SOUTHEAST AIRPORT GROUP
Form 6-K
October 23, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 UNDER

THE SECURITIES EXCHANGE ACT OF 1934

For the month of October 2015

GRUPO AEROPORTUARIO DEL SURESTE, S.A.B. de C.V.

(SOUTHEAST AIRPORT GROUP)

(Translation of Registrant's Name Into English)

México

(Jurisdiction of incorporation or organization)

Bosque de Alisos No. 47A– 4th Floor

Bosques de las Lomas

05120 México, D.F.

(Address of principal executive offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

Form 20-F x Form 40-F ____

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes ____ No x

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- .)

In Mexico
In the U.S.

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For Immediate Release

ASUR 3Q15 PASSENGER TRAFFIC UP 15.19% YOY

México D.F., October 22, 2015, Grupo Aeroportuario del Sureste, S.A.B. de C.V. (NYSE: ASR; BMV: ASUR), (ASUR) the first privatized airport group in Mexico and operator of Cancún Airport and eight other airports in southeast Mexico, as well as a 50% JV partner in Aerostar Airport Holdings, LLC, operator of the Luis Muñoz Marín International Airport in San Juan, Puerto Rico, today announced results for the three- and nine-month periods ended September 30, 2015.

3Q15 Highlights[1]:

- EBITDA[2] increased by 29.93% to Ps. 1,143.22 million
- Total passenger traffic was up 15.19%
- Total revenues increased by 47.79%, reflecting increases of 20.19% in aeronautical revenues, 32.34% in non-aeronautical revenues, and 227.77% in construction services revenues
- Commercial revenues per passenger increased by 15.89% to Ps.82.79
- Operating profit increased by 33.91%
- EBITDA margin was to 52.62% compared with 59.86% in 3Q14

1. Unless otherwise stated, all financial figures discussed in this announcement are unaudited, prepared in accordance with International Financial Reporting Standards (IFRS) and represent comparisons between the three- and nine-month periods ended September 30, 2015, and the equivalent three- and nine-month periods ended September 30, 2014. Results are expressed in pesos. Tables state figures in thousands of pesos, unless otherwise noted. Passenger figures exclude transit and general aviation passengers. Commercial revenues include revenues from non-permanent ground transportation and parking lots. All U.S. dollar figures are calculated at the exchange rate of US$1.00 = Ps. 16.9053

2. EBITDA means net income before: provision for taxes, deferred taxes, profit sharing, non-ordinary items, participation in the results of associates, comprehensive financing cost and depreciation and amortization. EBITDA should not be considered as an alternative to net income, as an indicator of our operating performance or as an alternative to cash flow as an indicator of liquidity. Our management believes that EBITDA provides a useful measure that is widely used by investors and analysts to evaluate our performance and compare it with other companies. EBITDA is not defined under U.S. GAAP or IFRS and may be calculated differently by different companies.

Passenger Traffic

Total passenger traffic for 3Q15 increased year-over-year by 15.19%, reflecting growth of 13.89% in domestic passenger traffic and 16.54% in international passenger traffic.

The 13.89% increase in domestic passenger traffic was driven by increases at all of ASUR’s airports. The 16.54% growth in international passenger traffic resulted mainly from an increase of 17.53% in traffic at Cancun airport.

Passenger traffic for 9M15 increased by 13.93%, reflecting growth of 14.73% in domestic passenger traffic driven by increases at all of ASUR’s airports, and 13.31% in international passenger traffic primarily resulting from an increase at Cancun airport.

Table I: Domestic Passengers (in thousands)

Airport	**3Q14**	**3Q15**	**% Change**	**9M14**	**9M15**	**% Change**
Cancún	1,681.9	1,839.6	9.38	4,098.4	4,523.7	10.38
Cozumel	23.1	27.6	19.48	59.2	73.6	24.32
Huatulco	107.1	144.7	35.11	292.7	390.7	33.48
Mérida	336.8	404.7	20.16	956.8	1,118.7	16.92
Minatitlán	57.5	64.1	11.48	165.4	182.5	10.34
Oaxaca	128.9	161.6	25.37	346.3	433.9	25.30
Tapachula	38.3	67.5	76.24	113.8	182.4	60.28
Veracruz	279.2	309.3	10.78	775.1	872.7	12.59
Villahermosa	275.2	315.6	14.68	759.1	903.4	19.01
TOTAL	**2,928.0**	**3,334.7**	**13.89**	**7,566.88**	**8,681.6**	**14.73**

Note: Passenger figures exclude transit and general aviation passengers.

Table II: International Passengers (in thousands)

Airport	**3Q14**	**3Q15**	**% Change**	**9M14**	**9M15**	**% Change**
Cancún	2,644.0	3,107.6	17.53	9,127.9	10,427.6	14.24
Cozumel	85.9	90.6	5.47	352.0	366.9	4.23

Huatulco	5.0	3.5	(30.00)	80.0	79.5	(0.62)
Mérida	29.9	31.3	4.68	88.7	88.5	(0.23)
Minatitlán	2.6	2.9	11.54	6.6	7.5	13.64
Oaxaca	15.1	18.2	20.53	44.8	49.9	11.38
Tapachula	3.0	2.8	(6.67)	9.0	8.4	(6.67)
Veracruz	23.9	24.3	1.67	66.1	63.9	(3.33)
Villahermosa	18.5	14.6	(21.08)	49.1	39.5	(19.55)
TOTAL	**2,827.9**	**3,295.7**	**16.54**	**9,824.2**	**11,131.7**	**13.31**

Note: Passenger figures exclude transit and general aviation passengers.

Table III: Total Passengers (in thousands)

Airport	**3Q14**	**3Q15**	**% Change**	**9M14**	**9M15**	**% Change**
Cancún	4,325.9	4,947.2	14.36	13,226.3	14,951.3	13.04
Cozumel	109.0	118.2	8.44	411.2	440.5	7.13
Huatulco	112.1	148.2	32.20	372.7	470.2	26.16
Mérida	366.7	436.0	18.90	1,045.5	1,207.2	15.47
Minatitlán	60.1	67.0	11.48	172.0	190.0	10.47
Oaxaca	144.0	179.8	24.86	391.1	483.8	23.70
Tapachula	41.3	70.3	70.22	122.8	190.8	55.37
Veracruz	303.1	333.6	10.06	841.2	936.6	11.34
Villahermosa	293.7	330.2	12.43	808.2	942.9	16.67
TOTAL	**5,755.9**	**6,630.4**	**15.19**	**17,391.0**	**19,813.3**	**13.93**

Note: Passenger figures exclude transit and general aviation passengers.

Consolidated Results for 3Q15

Total revenues for 3Q15 rose year-over-year by 47.79% to Ps.2,172.41 million, mainly due to increases of:

- 20.19% in revenues from aeronautical services, mainly as a result of the 15.19% increase in passenger traffic;
- 32.34% in revenues from non-aeronautical services, principally reflecting the 33.46% increase in commercial revenues detailed below.
- 227.77% in revenues from construction services that resulted from higher capital expenditures and other investments in concessioned assets during the period.

ASUR classifies commercial revenues as those derived from the following activities: duty-free stores, car rentals, retail operations, banking and currency exchange services, advertising, teleservices, non-permanent ground transportation, food and beverage, and parking lot fees.

Commercial revenues increased by 33.46% year-over-year in 3Q15, principally due to a 15.19% increase in total passenger traffic. There were increases in revenues from the following activities:

- 36.40% in retail operations;
- 38.17% in duty free;
- 16.42% in food and beverage;
- 50.74% in car rental revenues;
- 52.68% in other revenue;
- 15.97% in advertising.
- 17.61% in parking lot fees;
- 50.47% in banking and currency exchange services;

· 16.39% in ground transportation; and
· 34.15% in teleservices.

Retail and Other Commercial Space
Opened since September 30, 2014

Business Name	**Type**	**Opening Date**
Cancun		
Abito	Retail	November 2014
Banamex (4 ATMs)	Banking	November 2014
AY GUEY	Retail	December 2014
Cinco Soles (T2)	Retail	December 2014
Kipling	Retail	December 2014
Lacoste	Retail	December 2014
MOBO	Retail	December 2014
Sunglass Hut	Retail	December 2014
Lomas Travel	Tour Operator	December 2014
Farmacias	Retail	December 2014
Prisonart	Retail	February 2015
Cinco Soles (T2)	Retail	February 2015
Banamex (1 ATM)	Banking	February 2015
Iberoservice Mexico	Tour Operator	February 2015
Sunglass Hut	Retail	March 2015
Kipling	Retail	June 2014
Banamex	Banking	August 2015
Banamex	Banking	August 2015
Star Island café	Food & Beverage	August 2015
Gasolinera	Gas Station	September 2015
Merida		
Banamex	Banking	October 2014
Salon VIP	Business Lounge	October 2014
Watch my watch	Retail	September 2015
Veracruz		
Banamex	Banking	November 2014
Villahermosa		
Salon VIP	Business Lounge	October 2014
Banamex	Banking	November 2014

Cozumel		
Secure Wrap	Retail	December 2014
Banamex	Banking	December 2014
NLG Services	Business Lounge	December 2014
Oaxaca		
Banamex	Banking	December 2014
Alamo	Car Rental	December 2014

Business Name	Type	Opening Date
Huatulco		
Banamex	Banking	October 2014
Minatitlan		
Salon VIP	Business Lounge	February 2015

** Only includes new stores opened during the period and excludes remodelings or contract renewals.*

Table IV: Commercial Revenues per Passenger for 3Q15

	3Q14	3Q15	% Change
Total Passengers (‘000)	**5,797**	**6,676**	**15.16**
Total Commercial Revenues	414,166	552,735	33.46
Commercial revenues from direct operations (1)	101,934	101,072	(0.85)
Commercial revenues excluding direct operations	312,232	451,663	44.66

	3Q14	3Q15	% Change
Total Commercial Revenue per Passenger	**71.44**	**82.79**	**15.89**
Commercial revenue from direct operations per passenger (1)	All of the Company’s notes receivable are with UHF. As of January 1, 2013, the Company agreed to extend the maturity on the notes receivable from UHF for an additional term of five years for the early termination of the preferred interest rate period. The original notes gave a five-year period of preferred interest rate at 5.25%, before returning to the original note rate of 12.0%. The notes mature in December 2032 and have interest rates of 12.0%. 9		

At September 30, 2018, we had mortgage loans and accrued interest receivable from related parties, net of allowances, totaling $13.6 million. As of September 30, 2018, we recognized interest income of $1.3 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. (Limestone Ranch)	12/32	12.00 %	1,953	Secured
Unified Housing Foundation, Inc. (Timbers of Terrell)	12/32	12.00 %	1,323	Secured
Accrued interest			451	
Total Performing			$13,577	

All are related party notes.

NOTE 4. 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 table below reflects the various transactions between IOR, Pillar, and TCI (dollars in thousands):

	TCI
Balance, December 31, 2017	$49,631
Cash transfers	1,645
Advisory fees	(500)
Net income fee	(489)
Cost reimbursements	(201)
Expenses paid by advisor	722
Proceeds from sale of land	22,550
Transfer additional real estate land	7,490
Interest income	1,982
Income tax	(1,902)
Deferred tax asset	792
Balance, September 30, 2018	$81,720

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 5. OPERATING SEGMENTS

The Company's segments are based on management's 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. 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 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 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.

Presented below is the operating segment information for the three months ended September 30, 2018 and 2017 (dollars in thousands):

For the Three Months Ended September 30, 2018	Land	Other	Total
Operating revenues	$ —	$—	$—
Interest income from related parties	—	1,201	$1,201
Gain on real estate land sales		7,323	7,323
Income tax expense		(1,902)	(1,902)
Segment operating income	$ —	$6,622	$6,622

For the Three Months Ended September 30, 2017	Land	Other	Total
Operating revenues	$ —	$—	$—
Interest income from related parties	—	924	924
Segment operating income	$ —	$924	$924

The table below reflects the reconciliation of the segment information to the corresponding amounts in the Consolidated Statements of Operations (dollars in thousands):

	For the Three Months Ended September 30,	
	2018	2017
Segment operating income	$6,622	$924
Other non-segment items of income (expense)		
General and administrative	(83)	(93)
Net income fee	(383)	(53)
Advisory fee to related party	(168)	(166)
Net income from continuing operations	$5,988	$612

Presented below is the operating segment information for the nine months ended September 30, 2018 and 2017 (dollars in thousands):

For the Nine Months Ended September 30, 2018	Land	Other	Total
Interest income from related parties	$ —	$3,324	$3,324
Gain on real estate land sales	—	7,323	7,323
Income tax expense		(1,902)	(1,902)
Segment operating income	$ —	$8,745	$8,745
Real estate assets	$ —	$—	$—

For the Nine Months Ended September 30, 2017	Land	Other	Total
Operating revenues	$—	$—	$—
Interest income from related parties	—	3,133	3,133
Segment operating income	$—	$3,133	$3,133
Real estate assets	$22,717	$—	$22,717

The table below reflects the reconciliation of the segment information to the corresponding amounts in the Consolidated Statements of Operations (dollars in thousands):

	Nine Months Ended September 30,	
	2018	2017
Segment operating income	$8,745	$3,133
Other non-segment items of income (expense)		
General and administrative	(359)	(342)
Net income fee to related party	(489)	(189)
Advisory fee to related party	(500)	(493)
Other income	—	250
Income tax expense	—	—
Net income from continuing operations	$7,397	$2,359

The table below reflects the reconciliation of the segment information to the corresponding amounts in the Consolidated Balance Sheets (dollars in thousands):

	As of September 30,	
	2018	2017
Real estate assets	$—	$22,717
Notes and interest receivable	13,577	13,577
Other assets	81,721	52,444
Total assets	$95,298	$88,738

NOTE 6. TAXES

IOR has taxable income for the nine months ended September 30, 2018 on a standalone basis. This taxable income will be offset by the sharing of NOLs from the MRHI consolidated group. The income tax expense for the nine months ended September 30, 2018 is $1.9 million.

NOTE 7. 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.

NOTE 8. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through November 13, 2018, 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:

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 construction and mortgage financing and the use of debt to fund acquisitions and developments;

demand for apartments and commercial properties in the Company's markets and the effect on occupancy and rental rates;

the Company's ability to obtain financing, enter into joint venture arrangements in relation to or self-fund the development or acquisition of properties;

risks associated with the timing and amount of property sales and the resulting gains/losses associated with such sales;

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; 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, 2017.

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 real estate investment company. We have no employees.

Our primary source of revenue is from the interest income on approximately $13.1 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 is the Company's external Advisor and Cash Manager. Although the Board of Directors is directly responsible for managing the affairs of IOR, and for setting the policies which guide it, 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 real estate and real estate-related investment opportunities and arranging debt and equity financing for the Company with third party lenders and investors. 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, 2018, IOR is not the primary beneficiary of a VIE.

The Company does not have any entities in which we have less than a controlling financial interest or entities where it is not deemed to be the primary beneficiary.

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.

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 cease capitalization when a building is considered substantially complete and ready for its intended use, but no later than one year from the cessation of major construction activity.

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.

Recognition of Revenue

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

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 Topic 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 account 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.

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.

Results of Operations

The following discussion is based on our “Statement of Operations” for the three and nine months ended September 30, 2018 and 2017, 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 current operations consist of land held subject to a sales contract. Our operating expenses consist mainly of general and administration costs related to the Company.

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%. We have receivables from related parties which also provide interest income.

Comparison of the three months ended September 30, 2018 to the same period ended 2017:

We had net income of $5.9 million or $1.44 per diluted share for the three months ended September 30, 2018, as compared to net income of $0.6 million or $0.15 per diluted share for the same period ended 2017.

Revenues

Land held subject to a sales contract is our sole operating segment. There was no income generated from this segment for the three months ended September 30, 2017. As of September 30, 2018, all land was sold and a gain in the amount of $7.3 million was recognized.

Expenses

There were no property operating expenses for the three months ended September 30, 2018 as well as in the prior period.

General and administrative expenses were $83,000 for the three months ended September 30, 2018. This represents a decrease of $10,000, as compared to the prior period general and administrative expenses of $93,000. This decrease was primarily due to an increase in audit fees and cost reimbursements to our Advisor of approximately $2,000 offset by a decrease in legal fees of approximately $12,000.

Advisory fees were $168,000 for the three months ended September 30, 2018 compared to $166,000 for the same period of 2017 for an increase of $2,000. 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 $330,000 to $383,000 for the three months ended September 30, 2018 compared to the prior period. The net income fee paid to our Advisor is calculated at 7.5% of net income.

Other income (expense)

Interest income increased to $1.2 million for the three months ended September 30, 2018 compared to $0.9 million for the same period of 2017. The increase of $0.3 million was due primarily to increase in advisory fee balance.

Comparison of the nine months ended September 30, 2018 to the same period ended 2017:

We had net income of $7.4 million or $1.77 earnings per diluted share for the nine months ended September 30, 2018 compared to net income of $2.4 million or $0.57 earnings per diluted share for the same period in 2017.

Revenues

Land held for development or sale is our sole operating segment. There was no income generated from this segment for the nine months ended September 30, 2017. As of September 30, 2018, all land was sold and a gain in the amount of $7.3 million was recognized.

Expenses

There were no property operating expenses for the nine months ended September 30, 2018 as well as in the prior period.

General and administrative expenses were $359,000 for the nine months ended September 30, 2018 compared to $342,000 for the prior period for an increase of $17,000. The increase was primarily due to an increase in audit and stock transfer fees and cost reimbursements to our Advisor of approximately $39,000 offset by a decrease in legal fees of approximately $22,000.

Advisory fees were $500,000 for the nine months ended September 30, 2018 compared to $493,000 for the same period of 2017 for an increase of $7,000. 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 $300,000 for the nine months ended September 30, 2018 compared to the prior period. The net income fee paid to our Advisor is calculated at 7.5% of net income.

Other income (expense)

Interest income was $3.3 million for the nine months ended September 30, 2018. This represents an increase of $0.2 million as compared to interest income of $3.1 million for the nine months ended September 30, 2017.

Liquidity and Capital Resources

General

Our principal liquidity needs are:

meet debt service requirements including balloon payments;

fund normal recurring expenses;

fund capital expenditures; and

fund new property acquisitions.

Our primary source of cash is from collection on receivables, sale of assets, and the refinancing of existing mortgages. We will refinance debt obligations as they become due and generate cash from interest payments on notes receivable and the sale of properties. However, if refinancing and excess cash from operations does not prove to be sufficient to satisfy all our obligations as they mature, we may sell real estate, refinance real estate, and incur additional borrowings secured by real estate to meet our cash requirements.

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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):

	September 30,		
	2018	2017	Variance
Net cash provided by operating activities	$1,256	$12,626	$(11,370)
Net cash used in investing activities	$(1,257)	$(12,623)	$11,366
Net cash used in financing activities	$—	$—	$—

The primary use of cash for operations is daily operating costs, general and administrative expenses, advisory fees, and land holding costs. 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 2018 and 2017.

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, depreciation on owned properties, 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 2018 on a standalone basis. This taxable income will be offset by the sharing of NOLs from the MRHI consolidated group. The income tax expense for the nine months ending September 30, 2018 is $1.9 million.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At September 30, 2018, the Company had no outstanding debt and has no exposure to quantitative or qualitative issues.

ITEM 4. CONTROLS AND PROCEDURES

As indicated in the certifications in Exhibit 31 of this report, the Company's Principal Executive Officer and Principal Financial Officer have evaluated the Company's disclosure controls and procedures as of September 30, 2018. Based on that evaluation, these officers have concluded that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is accumulated and communicated to them in a manner that allows for timely decisions regarding required disclosures and are effective in ensuring that such information is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. There were no changes during the Company's last fiscal quarter that materially affected or are reasonably likely to materially affect the Company's 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 second quarter of 2018. As of September30, 2018, 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 Executive Officer pursuant to Rule 13a-14 and 15d-14 under the Securities Exchange Act of 1934, as amended.
31.2 *	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.

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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 13, 2018	By: /s/ Daniel J. Moos Daniel J. Moos President and Chief Executive Officer (Principal Executive Officer)
Date: November 13, 2018	By: /s/ Gene S. Bertcher Gene S. Bertcher Executive Vice President and Chief Financial Officer (Principal Financial Officer)

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