, and $169,000 in 2002. The net income fee is based on 7.5% of IORI s net income.

General and administrative expense was $563,000 in 2004, $779,000 in 2003, and $1.0 million in 2002. The decrease in 2004 from 2003 was primarily due to decrease in legal fees and advisor cost reimbursement. The decrease in 2003 from 2002 resulted from reduced director and officers insurance premiums.

Equity losses in partnerships were $3,000 in 2004 and $7,000 in 2003, and equity gains were $862,000 in 2002. The Tri-City partnership was dissolved in 2002, which resulted in equity gain in that year.

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IORI realized gains on the sale of real estate of $5.5 million in 2004, $3.8 million in 2003, and $6.8 million in 2002. In 2004, the gains on sale of real estate derived from the sale of Akard and Yeager, Treehouse (San Antonio), and Frankel Land. In 2003, the gains on sale of real estate represent the gain on the sale of Mowry and La Mesa, commercial properties. In 2002, the gain on sale of real estate represents the gain from the sale of Daley Corporate Center.

IORI realized a loss on operations from discontinued operations of $89,000, $1.8 million, and $3.1 million in 2004, 2003 and 2002. The loss relates to the operating losses on two commercial properties, two residential properties, and a land property that IORI sold during 2004. The following table summarizes revenue and expense information for the properties sold.

	2004	2003	2002
Revenue			
Rental Revenue	$ 1,771	$ 4,581	$ 5,101
Property operations	981	3,087	3,582
	790	1,494	1,519
Interest Income		462	
Expenses			
Interest	556	2,987	3,457
Depreciation	323	740	1,117
	879	3,727	4,574
Net loss from discontinued operations	(89)	(1,771)	(3,055)
Gain on sale of real estate	5,473	3,824	6,769
Equity in gain on sale of real estate by equity investees			383
Net income (loss) from discontinued operations	$ 5,384	$ 2,053	$ 4,097

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 that would have a material adverse effect on IORI s business, assets or results of operations.

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Inflation

The effects of inflation on IORI s operations are not quantifiable. Revenues from property operations tend to fluctuate proportionately with inflationary increases and decreases in housing costs. Fluctuations in the rate of inflation also affect the sales values of properties and the ultimate gain to be realized from property sales. To the extent that inflation affects interest rates, earnings from short-term investments and the cost of new financings as well as the cost of variable interest rate debt will be affected.

Taxes

For the years 2002 and 2001, IORI elected and in the opinion of management qualified to be taxed as a REIT as defined under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. To continue to qualify for federal taxation as a REIT, IORI was required to hold at least 75% of the value of its total assets in real estate assets, government securities, cash and cash equivalents at the close of each quarter of each taxable year. As a REIT, IORI was also required to distribute at least 90% (95% in 2000) of its REIT taxable income plus 90% (95% in 2000) of its net income from foreclosure property on an annual basis to stockholders.

Due to the completion of the tender offer by ARI on March 19, 2003, and the resulting concentration of ownership, IORI no longer met the requirement for tax treatment as a REIT as of January 1, 2003. IORI cannot re-qualify for tax treatment as a REIT for at least five years from that time.

ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

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

IORI is exposed to interest rate risk associated with variable rate notes payable and maturing debt that has to be refinanced. IORI s interest rate sensitivity position is managed by IORI s finance department. Interest rate sensitivity is the relationship between changes in market interest rates and the fair value of market rate sensitive assets and liabilities. IORI s earnings are affected as changes in short-term interest rates impact its cost of variable rate debt and maturing fixed rate debt. A large portion of IORI s market risk is exposure to short-term interest rates from variable rate borrowings. The impact on IORI s financial statements of refinancing fixed debt that matured during 2004 was not material. If market interest rates for variable rate debt average 100 basis points more in 2005 than they did during 2004, IORI s interest expense would increase and income would decrease by $101,000. This amount is determined by considering the impact of hypothetical interest rates on IORI s

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borrowing cost. This analysis did not consider the effects of the reduced level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, management would likely take actions to further mitigate its exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no change in IORI s financial structure. The following table contains only those exposures that existed at December 31, 2004. Anticipation of exposures or risk on positions that could possibly arise was not considered. IORI s ultimate interest rate risk and its affect on operations will depend on future capital market exposures, which cannot be anticipated with a probable assurance level. (Dollars in thousands) See ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS-Obligations and Commitments and NOTE 5. NOTES AND INTEREST PAYABLE .

Liabilities

Notes payable

Variable interest rate-fair value							$ 1,639
	2005	2006	2007	2008	2009	Thereafter	Total
Instrument s maturities	$ 5,175	$ 3,542	$	$	$	$	$ 8,717
Instrument s amortization	500	458					958
Interest	493	243					736
Average rate	7.3%	7.0%					

Fixed interest rate-fair value							$ 29,869
	2005	2006	2007	2008	2009	Thereafter	Total
Instrument s maturities		1,371		2,083		25,536	28,990
Instrument s amortization	771	730	717	750	742	1,966	5,676
Interest	2,337	2,204	2,093	2,006	1,852	3,947	14,439
Average rate	7.6%	7.5%	7.5%	7.5%	7.6%	6.3%	

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ITEM 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA*

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

All other schedules are omitted because they are not required, are not applicable or the information required is included in the Financial Statements or the notes thereto.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors of
Income Opportunity Realty Investors, Inc.

We have audited the accompanying consolidated balance sheet of Income Opportunity Realty Investors, Inc. and Subsidiaries as of December 31, 2004, and the related consolidated statements of operations, stockholders equity and cash flows for year ended December 31, 2004. We have also audited the schedules listed in the accompanying index. These financial statements and the schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedules based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedules. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Income Opportunity Realty Investors, Inc. and Subsidiaries as of December 31, 2004 and the consolidated results of their operations and their cash flows for year ended December 31, 2004, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the schedules referred to above presents fairly, in all material respects, the information set forth therein.

Swalm & Associates, P.C.

March 2, 2005, except for the effects of the changes contained in Note 18, which is dated August 19, 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors of
Income Opportunity Realty Investors, Inc.

We have audited the accompanying consolidated balance sheet of Income Opportunity Realty Investors, Inc. and Subsidiaries as of December 31, 2003, and the related consolidated statements of operations, stockholders equity and cash flows for year ended December 31, 2003. We have also audited the schedules listed in the accompanying index. These financial statements and the schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedules based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedules. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Income Opportunity Realty Investors, Inc. and Subsidiaries as of December 31, 2003 and the consolidated results of their operations and their cash flows for year ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the schedules referred to above presents fairly, in all material respects, the information set forth therein.

Farmer, Fuqua, & Huff, P.C.

March 12, 2004, except for the effects of the changes contained in Note 18, which is dated August 19, 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors of
Income Opportunity Realty Investors, Inc.

We have audited the accompanying consolidated statements of operations, stockholders equity and cash flow of Income Opportunity Realty Investors, Inc. for the year ended December 31, 2002. We have also audited the schedules listed in the accompanying index. These financial statements and the schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 17, Income Opportunity Realty Investors, Inc. s management has indicated its intent to both sell income producing properties and refinance or extend debt secured by real estate to meet its liquidity needs.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated results of their operations and their cash flows of Income Opportunity Realty Investors, Inc. for the year ended December 31, 2002**,** in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the schedules presents fairly, in all material respects, the information set forth therein.

BDO SEIDMAN, LLP
Dallas, Texas
March 21, 2003

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INCOME OPPORTUNITY REALTY INVESTORS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31,	
	2004	2003
	(dollars in thousands, except per share)	
	(Restated)	(Restated)
Assets		
Real estate held for investment	$ 34,988	$ 56,367
Less accumulated depreciation	(3,620)	(6,002)
	31,368	50,365
Notes and interest receivable	54,911	45,531
Investment in real estate partnerships	604	607
Cash and cash equivalents	399	58
Receivables from affiliates	261	479
Other assets	3,095	4,053
	$ 90,638	$ 101,093
Liabilities and Stockholders Equity		
Liabilities		
Notes and interest payable	$ 44,571	$ 60,825
Payables to affiliates	1,248	
Other liabilities	1,529	1,615
	47,348	62,440
Commitments and contingencies		
Stockholders equity		
Common Stock, $.01 par value; authorized 10,000,000 shares; issued and outstanding and 1,389,345 shares in 2004 and 1,438,945 shares in 2003	14	14
Paid-in capital	61,983	62,774
Accumulated deficit	(18,707)	(24,135)
	43,290	38,653
	$ 90,638	$ 101,093

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

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INCOME OPPORTUNITY REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31,		
	2004 (Restated)	2003 (Restated)	2002
	(dollars in thousands, except per share)		
Property revenue			
Rents	$ 5,905	$ 5,224	$ 5,298
Property expense			
Property operations	3,129	3,331	2,748
Operating income	2,776	1,893	2,550
Other income			
Interest	3,325	626	270
Equity in income (loss) of equity partnerships	(3)	(7)	862
Recovery of loss provision on receivable from related party		1,569	
	3,322	2,188	1,132
Other expense			
Interest	3,570	1,812	1,457
Depreciation	740	816	748
Advisory fee to affiliate	741	424	714
Net income fee to affiliate	440	109	169
Provision for loss on receivable from related party			1,568
Provision for Asset Impairment		848	
General and administrative	563	779	1,038
	6,054	4,788	5,694
Net income (loss) from continuing operations	44	(707)	(2,012)
Discontinued operations:			
Income (loss) from operations	(89)	(1,771)	(3,055)
Gain on sale of real estate by equity investees			383
Gain on sale of operations	5,473	3,824	6,769
Net income (loss) from discontinued operations	5,384	2,053	4,097
Net income (loss)	$ 5,428	$ 1,346	$ 2,085

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

	For the Years Ended December 31,		
	2004 (Restated)	2003 (Restated)	2002
	(dollars in thousands, except per share)		
Earnings per share			
Net income (loss) from continuing operations	$ 0.03	$ (0.49)	$ (1.40)
Discontinued operations	3.88	1.43	2.85
Net income (loss)	$ 3.91	$ 0.94	$ 1.45
Weighted average shares of Common Stock used in computing earnings per share	1,389,345	1,438,945	1,438,945

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

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Accumulated Deficit	Stockholders Equity
	(dollars in thousands, except shares)				
Balance, January 1, 2002	1,438,945	14	62,774	(27,566)	35,222
Net income				2,085	2,085
Balance, December 31, 2002	1,438,945	14	62,774	(25,481)	37,307
Net income (as restated)				1,346	1,346
Balance, December 31, 2003 (as restated)	1,438,945	$ 14	$ 62,774	$ (24,135)	$ 38,653
Repurchase of Common Stock	(49,600)		(791)		(791)
Net income (as restated)				5,428	5,428
Balance, December 31, 2004 (as restated)	1,389,345	$ 14	$ 61,983	$ (18,707)	$ 43,290

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

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INCOME OPPORTUNITY REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,		
	2004	2003	2002
		(dollars in thousands)	
	(Restated)	(Restated)	
Cash Flows from Operating Activities			
Rents collected	$ 8,106	$ 10,671	$ 10,554
Payments for property operations	(5,086)	(5,903)	(7,131)
Interest collected	2,413	262	291
Interest paid	(3,885)	(3,702)	(4,339)
Advisory and net income fee paid to affiliate	(1,110)	(451)	(868)
General and administrative expenses paid	(562)	(785)	(1,029)
Distributions from equity partnerships operating cash flow			25
Net cash provided by (used in) operating activities	(124)	92	(2,497)
Cash Flows from Investing Activities			
Real estate improvements			(365)
Deposits on pending purchases and financings			
Proceeds from sale of real estate	5,680	9,582	19,230
Distributions from equity partnership s investing cash flow			752
Funding of note receivable (including $5,109 in 2002 to related party)		(1,567)	(7,109)
Collection of note receivable			500
Payments from (to) advisor and affiliates	(3,866)	(7,955)	(6,244)
Net cash provided by investing activities	1,814	60	6,764
Cash Flows from Financing Activities			
Proceeds from notes payable	1,193	917	23,152
Payments on notes payable	(1,435)	(603)	(26,308)
Deferred financing costs	(316)	(418)	(1,167)
Retirement of Treasury Stock	(791)		
Net cash used in financing activities	(1,349)	(104)	(4,323)
Net increase (decrease) in cash and cash equivalents	341	48	(56)
Cash and cash equivalents, beginning of year	58	10	66
Cash and cash equivalents, end of year	$ 399	$ 58	$ 10

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

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

	For the Years Ended December 31, 2004	2003	2002
	(dollars in thousands)		
	(Restated)	(Restated)	
Reconciliation of net income (loss) to net cash used in operating activities			
Net income	$ 5,428	$ 1,346	$ 2,085
Adjustments to reconcile net income (loss) to net cash used in operating activities			
Depreciation and amortization	1,392	2,165	1,867
Gain on sale of real estate	(5,473)	(3,824)	(7,152)
Impairment of asset		848	
Equity in (income) loss of partnerships	3	2	(862)
Distributions from equity partnerships operating cash flow			25
Provision for loss			1,568
(Increase) decrease in interest receivable	(807)	(368)	5
(Increase) decrease in other assets	(781)	1	774
Increase (decrease) in interest payable	(168)	29	(9)
Increase (decrease) in other liabilities	282	(107)	(798)
Net cash (used in) provided by Operating activities	$ (124)	$ 92	$ (2,497)
Schedule of noncash investing and financing activities			
Notes payable from purchase of real estate	$	$ 18,687	$
Notes payable assumed by buyer on sale of real estate	15,844	9,637	
Notes receivable collected by affiliates			5,541
Notes receivable collected from affiliates	8,339	44,706	

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

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

Certain balances for 2003 and 2002 have been reclassified to conform to the 2004 presentation.

NOTE 1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

Organization and business. Income Opportunity Realty Investors, Inc. (IORI) is the successor to a California business trust organized on December 14, 1984, which commenced operations on April 10, 1985. IORI invests in real estate through direct ownership, leases and partnerships and it also may invest in mortgage loans on real estate.

Basis of consolidation. The Consolidated Financial Statements include the accounts of IORI and controlled subsidiaries and partnerships. All significant intercompany transactions and balances have been eliminated.

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

Recent accounting Pronouncements. SFAS No. 151 In November 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 151, Inventory Costs, an Amendment of ARB No. 43, Chapter 4 (SFAS No. 151). SFAS No. 151 amends ARB 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) be recognized as current period charges. It also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of SFAS No. 151 is not expected to have a material impact on the consolidated financial position or results of operations of IORI.

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INCOME OPPORTUNITY REALTY INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

NOTE 1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES* (Continued)

SFAS No. 152 In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 152, Accounting for Real Estate Time-Sharing Transactions (SFAS No. 152). SFAS No. 152 amends FASB Statement No. 66, Accounting for Sales of Real Estate, to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position 04-2, Accounting for Real Estate Time-Sharing Transactions (SOP 04-2). This Statement also amends FASB Statement No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time-sharing transactions. The accounting for those operations and costs is subject to the guidance in SOP 04-2.

SFAS No. 152 is effective for financial statements for fiscal years beginning after June 15, 2005, and is to be reported as a cumulative effect of a change in accounting principle. The adoption of SFAS No. 145 is not expected to have a material impact on the consolidated financial position or results of operations of IORI.

SFAS No. 123 In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, Share-Based Payment, revised (SFAS No. 123R). SFAS No. 123R addresses the accounting for share-based payments to employees, including grants of employee stock options. Under the new standard, companies will no longer be able to account for share-based compensation transactions using the intrinsic method in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees. Instead, companies will be required to account for such transactions using a fair-value method and recognize the expense in the consolidated statement of income. SFAS No. 123R will be effective for periods beginning after June 15, 2005 and allows, but does not require, companies to restate the full fiscal year of 2005 to reflect the impact of expensing share-based payments under SFAS No. 123R. The Company has not yet determined which fair-value method and transitional provision it will follow. The adoption of SFAS No. 123R is not expected to have a material impact on the Company s consolidated financial position or results of operations.

SFAS No. 153 In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 153, Exchanges of Non-monetary Assets, An Amendment of APB Opinion No. 29 (SFAS No. 153). The guidance in APB Opinion No. 29, Accounting for Non-monetary Transactions, is based on the principle that exchanges of non-monetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB Opinion No. 29, however, included certain exceptions to that principle. SFAS No. 153 amends APB Opinion No. 29 to eliminate the exception for non-monetary exchanges of similar productive assets and replaces it with a general exception for exchanges

INCOME OPPORTUNITY REALTY INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

NOTE 1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES* (Continued)

of non-monetary assets that do not have commercial substance. A non-monetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for non-monetary asset exchanges in fiscal periods beginning after June 15, 2005. The adoption of SFAS No. 153 is not expected to have a material impact on the consolidated financial position or results of operations of IORI.

Real estate held for investment and depreciation. Real estate held for investment is carried at cost. Statement of Financial Accounting Standards No. 144 (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 of 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 2 to 40 years.

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). Until the requirements of SFAS No. 66 for full profit recognition have been met, transactions are accounted for using either the deposit, the installment sale, the cost recovery or the financing method, whichever is appropriate. See NOTE 2. REAL ESTATE.

Investment in noncontrolled partnerships. The equity method is used to account for investments in partnerships which IORI does not control. Under the equity method, an initial investment, recorded at cost, is increased by a proportionate share of the partnership s operating income and any additional advances and decreased by a proportionate share of the partnership s operating losses and distributions received.

Operating segments. Management has determined reportable operating segments to be those that are used for internal reporting purposes which disaggregates operations by type of real estate.

Fair value of financial instruments. The following assumptions were used in estimating the fair value of notes receivable and payable. For notes receivable the fair value was estimated by discounting future cash flows using current interest rates for similar loans. For notes payable

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INCOME OPPORTUNITY REALTY INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

NOTE 1. *SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES* (Continued)

the fair value was estimated using year end interest rates for mortgages with similar terms and maturities.

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

Earnings per share. Income (loss) per share is presented in accordance with Statement of Financial Accounting Standards No. 128 Earnings Per Share. Income (loss) per share is computed based upon the weighted average number of shares of Common Stock outstanding during each year.

NOTE 2. *REAL ESTATE*

In 2004, IORI sold the following properties:

Property	Location	Sq.Ft.	Sales Price	Net Cash Received	Debt Discharged	Gain/(Loss) on Sale
Office Building						
Akard Building	Dallas, TX	42,258 Sq.Ft.	$ 3,900	$ 2,007	$ 1,849	$ 427
Yeager Building	Chantilly, VA	60,060 Sq.Ft.	$ 7,600	$ 2,174	$ 5,230	$ 1,939
Residential Building						
Treehouse (San Antonio)	San Antonio, TX	88,957 Sq.Ft.	$ 5,400	$ 1,437	$ 3,747	$ 3,091
Treehouse(Irving)	Irving, TX	153,072 Sq.Ft.	$ 7,500		$ 5,018	
Land						
Frankel Land	Midland County, TX	1 Acre	$ 63	$ 61		$ 16

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

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INCOME OPPORTUNITY REALTY INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

NOTE 3. *NOTES AND INTEREST RECEIVABLE*

Junior Mortgage Loans. Junior mortgage loans are loans secured by mortgages that are subordinate to one or more prior liens either on the fee or a leasehold interest in real estate. Recourse on the loans ordinarily includes the real estate which secures the loan, other collateral and personal guarantees of the borrower.

On September 30, 2004, a Secured Promissory Note in the amount of $1,222,500 given by UHF for Unified Housing of Parkside Crossing, LLC to Regis I and the accrued interest receivable of $112,878 were assigned from Regis I to IORI as a paydown of certain intercompany receivables.

On September 30, 2004, a Secured Promissory Note in the amount of $1,053,616 given by UHF for Unified Housing of Temple, LLC to Regis I and the accrued interest receivable of $98,338 were assigned from Regis I to IORI as a paydown of certain intercompany receivables.

On September 30, 2004, a Secured Promissory Note in the amount of $835,658 given by UHF for Unified Housing of Terrell, LLC to Regis I and the accrued interest receivable of $80,223 were assigned from Regis I to IORI as a paydown of certain intercompany receivables.

On September 30, 2004, a Secured Promissory Note in the amount of $1,770,000 given by UHF for Housing for Seniors of Lewisville, LLC to Regis I and the accrued interest receivable of $174,640 were assigned from Regis I to IORI as a paydown of certain intercompany receivables.

On May 24, 2004, a Secured Promissory Note in the amount of $2,990,000 given by UHF for UHM to Transcontinental Eldorado, Inc. was assigned from TCI to IORI as a partial payment for TCI s repurchase of 100% of the outstanding common shares of Treehouse-IR from IORI.

On December 30, 2003, a Secured Promissory Note in the amount of $6,363,360 given by Humble to NLP was assigned from ARI to IORI as a paydown of certain intercompany receivables.

On December 30, 2003, a Secured Promissory Note in the amount of $2,000,000 given by Humble to NLP was assigned from ARI to IORI as additional paydown of certain intercompany receivables.

On October 14, 2003, IORI purchased, sold, and conveyed an office building known as One Hickory Centre, and sold 202 acres of unimproved real property known as the Travelers Land in Dallas County, Texas to Encino Executive Plaza, Ltd. The sale price for One Hickory Centre was $12,200,000 and Encino Executive Plaza, Ltd. executed a wrap-around promissory note in the amount of $11,973,025 payable to the order of IORI secured by a Deed of Trust encumbering One Hickory Centre. The remaining difference of which was as a result of prorations and various expenses paid by IORI in connection with the closing of the transaction. The note bears interest at 5.5% per annum. The sale price for the Travelers Land was $25,000,000. At closing, Encino Executive Plaza, Ltd. executed an all inclusive wrap-around promissory note payable to the

INCOME OPPORTUNITY REALTY INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

order of IORI in the principal amount of $22,801,987 secured by a Deed of Trust covering the Travelers Land sold and delivered cash to IORI in the amount of $1,946,715. As with the prior transaction, the difference between the purchase price and the promissory note represented adjustments for various prorations. The note bears interest at 5.5% per annum. Subsequently, IORI made a loan to Encino Executive Plaza, Ltd. in the amount of $1,567,232 payable upon demand or if no demand is made prior thereto on June 30, 2006 with a market rate of interest. Encino Executive Plaza, Ltd. executed and delivered a promissory note payable to the order of IORI in the stated principal amount of $1,567,232. The note bears interest at 5.5% per annum.

NOTE 4. *INVESTMENT IN EQUITY METHOD PARTNERSHIPS*

Investments in equity method partnerships consisted of the following:

	2004	2003
Nakash Income Associates (NIA)	402	341
TCI Eton Square, L.P. (Eton Square)	202	266
	$ 604	$ 607

IORI owns a 40% general partner interest in NIA. NIA s only asset is a wraparound mortgage note receivable secured by a shopping center in Maulden, Missouri. TCI owns the remaining 60% general partner interest in NIA.

IORI also owns a 10% limited partner interest in Eton Square, which at December 31, 2004, owned the Eton Square Building in Tulsa, Oklahoma. TCI owns a 90% general partner interest in Eton Square.

Set forth below are summarized financial data for the partnerships accounted for using the equity method:

	2004	2003
Notes receivable	$ 902	$ 902
Real estate, net of accumulated depreciation ($2,146 in 2004 and $1,631 in 2003)	14,595	13,753
Other assets	(262)	(262)
Notes payable	(10,054)	(10,206)
Other liabilities	(2,154)	(677)
Partners capital	$ 3,027	$ 3,510

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INCOME OPPORTUNITY REALTY INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued