UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2021
or

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

For the transition period from ______ to _______
Commission File Number 001-14784

INCOME OPPORTUNITY REALTY INVESTORS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada	75-2615944
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1603 Lyndon B. Johnson Freeway, Suite 800, Dallas, Texas 75234
(Address of principal executive offices)
(Zip Code)
(469) 522-4200
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	IOR	NYSE American Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). ☒ Yes ☐ No

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

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

Common Stock, $.01 par value	4,168,414
(Class)	(Outstanding at November 9, 2021)

INCOME OPPORTUNITY REALTY INVESTORS, INC.
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INCOME OPPORTUNITY REALTY INVESTORS, INC.
CONSOLIDATED BALANCE SHEETS

	September 30, 2021	December 31, 2020
	(Unaudited)	(Audited)
	(dollars in thousands, except par value	
Assets		
Current assets		
Cash and cash equivalents	$ 13	$ 12
Receivable and accrued interest from related parties	95,827	90,526
Total current assets	95,840	90,538
Non current assets		
Notes and interest receivable from related parties	11,510	13,930
Total non current assets	11,510	13,930
Total Assets	$ 107,350	$ 104,468
Liabilities and Shareholders' Equity		
Liabilities:		
Accounts payable and other liabilities	$ 11	$ 12
Total liabilities	11	12
Shareholders' equity:		
Common stock, $0.01 par value, authorized 10,000,000 shares; issued 4,173,675 and outstanding 4,168,414 shares in 2021 and 2020	42	42
Treasury stock at cost, 5,261 shares in 2021 and 2020	(39)	(39)
Paid-in capital	61,955	61,955
Retained earnings	45,381	42,498
Total shareholders' equity	107,339	104,456
Total liabilities and shareholders' equity	$ 107,350	$ 104,468

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2021	2020	2021	2020
	in thousands, except per share a		in thousands, except per share a	
Revenues:				
Revenue from operations	$ -	$ -	$ -	$ -
Expenses:				
General and administrative (including $220 and $190 for the nine months ended 2021 and 2020, respectively, to related parties)	88	94	376	361
Net income fee to related party	56	51	250	249
Advisory fee to related party	201	194	599	574
Total operating expenses	345	339	1,225	1,184
Net operating loss	(345)	(339)	(1,225)	(1,184)
Other income (expenses):				
Interest income from related parties	1,248	1,302	3,697	4,071
Other income	-	-	1,179	742
Total other income	1,248	1,302	4,876	4,813
Income before taxes	903	963	3,651	3,629
Income tax expense	191	202	768	762
Net income	$ 712	$ 761	$ 2,883	$ 2,867
Earnings per share - basic and diluted				
Net income	$ 0.17	$ 0.18	$ 0.69	$ 0.69
Weighted average common shares used in computing earnings per share	4,168,414	4,168,414	4,168,414	4,168,414

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 and Nine Months Ended September 30, 2021, and 2020
(dollars in thousands)
(Unaudited)

For the three months ended September 30, 2021	Total Equity	Common Stock Issued Shares	Common Stock Amount	Treasury Stock	Paid-in Capital	Retained Earnings
Balance, June 30, 2021	$ 106,627	4,173,675	$ 42	$ (39)	$ 61,955	$ 44,669
Net income	712	-	-	-	-	712
Balance, September 30, 2021	$ 107,339	4,173,675	$ 42	$ (39)	$ 61,955	$ 45,381

For the three months ended September 30, 2020	Total Equity	Common Stock Issued Shares	Common Stock Amount	Treasury Stock	Paid-in Capital	Retained Earnings
Balance, June 30, 2020	$ 102,348	4,173,675	$ 42	$ (39)	$ 61,955	$ 40,390
Net income	761	-	-	-	-	761
Balance, September 30, 2020	$ 103,109	4,173,675	$ 42	$ (39)	$ 61,955	$ 41,151

For the nine months ended September 30, 2021	Total Equity	Common Stock Issued Shares	Common Stock Amount	Treasury Stock	Paid-in Capital	Retained Earnings
Balance, December 31, 2020	$ 104,456	4,173,675	$ 42	$ (39)	$ 61,955	$ 42,498
Net income	2,883	-	-	-	-	2,883
Balance, September 30, 2021	$ 107,339	4,173,675	$ 42	$ (39)	$ 61,955	$ 45,381

For the nine months ended September 30, 2020	Total Equity	Common Stock Issued Shares	Common Stock Amount	Treasury Stock	Paid-in Capital	Retained Earnings
Balance, December 31, 2019	$ 100,242	4,173,675	$ 42	$ (39)	$ 61,955	$ 38,284
Net income	2,867	-	-	-	-	2,867
Balance, September 30, 2020	$ 103,109	4,173,675	$ 42	$ (39)	$ 61,955	$ 41,151

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

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

	For the Nine Months Ended September 30,	
	2021	**2020**
	(dollars in thousands)	
Cash Flow From Operating Activities:		
Net income	$ 2,883	$ 2,867
Adjustments to reconcile net income applicable to common shares to net cash provided by operating activities:		
(Increase) decrease in assets:		
Accrued interest receivable from related parties	2,420	453
Increase (decrease) in other liabilities	(1)	(13)
Net cash provided by operating activities	5,302	3,307
Cash Flow From Investing Activities:		
Related Party Receivables	(5,301)	(3,254)
Net cash used in investing activities	(5,301)	(3,254)
Net (decrease) increase in cash and cash equivalents	1	53
Cash and cash equivalents, beginning of period	12	5
Cash and cash equivalents, end of period	$ 13	$ 58

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

Organization

As used herein, the terms "IOR", "the Company", "we", "our", "us" refer to Income Opportunity Realty Investors, Inc., a 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. The Company is headquartered in Dallas, Texas, and its common stock trades on the NYSE American under the symbol ("IOR").

Transcontinental Realty Investors, Inc. ("TCI") owns approximately 81.1% of the Company's common stock. Effective July 17, 2009, IOR's financial results were consolidated with those of American Realty Investors, Inc. ("ARL") and TCI and their subsidiaries. IOR is a "C" corporation for U.S. federal income tax purposes and files an annual consolidated income tax return with ARL and its ultimate parent, May Realty Holdings, Inc. ("MRHI"). We have no employees.

Pillar Income Asset Management, Inc. ("Pillar") is the Company's external Advisor and Cash Manager under a contractual arrangement that is reviewed annually by our Board of Directors. The day-to-day operations of IOR are performed by Pillar, as the contractual Advisor, under the supervision of the Board. Pillar's duties include, but are not limited to, locating, evaluating and recommending business and investment opportunities. Additionally, Pillar serves as a consultant to the Board with regard to their decisions in connection with IOR's business plan and investment policy. Pillar also serves as an Advisor and Cash Manager to TCI and ARL.

Our primary business is currently investing in mortgage receivables. At September 30, 2021, the principal source of revenue for the Company is interest income on approximately $96.8 million of notes receivable due from related parties, out of which, $11.1 million are due from United Housing Foundation, Inc. ("UHF") (Refer to Note 2).

Basis of Presentation

The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted in accordance with such rules and regulations, although management believes the disclosures are adequate to prevent the information presented from being misleading. In the opinion of management, all adjustments (consisting of normal recurring matters) considered necessary for a fair presentation have been included. The results of operations for the nine months ended September 30, 2021, are not necessarily indicative of the results that may be expected for other interim periods or for the full fiscal year. As of September 30, 2021, and December 31, 2020, IOR was not the primary beneficiary of a variable interest entity ("VIE").

The year-end Consolidated Balance Sheet at December 31, 2020, was derived from the audited Consolidated Financial Statements at that date, but does not include all of the information and disclosures required by U.S. GAAP for complete financial statements. For further information, refer to the Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Fair Value Measurement

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

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

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

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

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

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

Related Parties

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

Newly Issued Accounting Pronouncements

On April 10, 2020, the FASB issued a Staff Q&A ("Q&A") related to the application of the lease guidance in ASC 842 for the accounting impact of lease concessions related to the COVID-19 pandemic. The Q&A, allows an entity to make an election to account for lease concessions related to the effects of the COVID-19 as though enforceable rights and obligations for those concessions existed. As a result of this election, an entity will not have to analyze each lease to determine whether enforceable rights and obligations for concessions exist in the lease and can elect to apply or not apply the lease modification guidance in ASC 842, as long as the concessions do not result in a substantial increase in the rights of the lessor or the obligations of the lessee. Our election of the guidance of the Q&A has not had a significant impact on our consolidated financial statements during the nine months ended September 30, 2021.

NOTE 2. NOTES AND INTEREST RECEIVABLE FROM RELATED PARTIES

Notes and interest receivable from related parties is comprised of junior mortgage loans, which are loans secured by mortgages that are subordinate to one or more prior liens on the underlying real estate. Recourse on the loans ordinarily includes the real estate which secures the loan, other collateral and personal guarantees of the borrower.

The Company has various notes receivable from Unified Housing foundation, Inc. "UHF". UHF is determined to be a related party due to our significant investment in the performance of the collateral secured under the notes receivable. Payments are due from surplus cash flow from operations, sale or refinancing of the underlying properties. These notes are cross collateralized to the extent that any surplus cash available from any of the properties underlying these notes will be used to repay outstanding interest and principal for the remaining notes. Furthermore, any surplus cash available from any of the properties UHF owns, besides the properties underlying these notes, can be used to repay outstanding interest and principal for these notes.

All of the Company's notes receivable are with UHF. The notes mature in December 2032 and have interest rates of 12.0%.

In February 2021, the Company collected $1.017 million which is the remaining balance of a fully reserved note receivable and is included in other income. In addition, in February, the Company collected $1.9 million of principal and $.6 million of accrued interest on the UHF notes receivable listed below.

On September 30, 2021, we had mortgage loans and accrued interest receivable from related parties totaling $11.5 million. As of September 30, 2021, we recognized interest income of $1 million related to these notes receivable. Below is a summary of notes and interest receivable from related parties (dollars in thousands):

Borrower	Maturity Date	Interest Rate		Amount	Collateral
Performing loans:					
Unified Housing Foundation, Inc. (Echo Station)	12/32	12.00%	$	1,481	Secured
Unified Housing Foundation, Inc. (Lakeshore Villas)	12/32	12.00%	$	2,000	Secured
Unified Housing Foundation, Inc. (Lakeshore Villas)	12/32	12.00%	$	6,369	Secured
Unified Housing Foundation, Inc. (Timbers of Terrell)	12/32	12.00%	$	1,323	Secured
Total Notes Receivable				11,173	
Accrued interest				337	
Total Performing			**$**	**11,510**	

All are related party notes.

NOTE 3. RECEIVABLE FROM AND PAYABLE TO RELATED PARTIES

From time to time, IOR and its related parties have made unsecured advances to each other which include transactions involving the purchase, sale, and financing of property. In addition, we have a cash management agreement with our Advisor. The agreement provides for excess cash to be invested in and managed by our Advisor, Pillar, a related party.

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

	Period Ended September 30,	
	2021	**2020**
Fees:		
Advisory	$ 599	$ 574
Net income	250	249
	$ 849	$ 823
Other Expense:		
Cost reimbursements	$ 220	$ 190
Revenue:		
Interest received	$ 3,697	$ 4,071

As of September 30, 2021, IOR has notes and interest receivable of $11.5 million due from Unified Housing Foundation, Inc., and recognized interest income of $1.03 million related to these notes receivable. (See details in *Note 2. Notes and Interest Receivable from Related Parties*.)

The table below reflects the various transactions between IOR, Pillar, and TCI (dollars in thousands):

	TCI	
	2021	**2020**
Balance, December 31,	$ 90,526	$ 86,221
Cash transfers	4,314	2,307
Advisory fees	(599)	(574)
Net income fee	(250)	(249)
Cost reimbursements	(220)	(190)
Expenses Paid by Advisor	(2)	(3)
Interest income	2,664	2,725
Income Tax	(768)	(762)
AMT Credit	162	-
Balance, September 30,	$ 95,827	$ 89,475

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

NOTE 4. COMMITMENTS AND CONTINGENCIES

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

Berger Litigation

On February 4, 2019, an individual claiming to be a stockholder holding 7,900 shares of Common Stock of Income Opportunity Realty Investors, Inc. ("IOR") filed a Complaint in the United States District Court for the Northern District of Texas, Dallas Division, individually and allegedly derivatively on behalf of IOR, against Transcontinental Realty Investors, Inc. ("TCI"), American Realty Investors, Inc. ("ARL"), (TCI is a shareholder of IOR, ARL is a shareholder of TCI) Pillar Income Asset Management, Inc. ("Pillar"), (collectively the "Companies"), certain officers and directors of the Companies ("Additional Parties") and two other individuals. The Complaint filed alleges that the sale and/or exchange of certain tangible and intangible property between the Companies and IOR during the last ten years of business operations constitutes a breach of fiduciary duty by the one or more of Companies, the Additional Defendants and/or the directors of IOR. The case alleges other related claims. The Plaintiff seeks certification as a representative of IOR and all of its shareholders, unspecified damages, a return to IOR of various funds and an award of costs, expenses, disbursements (including Plaintiff's attorneys' fees) and prejudgment and post-judgment interest. The named Defendants intend to vigorously defend the action, deny all of the allegations of the Complaint, and believe the allegations to be wholly without any merit. The Defendants have filed motions to dismiss the case in its entirety in June 2019. On February 26, 2020, the Court denied IOR's demand futility motion. The remaining Defendants' motions were granted in part and denied in part in the first quarter of 2020. Discovery is ongoing. The Plaintiff did not seek class certification in the case.

Contingencies. We are closely monitoring the impact of the COVID-19 pandemic on all aspects of our business and across our portfolio. While we did not experience significant disruptions during 2020 from the COVID-19 pandemic, we are unable to predict the impact the COVID-19 pandemic will have on its financial condition, results of operations and cash flows due to numerous uncertainties.

NOTE 6. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through November 9, 2021, the date the Consolidated Financial Statements were available to be issued and has determined that there are none to be reported.

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

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

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

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

- 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 associated with downturns in the national and local economies, increases in interest rates and volatility in the securities markets;
- potential liability for uninsured losses and environmental contamination; and
- risks associated with our dependence on key personnel whose continued service is not guaranteed.

The risks included here are not exhaustive. Some of the risks and uncertainties that may cause our actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements, include among others, the factors listed and described in Part I, Item 1A. "Risk Factors" in the Company's Annual Report on Form 10-K, which investors should review. There have been no changes from the risk factors previously described in the Company's Form 10-K for the fiscal year ended December 31, 2020.

As further set forth under the caption "Risk Factors" in Par I, Item 1A of the Form 10-K, the recent coronavirus ("COVID-19") pandemic as well as the response to mitigate its spread and effect, may adversely impact our Company. We will continue to actively monitor the situation and make further actions as may be required by governmental authorities or that we determine are in the best interest of the Company.

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

Overview

We are an externally advised and managed investment company. We have no employees.

Our primary source of revenue is from the interest income on approximately $96.8 million of notes receivable due from related parties.

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

Pillar Income Asset Management, Inc. ("Pillar") is the Company's external Advisor and Cash Manager under a contractual arrangement that is reviewed annually by our Board of Directors. The day-to-day operations of IOR are performed by Pillar, as the contractual Advisor, under the supervision of the Board. Pillar's duties include, but are not limited to, locating, evaluating and recommending business and investment opportunities. Additionally, Pillar serves as a consultant to the Board with regard to their decisions in connection with IOR's business plan and investment policy. Pillar also serves as an Advisor and Cash Manager to TCI and ARL.

Critical Accounting Policies

We present our Consolidated Financial Statements in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). The Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") is the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP. The accompanying unaudited 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. As of September 30, 2021, IOR is not the primary beneficiary of a VIE.

Recognition of Revenue

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

Non-Performing Notes Receivable

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

Allowance for Estimated Losses

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

Fair Value of Financial Instruments

We apply the guidance in ASC Topic 820, "Fair Value Measurements and Disclosures and includes three levels defined as follows:"

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

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

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

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

Related Parties

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

Newly Issued Accounting Pronouncements

On April 10, 2020, the FASB issued a Staff Q&A ("Q&A") related to the application of the lease guidance in ASC 842 for the accounting impact of lease concessions related to the COVID-19 pandemic. The Q&A, allows an entity to make an election to account for lease concessions related to the effects of the COVID-19 as though enforceable rights and obligations for those concessions existed. As a result of this election, an entity will not have to analyze each lease to determine whether enforceable rights and obligations for concessions exist in the lease and can elect to apply or not apply the lease modification guidance in ASC 842, as long as the concessions do not result in a substantial increase in the rights of the lessor or the obligations of the lessee. Our election of the guidance of the Q&A has not had a significant impact on our consolidated financial statements during the nine months ended September 30, 2021.

Results of Operations

The following discussion is based on our "Statement of Operations" for the three and nine months ended September 30, 2021, and 2020, as included in Part I, Item 1. "Financial Statements" of this report. It is not meant to be an all-inclusive discussion of the changes in our net income applicable to common shares. Instead, we have focused on significant fluctuations within our operations that we feel are relevant to obtain an overall understanding of the change in income applicable to common shareholders.

Our primary business is currently investing in mortgage receivables. Our principal source of revenue is interest income generated from notes receivables due from related parties. We also receive interest income from the funds deposited with our Advisor at a rate of prime plus 1%. Our operating expenses consist mainly of general and administration costs related to the Company.

Comparison of the three months ended September 30, 2021, to the same period ended 2020:

We had net income of $712 thousand or $0.17 per diluted share for the three months ended September 30, 2021, compared to net income of $761 thousand or $0.18 per diluted share for the same period ended 2020.

Expenses

General and administrative expenses were $88 thousand for the three months ended September 30, 2021. This represents a decrease of $6 thousand, compared to general and administrative expenses of $94 thousand for the three months ended September 30, 2020. This decrease was primarily driven by a decrease in cost reimbursements to our Advisor of approximately $5 thousand.

Advisory fees were $201 thousand for the three months ended September 30, 2021, compared to $194 thousand for the same period in 2020 for an increase of $7 thousand. Advisory fees are computed based on a gross asset fee of 0.0625% per month (0.75% per annum) of the average of the gross asset value.

Net income fee to related party was $56 thousand for the three months ended September 30, 2021. This represents an increase of $5 thousand, compared to the net income fee of $51 thousand for the three months ended September 30, 2020. The net income fee paid to our Advisor is calculated at 7.5% of net income.

Other income (expense)

Interest income decreased to $1.2 million for the three months ended September 30, 2021, compared to $1.3 million for the same period in 2020. The decrease of $100 thousand was primarily due to a decrease in interest recognized due to some notes being paid off in 1Q 2021.

Comparison of the nine months ended September 30, 2021, to the same period ended 2020:

We had net income of $2.9 million or $0.69 earnings per diluted share for the nine months ended September 30, 2021, as well as net income of $2.9 million or $0.69 earnings per diluted share for the same period in 2020.

Expenses

General and administrative expenses were $376 thousand for the nine months ended September 30, 2021, compared to $361 thousand for the nine months ended September 30, 2020, for an increase of $15 thousand. The increase was primarily due to an increase in cost reimbursements to our Advisor of approximately $29 thousand plus an increase in stock transfer fees of approximately $7 thousand partially offset by a decrease in legal fees of $18 thousand.

Advisory fees were $599 thousand for the nine months ended September 30, 2021, compared to $574 thousand for the same period of 2020 for an increase of $25 thousand. Advisory fees are computed based on a gross asset fee of 0.0625% per month (0.75% per annum) of the average of the gross asset value.

Net income fee to related party increased by $1 thousand to $250 thousand for the nine months ended September 30, 2021, compared to $249 thousand for the same period in 2020. The net income fee paid to our Advisor is calculated at 7.5% of net income.

Other income (expense)

Interest income was $3.7 million for the nine months ended September 30, 2021. This represents a decrease of $400 thousand as compared to interest income of $4.1 million for the nine months ended September 30, 2020, as a result of a decrease in interest recognized due to some notes being paid off in 1Q 2021.

Other income was $1.2 million for the nine months ended September 30, 2021, due to the collection of a note previously written off. Other income of $742 thousand for the nine months ended September 30, 2020, was due to a tax increment reimbursement from the City of Farmers Branch, Texas for previous infrastructure development performed by the Company.

Liquidity and Capital Resources

General

Our principal liquidity needs are to fund normal recurring expenses. And our principal sources of cash are and will continue to be the collection of mortgage notes receivables, and the collections of receivables and interest from related companies.

Cash Flow Summary

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

	For the Nine Months Ended		
	2021	2020	Variance
	(dollars in thousands)		
Net cash provided by operating activities	$ 5,302	$ 3,307	$ 1,995
Net cash used in investing activities	$ (5,301)	$ (3,254)	$ (2,047)

The primary use of cash for operations is daily operating costs, general and administrative expenses, and advisory fees. Our primary source of cash for operations is from interest income on notes receivable.

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

We did not pay quarterly dividends during the nine months ended September 30, 2021, and 2020.

Environmental Matters

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

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

Inflation

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

Tax Matters

IOR is a member of the May Realty Holdings, Inc., ("MRHI") consolidated group for federal income tax reporting. There is a tax sharing and compensating agreement between American Realty Investors, Inc. ("ARL"), Transcontinental Realty Investors, Inc. ("TCI"), and IOR.

Financial statement income varies from taxable income principally due to the accounting for income and losses of investees, gains and losses from asset sales, amortization of discounts on notes receivable and payable and the difference in the allowance for estimated losses. IOR has taxable income for the first nine months of 2021 on a standalone basis. The income tax expense for the nine months ending September 30, 2021, was $768 thousand.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

On September 30, 2021, the Company had no outstanding debt and has no exposure to quantitative or qualitative issues.

ITEM 4. CONTROLS AND PROCEDURES

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

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

PART II. OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On December 5, 1989, the governing body of the predecessor of the Company approved a share repurchase program authorizing the repurchase of up to a total of 200,000 shares of the predecessor. In June 2000, the Board of Directors of the Company increased the authorization to 500,000 shares. With the 3-for-1 forward split of the Company's Common Stock in June 2005, such authorization would be appropriately increased to 1,500,000 shares and the number of shares previously purchased would be appropriately increased by the same ratio. On August 10, 2010, the Board of Directors approved an increase in the share repurchase program for up to an additional 150,000 shares of common stock which results in a total authorization under the repurchase program for up to 1,650,000 shares of our common stock. This repurchase program has no termination date. There were no shares purchased under this program during the third quarter of 2021. As of September 30, 2021, 1,034,761 shares have been purchased and 615,239 shares may be purchased under the program.

ITEM 6. EXHIBITS

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

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

* Filed herewith.

SIGNATURES

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

INCOME OPPORTUNITY REALTY INVESTORS, INC.

Date: November 9, 2021

By: /s/ Gene S. Bertcher

Gene S. Bertcher

Executive Vice President and Chief Financial Officer (Principal Executive, Financial and Accounting Officer)

Exhibit 31.2

CERTIFICATION

I, Gene S. Bertcher, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Income Opportunity Realty Investors, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the period presented in this report;

4. The registrant's other certifying officers(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal controls over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and

   (d) Disclosed in the report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 9, 2021

By: /s/ Gene S. Bertcher
Gene S. Bertcher
Executive Vice President and Chief Financial Officer
(Principal Executive, Financial and Accounting Officer)

Exhibit 32.1

Certification pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906
Of the Sarbanes-Oxley Act of 2002

Each of the undersigned officers of Income Opportunity Realty Investors, Inc., a Nevada corporation (the “Company”) hereby certifies that:

(i) The Company’s Quarterly Report on Form 10-Q for the nine months ended September 30, 2021, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and

(ii) The information contained in the Company’s Quarterly Report on Form 10-Q for the nine months ended September 30, 2021, fairly presents in all material respects, the financial condition, and results of operations of the Company, at and for the period indicated.

INCOME OPPORTUNITY REALTY INVESTORS, INC.

Date: November 9, 2021

By: /s/ Gene S. Bertcher
Gene S. Bertcher
Executive Vice President and Chief Financial Officer
(Principal Executive, Financial and Accounting Officer)