

INCOME OPPORTUNITY REALTY INVESTORS INC /TX/

Form 8-K/A

August 18, 2005

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 8-K/A**

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the Securities Exchange Act**

Date of Report: July 26, 2005

(Date of Earliest Event Reported)

**INCOME OPPORTUNITY REALTY INVESTORS, INC.**

(Exact Name of Registrant as Specified in its Charter)

**Nevada**

(State or other  
jurisdiction of incorporation)

**001-14784**

(Commission  
File No.)

**75-2615944**

(I.R.S. Employer  
Identification No.)

**1755 Wittington Place, Suite 340**

**Dallas, Texas 75234**

(Address of principal executive offices)

**214-750-5800**

(Registrant's telephone number, including area code)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the Registrant under any of the following provisions:

- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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The information contained in this Amendment to Form 8-K amends and fully restates the information contained in a Current Report on Form 8-K for event July 26, 2005 filed August 8, 2005.

**Item 4.02. Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review.**

(a) On July 18, 2005, in response to a comment raised by the Staff of the Securities and Exchange Commission (the SEC) concerning Income Opportunity Realty Investors, Inc.'s (IOT or the Company or the Registrant) disclosure concerning partnerships formed with Metra Capital LLC (Metra), Management identified an accounting error in the financial statements related to the total Metra transactions. With guidance from the Registrant's auditors, Management determined that the error needs to be corrected. The error involved the establishment of a process involving the deferral of operating income or expense from the Metra properties until the sale of the property, which set up an additional inter-company account with Metra that could have a receivable or payable balance. Management of IOT worked through a materiality review with guidance from the Registrant's auditors for the periods involved and determined that the operational income or expense deferral resulting was not material to the historic period 2002 but was material for 2003. The result is that Management of IOT has concluded that changes should be made in its financial statements for the year ending December 31, 2003, and corrections carried forward for the year ending December 31, 2004, and for the quarter ended March 31, 2005. The resulting impact on the prior periods' operations from the necessary corrections will be to decrease net income for the year ended December 31, 2003 by \$436,000 from a reported \$1,782,000 to \$1,346,000, and a decrease on a per share basis from a reported \$1.24 per share to \$0.94 per share. The changes for the fiscal year ended December 31, 2004 will result in a decrease in net income by \$64,000 from a reported \$5,492,000 to \$5,428,000, an overall decrease in net income per share by \$0.04 from a reported \$3.95 per share to \$3.91 per share. The resulting impact in the financial statements for the quarter ended March 31, 2005 will be an increase in net income by \$54,000 from a reported \$239,000 to \$293,000, or an increase by \$0.04 per share from a reported \$0.17 per share to \$0.21 per share. Other changes will also be required in such financial statements.

As a result of the foregoing, on July 26, 2005, the Company's Management and Audit Committee concluded that the Company's previously reported 2003 annual financial statements included in the Company's 2003 Annual Report on Form 10-K and 2004 Annual Report on Form 10-K, should no longer be relied upon, and such 2003 annual financial statements will accordingly be amended and restated. The Company intends to file an amendment on Form 10-K/A for the years ended December 31, 2003 and December 31, 2004, and Form 10-Q/A for the quarter ended March 31, 2005 in order to restate such 2003 annual financial statements in its prior filings and to carry forward such changes in its current filings, and expects to make such filings concurrently with or prior to the filing of its 2005 second quarter Form 10-Q due August 15, 2005.

The foregoing has been discussed with IOT's independent registered public accounting firm.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of annual or interim financial statements will not be prevented or detected. Due to the error described above, IOT and its accountants identified a control deficiency in its internal controls over financial reporting as of April 2002, which continued through March 2005, which constituted a material weakness during that period, including at December 31, 2004. The material weakness was a failure to detect the accounting error described above. In response to the material weakness identified, Management is continuing to re-evaluate its control procedures with the assistance of an outside consulting firm that specializes in internal controls and has implemented an additional review process of all material historical transactions that are

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included in financial statements for any current period. The controls and procedures currently in place for IOT are different from the controls in place during April - December 2002, none of the personnel involved in the establishment of the original process involving the Metra transactions are currently involved with or perform work for IOT, the current independent registered public accounting firm for IOT is different from the independent auditors for IOT for 2002. Management also believes that the transaction involving the undetected error was uniquely complex and not likely to be repeated, but Management is working with its outside consultant for guidance about possible control procedures to ensure that in the future errors will be detected and material misstatement of annual or interim financial statements will be prevented.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly-caused this Current Report on Form 8-K to be signed on its behalf by the undersigned hereunto duly-authorized.

Dated: August 17, 2005.

INCOME OPPORTUNITY REALTY  
INVESTORS, INC.

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