INCOME OPPORTUNITY REALTY INVESTORS INC /TX/
Form 10-K
April 16, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2012
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)	75-2615944 (IRS Employer Identification Number)
1603 LBJ Freeway, Suite 300 Dallas, Texas (Address of principal executive offices)	75234 (Zip Code)

(469) 522-4200
Registrant’s Telephone Number, including area code
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 if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

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

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 x No ¨

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if smaller reporting company)	Smaller Reporting Company x

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

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, 2011 (the last business day of the Registrant's most recently completed second fiscal quarter) was $1,886,931 based upon a total of 666,760 shares held as of June 30, 2011
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 20, 2013, there were 4,168,214 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

None.

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FORWARD-LOOKING STATEMENTS

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

PART I

ITEM 1. BUSINESS

As used herein, the terms “IOT,” “the Company,” “We,” “Our,” or “Us” refer to Income Opportunity Realty Investors, Inc Nevada corporation, individually or together with its subsidiaries. Income Opportunity Realty Investors, Inc. is the successor to a California business trust organized on December 14, 1984, which commenced operations on April 10, 1985. Due to the completion of a tender offer by American Realty Investors, Inc. (“ARI”), a related party, on March 19, 2003, and the resulting concentration of ownership, IOT no longer met the requirement as of January 1, 2003 for tax treatment as a REIT. As of December 31, 2012, Transcontinental Realty Investors, Inc. (“TCI”), a related party, owns approximately 81.12% of IOT’s outstanding shares of Common Stock. The Company is headquartered in Dallas, Texas, and its common stock trades on the New York Stock Exchange Euronext (“NYSE MKT”) under the symbol (“IOT”).

IOT is a “C Corporation” for U.S. federal income tax purposes. For tax periods ending before August 31, 2012, IOT filed an annual consolidated income tax return with ARL and TCI and their subsidiaries. ARL was the common parent for the consolidated group. After that date, IOT and the rest of the American Realty Investors, Inc. (ARL) group joined the Realty Advisors Management, Inc. (“RAMI”) consolidated group for tax purposes.

IOT’s Board of Directors is responsible for directing the overall affairs of IOT and for setting the strategic policies that guide the Company. As of April 30, 2011, the Board of Directors delegated the day-to-day management of the Company to Pillar Income Asset Management, Inc., a Nevada corporation (“Pillar”), under an Advisory Agreement that is reviewed annually by IOT’s Board of Directors. The directors of IOT are also directors of ARL and TCI. The Chairman of the Board of Directors of IOT also serves as the Chairman of the Board of Directors of ARL and TCI. The officers of IOT also serve as officers of ARL, TCI and Pillar.

Effective since April 30, 2011, Pillar, the sole shareholder of which is Realty Advisors, LLC, a Nevada limited liability company, the sole member of which is Realty Advisors, Inc., a Nevada corporation, the sole shareholder of which is Realty Advisors Management, Inc., a Nevada corporation, the sole shareholder of which is a trust known as the May Trust, became the Company’s external Advisor and Cash Manager. Pillar’s duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities. Pillar also arranges, for IOT’s benefit, debt and equity financing with third party lenders and investors. Pillar also serves as an Advisor and Cash Manager to ARL and TCI. As the contractual advisor, Pillar is compensated by IOT under an Advisory Agreement that is more fully described in Part III, Item 10. “Directors, Executive Officers and Corporate Governance – The Advisor”. Pillar also serves as an Advisor and Cash Manager to ARL and TCI. IOT has no employees. Employees of Pillar render services to IOT in accordance with the terms of the Advisory Agreement. Prime Income Asset Management, LLC (“Prime”) served as the Company’s contractual Advisor and Cash Manager from

July 1, 2009 through April 30, 2011.

Effective since January 1, 2011, Regis Realty Prime, LLC, dba Regis Property Management, LLC ("Regis"), the sole member of which is Realty Advisors, LLC, manages our commercial properties and provides brokerage services. Regis receives property management fees and leasing commissions in accordance with the terms of its property-level management agreement. Regis is also entitled to receive real estate brokerage commissions in accordance with the terms of a non-exclusive brokerage agreement. See Part III, Item 10. "Directors, Executive Officers and Corporate Governance – Property Management and Real Estate Brokerage". Prior to December 31, 2010, Triad Realty Services, L.P. ("Triad"), provided management services. Triad sub-contracted the property-level management and leasing of our commercial properties to Regis Realty I, LLC ("Regis I").

Our primary business is investing in real estate and mortgage receivables. Land held for development or sale is our sole operating segment. At December 31, 2012, our land consisted of 178.1 acres of land held for future development or sale. All of our land holdings are located in Texas. The principal source of revenue for the Company is interest income on over $25.4 million of note receivables due from related parties. Prior to January 1, 2012, on cash flow notes where payments are based upon surplus cash from operations, accrued but unpaid interest income was only recognized to the extent that cash was received. As of January 1, 2012, due to the consistency of cash received on the surplus cash notes, we are recording interest as earned.

The Company had no significant transactions for the year ended December 31, 2012.

Business Plan

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

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

Competition

The real estate business is highly competitive and IOT competes with numerous entities engaged in real estate activities (including certain entities described in Part III, Item 13. "Certain Relationships and Related Transactions, and Director Independence"), some of which have greater financial resources than IOT. We believe that success against such competition is dependent upon the geographic location of the property, the performance of the property-level managers in areas such as leasing and marketing, collection of rents and control of operating expenses, the amount of new construction in the area and the maintenance and appearance of the property. Additional competitive factors include ease of access to the property, the adequacy of related facilities such as parking and other amenities, and sensitivity to market conditions in determining rent levels. With respect to apartments, competition is also based upon the design and mix of the units and the ability to provide a community atmosphere for the residents. We believe that beyond general economic circumstances and trends, the degree to which properties are renovated or new properties are developed in the competing submarket are also competitive factors. See also Part I, Item1A. "Risk Factors".

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

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

In addition, as described in Part III, Item 13. "Certain Relationships and Related Transactions, and Director Independence", IOT competes with related parties of Pillar having similar investment objectives related to the acquisition, development, disposition, leasing and financing of real estate and real estate related investments. In resolving any potential conflicts of interest which may arise, Pillar has informed IOT that it intends to exercise its best

judgment as to what is fair and reasonable under the circumstances in accordance with applicable law.

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

Available Information

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

ITEM 1A. RISK FACTORS

Risk Factors Related to Our Business

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

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

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

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

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

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

Our properties are subject to increases in operating expenses such as insurance, administrative costs and other costs associated with security and maintenance of our properties. While our current tenants generally are obligated to pay a portion of these costs, there is no assurance that these tenants will make such payments or agree to pay these costs upon renewal or that new tenants will agree to pay these costs. If operating expenses increase in our markets, we may not be able to increase rents or reimbursements in all of these markets so as to meet increased expenses without, at the same time, decreasing occupancy rates. If this occurs, our ability to make distributions to shareholders and service our indebtedness could be adversely affected.

We face risks associated with property acquisitions.

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

- when we are able to locate a desired property, competition from other real estate investors may significantly increase the purchase price;
- acquired properties may fail to perform as expected;
- the actual costs of repositioning or redeveloping acquired properties may be higher than original estimates;
- acquired properties may be located in new markets where we face risks associated with an incomplete knowledge or understanding of the local market, a limited number of established business relationships in the area and a relative unfamiliarity with local governmental and permitting procedures; and
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into existing operations, and results of operations and financial condition could be adversely affected.

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

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

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

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

We had total indebtedness at December 31, 2012 of approximately $28.5 million. Substantially all assets have been pledged to secure debt. These borrowings increase the risk of loss because they represent a prior claim on assets and most require fixed payments regardless of profitability. Our leveraged position makes us vulnerable to declines in the general economy and may limit the Company’s ability to pursue other business opportunities in the future.

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

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

- general economic conditions affecting these markets;
- our own financial structure and performance;
- the market's opinion of real estate companies in general; and
- the market's opinion of real estate companies that own properties like ours.

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

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

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

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

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

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

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

We currently have, and may incur more, indebtedness that bears interest at variable rates. Accordingly, if interest rates increase, so will our interest costs, which would adversely affect our cash flow and our ability to pay principal and

interest on our debt and our ability to make distributions to our stockholders. Further, rising interest rates could limit our ability to refinance existing debt when it matures.

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

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

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

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

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

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

- lack of availability of financing that may render the purchase, sale or refinancing of a property more difficult or unattractive;
- changes in real estate and zoning laws;
- increases in real estate taxes and insurance costs;
- federal or local economic or rent control; and
- hurricanes, tornadoes, floods, earthquakes and other similar natural disasters.

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

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

- our ability to borrow on terms and conditions that we find acceptable, or at all, may be limited, which could reduce our ability to pursue acquisition and development opportunities and refinance existing debt, reduce our returns from our acquisition and development activities and increase our future interest expense;
- reduced values of our properties may limit our ability to dispose of assets at attractive prices or to obtain debt financing secured by our properties and may reduce the availability of unsecured loans; and
- one or more lenders could refuse to fund their financing commitment to us or could fail and we may not be able to replace the financing commitment of any such lenders on favorable terms, or at all.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

On December 31, 2012, our portfolio consisted of 178.1 contiguous acres of land held for development or sale. The table below shows information relating to the land owned:

Land	Location	Acres
Mercer Crossing Multi-Tracts	Farmers Branch, TX	178.1

Total Land/Development	178.1

The Company entered into a sales contract with an independent third party, for 100 acres of Travelers land for $17.5 million or $4.02/sf. The buyer is entitled to an inspection period, which expires August 15, 2013.

ITEM 3. LEGAL PROCEEDINGS

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

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

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

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

	2012		2011	
	High	Low	High	Low
First Quarter	$1.61	$1.15	$4.89	$2.60
Second Quarter	$2.60	$1.34	$3.30	$2.56
Third Quarter	$4.78	$1.56	$2.90	$2.04
Fourth Quarter	$4.31	$2.51	$2.79	$1.04

On March 20, 2013, the closing sale price of the Company's Common Stock on the NYSE MKT was $3.22 per share. The approximate number of record holders of our common stock at March 20, 2013 was 700.

IOT's Board of Directors established a policy that dividend declarations on common stock would be determined on an annual basis following the end of each year. In accordance with that policy, no dividends on IOT's common stock were declared for 2012, 2011, or 2010. Future distributions to common stockholders will be determined by the Board of Directors in light of conditions then existing, including the Company's financial condition and requirements, future prospects, restrictions in financing agreements, business conditions and other factors deemed relevant by the Board.

On December 5, 1989, the governing body of the predecessor of the Company approved a share repurchase program authorizing the repurchase of up to a total of 200,000 shares of the predecessor. In June 2000, the Board of Directors of the Company increased the authorization to 500,000 shares. With the 3-for-1 forward split of the Company's Common Stock in June 2005, such authorization would be appropriately increased to 1,500,000 shares and the number of shares previously purchased would be appropriately increased by the same ratio. On August 10, 2010, the Board of Directors approved an increase in the share repurchase program for up to an additional 150,000 shares of common stock which results in a total authorization under the repurchase program for up to 1,650,000 shares of our common stock. This repurchase program has no termination date. The following table represents shares repurchased during each of the three months of the last quarter ended December 31, 2012:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet be Purchased Under the Program
Balance as of September 30, 2012			1,034,761	615,239
October 31, 2012	-	$ -	1,034,761	615,239
November 30, 2012	-	$ -	1,034,761	615,239
December 31, 2012	-	$ -	1,034,761	615,239
Total	-			

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ITEM 6. SELECTED FINANCIAL DATA

	For the Years Ended December 31,				
	2012	2011	2010	2009	2008
	(dollars in thousands, except share and per share amounts)				
EARNINGS DATA					
Total operating revenues	$-	$-	$-	$3	$54
Total operating expenses	1,216	1,334	1,296	1,341	1,639
Operating loss	(1,216)	(1,334)	(1,296)	(1,338)	(1,585)
Other income (expense)	3,682	3,130	3,074	2,884	(314)
Income (loss) before gain on land sales, non-controlling interest, and taxes	2,466	1,796	1,778	1,546	(1,899)
Income tax benefit (expense)	(876)	(815)	52	(541)	10,013
Net income from continuing operations	1,590	981	1,830	1,005	8,114
Net income (loss) from discontinued operations	(69)	(312)	8	(85)	18,596
Net income	1,521	669	1,838	920	26,710
Net income attributable to non-controlling interest	-	-	-	-	-
Net income applicable to common shares	$1,521	$669	$1,838	$920	$26,710
PER SHARE DATA					
Earnings per share - basic					
Net income from continuing operations	$0.38	$0.24	$0.44	$0.24	$1.95
Net income (loss) from discontinued operations	(0.02)	(0.08)	0.00	(0.02)	4.46
Net income applicable to common shares	$0.36	$0.16	$0.44	$0.22	$6.41
Weighted average common share used in computing earnings per share	4,168,214	4,168,214	4,168,214	4,168,214	4,168,264
Earnings per share - diluted					
Net income from continuing operations	$0.38	$0.24	$0.44	$0.24	$1.95
Net income (loss) from discontinued operations	(0.02)	(0.08)	0.00	(0.02)	4.46
Net income applicable to common shares	$0.36	$0.16	$0.44	$0.22	$6.41
Weighted average common share used in computing diluted earnings per share	4,168,214	4,168,214	4,168,214	4,168,214	4,168,264
BALANCE SHEET DATA					
Real estate, net	$24,511	$24,511	$29,561	$29,503	$36,942
Notes and interest receivable, net	$25,176	$29,786	$36,579	$36,992	$38,015
Total assets	$109,506	$108,041	$117,087	$115,665	$113,962
Notes and interest payables	$28,508	$28,588	$36,604	$37,080	$42,319
Shareholders' equity	$75,722	$74,201	$73,532	$71,694	$70,774
Book value per share	$18.17	$17.80	$17.64	$17.20	$16.98

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

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

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

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

- general risks affecting the real estate industry (including, without limitation, the inability to enter into or renew leases, dependence on tenants' financial condition, and competition from other developers, owners and operators of real estate);
- risks associated with the availability and terms of financing and the use of debt to fund acquisitions and developments;
- failure to manage effectively our growth and expansion into new markets or to integrate acquisitions successfully;
- risks and uncertainties affecting property development and construction (including, without limitation, construction delays, cost overruns, inability to obtain necessary permits and public opposition to such activities);
- risks associated with downturns in the national and local economies, increases in interest rates and volatility in the securities markets;
- costs of compliance with the Americans with Disabilities Act and other similar laws and regulations;
- potential liability for uninsured losses and environmental contamination;
- risks associated with our dependence on key personnel whose continued service is not guaranteed; and
- the other risk factors identified in this Form 10-K, including those described under the Part I, Item 1A. "Risk Factors".

The risks included here are not exhaustive. Other sections of this report, including Part I, Item 1A. "Risk Factors" include additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Investors should also refer to our quarterly reports on Form 10-Q for future periods and current reports on Form 8-K as we file them with the SEC, and to other materials we may furnish to the public from time to time through Forms 8-K or otherwise.

Overview

Our primary business is in real estate holdings and investment in mortgage receivables. Land held for development or sale is our sole operating segment. At December 31, 2012, our land consisted of 178.1 acres of land held for future development or sale. All of our land holdings are located in Texas. The principal source of revenue for the Company is interest income on over $25.4 million of note receivables due from related parties. Prior to January 1, 2012, on cash flow notes where payments are based upon surplus cash from operations, accrued but unpaid interest income was only recognized to the extent that cash was received. As of January 1, 2012, due to the consistency of cash received on the surplus cash notes, we are recording interest as earned.

Effective since April 30, 2011, Pillar is the Company's external Advisor and Cash Manager under a contractual arrangement that is reviewed annually by our Board of Directors. Pillar's duties include, but are not limited to, locating, evaluating and recommending real estate and real estate-related investment opportunities. Pillar also arranges, for TCI's benefit, debt and equity financing with third party lenders and investors. Pillar also serves as an Advisor and Cash Manager to ARL and IOT. As the contractual Advisor, Pillar is compensated by TCI under an Advisory Agreement that is more fully described in Part III, Item 10. "Directors, Executive Officers and Corporate Governance – The Advisor". TCI has no employees. Employees of Pillar render services to TCI in accordance with the terms of the Advisory Agreement. Prime served as the Company's contractual Advisor and Cash Manager from July 1, 2009 through April 30, 2011.

Effective since January 1, 2011, Regis manages our commercial properties and provides brokerage services. Regis is entitled to receive a fee for its property management and brokerage services. See Part III, Item 10. "Directors, Executive Officers and Corporate Governance – Property Management" and "Directors, Executive Officers and Corporate Governance – Real Estate Brokerage". Prior to December 31, 2010, Triad provided management services. Triad sub-contracted the property-level management and leasing of our commercial properties to Regis I.

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

Critical Accounting Policies

We present our financial statements in accordance with generally accepted accounting principles in the United States ("GAAP"). In June 2009, the Financial Accounting Standards Board ("FASB") completed its accounting guidance codification project. The FASB Accounting Standards Codification ("ASC") became effective for the Company's financial statements issued subsequent to June 30, 2009 and is the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. As of the effective date, we no longer refer to the authoritative guidance dictating its accounting methodologies under the previous accounting standards hierarchy. Instead, we refer to the ASC Codification as the sole source of authoritative literature.

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

In determining whether we are the primary beneficiary of a VIE, we consider qualitative and quantitative factors, including, but not limited to: the amount and characteristics of our investment; the obligation or likelihood for us or other investors to provide financial support; our and the other investors' ability to control or significantly influence key decisions for the VIE; and the similarity with and significance to the business activities of us and the other investors. Significant judgments related to these determinations include estimates about the current future fair values and performance of real estate held by these VIEs and general market conditions. As of December 31, 2012, IOT is not the primary beneficiary of a VIE.

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

Square is accounted for under the equity method.

Real Estate

Upon acquisitions of real estate, we assess the fair value of acquired tangible and intangible assets, including land, buildings, tenant improvements, "above-market" and "below-market" leases, origination costs, acquired in-place leases, other identified intangible assets and assumed liabilities in accordance with ASC Topic 805 "Business Combinations", and allocate the purchase price to the acquired assets and assumed liabilities, including land at appraised value and buildings at replacement cost.

We assess and consider fair value based on estimated cash flow projections that utilize appropriate discount and/or capitalization rates, as well as available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known and anticipated trends, and market and economic conditions. The fair value of the tangible assets of an acquired property considers the value of the property as if it were vacant. We also consider an allocation of purchase price of other acquired intangibles, including acquired in-place leases that may have a customer relationship intangible value, including (but not limited to) the nature and extent of the existing relationship with the tenants, the tenants' credit quality and expectations of lease renewals. Based on our acquisitions to date, our allocation to customer relationship intangible assets has been immaterial.

We record acquired "above-market" and "below-market" leases at their fair values (using a discount rate which reflects the risks associated with the leases acquired) equal to the difference between (1) the contractual amounts to be paid pursuant to each in-place lease and (2) management's estimate of fair market lease rates for each corresponding in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the term of any below-market fixed rate renewal options for below-market leases.

Other intangible assets acquired include amounts for in-place lease values that are based on our evaluation of the specific characteristics of each tenant's lease. Factors to be considered include estimates of carrying costs during hypothetical expected lease-up periods considering current market conditions, and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses and estimates of lost rentals at market rates during the expected lease-up periods, depending on local market conditions. In estimating costs to execute similar leases, we consider leasing commissions, legal and other related expenses.

Depreciation and Impairment

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

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

ASC Topic 360 "Property, Plant and Equipment" requires that qualifying assets and liabilities and the results of operations that have been sold, or otherwise qualify as "held for sale," be presented as discontinued operations in all periods presented if the property operations are expected to be eliminated and the Company will not have significant continuing involvement following the sale. The components of the property's net income that is reflected as discontinued operations include the net gain (or loss) upon the disposition of the property held for sale, operating results, depreciation and interest expense (if the property is subject to a secured loan). We generally consider assets to be "held for sale" when the transaction has been approved by our Board of Directors, or a committee thereof, and there are no known significant contingencies relating to the sale, such that the property sale within one year is considered probable. Following the classification of a property as "held for sale," no further depreciation is recorded on the assets.

A variety of costs are incurred in the acquisition, development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. Our capitalization policy on development properties is guided by ASC Topic 835-20 "Interest - Capitalization of Interest" and ASC Topic 970 "Real Estate—General". The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We consider a construction project as substantially completed and held available for occupancy upon the receipt of certificates of occupancy, but no later than one year from cessation of major construction activity. We cease capitalization on the portion (1) substantially completed and (2) occupied or held available for occupancy, and we capitalize only those costs associated with the portion under construction.

Recognition of Revenue

Our revenues are composed largely of interest income on notes receivable. Included in discontinued operations, in accordance with ASC 805 “Business Combinations”, we recognize rental revenue of acquired in-place “above-” and “below-market” leases at their fair values over the terms of the respective leases, as applicable.

Revenue Recognition on the Sale of Real Estate

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

Non-performing Notes Receivable

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

Interest recognition on Notes Receivable

We record interest income as earned in accordance with the terms of the related loan agreements. Prior to January 1, 2012, on cash flow notes where payments are based upon surplus cash from operations, accrued but unpaid interest income was only recognized to the extent that cash was received. As of January 1, 2012, due to the consistency of cash received on the surplus cash notes, we are recording interest as earned.

Allowance for Estimated Losses

We assess the collectability of notes receivable on a periodic basis, of which the assessment consists primarily of an evaluation of cash flow projections of the borrower to determine whether estimated cash flows are sufficient to repay principal and interest in accordance with the contractual terms of the note. We recognize impairments on notes receivable when it is probable that principal and interest will not be received in accordance with the contractual terms of the loan. The amount of the impairment to be recognized generally is based on the fair value of the partnership's real estate that represents the primary source of loan repayment. See Note 3 "Notes and Interest Receivable from Related Parties" for details on our notes receivable.

Fair Value Measurement

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

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

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

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

Level 3—Unobservable inputs that are significant to the fair value measurement. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement

Related parties

We apply ASC Topic 805, "Business Combinations", to evaluate business relationships. Related parties are persons or entities who have one or more of the following characteristics, which include entities for which investments in their

equity securities would be required, trust for the benefit of persons including principal owners of the entities and members of their immediate families, management personnel of the entity and members of their immediate families and other parties with which the entity may deal if one party controls or can significantly influence the decision making of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests, or affiliates of the entity.

Contractual Obligations

We have contractual obligations and commitments primarily with regards to the payment of mortgages. The following table aggregates our expected contractual obligations and commitments and includes items not accrued, per Generally Accepted Accounting Principles, through the term of the obligation such as interest expense. Our aggregate obligations subsequent to December 31, 2012 are shown in the table below (dollars in thousands):

	Total	2013	2014	2015-2017	Thereafter
Long-term debt obligation	$28,107	$28,103	$1	$3	$-
Capital lease obligation	-	-	-	-	-
Operating lease obligation	-	-	-	-	-
Purchase obligation	-	-	-	-	-
Other long-term debt liabilities reflected on the Registrant's Balance Sheet under GAAP	-	-	-	-	-
Total	$28,107	$28,103	$1	$3	$-

Results of Operations

The following discussion is based on our Consolidated Financial Statements “Consolidated Statement of Operations” for the years ended December 31, 2012, 2011, and 2010 from Part II, Item 8. “Financial Statements and Supplementary Data” and is not meant to be an all-inclusive discussion of the changes in our net income applicable to common shares. Instead, we have focused on significant fluctuations within our operations that we feel are relevant to obtain an overall understanding of the change in income applicable to common shareholders.

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

We also have other income and expense items. We receive interest income from the funds deposited with our advisor at a rate of prime plus 1.0%. We have receivables from related parties which also provide interest income. Our other significant expense item is from the mortgage expense which includes interest payments on the debt secured by our land portfolio.

Comparison of the year ended December 31, 2012 to the year ended December 31, 2011

We had a net income applicable to common shares of $1.5 million or $0.36 per diluted earnings per share for the year ended December 31, 2012, as compared to a net income applicable to common shares of $669,000 or $0.16 per diluted earnings per share for the same period ended 2011.

Revenue
Land held for development or sale is our sole operating segment. There was no income generated from this segment for the twelve months ended December 31, 2012 and December 31, 2011. In 2011, we recognized the sale of the land and storage warehouse known as Eagle Crest, resulting in no further rental revenues and the reclassification of all financial results to discontinued operations.

Expenses

Property operating expenses were $67,000 for the twelve months ended December 31, 2012. This represents an increase of $29,000, as compared to the prior period operating expenses of $38,000. The increase was in the land portfolio relating to POA fees billed during 2012, $25,000 of which was the 3rd and 4th quarter billings for the prior year and $3,000 was an increase in current period billings. There was a decrease in professional fees for potential land development.

Advisory fees were $815,000 for the twelve months ended December 31, 2012. This represents a decrease of $35,000 as compared to the prior period advisory fee of $850,000. The advisory fee is calculated as a percentage of total gross assets and subsequent to the disposition of Eagle Crest land and storage warehouse, this fee reduced in correlation to

the decrease in assets.

Other income (expense)

Interest income was $5.2 million for the twelve months ended December 31, 2012. This represents an increase of $736,000 in the current year, as compared to interest income of $4.4 million in the prior period. The increase is due to the payments received on our notes receivables from Unified Housing Foundation, a related party. The receivables are surplus cash flow notes. Prior to January 1, 2012, on cash flow notes where payments are based upon surplus cash from operations, accrued but unpaid interest income was only recognized to the extent that cash was received. As of January 1, 2012, due to the consistency of cash received on the surplus cash notes, we are recording interest as earned.

Mortgage loan interest expense was $1.3 million for the twelve months ended December 31, 2012. This represents an increase of $73,000 in the current year, as compared to interest expense of $1.2 million in the prior period. The lender for the Travelers land mortgage, which is under a forbearance agreement, was applying 100% of the monthly debt service to principal until the October extension of the forbearance agreement. The lender reallocated the payments to accrued interest, thereby changing the amount of interest owed. We corrected our accruals to represent the change in allocation between principal and interest made by the lender.

Earnings from unconsolidated subsidiaries and investees relate to IOT's 10.0% investment in TCI Eton Square, LP. This investment is accounted for under the equity method and recognizes its portion of the current period earnings.

Income tax expense was $876,000 for the twelve months ended December 31, 2012. This represents an increase of $61,000 as compared to the prior period income tax expense of $815,000. The increase was due to the increase in the current period net income, as compared to the prior period. IOT is part of a tax sharing and compensating agreement with respect to federal income taxes between ARL, TCI and IOT and their subsidiaries that was entered into in July of 2009 and due to the positive net income in the current period, it used net operating losses from its parent(s) and is required to compensate for those losses used in the current period.

Discontinued operations

There were no properties sold in 2012. In 2011, we sold 13.0 acres of land with a storage warehouse (Eagle Crest). The results of operations from these properties are shown below (dollars in thousands):

	For Years Ended December 31,	
	2012	2011
Revenue		
Rental	$-	$159
Property operations	-	1,501
	-	(1,342)
Expenses		
Mortgage and loan interest	-	(85)
General and administration	(106)	-
	(106)	(85)
Net loss from discontinued operations before gains on sale of real estate, taxes, fees and non-controlling interest	(106)	(1,427)
Gain on sale of discontinued operations	-	947
Loss from discontinued operations, net of non-controlling interest before tax	(106)	(480)
Income tax benefit	37	168
Loss from discontinued operations, net of non-controlling interest	$(69)	$(312)

Comparison of the year ended December 31, 2011 to the year ended December 31, 2010

We had a net income applicable to common shares of $669,000 or $0.16 per diluted earnings per share for the year ended December 31, 2011, as compared to a net income applicable to common shares of $1.8 million or $0.44 per diluted earnings per share for the same period ended 2010.

Revenue

There was no rental and other property revenues for the twelve months ended December 31, 2011, and December 31, 2010. In 2011, we recognized the sale of the land and storage warehouse known as Eagle Crest, resulting in no further rental revenues and the reclassification of all financial results to discontinued operations.

Expenses

Property operations expenses were $38,000 for the twelve months ended December 31, 2011. This represents a decrease of $14,000, as compared to the prior period operating expenses of $52,000, due to a decrease in professional services for potential land development and POA fees.

Other income (expense)

Interest income was $4.4 million for the twelve months ended December 31, 2011. This represents an increase of $155,000 in the current year, as compared to interest income of $4.3 million in the prior period. The increase is due to the payments received on our notes receivables from Unified Housing Foundation, a related party. The receivables are surplus cash flow notes. The entity is required to pay on the notes when they generate surplus cash flow, thus interest income was recorded when received. More surplus cash flow was generated in the current year, as compared to the prior year.

Mortgage loan interest expense was $1.2 million for the twelve months ended December 31, 2011. This represents an increase of $95,000 in the current year, as compared to interest expense of $1.1 million in the prior period.

General and administrative expenses were $500,000 for the twelve months ended December 31, 2011. This represents an increase of $23,000, as compared to the prior period operating expenses of $477,000. This increase was mainly due to an increase in legal services related to the transfer of Eagle Crest land and an increase in cost reimbursements due to our Advisor.

Earnings from unconsolidated subsidiaries and investees relate to IOT's 10.0% investment in TCI Eton Square, LP. This investment is accounted for under the equity method and recognizes its portion of the current period earnings.

Income tax expense was $815,000 for the twelve months ended December 31, 2011. This represents an increase of $867,000 as compared to the prior period income tax benefit of $52,000. The increase was primarily due to the $647,000 income tax due according to the tax sharing agreement with TCI. IOT is part of a tax sharing and compensating agreement with respect to federal income taxes between ARL, TCI and IOT and their subsidiaries that was entered into in July of 2009 and due to the positive net income in the current period, it used net operating losses from its parent(s) and is required to compensate for those losses used in the current period. In the prior year, there was no income tax due, therefore no payment was necessary.

Discontinued operations

In 2011, we sold 13.0 acres of land with a storage warehouse (Eagle Crest). There were no properties sold in 2010. The statements of operations for all prior periods presented have been restated to reflect the reclassification to discontinued operations. The results of operations from these properties are shown below (dollars in thousands):

	For Years Ended December 31,	
	2011	2010
Revenue		
Rental	$159	313
Property operations	1,501	136
	(1,342)	177
Expenses		
Mortgage and loan interest	(85)	(165)
General and administration	-	-
	(85)	(165)
Net income (loss) from discontinued operations before gains on sale of real estate, taxes, fees and non-controlling interest	(1,427)	12
Gain on sale of discontinued operations	947	-
Income (loss) from discontinued operations, net of non-controlling interest before tax	(480)	12
Income tax benefit (expense)	168	(4)
Income (loss) from discontinued operations, net of non-controlling interest	$(312)	$8

Liquidity and Capital Resources

General

Our principal liquidity needs are:

- fund normal recurring expenses;
- meet debt service and principal repayment obligations including balloon payments on maturing debt;
- fund capital expenditures; and
- fund possible property acquisitions.

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

- property operations;
- proceeds from land and income-producing property sales;
- collection of mortgage notes receivable;
- collections of receivables from related companies;
- refinancing of existing mortgage notes payable; and
- additional borrowings, including mortgage notes payable, and lines of credit.

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

We may also issue additional equity securities, including common stock. Management anticipates that our cash as of December 31, 2012, along with cash that will be generated in 2013 from property operations, may not be sufficient to meet all of our cash requirements. Management intends to selectively sell land and income producing assets, refinance or extend real estate debt and seek additional borrowings secured by real estate to meet its liquidity requirements. Although history cannot predict the future, historically, we have been successful at refinancing and extending a portion of the Company's current maturity obligations

Financial Position

The following impacted our balance sheet as of December 31, 2012:

The notes and interest receivable balance decreased due to the cash received on the surplus cash notes receivable.

The receivables and accrued interest from related parties balance increased due to the cash invested with our advisor.

Cash Flow Summary

The following summary discussion of our cash flows is based on the Consolidated Statements of Cash Flows as presented in Part I, Item 8. "Financial Statements and Supplementary Data" and is not meant to be an all-inclusive discussion of the changes in our cash flows for the periods presented.

Our cash and cash equivalents were $2,000 and $1,000 as of December 31, 2012 and December 31, 2011, respectively. The increase was a result of the following increases and decreases in cash flows:

	Year ended December 31,		
	2012	2011	Variance
	(amounts in thousands)		
Net cash provided by operating activities	$3,385	$903	$2,482
Net cash provided by (used in) investing activities	$(3,384)	$2,128	$(5,512)
Net cash used in financing activities	$-	$(3,050)	$3,050

The increase in the net cash provided by operating activities is primarily due to the interest payments received on the mortgage receivables.

Our cash from investing activities in the current year was due to the repayment of a mortgage receivable, and this cash flow in combination with the interest payment received was invested with our advisor. Cash proceeds from mortgage receivables were higher in the current period; therefore more cash was used to invest with our Advisor, than in the prior period.

The cash used in financing activities is due to payments made on recurring debt obligations. In 2012, we had no payments on the outstanding debt balances. In the prior year, we satisfied debt related to property sales.

We paid no dividends in 2012, 2011, or 2010. It is unlikely that we will pay any quarterly dividends in 2013.

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

Environmental Matters

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

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

Inflation

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

IOT is exposed to interest rate risk associated with variable rate notes payable and maturing debt that has to be refinanced. IOT does not hold financial instruments for trading or other speculative purposes, but rather issues these financial instruments to finance its portfolio of real estate assets. Interest rate sensitivity is the relationship between changes in market interest rates and the fair value of market rate-sensitive assets and liabilities. IOT's earnings are affected as changes in short-term interest rates impact its cost of variable rate debt and maturing fixed rate debt. A large portion of IOT's market risk is exposure to short-term interest rates from variable rate borrowings. If market interest rates for variable rate debt average 100 basis points more in 2013 than they did during 2012, IOT's interest expense would increase and net income would decrease by $277,100. This amount is determined by considering the impact of hypothetical interest rates on IOT's borrowing cost. This analysis did not consider the effects of the reduced level of overall economic activity that could exist in such an environment. Further, in the event of a change of such magnitude, management would likely take actions to further mitigate its exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no change in IOT's financial structure.

The following table contains only those exposures that existed at December 31, 2012. Anticipation of exposures or risk on positions that could possibly arise was not considered. IOT's ultimate interest rate risk and its affect on operations will depend on future capital market exposures, which cannot be anticipated with a probable assurance level (dollars in thousands):

	2013		2014		2015		2016		2017		Thereafter		Total
Variable interest rate - fair value													$-
Instrument's maturities	$-		$-		$-		$-		$-		$-		$-
Instrument's amortization	-		-		-		-		-		-		-
Interest	-		-		-		-		-		-		-
Average Rate	0.00	%	0.00	%	0.00	%	0.00	%	0.00	%	0.00	%	
Fixed interest rate - fair value													$27,410
Instrument's maturities	$-		$-		$-		$-		$-		$27,410		$27,410
Instrument's amortization	-		-		-		-		-		-		-
Interest	1,439		1,439		1,439		3,289		3,289		32,892		43,787
Average Rate	5.25	%	5.25	%	5.25	%	12.00	%	12.00	%	12.00	%	

	2013		2014		2015		2016		2017		Thereafter		Total
Variable interest rate - fair value													$27,710
Instrument's maturities	$27,502		$-		$-		$-		$-		$-		$27,502
Instrument's amortization	208		-		-		-		-		-		208
Interest	391		-		-		-		-		-		391
Average Rate	4.25	%	0.00	%	0.00	%	0.00	%	0.00	%	0.00	%	
Fixed interest rate - fair value													$5
Instrument's maturities	$-		$-		$-		$-		$-		$-		$-
Instrument's amortization	-		1		1		1		1		1		5
Interest	1		-		-		-		-		-		1
Average Rate	12.50	%	12.50	%	12.50	%	12.50	%	12.50	%	12.50	%	

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ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors of
Income Opportunity Realty Investors, Inc.
Dallas, Texas

We have audited the accompanying consolidated balance sheets of Income Opportunity Realty Investors, Inc. and Subsidiaries as of December 31, 2012 and 2011, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2012. Income Opportunity Realty Investors, Inc's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Income Opportunity Realty Investors, Inc. as of December 31, 2012 and 2011, and the results of its operations, changes in stockholders' equity and its cash flows for each of the years in the three-year period ended December 31, 2012 in conformity with U.S. generally accepted accounting principles.

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

/s/ Swalm & Associates, P.C.

Swalm & Associates, P.C.
Richardson, Texas
March 29, 2013

INCOME OPPORTUNITY REALTY INVESTORS, INC.
CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2011
	(dollars in thousands, except share and par value amounts)	
Assets		
Real estate land holdings, at cost	$24,511	$24,511
Total real estate	24,511	24,511
Notes and interest receivable from related parties	27,002	31,612
Less allowance for doubtful accounts	(1,826)	(1,826)
Total notes and interest receivable	25,176	29,786
Cash and cash equivalents	2	1
Investments in unconsolidated subsidiaries and investees	-	37
Receivable and accrued interest from related parties	58,534	52,160
Other assets	1,283	1,546
Total assets	$109,506	$108,041
Liabilities and Shareholders' Equity		
Liabilities:		
Notes and interest payable	$28,508	$28,588
Deferred revenue (from sales to related parties)	5,127	5,127
Accounts payable and other liabilities	149	125
	33,784	33,840
Commitments and contingencies:		
Shareholders' equity:		
Common stock, $.01 par value, authorized 10,000,000 shares; issued 4,173,675 shares in 2012 and 2011	42	42
Treasury stock at cost, 5,461 shares in 2012 and 2011	(39)	(39)
Paid-in capital	61,955	61,955
Retained earnings	13,764	12,243
Total shareholders' equity	75,722	74,201
Total liabilities and shareholders' equity	$109,506	$108,041

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

INCOME OPPORTUNITY REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Years Ended December 31,		
	2012	2011	2010
	(dollars in thousands, except share and per share amounts)		
Revenues:			
Rental and other property revenues	$ -	$ -	$ -
Expenses:			
Property operating expenses (including $61 and $8 and $15 for the year ended 2012 and 2011 and 2010 respectively from related parties)	67	38	52
General and administrative (including $334 and $260 and $278 for the year ended 2012 and 2011 and 2010 respectively from related parties)	514	500	477
Advisory fee to related party	815	850	866
Total operating expenses	1,396	1,388	1,395
Operating loss	(1,396)	(1,388)	(1,395)
Other income (expense):			
Interest income from related parties	5,183	4,447	4,292
Mortgage and loan interest	(1,284)	(1,211)	(1,116)
Earnings from unconsolidated subsidiaries and investees	(37)	(52)	(3)
Total other income	3,862	3,184	3,173
Income before gain on land sales, non-controlling interest, and taxes	2,466	1,796	1,778
Income from continuing operations before tax	2,466	1,796	1,778
Income tax benefit (expense)	(876)	(815)	52
Net income from continuing operations	1,590	981	1,830
Discontinued operations:			
Income (loss) from discontinued operations	(106)	(1,427)	12
Gain on sale of real estate from discontinued operations	-	947	-
Income tax expense (benefit) from discontinued operations	37	168	(4)
Net income (loss) from discontinued operations	(69)	(312)	8
Net income	1,521	669	1,838
Earnings per share - basic			
Income from continuing operations	$ 0.38	$ 0.24	$ 0.44
Loss from discontinued operations	(0.02)	(0.08)	-
Net income	$ 0.36	$ 0.16	$ 0.44
Earnings per share - diluted			
Income from continuing operations	$ 0.38	$ 0.24	$ 0.44
Loss from discontinued operations	(0.02)	(0.08)	-
Net income	$ 0.36	$ 0.16	$ 0.44

Weighted average common share used in computing earnings per share	4,168,214	4,168,214	4,168,214
Weighted average common share used in computing diluted earnings per share	4,168,214	4,168,214	4,168,214

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

INCOME OPPORTUNITY REALTY INVESTORS, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the Three Years Ended December 31, 2012
(dollars in thousands)

		Common Stock		Treasury	Paid-in	Retained
	Total	Shares	Amount	Stock	Capital	Earnings
Balance, December 31, 2009	$ 71,694	4,173,675	$ 42	$ (39)	$ 61,955	$ 9,736
Net income	1,838	-	-	-	-	1,838
Balance, December 31, 2010	$ 73,532	4,173,675	$ 42	$ (39)	$ 61,955	$ 11,574
Net income	669	-	-	-	-	669
Balance, December 31, 2011	$ 74,201	4,173,675	$ 42	$ (39)	$ 61,955	$ 12,243
Net income	1,521	-	-	-	-	1,521
Balance, December 31, 2012	$ 75,722	4,173,675	$ 42	$ (39)	$ 61,955	$ 13,764

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

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

	For the Years Ended December 31,		
	2012	2011	2010
	(dollars in thousands)		
Cash Flow From Operating Activities:			
Net income	$1,521	$669	$1,838
Adjustments to reconcile net income to net cash used in operating activities:			
Depreciation and amortization	-	-	18
Earnings from unconsolidated subsidiaries and investees	37	52	3
Gain on sale of income producing properties	-	(947)	
Provision on impairment of real estate assets	-	1,474	
(Increase) decrease in assets:			
Accrued interest receivable	1,620	(2,692)	(1,959)
Other assets	263	690	148
Increase (decrease) in liabilities:			
Accrued interest payable	(80)	1,935	109
Other liabilities	24	(278)	60
Net cash provided by operating activities	3,385	903	217
Cash Flow From Investing Activities:			
Proceeds from sales of income-producing properties	-	1,892	-
Proceeds from sales of land	-	1,210	-
Proceeds from notes receivable	2,990	2,585	2,372
Real estate improvements	-	-	(58)
Affiliate receivable	(6,374)	(3,559)	(1,922)
Net cash provided by (used in) investing activities	(3,384)	2,128	392
Cash Flow From Financing Activities:			
Payments on notes payable	-	(682)	(585)
Payments on maturing notes payable	-	(2,374)	-
Deferred financing costs	-	6	(6)
Net cash used in financing activities	-	(3,050)	(591)
Net increase in cash and cash equivalents	1	(19)	18
Cash and cash equivalents, beginning of period	1	20	2
Cash and cash equivalents, end of period	$2	$1	$20
Supplemental disclosures of cash flow information:			
Cash paid for interest	$1,385	$1,154	$2,139
Cash paid for income taxes	$-	$-	$84

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

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

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

Certain balances in the 2011 and 2010 presentation have been reclassified to conform to the 2012 presentation.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

FASB Accounting Standards Codification. The Company presents its financial statements in accordance with generally accepted accounting principles in the United States ("GAAP"). In June 2009, the Financial Accounting Standards Board ("FASB") completed its accounting guidance codification project. The FASB Accounting Standards Codification ("ASC") became effective for the Company's financial statements issued subsequent to June 30, 2009 and is the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. As of the effective date, the company will no longer refer to the authoritative guidance dictating its accounting methodologies under the previous accounting standards hierarchy. Instead, the Company will refer to the ASC Codification as the sole source of authoritative literature.

Organization and business. Income Opportunity Realty Investors, Inc. is the successor to a California business trust organized on December 14, 1984, which commenced operations on April 10, 1985. Due to the completion of a tender offer by American Realty Investors, Inc. ("ARI"), a related party, on March 19, 2003, and the resulting concentration of ownership, IOT no longer met the requirement as of January 1, 2003 for tax treatment as a REIT. IOT cannot re-qualify for REIT tax status for at least five years after January 1, 2003. As of December 31, 2012, Transcontinental Realty Investors, Inc. ("TCI"), a related party, owns approximately 81.12% of IOT's outstanding shares of Common Stock. The Company is headquartered in Dallas, Texas, and its common stock trades on the New York Stock Exchange Euronext ("NYSE MKT") under the symbol ("IOT").

IOT is a "C Corporation" for U.S. federal income tax purposes. For tax periods ending before August 31, 2012, IOT filed an annual consolidated income tax return with ARL and TCI and their subsidiaries. ARL was the common parent for the consolidated group. After that date, IOT and the rest of the American Realty Investors, Inc. (ARL) group joined the Realty Advisors Management, Inc. ("RAMI") consolidated group for tax purposes.

IOT's Board of Directors is responsible for directing the overall affairs of IOT and for setting the strategic policies that guide the Company. As of April 30, 2011, the Board of Directors delegated the day-to-day management of the Company to Pillar Income Asset Management, Inc., a Nevada corporation ("Pillar"), under an Advisory Agreement that is reviewed annually by IOT's Board of Directors. The directors of IOT are also directors of ARL and TCI. The Chairman of the Board of Directors of IOT also serves as the Chairman of the Board of Directors of ARL and TCI. The officers of IOT also serve as officers of ARL, TCI and Pillar.

Effective since April 30, 2011, Pillar, the sole shareholder of which is Realty Advisors, LLC, a Nevada limited liability company, the sole member of which is Realty Advisors, Inc., a Nevada corporation, the sole shareholder of which is Realty Advisors Management, Inc., a Nevada corporation, the sole shareholder of which is a trust known as the May Trust, became the Company's external Advisor and Cash Manager. Pillar's duties include, but are not limited

to, locating, evaluating and recommending real estate and real estate-related investment opportunities. Pillar also arranges, for IOT's benefit, debt and equity financing with third party lenders and investors. Pillar also serves as an Advisor and Cash Manager to ARL and TCI. As the contractual advisor, Pillar is compensated by IOT under an Advisory Agreement that is more fully described in Part III, Item 10. "Directors, Executive Officers and Corporate Governance – The Advisor". IOT has no employees. Employees of Pillar render services to IOT in accordance with the terms of the Advisory Agreement. Prime Income Asset Management, LLC ("Prime") served as the Company's contractual Advisor and Cash Manager from July 1, 2009 through April 30, 2011.

Effective since January 1, 2011, Regis Realty Prime, LLC, dba Regis Property Management, LLC ("Regis"), the sole member of which is Realty Advisors, LLC, manages our commercial properties and provides brokerage services. Regis receives property management fees and leasing commissions in accordance with the terms of its property-level management agreement. Regis is also entitled to receive real estate brokerage commissions in accordance with the terms of a non-exclusive brokerage agreement. See Part III, Item 10. "Directors, Executive Officers and Corporate Governance – Property Management". Prior to December 31, 2010, Triad Realty Services, L.P. ("Triad"), provided management services. Triad sub-contracted the property-level management and leasing of our commercial properties to Regis Realty I, LLC ("Regis I").

Our primary business is investing in real estate and mortgage receivables. Land held for development or sale is our sole operating segment. At December 31, 2012, our land consisted of 178.1 acres of land held for future development or sale. All of our land holdings are located in Texas. The principal source of revenue for the Company is interest income on over $25.4 million of note receivables due from related parties. Prior to January 1, 2012, on cash flow notes where payments are based upon surplus cash from operations, accrued but unpaid interest income was only recognized to the extent that cash was received. As of January 1, 2012, due to the consistency of cash received on the surplus cash notes, we are recording interest as earned.

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

In determining whether we are the primary beneficiary of a VIE, we consider qualitative and quantitative factors, including, but not limited to: the amount and characteristics of our investment; the obligation or likelihood for us or other investors to provide financial support; our and the other investors' ability to control or significantly influence key decisions for the VIE; and the similarity with and significance to the business activities of us and the other investors. Significant judgments related to these determinations include estimates about the current future fair values and performance of real estate held by these VIEs and general market conditions. As of December 31, 2012, IOT was not the primary beneficiary of a VIE.

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

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

Any properties that are treated as “subject to sales contract” on the Consolidated Balance Sheets and are listed in detail in Schedule III, “Real Estate and Accumulated Depreciation” are those in which we have not recognized the legal sale according to the guidance in ASC 360-20 due to various factors, disclosed in each sale transaction under Item 1 Significant Real Estate Acquisitions/Dispositions and Financing. Any sale transaction where the guidance reflects that a sale had not occurred, the asset involved in the transaction, including the debt and property operations, remained on the books of the Company. We continue to charge depreciation to expense as a period costs for the property until such time as the property has been classified as held for sale in accordance with guidance reflected in ASC 360-10-45 “Impairment or Disposal of Long-Lived Assets”.

Real estate held for sale. We periodically classify real estate assets as held for sale. An asset is classified as held for sale after the approval of our board of directors and after an active program to sell the asset has commenced. Upon the classification of a real estate asset as held for sale, the carrying value of the asset is reduced to the lower of its net book value or its estimated fair value, less costs to sell the asset. Subsequent to the classification of assets as held for sale, no further depreciation expense is recorded. Real estate assets held for sale are stated separately on the accompanying Consolidated Balance Sheets. Upon a decision to no longer market as an asset for sale, the asset is classified as an operating asset and depreciation expense is reinstated. The operating results of real estate assets held for sale and sold are reported as discontinued operations in the accompanying statements of operations. Income from discontinued operations includes the revenues and expenses, including depreciation and interest expense, associated with the assets. This classification of operating results as discontinued operations applies retroactively for all periods presented. Additionally, gains and losses on assets designated as held for sale are classified as part of discontinued operations.

Cost Capitalization. The cost of buildings and improvements includes the purchase price of property, legal fees and other acquisition costs. Costs directly related to planning, developing, initial leasing and constructing a property are capitalized and classified as Real Estate in the Consolidated Balance Sheets. Capitalized development costs include interest, property taxes, insurance, and other direct project costs incurred during the period of development.

A variety of costs are incurred in the acquisition, development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. Our capitalization policy on development properties is guided by ASC Topic 835-20 "Interest – Capitalization of Interest" and ASC Topic 970 "Real Estate - General". The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes, salaries and related costs and other costs incurred during the period of development. We consider a construction project as substantially completed and held available for occupancy upon the receipt of certificates of occupancy, but no later than one year from cessation of major construction activity. We cease capitalization on the portion (1) substantially completed and (2) occupied or held available for occupancy, and we capitalize only those costs associated with the portion under construction.

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

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

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

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

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

Level 3—Unobservable inputs that are significant to the fair value measurement.
A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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

Recognition of revenue. Our revenues are composed largely of interest income on notes receivable. Included in discontinued operations, in accordance with ASC 805 “Business Combinations”, we recognize rental revenue of acquired in-place “above-” and “below-market” leases at their fair values over the terms of the respective leases, as applicable.

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

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

Interest recognition on notes receivable. We record interest income as earned in accordance with the terms of the related loan agreements. Prior to January 1, 2012, on cash flow notes where payments are based upon surplus cash from operations, accrued but unpaid interest income was only recognized to the extent that cash was received. As of January 1, 2012, due to the consistency of cash received on the surplus cash notes, we are recording interest as earned.

Allowance for estimated losses. We assess the collectability of notes receivable on a periodic basis, of which the assessment consists primarily of an evaluation of cash flow projections of the borrower to determine whether estimated cash flows are sufficient to repay principal and interest in accordance with the contractual terms of the note. We recognize impairments on notes receivable when it is probable that principal and interest will not be received in accordance with the contractual terms of the loan. The amount of the impairment to be recognized generally is based on the fair value of the partnership's real estate that represents the primary source of loan repayment. See Note 3 "Notes and Interest Receivable from Related Parties" for details on our notes receivable.

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

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

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

Income Taxes. IOT is a "C Corporation" for U.S. federal income tax purposes. For tax periods ending before August 31, 2012, IOT filed an annual consolidated income tax return with ARL and TCI and their subsidiaries. ARL was the common parent for the consolidated group. After that date, IOT and the rest of the American Realty Investors, Inc. (ARL) group joined the Realty Advisors Management, Inc. ("RAMI") consolidated group for tax purposes. The income tax expense (benefit) for the 2010 and 2011 tax periods in the accompanying financial statement was calculated under a tax sharing and compensating agreement between ARL, TCI and IOT. That agreement continued until August 31, 2012 at which time a new tax sharing and compensating agreement was entered into by ARL, TCI, IOT and RAMI for the remainder of 2012. The agreement specifies the manner in which the group will share the consolidated tax liability and also how certain tax attributes are to be treated among members of the group.

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

NOTE 2. REAL ESTATE

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

	2012	2011
Mercer Crossing Multi-Tracts	$24,511	$24,511
	$24,511	$24,511

The land owned by the Company is a contiguous land parcel in Farmers Branch, TX and is part of a larger development project referred to as "Mercer Crossing". It is expected that this land will be developed or sold for development in the future.

The Company entered into a sales contract with an independent third party, for 100 acres of Travelers land for $17.5 million or $4.02/sf. The buyer is entitled to an inspection period, which expires August 15, 2013.

There were no significant real estate transactions for the year ended December 31, 2012.

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

NOTE 3. NOTES AND INTEREST RECEIVABLE FROM RELATED PARTIES

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

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At December 2012 and 2011, we had junior mortgage loans and accrued interest receivable from related parties, net of allowances, totaling $25.2 million and $29.8 million, respectively. The loans mature at various dates through December 2027 and have interest rates at 5.25%, increasing in the future to 12.00%.

Payments are due from surplus cash flow or sale or refinancing of the underlying properties. These notes are cross collateralized to the extent that any surplus cash available from the sale or refinance of any of the properties underlying these notes will be used to repay outstanding interest and principal for the remaining notes. Our mortgage notes receivable consist of junior mortgage loans (dollars in thousands):

Borrower	Maturity Date	Interest Rate		Amount		Security
Performing loans:						
Unified Housing Foundation, Inc. (Echo Station)	12/27	5.25	%	1,481		100% Interest in Unified Housing of Temple, LLC
Unified Housing Foundation, Inc. (Lakeshore Villas)	12/27	5.25	%	2,000		Unsecured
Unified Housing Foundation, Inc. (Lakeshore Villas)	12/27	5.25	%	6,363		Membership interest in Housing for Seniors of Humble, LLC
Unified Housing Foundation, Inc. (Limestone Canyon)	12/27	5.25	%	3,057		100% Interest in Unified Housing of Austin, LLC
Unified Housing Foundation, Inc. (Limestone Ranch)	12/27	5.25	%	2,250		100% Interest in Unified Housing of Vista Ridge, LLC
Unified Housing Foundation, Inc. (Parkside Crossing)	12/27	5.25	%	1,936		100% Interest in Unified Housing of Parkside Crossing, LLC
Unified Housing Foundation, Inc. (Sendero Ridge)	12/27	5.25	%	5,174		100% Interest in Unified Housing of Sendero Ridge, LLC
Unified Housing Foundation, Inc. (Timbers of Terrell)	12/27	5.25	%	1,323		100% Interest in Unified Housing of Terrell, LLC
Unified Housing Foundation, Inc. (Tivoli)	12/27	5.25	%	1,826		100% Interest in Unified Housing of Tivoli, LLC
Accrued interest				1,592		
Total Performing				$27,002		
Allowance for estimated losses				(1,826	)	
Total				$25,176		

All are related party notes.

On February 29, 2012, we received $3.3 million from UHF as payoff for the $3.0 note receivable due from UHF, related to Cliffs of El Dorado and $0.3 million in accrued interest.

NOTE 4. INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND INVESTEES

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

Investee	Percent ownership 2012	2011	2010

TCI Eton Square, L.P. ("Eton Square")	10 %	10 %	10 %

Our interest in Eton Square in the amount of 10% is accounted for under the equity method; the investment is carried at cost, and adjusted for the companies' proportionate share of earnings or losses. Due to the losses accounted for under the equity method, our investment is now at zero. Due to the sale being disclosed but not recognized or recorded below, we have not changed our method of recording financial activity for our investment. Upon the sale of the building to a third party, we will record the disposition of our investment.

On May 18, 2010, we sold our 10.0% investment in TCI Eton Square, LP to TX Highland RS Corp, a related party, for a sales price of $1.37 million. This entity owns a 225,566 square foot office and retail center known as Eton Square located in Tulsa, Oklahoma. A three-year note receivable for the full sales price was given as consideration, with an interest rate of prime plus 2%, payable at maturity on May 18, 2013. The Company did not recognize or record the sale in accordance with ASC 360-20 due to the buyer's inadequate initial investment and the Company's questionable recovery of investment cost. The Company determined that no sale had occurred for financial reporting purposes and therefore the investment remained on the books.

The market values as of the year ended December 31, 2012 and 2011 were not determinable as there were no traded markets, either active or inactive, for this investment.

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

	2012	2011	2010
Real Estate, net of accumulated depreciation	$12,060	$12,976	$13,318
Other assets	640	533	576
Notes payable	(9,363)	(9,363)	(9,363)
Other liabilities	(3,972)	(3,779)	(3,641)
Shareholders equity/partners capital	$635	$(367)	$(890)
Rents	$1,117	$1,385	$1,893
Depreciation	(877)	(462)	(504)
Operating expenses	(843)	(843)	(821)
Interest expense	(398)	(599)	(601)
Loss from continuing operations	(1,001)	(519)	(33)
Income from discontinued operations	-	-	-
Net loss	$(1,001)	$(519)	$(33)
Company's proportionate share of earnings*	$(36)	$(52)	$(3)

*Losses are recorded to the extent of the carrying value of the partner's capital contribution.

NOTE 5. NOTES AND INTEREST PAYABLE

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

Year	Amount
2013	$ 27,711
2014	1
2015	1
2016	1
2017	1
Thereafter	-
Total	$ 27,715 *

The Travelers land mortgage bears interest at a rate of 4.25% and matures April 12, 2013. As of December 31, 2012, there was accrued interest of $0.8 million. There is also a$4,500 note payable that bears interest at 12.5%, that matures June 1, 2020. The notes are collateralized by deeds of trust on real estate with a net carrying value of $24.5 million.

*The Travelers land mortgage note represents the allocation of a note with an aggregate outstanding balance of $36.0 million as of December 31, 2012. The remaining balance of this note of $8.3 million is held on the books of Transcontinental Realty Investors, Inc., the company's parent. As a joint grantor of the mortgage loan, we have joint and several liability of the obligations and liabilities of the loan in its entirety, which include, but are not limited to, payment of all unpaid and accrued interest and principal for the entire outstanding loan balance. Since April 11, 2010, interest has accrued on the loan and as of April 12, 2011, the borrower is in default under the current loan documents and the lender accelerated the maturity of the indebtedness. On April 28, 2011, a one-year forbearance agreement was

entered into between the borrower, the guarantor and the lender in order to temporarily suspend the lender from the exercise of its rights and remedies under the loan documents and foreclose on the property. The forbearance period has been extended and will expire April 12, 2013. It requires the borrower to make monthly payments of $150,000, which has been applied to the accrued interest. We expect this agreement will continue to be extended annually.

NOTE 6. RELATED PARTY TRANSACTIONS AND FEES

The Advisory agreement provides for Pillar or a related party of Pillar to receive fees and cost reimbursements as defined in Part III, Item 10. "Directors, Executive Officers and Corporate Governance – The Advisor". Cost reimbursements are allocated based on the relative market values of the Company's assets. The Company and Pillar entered into an Advisory Agreement and Cash Management Agreement to further define the administration of the Company's day-to-day investment operations, relationship contacts, flow of funds and deposit and borrowing of funds. Prime served as the Company's contractual Advisor and Cash Manager from July 1, 2009 through April 30, 2011.

The fees and cost reimbursements paid to Pillar, Prime, TCI and related parties are detailed below (dollars in thousands):

		2012	2011	2010
Fees:				
	Advisory fee	815	850	$ 866
	Net income fee	180	54	99
	Construction managmeent fee	-	-	2
	Tax sharing agreement	839	647	-
		$ 1,834	$ 1,551	$ 967
Other Expense:				
	Cost reimbursements	155	206	178
Revenue:				
	Rental revenue	-	-	313
	Interest received	$ 2,695	$ 1,756	$ 1,755
		2,695	1,756	2,068

As of December 31, 2012, IOT has notes and interest receivable of $27.0 million due from Unified Housing Foundation, Inc. and recognized interest income of $2.5 million related to these notes receivable. Unified Housing also paid in full a $3.0 million note receivable during the twelve months ended December 31, 2012. See details in Part 2, Item 8. “Note 3. Notes and Interest Receivable”.

The following table reconciles the beginning and ending balances of amounts receivable from related parties as of December 31, 2012 dollars in thousands):

	TCI	Pillar	Total
Balance, December 31, 2011	$52,160	$-	$52,160
Cash transfers	-	3,578	3,578
Advisory fees	-	(815)	(815)
Net income fee	-	(180)	(180)
POA fees	-	(61)	(61)
Cost reimbursements	-	(155)	(155)
Expenses paid by advisor	-	257	257
Financing (mortgage payments)	-	(1,364)	(1,364)
Proceeds from note receivable	-	3,258	3,258
Interest income	1,118	1,577	2,695
Tax Sharing Expense	(839)	-	(839)
Purchase of obligation	6,095	(6,095)	-
Balance, December 31, 2012	$58,534	$-	$58,534

IOT is part of a tax sharing and compensating agreement with respect to federal income taxes between ARL, TCI and IOT and their subsidiaries that was entered into in July of 2009. That agreement continued until August 31, 2012 at which time a new tax sharing and compensating agreement was entered into by TCI, ARL, IOT and RAMI for the remainder of 2012. The expense (benefit) in each year was calculated based on the amount of losses absorbed by taxable income multiplied by the maximum statutory tax rate of 35%. IOT paid TCI $839,000 in 2012 and $647,000 in 2011 for the tax sharing agreement.

NOTE 7. DIVIDENDS

IOT's Board of Directors established a policy that dividend declarations on common stock would be determined on an annual basis following the end of each year. In accordance with that policy, no dividends on IOT's common stock were declared for 2012, 2011, or 2010. Future distributions to common stockholders will be determined by the Board of Directors in light of conditions then existing, including the Company's financial condition and requirements, future prospects, restrictions in financing agreements, business conditions and other factors deemed relevant by the Board.

NOTE 8. INCOME TAXES

For tax periods ending before August 31, 2012, IOT was part of the American Realty Investors, Inc. consolidated federal return. After that date, IOT and the rest of the American Realty Investors, Inc. (ARL) group joined the Realty Advisors Management, Inc. ("RAMI") consolidated group for tax purposes. The income tax expense (benefit) for 2010 and 2011 tax periods in the accompanying financial statement was calculated under a tax sharing and compensating agreement between ARL, TCI and IOT. That agreement continued until August 31, 2012 at which time a new tax sharing and compensating agreement was entered into by ARL, TCI, IOT and RAMI for the remainder of 2012. For 2012, ARL, TCI and IOT had a combined net taxable loss and IOT recorded a current tax expense of $839,000. The benefit or expense is calculated based on the amount of losses absorbed by taxable income multiplied by the statutory rate of 35% per the tax sharing and compensating agreements. Forms 1120, U.S, Corporation Income Tax Returns, for the years ending December 31, 2011, 2010, 2009 are subject to examination, by the IRS, generally for three years after they are filed.

Current income tax expense (benefit) is attributable to:

	2012	2011	2010
Income from continuing operations	$826	$444	$626
Income from discontinued operations	$13	$203	$(828)
	$839	$647	$(202)

IOT's tax basis in its net assets differs from the amount at which its net assets are reported for financial statement purposes, principally due to the accounting for gains and losses on property sales, and depreciation on owned properties.

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

	December 31,		
	2012	2011	2010
Accumulated depreciation and amortization	(514)	(514)	(2,433)
Allowance for loss	694	694	694
Other	38	24	1,077
Federal benefit of NOL carryforward	1,078	1,078	1,081
Federal benefit of AMT carryforward	164	164	164
Deferred tax asset	1,460	1,446	583
Less valuation allowance	(1,460)	(1,446)	(583)
Total deferred tax asset	-	-	-

Recognition of the benefits of deferred tax assets will require the Company to generate future taxable income. There is no assurance that the Company will generate earnings in future years. Therefore, the Company has established a valuation allowance for deferred tax assets of approximately $1,460,000, $1,446,000 and $583,000 as of December 31, 2012, 2011 and 2010, respectively.

In 2012, IOT used approximately 2,397,000 of current losses from the consolidated group. In 2011, the company used approximately 1,847,000 of losses from the ARL consolidated group. In 2010, IOT used no current losses from the consolidated group. In 2010 and prior, the company generated taxable loss carryforwards totaling $2,837,968. The most recent loss year is 2010, which, if not used, will expire in 2030. The alternative minimum tax credit balance did not change in 2011 and remains at approximately $164,000. The credit has no expiration date.

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

	2012	2011	2010
Federal income tax at statutory rate	839	647	(202)
State tax expense	8	12	33
Gain on sale differences	—	—	—
Other	(8)	(12)	(33)
Utilization of net operating loss and minimum tax credit carry forwards	—	—	—
Effective income tax rate	35%	35%	35%

NOTE 9. OPERATING SEGMENTS

Our segments are based on management's method of internal reporting which classifies its operations by property type. The segments are commercial, land and other. Significant differences among the accounting policies of the operating segments as compared to the Consolidated Financial Statements principally involve the calculation and allocation of administrative and other expenses. Management evaluates the performance of each of the operating segments and allocates resources to them based on their net operating income and cash flow.

Items of income that are not reflected in the segments are interest, other income, gain on debt extinguishment, gain on condemnation award, equity in partnerships, and gains on sale of real estate. Expenses that are not reflected in the segments are provision for losses, advisory, net income and incentive fees, general and administrative, non-controlling interests, foreign currency transaction loss and net loss from discontinued operations before gains on sale of real estate.

The segment labeled as "Other" consists of revenue and operating expenses related to the notes receivable and corporate debt.

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

For year ended 2012	Commercial Properties	Land	Other	Total
Operating revenue	$-	$-	$-	$-
Operating expenses	-	67	-	67
Mortgage and loan interest	-	1,284	-	1,284
Interest income	-	-	5,183	5,183
Segment operating income (loss)	$-	$(1,351)	$5,183	$3,832
Capital expenditures	-	-	-	-
Assets	-	24,511	-	24,511
Property Sales				
Sales price	$-	$-	$-	$-
Cost of sale	-	-	-	-
Deferred current gain	-	-	-	-
Recognized prior deferred gain	-	-	-	-
Gain on sale	$-	$-	$-	$-

	Commercial Properties	Land	Other	Total
For year ended 2011				
Operating revenue	$-	$-	$-	$-
Operating expenses	-	36	2	38
Mortgage and loan interest	-	1,211	-	1,211
Interest income	-	-	4,447	4,447
Segment operating income (loss)	$-	$(1,247)	$4,445	$3,198
Capital expenditures	-	-	-	-
Assets	-	24,511	-	24,511

Property Sales				
Sales price	$-	$5,050	$-	$5,050
Cost of sale	-	5,525	-	5,525
Deferred current gain	-	-	-	-
Recognized prior deferred gain	1,422	-	-	1,422
Gain (loss) on sale	$1,422	$(475)	$-	$947

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	Commercial Properties	Land	Other	Total
For year ended 2010				
Operating revenue	$ -	$ -	$ -	$ -
Operating expenses	-	50	2	52
Mortgage and loan interest	-	1,116	-	1,116
Interest income	-	-	4,292	4,292
Segment operating income (loss)	$ -	$ (1,166)	$ 4,290	3,124
Capital expenditures	-	58	-	58
Assets	-	29,561	-	29,561
Property Sales				
Sales price	$ -	$ -	$ -	