INCOME OPPORTUNITY REALTY INVESTORS INC /TX/
Form DEF 14A
November 08, 2006

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

SCHEDULE 14 A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange of 1934

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box;

o Preliminary Proxy Statement.

o CONFIDENTIAL, FOR USE OF THE COMMISSION ONLY (AS PERMITTED BY RULE 14a-6(e)(2)).

þ Definitive Proxy Statement.

o Definitive Additional Materials.

o Soliciting Material Pursuant to Section 140.14A-11(c) or Section 240.14a-12.

INCOME OPPORTUNITY REALTY INVESTORS, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

þ No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(l) and 0-11.

1) Title of each class of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

INCOME OPPORTUNITY REALTY INVESTORS, INC.
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON DECEMBER 14, 2006

Income Opportunity Realty Investors, Inc. will hold its Annual Meeting of Stockholders on Thursday, December 14, 2006, at 1:30 p.m., local Dallas, Texas time, at 1800 Valley View Lane, Suite 300. Dallas, Texas 75234. The purpose of the meeting is to consider and act upon:

Election of a Board of five directors to serve until the next Annual Meeting of Stockholders and until their successors are duly-elected and qualified.

Ratification of the selection of Swalm & Associates, P.C. as the independent registered public accounting firm.

Such other matters as may properly be presented at the Annual Meeting.

Only Stockholders of record at the close of business on November 3, 2006, will be entitled to vote at the meeting.

Your vote is important. Whether or not you plan to attend the meeting, please complete, sign, date and return the enclosed proxy card in the accompanying envelope provided. Your completed proxy will not prevent you from attending the meeting and voting in person should you choose.

Dated: November 7, 2006.

By order of the Board of Directors,
/s/ Louis J. Corna
Louis J. Corna
Executive Vice President, General Counsel,
Tax Counsel and Secretary

INCOME OPPORTUNITY REALTY INVESTORS, INC.
PROXY STATEMENT
FOR THE ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD DECEMBER 14, 2006

The Board of Directors of Income Opportunity Realty Investors. Inc. (the Company or we or us) is soliciting proxies to be used at the 2006 Annual Meeting of Stockholders (the Annual Meeting). Distribution of this Proxy Statement and a Proxy Form is scheduled to begin on November 7, 2006. The mailing address of the Company s principal executive offices is 1755 Wittington Place, Suite 340. Dallas, Texas 75234.

About the Meeting

Who Can Vote

Record holders of Common Stock of the Company at the close of business on November 3, 2006 (the Record Date) may vote at the Annual Meeting. On that date, 4,168,035 shares of Common Stock were outstanding. Each share is entitled to cast one vote.

How Can You Vote

If you return your signed proxy before the Annual Meeting, we will vote your shares as you direct. You can specify whether your shares should be voted for all, some or none of the nominees for director. You can also specify whether you approve, disapprove or abstain from the other proposal to ratify the selection of auditors.

If a proxy is executed and returned but no instructions are given, the shares will be voted according to the recommendations of the Board of Directors. The Board of Directors recommends a vote **FOR** Proposals 1 and 2.

Revocation of Proxies

You may revoke your proxy at any time before it is exercised by (a) delivering a written notice of revocation to the Corporate Secretary, (b) delivering another proxy that is dated later than the original proxy, or (c) casting your vote in person at the Annual Meeting. Your last vote will be the vote that is counted.

Vote Required

The holders of a majority of the shares entitled to vote who are either present in person or represented by a proxy at the Annual Meeting will constitute a quorum for the transaction of business at the Annual Meeting. As of November 3, 2006, there were 4,168,035 shares of Common Stock issued and outstanding. The presence, in person or by proxy, of stockholders entitled to cast at least 2,084,018 votes constitutes a quorum for adopting the proposals at the Annual Meeting. If you have properly

signed and returned your proxy card by mail, you will be considered part of the quorum, and the persons named on the proxy card will vote your shares as you have instructed. If broker holding your shares in street name indicates to us on a proxy card that the broker lacks discretionary authority to vote your shares, we will not consider your shares as present or entitled to vote for any purpose.

A plurality of the votes cast is required for the election of directors. This means that the director nominee with the most votes for a particular slot is elected to that slot, A proxy that has properly withheld authority with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for purposes of determining whether there is a quorum.

For the other proposal, the affirmative vote of the holders of a majority of the shares representing in person or by proxy entitled to vote on the proposal will be required for approval. An abstention with respect to such proposal will not be voted, although it will be counted for purposes of determining whether there is a quorum. Accordingly, an abstention will have the effect of a negative vote.

As of the Record Date, two affiliates held 3,419,853 shares representing approximately 82.05% of the shares outstanding. These two affiliates have advised the Company that they currently intend to vote all of their shares in favor of the approval of all proposals.

If you received multiple proxy cards, this indicates that your shares are held in more than one account, such as two brokerage accounts, and are registered in different names. You should vote each of the proxy cards to ensure that all your shares are voted.

Other Matters to he Acted Upon at the Annual Meeting

We do not know of any other matters to be validly presented or acted upon at the Annual Meeting. Under our Bylaws, no business besides that stated in the Annual Meeting Notice may be transacted at any meeting of stockholders. If any other matter is presented at the Annual Meeting on which a vote may be properly taken, the shares represented by proxies will be voted in accordance with the judgment of the person or persons voting those shares.

Expenses of Solicitation

The Company is making this solicitation and will pay the entire cost of preparing, assembling, printing, mailing and distributing these proxy materials and soliciting votes. Some of our directors, officers and employees may solicit proxies personally, without any additional compensation, by telephone or mail. Proxy materials will also be furnished without cost to brokers and other nominees to forward to the beneficial owners of shares held in their names.

Available Information

Our internet website address is *www.incomeopp-realty.com.* We make available free of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, reports filed pursuant to Section 16 and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such materials to the Securities and Exchange Commission. In addition, we have posted the Charters of our Audit Committee, Compensation Committee, and our Governance and Nominating Committee, as well as our Code of

Business Conduct and Ethics, Code of Ethics for Senior Financial Officers, Corporate Governance Guidelines and Director Independence Standards, all under separate headings. These charters and principles are not incorporated in this instrument by reference. We will also provide a copy of these documents free of charge to stockholders upon written request. The Company issues Annual Reports containing audited financial statements to its common stockholders.

Questions

You may call our Investor Relations Department at 800-400-6407 if you have any questions.

PLEASE VOTE YOUR VOTE IS IMPORTANT

Corporate Governance and Board Matters

The affairs of the Company are managed by the Board of Directors. The Directors are elected at the annual meeting of stockholders each year or appointed by the incumbent Board of Directors and serve until the next annual meeting of stockholders or until a successor has been elected or approved.

After December 31, 2003, a number of changes occurred in the composition of the Board of Directors of the Company, the creation of certain Board Committees, the adoption of Committee charters, the adoption of a Code of Ethics for Senior Financial Officers and the adoption of Guidelines for Director Independence. Also, the composition of the members of the Board of Directors changed with the resignations of Henry A. Butler (July 1. 2003), Earl D. Cecil (February 29, 2004) and Martin L. White (March 15, 2004), as well as the election of Ken L. Joines as a Director in July 2003, and independent Directors. David E. Allard and Peter L. Larsen on February 20, 2004, and Robert A. Jakuszewski on March 16, 2004. Additionally, on June 2, 2003, Basic Capital Management. Inc. (BCM) sold a total of 781,773 shares of Common Stock of the Company (approximately 54.3% of the outstanding) as a block to Syntek West, Inc. (SWI). SWI also purchased 12.600 shares of Common Stock of the Company in open market purchase transactions which increased SWI s ownership to 794,223 shares (approximately 57.17% of the outstanding shares). On June 30, 2003, SWI replaced BCM as the contractual advisor to the Company. On June 10, 2005, the Company s Common Stock was the subject of a 3-for-1 forward split of the stock which increased SWI s ownership to 2,382,669 shares. On July 31, 2006, Ken L. Joines, resigned as a director to pursue other opportunities. On August 1, 2006, the members of the Board elected R. Neil Crouch to fill the vacancy created by Ken L. Joines resignation.

Current members of the Board

The members of the Board of Directors (all of whom except R. Neil Crouch were elected by the stockholders and the last Annual Meeting held on December 15, 2005) on the date of this proxy statement, and the committees of the Board on which they serve, are identified below:

Director	Audit Committee	Compensation Committee	Governance and Nominating Committee
David E. Allard	Chair	ü	ü
R. Neil Crouch			
Robert A. Jakuszewski	ü	ü	ü
Peter L. Larsen	ü	Chair	Chair
Ted P. Stokely			

Role of the Board s Committees

The Board of Directors has standing Audit, Compensation and Governance and Nominating Committees.

Audit Committee. The functions of the Audit Committee are described below under the heading *Report of the Audit Committee.* The charter of the Audit Committee was adopted on March 22, 2004, and is available on the Company s Investor Relations website *(www.incomeopp-realty.com).* The Audit Committee was formed on February 20, 2004, and the Board selected the current members of the Audit Committee for 2004. The Board reappointed the members of the Audit Committee on September 16, 2004, and December 15, 2005. All of the members of the Audit Committee are independent within the meaning of SEC regulations, the listing standards of the American Stock Exchange and the Company s *Corporate Governance Guidelines.* Mr. Allard, a member of the Committee, is qualified as an audit committee financial expert within the meaning of SEC regulations and the Board has determined that he has accounting and related financial management expertise within the meaning of the listing standards of the American Stock Exchange. All of the members of the Audit Committee meet the independence and experience requirements of the listing standards of the American Stock Exchange. The Audit Committee met ten times in 2005.

Governance and Nominating Committee. The Governance and Nominating Committee is responsible for developing and implementing policies and practices relating to corporate governance, including reviewing and monitoring implementation of the Company s *Corporate Governance Guidelines.* In addition, the Committee develops and reviews background information on candidates for the Board and makes recommendations to the Board regarding such candidates. The Committee also prepares and supervises the Board s annual review of director independence and the Board s performance self-evaluation. The charter of the Governance and Nominating Committee was adopted on March 22, 2004, and is available on the Company s Investor Relations website *(www.incomeopp-realty.com).* On March 22, 2004, the Board selected the members of the Governance and Nominating Committee for 2004. The Board reappointed the members of the Governance and Nominating Committee on September 16, 2004, and December 15, 2005. All of the members of the Committee are independent within the meaning of the listing standards of the American Stock Exchange and the Company s *Corporate Governance Guidelines.* The Governance and Nominating Committee met one time in 2005.

Compensation Committee. The Compensation Committee is responsible for overseeing the policies of the Company relating to compensation to be paid by the Company to the Company s principal executive officer and any other officers designated by the Board and make recommendations to the Board with respect to such policies, produce necessary reports on executive compensation for inclusion in the Company s proxy statement in accordance with applicable rules and regulations and to monitor the development and implementation of succession plans for the principal executive officer and other key executives and make recommendations to the Board with respect to such plans. The charter of the Compensation Committee was adopted on March 22, 2004, and is available on the Company s Investor Relations website *(www.incomeopp-realty.com).* On March 22, 2004, the Board selected the members of the Compensation Committee for the coming year. The Board reappointed the members of the Compensation Committee on September 16, 2004, and December 15, 2005. All of the members of the Committee are independent within the meaning of the listing standards of the American Stock Exchange and the Company s *Corporate Governance Guidelines.* The Compensation Committee is to be

comprised of at least two directors who are independent of management and the Company. The Compensation Committee met one time in 2005.

Presiding Director

In June 2004. the Board created a new position of presiding director, whose primary responsibility is to preside over periodic executive sessions of the Board in which management directors and other members of management do not participate. The presiding director also advises the Chairman of the Board and, as appropriate. Committee chairs with respect to agendas and information needs relating to Board and Committee meetings, provides advice with respect to the selection of Committee chairs and performs other duties that the Board may from time to time delegate to assist the Board in the fulfillment of its responsibilities.

Director Peter L, Larsen has served in such position since June 2004. In December 2005. the non-management members of the Board designated him to serve in this position until the Company s annual meeting of stockholders to be held following the fiscal year ended December 31, 2005.

Selection of Nominees for the Board

The Governance and Nominating Committee will consider candidates for Board membership suggested by its members and other Board members, as well as management and stockholders. The Committee may also retain a third-party executive search firm to identify candidates upon request of the Committee from time to time. A stockholder who wishes to recommend a prospective nominee for the Board should notify the Company s Corporate Secretary or any member of the Governance and Nominating Committee in writing with whatever supporting material the stockholder considers appropriate. The Governance and Nominating Committee will also consider whether to nominate any person nominated by a stockholder pursuant to the provisions of the Company s bylaws relating to stockholder nominations.

Once the Governance and Nominating Committee has identified a prospective nominee, the Committee will make an initial determination as to whether to conduct a full evaluation of the candidate. This initial determination will be based on whatever information is provided to the Committee with the recommendation of the prospective candidate, as well as the Committee s own knowledge of the prospective candidate, which may be supplemented by inquiries to the person making the recommendation or others. The preliminary determination will be based primarily on the need for additional Board members to fill vacancies or expand the size of the Board and the likelihood that the prospective nominee can satisfy the evaluation factors described below. If the Committee determines, in consultation with the Chairman of the Board and other Board members as appropriate, that additional consideration is warranted, it may request the third-party search firm to gather additional information about the prospective nominee s background and experience and to report its findings to the Committee. The Committee will then evaluate the prospective nominee against the standards and qualifications set out in the Company s *Corporate Governance Guidelines,* including:

the ability of the prospective nominee to represent the interests of the stockholders of the Company;

the prospective nominee s standards of integrity, commitment and independence of thought and judgment;

the prospective nominee s ability to dedicate sufficient time, energy and, attention to the diligent performance of his or her duties, including the prospective nominee s service on other public company boards, as specifically set out in the Company s *Corporate Governance Guidelines*;

the extent to which the prospective nominee contributes to the range of talent, skill and expertise appropriate for the Board:

the extent to which the prospective nominee helps the Board reflect the diversity of the Company s stockholders, employees, customers, guests and communities; and

the willingness of the prospective nominee to meet any minimum equity interest holding guideline.

The Committee also considers such other relevant factors as it deems appropriate, including the current composition of the Board, the balance of management and independent directors, the need for Audit Committee expertise and the evaluations of other prospective nominees. In connection with this evaluation, the Committee determines whether to interview the prospective nominee, and if warranted, one or more members of the Committee, and others as appropriate, interview prospective nominees in person or by telephone. After completing this evaluation and interview, the Committee makes a recommendation to the full Board as to the persons who should be nominated by the Board, and the Board determines the nominees after considering the recommendation and report of the Committee.

The Bylaws of the Company provide that any stockholder entitled to vote in the election of directors generally may nominate one or more persons for election as directors at a meeting only if written notice of such stockholders intention to make such nomination has been delivered personally to. or has been mailed to and received by the Secretary at the principal office of the Company not later than 35 nor more than 60 days prior to the date of the meeting. If a stockholder has a suggestion for candidates for election, the stockholder should follow this procedure. Each notice from a stockholder must set forth (i) the name and address of the stockholder who intends to make the nomination and the name of the person to be nominated, (ii) the class and number of shares of stock held of record, owned beneficially and represented by proxy by such stockholder as of the record date for the meeting and as of the date of such notice, (iii) a representation that the stockholder intends to appear in person or by proxy at the meeting to nominate the person specified in the notice, (iv) a description of all arrangements or understandings between such stockholder and each nominee and any other person {naming those persons) pursuant to which the nomination is to be made by such stockholder, (v) such other information regarding each nominee proposed by such stockholder as would be required to be included in a proxy statement filed pursuant to the proxy rules, and (vi) the consent of each nominee to serve as a director of the Company if so elected. The chairman of the Annual Meeting may refuse to acknowledge the nomination of any person not made in compliance with this procedure.

Determinations of Director Independence

In February 2004, the Board enhanced its *Corporate Governance Guidelines.* The *Guidelines* adopted by the Board meet or exceed the new listing standards adopted during the year by the American Stock Exchange. The full text of the *Guidelines* can be found in the Investor Relations section of the

Company s website *(www.incomeopp-realty.com).* A copy may also be obtained upon request from the Company s Corporate Secretary.

Pursuant to the *Guidelines* the Board undertook its annual review of director independence in March 2006. During this review, the Board considered transactions and relationships between each director or any member of his or her immediate family and the Company and its subsidiaries and affiliates, including those reported under *Certain Relationships and Related Transactions* below. The Board also examined transactions and relationships between directors or their affiliates and members of the Company s senior management or their affiliates. As provided in the *Guidelines*, the purpose of this review was to determine whether any such relationships or transactions were inconsistent with a determination that the director is independent.

As a result of this review, the Board affirmatively determined of the then directors, Messrs. Allard, Jakuszewski and Larsen are each independent of the Company and its management under the standards set forth in the *Corporate Governance Guidelines.*

Board Meetings During Fiscal 2005

The Board met 14 times during fiscal 2005. Each director attended all of the meetings of the Board and Committees on which he served. Under the Company s *Corporate Governance Guidelines*, each Director is expected to dedicate sufficient time, energy an attention to ensure the diligent performance of his or her duties, including by attending meetings of the stockholders of the Company, the Board and Committees of which he is a member. In addition, the independent directors met in executive session three times during fiscal 2005.

Directors Compensation

Each non-employee director receives an annual retainer of $15,000 plus reimbursement for expenses. The Chairman of the Board receives an additional fee of $1,500 per year. The members of the Audit Committee receive a fee of $250 for each Committee meeting attended. In addition, each independent director receives an additional fee of $1,000 per day for any special services rendered by him to the Company outside of his or ordinary duties as a director plus reimbursement of expenses. The Company also reimburses directors for travel expenses incurred in connection with attending Board, committee and stockholder meetings and for other Company-business related expenses. Directors who are also employees of the Company or its Advisor receive no additional compensation for service as a director.

During 2005, $69,750 was paid to the non-employee directors in total directors fees for all services, including the annual fee for service during the period from January 1, 2005 through December 31, 2005. Those fees received by directors were Ted P. Stokely ($16,500). David E. Allard ($17,750), Robert A. Jakuszewski ($17,750) and Peter L. Larsen ($17,750).

Stockholders Communication with the Board

Stockholders and other parties interested in communicating directly with the presiding director or with the non-Management directors as a group may do so by writing to David E. Allard, Director, 1525 N. Stemmons Freeway, Dallas, Texas 75207-3410. Effective March 22, 2004, the Governance and Nominating Committee of the Board also approved a process for handling letters received by the

Company and addressed to members of the Board but received at the Company. Under that process, the Corporate Secretary of the Company reviews all such correspondence and regularly forwards to the Board a summary of all such correspondence and copies of all correspondence that, in the opinion of the Corporate Secretary, deals with the functions of the Board or committees thereof or that he otherwise determines requires their attention. Directors may at any time review a log of all correspondence received by the Company that is addressed to members of the Board and received by the Company and request copies of any such correspondence. Concerns relating to accounting, internal controls or auditing matters are immediately brought to the attention of the Chairman of the Audit Committee and handled in accordance with procedures established by the Audit Committee with respect to such matters.

Code of Ethics

The Company has adopted a Code of Business Conduct and Ethics, which applies to all directors, officers and employees (including those of the Contractual Advisor), In addition, the Company has adopted a code of ethics entitled Code of Ethics for Senior Financial Officers that applies to the principal executive officer, president, principal financial officer, chief financial officer, the principal accounting officer and controller. The text of both documents is available on the Company s Investor Relations website *(www.incomeopp-realty.com).* The Company intends to post amendments to or waivers from its Code of Ethics for Senior Financial Officers (to the extent applicable to the Company s chief executive officer, principal financial officer or principal accounting officer) at this location on its website.

Compliance With Section 16(a) of Reporting Requirements

Section 16(a) under the Securities Exchange Act of 1934 requires the Company s directors, executive officers and any persons holding 10% or more of the Company s shares of Common Stock are required to report their ownership of the Company s shares of Common Stock and any changes in that ownership to the Securities and Exchange Commission (the Commission) on specified report forms. Specific due dates for these reports have been established, and the Company is required to report any failure to file by these dates during each fiscal year. All of these filing requirements were satisfied by the Company s directors and executive officers and holders of more than 10% of the Company s Common Stock during the fiscal year ended December 31, 2005. In making these statements, the Company has relied upon the written representations of its directors and executive officers and the holders of 10% or more of the Company s Common Stock and copies of the reports that each has filed with the Commission.

Security Ownership of Certain Beneficial Owners and Management

Security Ownership of Certain Beneficial Owners

The following table sets forth the ownership of the Company s Common Stock, both beneficially and of record, both individually and in the aggregate, for those persons or entities known by the Company to be the beneficial owners of more than 5% of its outstanding Common Stock as of the close of business on November 3, 2006.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership*	Approximate Percent of Class**
Syntek West, Inc. 755 Wittington Place, Suite 340 Dallas, Texas 75234	2,382,669	57.17%
Transcontinental Realty Investors, Inc. 1800 Valley View Lane, Suite 300 Dallas, Texas 75234	1,037,184	24.88%

Security Ownership of Management

The following table sets forth the ownership of the Company s Common Stock, both beneficially and of record, both individually and in the aggregate for the directors and executive officers of the Company as of the close of business on November 3, 2006:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership*	Approximate Percent of Class**
Steven A. Abney	1,037,184(1)	24.88%
David E. Allard	-0-	
Henry A. Butler	1,037,184(1)	24.88%
Louis J. Corna	1,037,184(1)	24.88%
R. Neil Crouch	2,382,669(2)	57.17%
Sharon Hunt	1,037,184(1)	24.88%
Robert A. Jakuszewski	1,037,184(1)	24.88%
Peter L. Larsen	-0-	
Ted R. Munselle	1,037,184(1)	24.88%
Gene E. Phillips	2,382,669(2)	57.17%
Ted P. Stokely	1,037,184(1)	24.88%
All directors and executive officers as a group (twelve people)	3,419,853(1)(2)	82.05%

* Beneficial Ownership means the sole or shared power to vote, or to direct the voting of a security or investment power with respect to a security, or any combination thereof.

**

Percentages are based upon 4,168,035 shares of Common Stock outstanding at November 3, 2006.

(1) Includes 1,037,184 shares owned by Transcontinental Realty Investors, Inc. (TCI), of which the directors and executive officers of TCI may be deemed to be the beneficial owners by virtue of their positions as directors and executive officers. Each of the current directors (Messrs. Butler, Jakuszewski, Munselle and Stokely and Ms. Hunt) and executive officers (Messrs. Abney and Corna) of TCI disclaim beneficial ownership of such shares.

(2) includes 2,382,669 shares owned by SWI, of which the directors and executive officers of SWI (Messrs. Crouch and Phillips) may be deemed to be the beneficial owners by virtue of their positions as directors and executive

officers of SWI.

PROPOSAL I
ELECTION OF DIRECTORS

Five directors are to be elected at the Annual Meeting. Each director elected will hold office until the 2007 Annual Meeting. All of the nominees for director are now serving as directors. Each of the nominees has consented to being named in this proxy statement as a nominee and has agreed to serve as a director if elected. The persons named on the proxy card will vote for all of the nominees for director listed unless you withhold authority to vote for one or more of the nominees. The nominees receiving a plurality of votes cast at the Annual Meeting will be elected as directors. Abstentions and broker non-votes will not be treated as a vote for or against any particular nominee and will not affect the outcome of the election of directors. Cumulative voting for the election of directors is not permitted. If any director is unable to stand for re-election, the Board will designate a substitute. If a substitute nominee is named, the persons named on the proxy card will vote for the election of the substitute director.

The nominees for directors are listed below, together with their ages, terms of service, all positions and offices with the Company or the Company s advisor, SWI, other principal occupations, business experience and directorships with other companies during the last five years or more. The designation affiliated when used below with respect to a director means that the director is an officer, director or employee of the Company or the advisor.

David E. Allard, 47

Chief Financial Officer (since February 2005) of Digital Witness Surveillance, a Dallas, Texas-based development stage software provider: Executive Vice President and Secretary (April 2003 to February 2, 2005) of Internet America, Inc. Mr. Allard was Chief Operating Officer (2000-2002) of Primedia Workplace Learning, a workplace training business; Executive Vice President and Chief Financial Officer (1999-2000) of E-Train, Inc., a provider of online job training and seminars; Special Advisor (1998-1999) of Thayer Capital Partners: Chief Operating Officer (1997-1998) of Career Track. Inc. (a TCI subsidiary): Senior Vice President and Vice President Business Development (1992-1996) of Westcott Communications, Inc.: Partner (1985-1992) of Farmer and Allard. P.C. (a CPA firm); Audit Manager/CPA (1983-1985) of Grant Thornton LLP (a CPA firm). Mr. Allard was elected as a director of the Company on February 20, 2004. Mr. Allard has been a director of the Company since February 20, 2004.

R. Neil Crouch, 54

President Eurgenergy Resources. Inc., a Nevada corporation (ERI) engaged in the exploration and development of oil. gas and mineral interests since January 2005, ERI is a subsidiary of SWI, Mr. Crouch is also a director Vice President, Secretary and Treasurer of SWI since August 1, 2006. Mr. Crouch was elected as a director of the company on August, 2006. He was Executive Vice President and Chief Financial Officer of the Company from September 17. 2004 to December 16, 2005. Mr. Crouch was Corporate Controller (from September 2002 to September 15, 2004) of Apptricity Corporation, a small Dallas, Texas-based software development company; prior thereto (from January 1999 to September 2002) he was Corporate Controller of Attenza. Inc., a Dallas. Texas web-based computer self-help company. Mr. Crouch has been a Certified Public Accountant since 1981.

Robert A. Jakuszewski, 43

Vice President Sales and Marketing (since September 1998) of New Horizons Communications. Inc. Mr. Jakuszewski was a Consultant (01/1998-09/1998) for New Horizon Communications. Inc.: Regional Sales Manager (1996-1998) of Continental Funding: Territory Manager (1992-1996) of Sigvaris. Inc.: Senior Sales Representative (1988-1992) of Mead Johnson Nutritional Division. USPNG: Sales Representative (1986-1987) of Muro Pharmaceutical. Inc. Mr. Jakuszewski was elected a director of the Company on March 16, 2004.

Peter L. Larscn, 64

Mr. Larsen has been involved in the commercial real estate industry since 1972. From 1996 through 2002, he was Senior Vice President of Acquisitions of Tarragon Corporation (formerly Tarragon Realty Investors, Inc.). and its predecessors, a publicly-held real estate entity, the common stock of which is traded on the NASDAQ National Market. Since 1992. Mr. Larsen has also been a director of four Texas non-profit corporations which own 545 apartment units and are overseeing the development of a multi-million dollar retirement center in Coppell, Texas. Mr. Larscn has been a director of the Company since February 20, 2004, and the Presiding Director since March 2004.

Ted P, Stokely, 72 (Affiliated)

Chairman of the Board of the Company (since January 1995). Mr. Stokely is General Manager (since January 1995) of ECF Senior Housing Corporation, a non-profit corporation; Genera! Manager (since January 1993) of Housing Assistance Foundation, Inc., a non-profit corporation; part-time unpaid Consultant (since January 1993) of Eldercare Housing Foundation, a non-profit corporation: General Manager (since April 2002) of Unified Housing Foundation, Inc.. a non-profit corporation; Director and Chairman of the Board of ARl (since November 2002); and Director (since April 1990) and Chairman of the Board (since January 1995) of TCI. Mr. Stokely has been a director of the Company since April 1990.

The Board of Directors unanimously recommends a vote FOR the election of all of the Nominees named above.

PROPOSAL 2
RATIFICATION OF APPOINTMENT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has appointed Swalm & Associates, P.C. as the independent registered public accounting firm for Income Opportunity Realty Investors. Inc. for the 2006 fiscal year and to conduct quarterly reviews through September 30, 2006. The Company s Bylaws do not require that stockholders ratify the appointment of Swalm & Associates. P.C. as the Company s independent registered public accounting firm. Swalm & Associates. P.C. has served as the Company s independent registered public accounting firm for each of the two fiscal years ended December 31, 2004 and 2005. The Audit Committee will consider the outcome of this vote in its decision to appoint an independent registered public accounting firm next year, however, it is not bound by the stockholders decision. Even if the selection is ratified, the Audit Committee, in its sole discretion, may change the appointment at any time during the year if it determines that such a change would be in the best interest of the Company and its stockholders.

A representative of Swalm & Associates, P.C. will attend the Annual Meeting. The representative will have an opportunity to make a statement if he or she desires to do so and will be available to respond to appropriate questions from the stockholders.

The Board of Directors recommends a vote FOR the ratification of the appointment of Swalm & Associates, P.C. as the Company s independent registered public accounting firm.

Changes in Registrant s Certifying Accountant

Effective June 1. 2004, Farmer. Fuqua & Huff. P.C. was engaged by the Audit Committees of two affiliates of the Company to serve as those entities independent accountant for the fiscal year ending December 31. 2004. By virtue of the other assignments for Farmer, Fuqua & Huff, P.C. with those affiliates of IOT, Farmer. Fuqua & Huff. P.C. suggested that perhaps another firm should handle the audit of IOT s financial statements for the fiscal year ending December 31, 2004 and in fact recommended Swalm & Associates, P.C. The approval of the engagement of Swalm & Associates, P.C. was given by the Audit Committee of the Board of Directors of IOT effective June 1, 2004, and a Current Report on Form 8-K for event occurring May 31. 2004 was filed with the Securities and Exchange Commission (the SEC). However, it was discovered that Swalm & Associates, P.C. had not completed the registration process with the Public Company Accounting Oversight Board (PCAOB). Accordingly, on June 17,2004. the Audit Committee of the Board of Directors (consisting of Messrs, Allard, Jakuszewski and Larscn) re-engaged Farmer, Fuqua & Huff, P.C. as the independent accountants for the Company. During the short period of time of engagement of Swalm & Associates. P.C. (from June 1, 2004 through June 17, 2004), Swalm & Associates, P.C. performed no work for the Company. In addition, during the Company s two most recent fiscal years ended December 31, 2003, and any subsequent interim period through May 31. 2004. the Company did not consult with Swalm & Associates, P.C. or any of its members about the application of accounting principles to any specified transaction or any other matter.

On July 19. 2004, the Company received notification that Swalm & Associates. P.C. s registration with the PCAOB had become effective. Effective July 22. 2004, the Audit Committee

(consisting of Messrs. A] lard, Jakuszcwski and Larsen) of the Board of Directors re-engaged the Piano. Texas firm of Swalm & Associates, P.C. as the independent accountant to audit the Company s financial statements for the fiscal year ending December 31. 2004. The engagement effective July 22, 2004 of Swalm & Associates. P.C. as the independent accountant for the Company necessarily resulted in the termination or dismissal of the principal accountant which had audited the Company s financial statements for the fiscal year ended December 31, 2003. Farmer. Fuqua & Huff, P.C. During the Company s fiscal year ended December 31,2003 and any subsequent interim period, Farmer, Fuqua & Huff, P.C. s report on the Company s financial statements for that year did not contain an adverse opinion or disclaimer of opinion nor was such opinion qualified or modified as to uncertainty, audit scope or accounting principles, and no disagreement existed between the Company and Farmer, Fuqua & Huff, P.C. concerning any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure.

Fiscal Years 2004 and 2005 Audit Firm Fee Summary

The following table sets forth the aggregate fees for professional services rendered to the Company for the years 2004 and 2005 by the Company s principal accounting firms, Farmer Fuqua & Huff. P.C. (January !, 2004 to July 22,2004) and Swalm & Associates, P.C. (July 22,2004 to December 31. 2004 and January 1. 2005 to December 31. 2005):

Type of Fees	**2005**	**2004**
Audit Fees	$ 42,262(a)	$ 55,274(b)
Audit-Related Fees	0	0
Tax Fees	2,000(a)	2,000(b)
All Other Fees	0	0
Total Fees:	$ 44,262	$ 57,204

(a) The fees paid in 2005 were to Swalm & Associates. P.C.

(b) The amount of audit fees paid to Farmer, Fuqua & Muff, P.C. for January 1,2004 to July 2. 2004. was 548,274: the amount of audit fees paid to Swalm & Associates, P.C. for July 22, 2004 through December 31.2004 was $7,000. All tax fees for 2004 were paid to Farmer, Fuqua & Huff. P.C.

All services rendered by the principal auditors are permissible under applicable laws and regulations and were pre-approved by either the Board of Directors or the Audit Committee, as required by law. The fees paid the principal auditors for services as described in the above table fall under the categories listed below:

Audit Fees. These are fees for professional services performed by the principal auditor for the audit of the Company s annual financial statements and review of financial statements included in the Company s 10-Q filings and services that are normally provided in connection with statutory and regulatory filing or engagements.

Audit-Related Fees. These are fees for assurance and related services performed by the principal auditor that are reasonably related to the performance of the audit or review of the Company s financial statements. These services include attestations by

the principal auditor that are not required by statute or regulation and consulting on financial accounting/reporting standards.

Tax Fees. These are fees for professional services performed by the principal auditor with respect to tax compliance, tax planning, tax consultation, returns preparation and review of returns. The review of tax returns includes the Company and its consolidated subsidiaries.

All Other Fees. These are fees for other permissible work performed by the principal auditor that do not meet the above category descriptions.

These services are actively monitored (as to both spending level and work content) by the Audit Committee to maintain the appropriate objectivity and independence in the principal auditor s core work, which is the audit of the Company s consolidated financial statements.

Report of the Audit Committee
Of the Board of Directors

The Audit Committee of the Board of Directors is composed of three directors, each of whom satisfies the requirements of independence, experience and financial literacy under the requirements of the American Stock Exchange and the SEC. The Audit Committee has directed the preparation of this report and has approved its content and submission to the stockholders.

The Audit Committee operates under a written charter adopted by the Board of Directors. The Committee s responsibilities are set forth in this charter which is available on our website at *www.incomeopprealty-invest.com.*

The Audit Committee assists the Board in fulfilling its responsibilities for general oversight of the integrity of the Company s financial statements, the adequacy of the Company s system of internal controls, the Company s risk management, the Company s compliance with legal and regulatory requirements, the independent auditors qualifications and independence, and the performance of the Company s independent auditors. The Committee has sole authority over the selection of the Company s independent auditors and manages the Company s relationship with its independent auditors. The Committee has the authority to obtain advice and assistance from outside legal, accounting or other advisors as the Committee deems necessary to carry out its duties and receive appropriate funding, as determined by the Committee, from the Company for such advice and assistance.

The Committee met eight times during 2005. The Committee schedules its meetings with a view to ensuring that it devotes appropriate attention to all of its tasks. The Committee s meetings include private sessions with the Company s independent auditors without the presence of the Company s management, as well as executive sessions consisting of only Committee members. The Committee also meets senior management from time to time.

Management is responsible for the Company s financial reporting process, including its system of internal control over financial reporting and for the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The Company s independent auditors are responsible for auditing those financial statements in accordance with professional standards and expressing an opinion as to their material conformity with accounting principles generally accepted in the United States of America and for auditing management s assessment

of, and the effective operation of. internal control over financial reporting. The Committee s responsibility is to monitor and review the Company s financial reporting process and discuss management s report on the Company s internal control over financial reporting. It is not the Committee s duty or responsibility to conduct audits or accounting reviews or procedures. The Committee has relied, without independent verification, on management s representation that the financial statements have been prepared with integrity and objectivity and in conformity with accounting principles generally accepted in the United States of America and on the opinion of the independent registered public accountants included in their report on the Committee s financial statements.

As part of its oversight of the Company s financial statements, the Committee reviews and discusses with both management and the Company s independent registered public accountants all annual and quarterly financial statements prior to their issuance. During 2005. management advised the Committee that each set of financial statements reviewed had been prepared in accordance with accounting principles generally accepted in the United States of America, and reviewed significant accounting and disclosure issues with the Committee. These reviews include discussions with the independent accountants of the matters required to be discussed pursuant to *Statement on Auditing Standards No. 61 (Codification of Statements on Auditing Standards),* including the quality (not merely the acceptability) of the Company s accounting principles, the reasonableness of significant judgments. the clarity of disclosures in the financial statements and disclosures related to critical accounting practices. The Committee has also discussed with Swalm & Associates, P.C. matters relating to its independence, including a review of audit and non-audit fees, and written disclosures from Swalm & Associates. P.C. to the Company pursuant to *Independence Standards Board Standard No. I (Independence Discussions with Audit Committees).* The Committee also considered whether non-audit services, provided by the independent accountants are compatible with the independent accountants independence. The Company also received regular updates on the amount of fees and scope of audit, audit-related and tax services provided.

In addition, the Committee reviewed key initiatives and programs aimed at strengthening the effectiveness of the Company s internal and disclosure control structure. As part of this process, the Committee continued to monitor the scope and adequacy of the Company s internal controls, reviewed staffing levels and steps taken to implement recommended improvements in any internal procedures and controls.

Based on the Committees discussion with management and the independent accountants and the Committee s review of the representation of management and the report of the independent accountants to the Board of Directors, the Audit Committee recommended to the Board of Directors, and the Board of Directors has approved, that the audited consolidated financial statements be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2005, filed with the Securities and Exchange Commission. The Audit Committee and the Board of Directors have also selected Swalm & Associates. P.C. as the Company s independent registered public accountants and auditors for the fiscal year ending December 3 L 2006.

AUDIT COMMITTEE

Peter L. Larsen David E. Allard Robert A. Jakuszewski

Pre-Approval Policy for Audit and Non-Audit Services

Under the Sarbanes-Oxley Act of 2002 (the "SO Act), and the rules of the Securities and Exchange Commission (the SEC), the Audit Committee of the Board of Directors is responsible for the appointment, compensation and oversight of the work of the independent auditor. The purpose of the provisions of the SO Act and the SEC rules for the Audit Committee role in retaining the independent auditor is two-fold. First, the authority and responsibility for the appointment, compensation and oversight of the auditors should be with directors who are independent of management. Second, any non-audit work performed by the auditors should be reviewed and approved by these same independent directors to ensure that any non-audit services performed by the auditor do not impair the independence of the independent auditor. To implement the provisions of the SO Act, the SEC issued rules specifying the types of services that an independent auditor may not provide to its audit client, and governing the Audit Committee s administration of the engagement of the independent auditor. As part of this responsibility, the Audit Committee is required to pre-approve the audit and non-audit services performed by the independent auditor in order to assure that they do not impair the auditor s independence. Accordingly, the Audit Committee has adopted a written pre-approval policy of audit and non-audit services (the Policy). which sets forth the procedures and conditions pursuant to which services to be performed by the independent auditor are to be pre-approved. Consistent with the SEC rules establishing two different approaches to approving non-prohibited services, the policy of the Audit Committee covers pre-approval of audit services, audit-related services, international administration tax services, non-U.S. income tax compliance services, pension and benefit plan consulting and compliance services, and U.S. tax compliance and planning. At the beginning of each fiscal year, the Audit Committee will evaluate other known potential engagements of the independent auditor, including the scope of work proposed to be performed and the proposed fees, and approve or reject each service, taking into account whether services are permissible under applicable law and the possible impact of each non-audit service on the independent auditor s independence from management. Typically, in addition to the generally pre-approved services, other services would include due diligence for an acquisition that may or may not have been known at the beginning of the year. The Audit Committee has also delegated to any member of the Audit Committee designated by the Board or the financial expert member of the Audit Committee responsibilities to pre-approve services to be performed by the independent auditor not exceeding $25,000 in value or cost per engagement of audit and non-audit services, and such authority may only be exercised when the Audit Committee is not in session.

Compensation Committee Report

The Compensation Committee of the Board of Directors is comprised of at least two directors who are independent of management and the Company. Each member of the Compensation Committee must be determined to be independent by the Board under the Corporate Governance Guidelines on Director Independence adopted by the Board and under the American Stock Exchange, Inc. (AMEX) standards for non-employee directors and Rule 16b-3(b)(3)(i) of the rules and regulations promulgated under the Securities Exchange Act of 1934 and the requirements for "outside directors set forth in Treasury Regulations. Section 27(e)(3). Each member of the Committee is to be free of any relationship that in the judgment of the Board from time to time may interfere with the exercise of his or her independent judgment. Each Committee member is appointed annually subject to removal at any time by the Board and serves until his or her Committee appointment is terminated by the Board. The Compensation Committee is composed of three directors, each of whom meets the standards described above.

The purposes of the Compensation Committee is to oversee the policies of the Company relating to compensation to be paid by the Company to the Company s principal executive officer (CEO) and any other officers designated by the Board and make recommendations to the Board with respect to such policies, produce necessary reports and executive compensation for inclusion in the Company s proxy statement, in accordance with applicable rules and regulations, and monitor the development and implementation of succession plans for the CEO and other key executives and make recommendations to the Board with respect to such plans.

The Company has no employees, payroll or benefit plans and pays no compensation to its executive officers. The executive officers of the Company, who are also officers or employees of Prime Income Asset Management LLC (Prime), are compensated by Prime. Such executive officers perform a variety of services for Prime, and the amount of their compensation is determined solely by Prime. Prime does not allocate the cash compensation of its officers among the various entities for which it may serve as advisor or sub-advisor.

The only remuneration paid by the Company is to directors who are not officers or directors of Prime or the advisor. These independent directors (i) review the business plan of the Company to determine that it is the best interest of the stockholders, (ii) review the advisory contract, (iii) supervise the performance of the Company s advisor, and review the reasonableness of the compensation paid to the advisor in terms of the nature and quality of services performed, (iv) review the reasonableness of the total fees and expenses of the Company, and (v) select, when necessary, a qualified, independent real estate appraiser to appraise properties acquired. See Directors Compensation for a description of the compensation paid.

The charter of the Compensation Committee was adopted on March 22, 2004, and the members of the Compensation Committee, all of whom are independent within the meaning of the listing standards of the AMEX and the Company s Corporate Governance Guidelines, are listed below. Since its formation on March 22, 2004, the Compensation Committee has annually reviewed its existing charter and regularly performed the tasks described above relating to the business plan, advisory contract, reasonableness of compensation paid to the advisor, and the reasonableness of the total fees and expenses of the Company.

COMPENSATION COMMITTEE

David E. Allard Peter L. Larsen Robert A. Jakuszewski

Compensation Committee Interlocks and Insider Participation

The Company s Compensation Committee is made up of non-employee directors who have never served as officers of, or been employed by the Company. None of the Company s executive officers serve on a board of directors of any entity that has a director or officer serving on this Committee.

Executive Officers

Executive officers of the Company are Steven A. Abney, Executive Vice President and Chief Financial Officer and Louis J. Corna, Executive Vice President General Counsel/Tax Counsel and Secretary. Messrs. Abney and Corna are employed by Prime. None of the executive officers receive any direct remuneration from the Company, nor do any hold any options granted by the Company. Their

positions with the Company are not subject to a vote of stockholders. The ages, terms of service and all positions and offices with the Company, Prime, SWI, other affiliated entities, other principal occupations, business experience and directorships with other publicly-held companies during the last five years or more are set forth below.

Steven A. Abney, 51

Executive Vice President and Chief Financial Officer (since December 2005) of the Company and (since September 2005) of ARL and TCI. Mr. Abney was Vice President Finance and Chief Accounting Officer/Principal Financial Officer (November 2001 to February 2005) of and was employed (November 2001 to August 2005) by CRT Properties. Inc. (f/k/a Koger Equity. Inc.), a Boca Raton, Florida-based real estate enterprise which had securities listed on the New York Stock Exchange until September 27, 2005. For more than four years prior thereto, Mr. Abney was the Executive Vice President and Chief Financial Officer of Konover and Associates, Inc., a privately-held real estate developer based in Farmington, Connecticut. Mr. Abney has been a Certified Public Accountant since 1980.

Louis J. Corna, 58

Executive Vice President, General Counsel/Tax Counsel and Secretary (since February 2004), Executive Vice President (October 2001 to February 2004), Executive Vice President and Chief Financial Officer (June 2001 to October 2001) and Senior Vice President Tax (December 2000 to June 2001) of the Company, TCI, ARL and BCM; Executive Vice President, General Counsel/Tax Counsel and Secretary (since February 2004), Executive Vice President Tax (July 2003 to February 2004) of Prime and PIAMI; Private Attorney (January 2000 to December 2000); Vice President Taxes and Assistant Treasurer (March 1998 to January 2000) of IMC Global, Inc.; Vice President Taxes (July 1991 to February 1998) of Whitman Corporation.

The Advisor

Although the Board of Directors is directly responsible for managing the affairs of the Company and for setting the policies which guide it, day-to-day operations are performed by a contractual advisor under the supervision of the Board of Directors. The duties of the advisor include, among other things, locating, investigating, evaluating and recommending real estate and mortgage note investment and sales opportunities, as well as financing and refinancing sources. The advisor also serves as a consultant to the Board of Directors in connection with the business plan and investment decisions made by the Board.

SWI has served as the Company s advisor since June 30, 2003. Prior to June 30, 2003, and since 1989, BCM had served as the advisor to the Company and its predecessors. SWI is 100% owned by Gene E. Phillips. Mr. Phillips is chairman, president, chief executive officer and a director of SWI, is involved in daily consultation with the officers of SWI and has significant influence over the conduct of SWI s business, including the rendering of advisory services and the making of investment decisions for itself and the Company. Mr. Joines, a director of the Company since July 2003, is an officer and a director of SWI.

Under the Advisory Agreement, SWI is required to annually formulate and submit for Board approval a budget and business plan containing a twelve-month forecast of operations and cash flow, a general plan for asset sales and purchases, borrowing activity and other investments. SWI is required

to report quarterly to the Board on the Company s performance against the business plan. In addition, all transactions require prior Board approval, unless they are explicitly provided for in the approved plan or are made pursuant to authority expressly delegated to SWI by the Board.

The Advisory Agreement also requires prior approval of the Board for the retention of all consultants and third party professionals, other than legal counsel. The Advisory Agreement provides that SWI shall be deemed to be in a fiduciary relationship to the stockholders; contains a broad standard governing SWI s liability for losses by the Company; and contains guidelines for SWI s allocation of investment opportunities as among itself, the Company and other entities it advises.

The Advisory Agreement provides for SWI to be responsible for the day-to-day operations of the Company and to receive an advisory fee comprised of a gross asset fee of 0.0625% per month (0.75% per annum) of the average of the gross asset value (total assets less allowance for amortization, depreciation or depletion and valuation reserves) and an annual net income fee equal to 7.5% of the Company s net income.

The Advisory Agreement also provides for SWI to receive an annual incentive sales fee equal to 10% of the amount, if any. by which the aggregate sales consideration for all real estate sold by the Company during the fiscal year exceeds the sum of (l) the cost of each property as originally recorded in the Company s books for tax purposes (without deduction for depreciation, amortization or reserve for losses), (2) capital improvements made to such assets during the period owned, and (3) all closing costs (including real estate commissions) incurred in the sale of such real estate. However, no incentive fee shall be paid unless (a) such real estate sold in such fiscal year, in the aggregate, has produced an 8% simple annual return on the net investment, including capital improvements, calculated over the holding period before depreciation and inclusive of operating income and sales consideration, and (b) the aggregate net operating income from all real estate owned for each of the prior and current fiscal years shall be at least 5% higher in the current fiscal year than in the prior fiscal year.

Additionally, pursuant to the Advisory Agreement, SWI or an affiliate of SWI is to receive an acquisition commission for supervising the acquisition, purchase or long-term lease of real estate equal to the lesser of (i) up to 1% of the cost of acquisition, inclusive of commissions, if any, paid to non-affiliated brokers, or (ii) the compensation customarily charged in arm s-length transactions by others rendering similar property acquisition services as an ongoing public activity in the same geographical location and for comparable property, provided that the aggregate purchase price of each property (including acquisition fees and real estate brokerage commissions) may not exceed such property s appraised value at acquisition.

The Advisory Agreement requires SWI or any affiliate of SWI to pay the Company one-half of any compensation received from third parties with respect to the origination, placement or brokerage of any loan made by the Company. However. the compensation retained by SWI or any affiliate of SWI shall not exceed the lesser of (i) 2% of the amount of the loan commitment, or (ii) a loan brokerage and commitment fee which is reasonable and fair under the circumstances.

The Advisory Agreement also provides that SWI or an affiliate of SWI is to receive a mortgage or loan acquisition fee with respect to the purchase of any existing mortgage loan equal to the lesser of (i) 1% of the amount of the loan purchased, or (ii) a brokerage or commitment fee which is reasonable and fair under the circumstances. Such fee will not be paid in connection with the origination or funding of any mortgage loan by the Company.

Under the Advisory Agreement, SWI or an affiliate of SWI also is to receive a mortgage brokerage and equity refinancing fee for obtaining loans or refinancing on properties equal to the lesser of (i) 1% of the amount of the loan or the amount refinanced, or (ii) a brokerage or refinancing fee which is reasonable and fair under the circumstances. However, no such fee shall be paid on loans from SWI or an affiliate of SWI without the approval of the Board of Directors. No fee shall be paid on loan extensions.

Under the Advisory Agreement, SWI is to receive reimbursement of certain expenses incurred by it in the performance of advisory services to the Company.

Under the Advisory Agreement, all or a portion of the annual advisory fee must be refunded by SWI if the Operating Expenses of the Company (as defined in the Advisory Agreement) exceed certain limits specified in the Advisory Agreement based on the book value, net asset value and net income of the Company during the fiscal year. SWI was required to refund $226,000 of the 2003 advisory fee under this provision.

Additionally, if management were to request that SWI render services other than those required by the Advisory Agreement. SWI or an affiliate of SWI is separately compensated for such additional services on terms to be agreed upon from time to time. As discussed below, under Property Management, the Company has hired Triad Realty Services LP (Triad), an affiliate of Prime, to provide management for the Company s properties and. as discussed below, under Real Estate Brokerage, the Company has engaged Regis Realty I LLC (Regis I), a related party, on a non-exclusive basis to provide brokerage services for the Company. SWI may assign the Advisory Agreement only with the prior consent of the Company.

Effective July 1, 2005. the Company and SWI entered into a Cash Management Agreement to further define the administration of the Company s day-to-day investment operations, relationship contracts, flow of funds and deposit and borrowing of funds. Under the Cash Management Agreement, all funds of the Company are delivered to SWI which has a deposit liability to the Company and is responsible for payment of all payables and investment of all excess funds which earn interest at the *Wall Street Journal* Prime Rate plus 1% per annum, as set quarterly on the first day of each calendar quarter. Borrowings for the benefit of the Company bear the same interest rate. The term of the Cash Management Agreement is coterminous with the Advisory Agreement, and it is automatically renewed each year unless terminated with the Advisory Agreement.

SWI may assign the Advisory Agreement only with the prior consent of the Company. The directors and principal officers of SWI are set forth below:

Name	**Office(s)**
Gene E. Phillips	Director. Chairman, President and Chief Executive Officer
R. Neil Crouch	Director. Vice President, Treasurer and Secretary

Property Management

Triad, an affiliate of Prime, provides such property management services to the Company for a fee of 6% or less of the monthly gross rents collected on residential properties and 3% or less of the monthly gross rents collected on commercial properties under its management. Triad subcontracts with other entities for the provision of the property-level management services to the Company at various

rates. The general partner of Triad is Prime Income Asset Management. Inc., a Nevada corporation (PIAMI) which is the sole member of Prime. The limited partner of Triad is Highland Realty Services, Inc. (Highland), a related party. Triad subcontracts the property-level management and leasing of five of the Company s commercial properties to Regis Realty I, LLC (Regis I), a related party, which is a company owned by Highland. Regis I also received property and construction management fees and leasing commissions in accordance with its property-level management agreement with Triad.

Real Estate Brokerage

Since January 1, 2003, Regis I provided real estate brokerage services to the Company (on a non-exclusive basis). Regis I is entitled to receive a real estate commission for property purchases and sales in accordance with a sliding scale of total fees to be paid (i) maximum fee of 4.5% on the first $2 million of any purchase or sale transaction of which no more than 3.5% would be paid to Regis I or affiliates: (ii) maximum fee of 3.5% on transaction amounts between $2 million and $5 million, of which no more than 3% would be paid to Regis I or affiliates: (iii) maximum fee of 2.5% on transaction amounts between $5 million and $10 million, of which no more than 2% would be paid to Regis I; and (iv) maximum fee of 2% on transaction amounts in excess of $10 million, of which no more than 1.5% would be paid to Regis I or affiliates.

Certain Relationships and Related Transactions

Certain Business Relationships

In February 1989, the Board of Directors of the predecessor of the Company voted to retain BCM as the predecessor s advisor. BCM is a company of which Messrs. Steven A. Abney and Louis J. Corna serve as executive officers. BCM is indirectly owned by a trust for the children of Gene E. Phillips. Mr. Phillips is not an officer or director of BCM but serves as a representative of the trust, is involved in daily consultation of the officers of BCM and has significant influence over the conduct of BCM s business, including the rendering of advisory services and the making of investment decisions for itself and for the Company. On June 30, 2003, BCM ended its advisory agreement with the Company. SWI has served as the Company s advisor since July 1, 2003. SWI is owned by Gene E. Phillips. Mr. Phillips is Chairman, President, Chief Executive Officer and a director and is involved in daily consultation with the officers of SWI and has significant influence over the conduct of SWI s business, including the rendering of advisory services and the making of investment decisions for itself and for the Company.

The Company contracts with affiliates of Prime for property management services. Currently, Triad provides such property management services. The general partner of Triad is PIAMI. The limited partner is Highland. Triad subcontracts the property-level management and leasing of five of the Company s commercial properties to Regis I, which is a company owned by Highland, Regis I is a limited liability company, the sole member of which is Highland.

Affiliates of BCM have also provided brokerage services, on a non-exclusive basis, for the Company and received brokerage commissions in accordance with a brokerage agreement. Currently, Regis I performs such brokerage services for the Company.

Messrs. Steven A. Abney and Louis J. Corna are employed by Prime, the sole member of which is PIAMI, which is owned by Realty Advisors, LLC, a Nevada limited liability company (80%) and SWI (20%). The sole member of Realty Advisors LLC is Realty Advisors, Inc., a Nevada corporation.

Messrs. Abney and Corna, executive officers of the Company, also serve as executive officers of ARI and TCI, and accordingly owe fiduciary duties to those entities as well as the Company. Mr. Crouch is an officer and director of SWI and owes fiduciary duties to SWI. Mr. Stokely is the General Manager of Unified Housing Foundation, Inc., and owes duties to this entity as well as to the Company. Messrs. Jakuszewski and Stokely, serve as directors of ARI and TCI, and owe fiduciary duties to TCI and ARI, as well as the Company under applicable law.

Related Party Transactions

Historically, the Company has engaged in and may continue to engage in business transactions, including real estate partnerships, with related parties. Management believes that all of the related party transactions represented the best investments available at the time and were at least as advantageous to the Company as could have been obtained from unrelated third parties.

On May 24, 2004, a Secured Promissory Note in the amount of $2,990,000 given by UHF for UHM to Transcontinental Eldorado, Inc. was assigned from TCI to the Company as a partial payment for TCl s repurchase of 100% of the outstanding common shares of Transcontinental Treehouse Corporation from the Company. The sale price of Treehouse-1R was $7.5 million.

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

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

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

In connection with the resolution in April 2005 of certain litigation filed August 10, 2004 by the Company, ARI and TCI, the Company owns 19.9% of Midland Odessa Properties, Inc. (formerly Innovo Realty. Inc.) (MOPI), the balance of which is owned by ARI and TCI. MOPI in turn is a 30% limited partner in several Metra partnerships formed in 2002 when the Company sold all of its then owned residential properties to partnerships controlled by Metra Capital LLC. The original sale transactions were accounted for as refinancing transactions with the Company continuing to report the assets and new debt incurred by the Metra partnerships on the Company s financial statements. As properties are sold to independent third parties, the transactions are reported as sales.

On August 22, 2005, the Company purchased 10.08 acres of land located in Dallas County, Texas, from TCI (a related party) for $13 million. The purchase price was paid with cash of $7 million and the conveyance to the seller of $6 million in notes receivable held by the Company. The cash was obtained from financing the land acquired in the transaction. The agreement includes a put option whereby for the period of fifteen months after the closing, the Company has the right to resell the property to the seller for a price of $13 million plus a preferred return of 9% per annum accruing from

the closing date. Due to the related-party nature of the transaction, including the likelihood that the Company will exercise its put option, this transaction has been treated as a financing transaction. The Company continues to carry the $6 million of notes as a receivable and has recorded the $7 million as a receivable from TCI. TCI pays the Companess and do not expect to declare or pay any cash dividends on our common stock in the foreseeable future. The declaration of dividends is within the discretion of our board of directors, which will review this dividend policy from time to time.

SELLING STOCKHOLDER

The table below sets forth information regarding ownership of our common stock by the selling stockholder and the shares of common stock to be sold by them under this prospectus. Beneficial ownership is determined in accordance with SEC rules and includes voting or investment power with respect to the securities. Except as indicated by footnote, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them. SEC rules require that the number of shares of common stock outstanding used in calculating the percentage for each listed person includes the shares of common stock underlying the warrants or options held by such person that are currently exercisable or exercisable within 60 days of February 28, 2008 are deemed to be outstanding and to be beneficially owned by the person holding the options for the purpose of computing the percentage ownership of that person but are not treated as outstanding for the purpose of computing the percentage ownership of any other person. As of February 28, 2008, 59,750,204 shares of our common stock were outstanding.

	Shares Beneficially Owned Prior to the Offering		Number of Shares to be	Shares Beneficially Owned After Offering	
Name of Selling Stockholder	Number of Shares	Percent of Class	Sold in the Offering	Number of Shares	Percent of Class
Joseph M. Dahan(1)	14,418,708(2)	24.13%	2,333,333	12,085,375	20.23%
TOTAL for Selling Stockholders:			2,333,333		

* Represents less than 1%

(1) In addition to his ownership of approximately 24 percent of our total shares outstanding, since October 25, 2007, Mr. Dahan has served as a member of our board of directors and one of our executive officers in the position of Creative Director. Prior to that, Mr. Dahan was an employee and president of our Joe s Jeans subsidiary since February 2001.

(2) The shares registered hereunder include (i) 14,218,708 shares held for the personal account of Mr. Dahan; and (ii) 200,000 shares issuable upon exercise of a currently exercisable employee stock option. This information is based upon a Schedule 13D filed with the SEC on November 8, 2007.

On October 25, 2007, Mr. Dahan acquired 14,000,000 shares of our commons stock pursuant to that certain Agreement and Plan of Merger, dated February 6, 2007, by and between us, our Joe s Jeans subsidiary, JD Holdings, Inc., or JD Holdings and Mr. Dahan, as amended, or the Merger Agreement.

Pursuant to the Merger Agreement, our Joe s Jeans subsidiary merged with and into JD Holdings, with Joe s Jeans subsidiary as the surviving entity and our wholly owned subsidiary, or the Merger. At the time, Mr. Dahan was the sole shareholder of JD Holdings. In connection with the Merger, we issued 14,000,000 shares of our common stock and made a cash payment of $300,000 to Mr. Dahan in exchange for all of the outstanding shares of JD Holdings.

Upon the closing of the Merger, we also entered into an investor rights agreement with Mr. Dahan pursuant to which we agreed to register for resale, on a periodic basis at the request of Mr. Dahan, the shares eligible for resale issued in connection with the Merger. The shares issued as Merger consideration become eligible for resale beginning on the six month anniversary of the closing date of the Merger at an initial rate of one-sixth of the shares issued and every six months thereafter at the same rate until all the shares are fully released on the third anniversary of

the closing date. We agreed to bear all expenses associated with registering these shares for resale and have granted to Mr. Dahan certain piggyback rights with respect to future registration statements filed by us.

Mr. Dahan may make, or cause to be made, further acquisitions of shares from time to time and may dispose of, or cause to be disposed of, subject to the terms of the Investor Rights Agreement, any or all of the shares held by him at any time. Mr. Dahan intends to evaluate on an ongoing basis the investment in us and his options with respect to such investment.

The information set forth herein is qualified in its entirety by reference to the following documents: (i) Agreement and Plan of Merger, dated February 6, 2007, by and between us, our Joe s Jeans subsidiary, JD Holdings and Mr. Dahan, as amended, and (ii) Investor Rights Agreement dated October 25, 2007, by and between us and Mr. Dahan.

We are registering 2,333,333 shares of common stock as described above in order to permit the selling stockholder to offer the common stock for resale from time to time. We are obligated to maintain the effectiveness of the registration statement of which this prospectus forms a part until at least two years from the effective date. In addition, we have an obligation to continue to register certain of Mr. Dahan s shares for resale under the terms of the Investor Rights Agreement.

Except as otherwise disclosed above, the selling stockholder has not, within the past three years, had any position, office or other material relationship with us or any of our predecessors or affiliates. Because the selling stockholders may sell all or some portion of the shares of common stock beneficially owned by him from time to time or at any time, only an estimate (assuming the selling stockholder sells all of the shares offered hereby) can be given as to the number of shares of common stock that will be beneficially owned by the selling stockholder after this offering.

The preceding table has been prepared based upon the information furnished to us by the selling stockholder.

PLAN OF DISTRIBUTION

We are registering the shares of common stock on behalf of the selling stockholder. The selling stockholder is the person named on page 12 and also includes any donnee, pledgee, transferee or other successor-in-interest selling shares received after the date of this prospectus from a selling stockholder as a gift, pledge, partnership or limited liability company or corporate distribution, assignment or other non-sale related transfer.

We will not receive any of the proceeds from the sale of the shares by the selling stockholder. The selling stockholder may sell the shares of common stock covered by this prospectus from time to time at market prices prevailing at the time of sale, at prices related to such prevailing market prices or at negotiated prices. The selling stockholder may offer their shares for sale in one or more of the following transactions:

- on the Nasdaq Stock Market;
- through the facilities of any national securities exchange or U.S. automated inter-dealer quotation system of a registered national securities association on which any of the shares of common stock are then listed, admitted to unlisted trading privileges or included for quotation at the time of sale;
- in the over-the-counter market; and
- in privately negotiated transactions.

The transactions in the shares may be effected by one or more of the following methods:

- ordinary brokerage transactions and transactions in which the broker solicits purchasers;
- purchases by a broker or dealer as principal, and the resale by that broker or dealer for its account under this prospectus, including resale to another broker or dealer;
- block trades in which the broker or dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal in order to facilitate the transaction; or
- negotiated transactions between the selling stockholder and purchasers without a broker or dealer.

The selling stockholder may sell their shares directly, or indirectly through underwriters, broker-dealers or agents acting on their behalf, and in connection with such sales, the underwriters, broker-dealers or agents may receive compensation in the form of commissions, concessions, allowances or discounts from the selling stockholder and/or the purchasers of the shares for whom they may act as agent or to whom they sell the shares as principal or both (which commissions, concessions, allowances or discounts might be in excess of customary amounts thereof). We have not been advised of any selling arrangement at the date of this prospectus between the selling stockholder and any underwriter, broker-dealer or agent.

In connection with the distribution of the shares, certain of the selling stockholder may enter into hedging transactions with broker-dealers. In connection with such transactions, broker-dealers may engage in short sales of the shares in the course of hedging the positions they assume with the selling stockholder. The selling stockholder may also sell the shares short and redeliver the shares to close out the short positions. The selling stockholder may also enter into option or other transactions with broker-dealers which require the delivery of the shares to the broker-dealer. The selling stockholder may also loan or pledge the shares to a broker-dealer and the broker-dealer may sell the shares so loaned, or upon a default, the broker-dealer may effect sales of the pledged shares.

The selling stockholder and any dealer acting in connection with the offering or any broker executing a sell order on behalf of the selling stockholder may be deemed to be underwriters within the meaning of the Securities Act, in which event any profit on the sale of shares by the selling stockholder and any commissions or discounts received by any such broker or dealer may be deemed to be underwriting compensation under the Securities Act. In addition, any such broker or dealer may be required to deliver a copy of this prospectus to any person who purchases any of the shares from or through such broker or dealer.

DESCRIPTION OF CAPITAL STOCK

Common Stock

Pursuant to our Amended and Restated Certificate of Incorporation, we are authorized to issue 100,000,000 shares of common stock, $0.10 par value per share. As of February 28, 2008, there were 59,750,204 shares of common stock issued and outstanding.

Holders of the common stock are entitled to one vote for each share held of record in each matter properly submitted to such holders for a vote. Subject to the rights of the holders of any other outstanding series of stock our board of directors may designate from time to time, holders of common stock are entitled to receive their pro rata share of (i) any dividends that may be declared by the board of directors out of assets legally available therefor, and (ii) any excess assets available upon the liquidation, dissolution or winding up of our company. Holders of our common stock have no conversion, preemptive or other subscription rights and there are no redemption rights or sinking fund provisions with respect to the common stock. Any shares of common stock sold under this document will be fully paid and non-assessable upon issuance against full payment of the purchase price for such shares.

Our board of directors may issue the additional shares of common stock, up to the authorized 100,000,000 shares, without soliciting additional stockholder approval. The existence of authorized but unissued shares of the common stock could tend to discourage or render more difficult the completion of a hostile merger, tender offer or proxy contest. For example, if in the due exercise of its fiduciary obligations, the board of directors were to determine that a takeover proposal was not in the best interest of the company and its stockholders, the ability to issue additional shares of stock without further stockholder approval could have the effect of rendering more difficult or costly the completion of the takeover transaction by diluting the voting or other rights of the proposed acquirer or insurgent stockholder group, by creating a substantial voting block in hands that might support the position of the board of directors, by effecting an acquisition that might complicate or preclude the takeover, or otherwise.

Preferred Stock

Our Amended and Restated Certificate of Incorporation authorizes the issuance of up to 5,000,000 shares of preferred stock with designations, rights and preferences determined from time to time by the board of directors. Accordingly, the board of directors is empowered, without stockholder approval, to issue preferred stock with dividends, liquidation, conversion, voting and other rights that could adversely affect the voting power or other rights of the holders of common stock. In the event of issuance, the preferred stock could be used, under certain circumstances, as a method of discouraging, delaying or preventing a change in control. As of February 28, 2008, we did not have any shares of preferred stock outstanding.

Certain Provisions Relating to Share Acquisitions

Section 203 of the Delaware General Corporation Law generally prevents a corporation from entering into certain business combinations with an interested stockholder (defined as any person or entity that is the beneficial owner of at least 15 percent of a corporation s voting stock) or its affiliates for a period of three years after the date of the transaction in which the person became an interested stockholder, unless (i) the transaction is approved by the board of directors of the corporation prior to such business combination, (ii) the interested stockholder acquires 85

percent of the corporation s voting stock in the same transaction in which it exceeds 15 percent, or (iii) the business combination is approved by the board of directors and by a vote of two-thirds of the outstanding voting stock not owned by the interested stockholder. The Delaware General Corporation Law provides that a corporation may elect not to be governed by Section 203. We have made no such election and are therefore governed by Section 203. Such anti-takeover provision may have an adverse effect on the market for our securities.

Transfer Agent and Registrar for our Common Stock

The transfer agent and registrar for our common stock is Continental Stock Transfer and Trust Company located at 17 Battery Place, New York, New York 10004, and its telephone number is (212) 509-4000.

LEGAL MATTERS

The validity of the shares of common stock offered by this prospectus will be passed upon for our company by our general counsel, Dustin A. Huffine, Esq. Mr. Huffine beneficially owns options to purchase 100,000 shares (including shares exercisable within 60 days of the date of this prospectus) of our common stock and 27,000 units of restricted common stock pursuant to our 2004 Stock Incentive Plan.

EXPERTS

The consolidated financial statements of Joe s Jeans Inc. appearing in Joe s Jeans Inc. s Annual Report (Form 10-K) for the year ended November 30, 2007 (including the schedule appearing therein), have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon, included therein, and incorporated herein by reference. Such consolidated financial statements are, and audited financial statements to be included in subsequently filed documents will be incorporated herein in reliance upon the report of Ernst & Young LLP pertaining to such financial statements given on the authority of such firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC s public reference rooms at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Our SEC filings are also available to the public from the SEC s website at http://www.sec.gov. We also make such documents that we file with the SEC available on our website at http://www.innovogroup.com as soon as reasonably practicable after such reports are electronically filed with or furnished to the SEC. However, we do not intend that the information available through our website be incorporated into this prospectus.

We have filed a registration statement on Form S-3 with the SEC to register the offering of the shares of common stock offered pursuant to this prospectus. This prospectus is part of that registration statement and, as permitted by the SEC s rules, does not contain all of the information included in the registration statement. For further information about us, this offering and our common stock, you may refer to the registration statement and its exhibits and schedules as well as the documents described herein. You can review and copy these documents at the public reference facilities maintained by the SEC or on the SEC s website as described above.

This prospectus may contain summaries of contracts or other documents. Because they are summaries, they will not contain all of the information that may be important to you. If you would like complete information about a contract or other document, you should read the copy filed as an exhibit to the registration statement.

INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference the information we file with the SEC, which means that we can disclose important information to you by referring you to those documents. The information we incorporate by reference is considered to be an important part of this prospectus, and information that we file with the SEC at a later date will automatically update or supersede this information. We incorporate by reference the documents listed below:

1. Our Annual Report on Form 10-K for the fiscal year ended November 30, 2007, filed with the SEC on February 28, 2008;

2. Our Quarterly Report on Form 10-Q for the three months ended February 24, 2007 filed with the SEC on April 10, 2007;

3. Our Quarterly Report on Form 10-Q for the three months ended May 26, 2007 filed with the SEC on July 10, 2007;

4. Our Quarterly Report on Form 10-Q for the three months ended August 25, 2007 filed with the SEC on October 9, 2007;
5. Our Definitive Merger Proxy Statement on Schedule 14A filed with the SEC on September 5, 2007;
6. Our Current Report on Form 8-K/A filed with the SEC on January 10, 2008;
7. Our Current Report on Form 8-K filed with the SEC on December 21, 2007;
8. Our Current Report on Form 8-K filed with the SEC on October 31, 2007;
9. Our Current Report on Form 8-K filed with the SEC on October 30, 2007;
10. Our Current Report on Form 8-K filed with the SEC on October 17, 2007;
11. Our Current Report on Form 8-K filed with the SEC on October 15, 2007;
12. Our Current Report on Form 8-K filed with the SEC on August 27, 2007;

13. Our Current Report on Form 8-K filed with the SEC on July 24, 2007;

14. Our Current Report on Form 8-K filed with the SEC on July 9, 2007;

15. Our Current Report on Form 8-K filed with the SEC on July 3, 2007;

16. Our Current Report on Form 8-K filed with the SEC on June 26, 2007;

17. Our Current Report on Form 8-K filed with the SEC on May 25, 2007;

18. Our Current Report on Form 8-K filed with the SEC on May 3, 2007;

19. Our Current Report on Form 8-K filed with the SEC on April 19, 2007;

20. Our Current Report on Form 8-K/A filed with the SEC on March 14, 2007;

21. Our Current Report on Form 8-K filed with the SEC on February 12, 2007;

22. Our Current Report on Form 8-K filed with the SEC on February 7, 2007;

23. Our Current Report on Form 8-K filed with the SEC on February 1, 2007;

24. Our Current Report on Form 8-K/A filed with the SEC on January 16, 2007;

25. Our Current Report on Form 8-K filed with the SEC on January 3, 2007;

26. Our Current Report on Form 8-K filed with the SEC on December 26, 2006;

27. Our Current Report on Form 8-K filed with the SEC on December 8, 2006; and

28. Our description of common stock that is referenced in our registration statement on Form 8-A, File No. 000-18926, filed with the SEC on December 6, 1990 (which incorporates by reference the description of Common Stock that is contained in our Post Effective Amendment No. 6 to Form S-18, File No. 33-25912, filed with the SEC on November 29, 1990), including all amendments or reports filed for the purpose of updating such description.

All documents filed (File No. 0-18926) under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of this prospectus and prior to the termination of this offering shall be deemed to be incorporated by reference in this prospectus and to be part of this prospectus from the date they are filed. In addition, all documents filed pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of the initial registration statement and prior to the effectiveness of the registration statement of which this prospectus forms a part shall be deemed to be incorporated by reference into this prospectus and to be part of this prospectus from the date they are filed. However, we are not incorporating any information furnished under Item 2.02 or Item 7.01 of any Current Report on Form 8-K.

We will provide to each person, including any beneficial owner, to whom a prospectus is delivered, a copy of any or all of the information that has been incorporated by reference in this prospectus, but not delivered with this prospectus, at no cost, by writing to or calling Lori Nembirkow, Secretary, Joe s Jeans Inc., 5901 South Eastern Avenue, Commerce, California 90040, telephone (323) 837-3700.

FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference in this prospectus contain both historical and forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are not statements of historical fact but rather reflect our current expectations, estimates and predictions about future results and events. These statements may use words such as anticipate, believe, estimate, expect, intend, predict, project and similar ex as they relate to us or our management. When we make forward-looking statements, we are basing them on our management s beliefs and assumptions, using information currently available to us. These forward-looking statements are subject to risks, uncertainties and assumptions, including but not limited to, risks, uncertainties and assumptions discussed in this prospectus. Factors that can cause or contribute to these differences include those described under the headings Risk Factors These forward-looking statements

include, but are not limited to, statements regarding the following: growth opportunities and increasing market share, earnings estimates, future financial performance and other matters. Although we believe that the expectations contained in these forward-looking statements are reasonable, you cannot be assured that these expectations will prove correct.

If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from what we projected. Any forward-looking statements you read in this prospectus and the documents incorporated by reference in this prospectus reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. All subsequent written and oral forward-looking statements attributable to us or individuals acting on our behalf are expressly qualified in their entirety by this paragraph. You should carefully review and consider all information, including the information included in the section of this prospectus entitled Risk Factors as well as information included in our most recent annual report on Form 10-K including, without limitation, under captions Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operation, and the financial statements and the notes to the financial statements and related disclosures incorporated by reference in this prospectus before making an investment decision. We are under no duty to update any of the forward-looking statements after the date of this prospectus or to conform these statements to actual results.

DISCLOSURE OF COMMISSION POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Our Amended and Restated Certificate of Incorporation provides that we shall indemnify our officers and directors to the fullest extent permitted by Delaware law, including some instances in which indemnification is otherwise discretionary under Delaware law. The Amended and Restated Certificate of Incorporation also provides that, pursuant to Delaware law, our directors shall not be liable for monetary damages for breach of the director s fiduciary duty of care to the company and its stockholders. This provision does not eliminate the duty of care, and, in appropriate circumstances, equitable remedies such as an injunction or other forms of non-monetary relief would remain available under Delaware law. In addition, each director will continue to be subject to liability for breach of the director s duty of loyalty to the company, for acts or omissions not in good faith or involving intentional misconduct, for knowing violations of law, for actions leading to improper personal benefit to the director and for payment of dividends or approval of stock repurchases or redemptions that are unlawful under Delaware law. The provision also does not affect a director s responsibilities for environmental laws.

At present, there is no pending litigation or proceeding involving any of our directors or officers as to which indemnification is being sought, nor are we aware of any threatened litigation that may result in claims for indemnification by any officer or director.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted for our directors, officers or controlling persons pursuant to the foregoing provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

CAUTIONARY STATEMENTS

No person has been authorized to give any information or to make any representation not contained in this prospectus in connection with this offering of common stock and, if given or made, no one may rely on such unauthorized information or representations. This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the common stock to which it relates, or an offer to sell or the solicitation of an offer to buy such securities in any jurisdiction in which such offer or solicitation may not be legally made. Neither the delivery of this prospectus nor any sale made hereunder shall, under any circumstances, create any implication that the information contained herein is correct as of any date subsequent to the date hereof.

You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information contained in this document is current only as of its date.

2,333,333 SHARES

JOE S JEANS INC.

COMMON STOCK

PROSPECTUS

February 29, 2008

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution.

The following table sets forth the costs and expenses to be paid by us in connection with the sale of the shares of common stock being registered hereby. All amounts are estimates, except for the SEC registration fee.

SEC registration fee	$	97.20
Accounting fees and expenses	$	5,000.00
Legal fees and expenses	$	5,000.00
Transfer agent and registrar fees and expenses	$	1,000.00
Miscellaneous expenses	$	0
Total	$	11,097.20

Item 15. Indemnification of Directors and Officers.

Section 145 of the Delaware General Corporation Law provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that the person is or was a director, officer, employee or agent of the corporation or is or was serving at the corporation s request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with the action, suit or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person s conduct was unlawful. In actions brought by or in the right of a corporation, however, Section 145 provides that no indemnification may be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless, and only to the extent that, the Court of Chancery of the State of Delaware or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in review of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper. Article Nine of our Amended and Restated Certificate of Incorporation requires that we indemnify our directors and officers for certain liabilities incurred in the performance of their duties on our behalf to the fullest extent allowed by Delaware law.

Our Amended and Restated Certificate of Incorporation relieves our directors from personal liability to us or our stockholders for breach of any of such director s fiduciary duty as a director to the fullest extent permitted by the Delaware General Corporation Law. Under Section 102(b)(7) of the Delaware General Corporation Law, a corporation may relieve its directors from personal liability to such corporation or its stockholders for monetary damages for any breach of their fiduciary duties as directors except (i) for a breach of the duty of loyalty, (ii) for failure to act in good faith, (iii) for intentional misconduct or knowing violation of law, (iv) for willful or negligent violations of certain provisions of the Delaware General Corporation Law imposing certain requirements with respect to stock repurchases, redemptions and dividends, or (v) for any transaction from which such director derived an improper personal benefit.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers or controlling persons pursuant to the foregoing provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

Item 16. Exhibits.

The following exhibits are filed herewith and as a part of this registration statement:

Exhibit Number	Description	Document if Incorporated by Reference
2.1	Agreement and Plan of Merger dated February 6, 2007 by and between Joe s Jeans, Joe s Subsidiary, JD Holdings and Mr. Dahan	Definitive Proxy Statement on Schedule 14A filed on September 5, 2007
2.2	First Amendment to Merger Agreement dated June 25, 2007 by and between Joe s Jeans, Joe s Subsidiary, JD Holdings and Mr. Dahan	Definitive Proxy Statement on Schedule 14A filed on September 5, 2007
2.3	Exhibit A to Merger Agreement - Amended and Restated Plan of Merger by and between Joe s Jeans, Joe s Subsidiary, JD Holdings and Mr. Dahan	Definitive Proxy Statement on Schedule 14A filed on September 5, 2007
5	Opinion of Dustin Huffine, Esq.	Filed herewith
10.1	Amended and Restated Employment Agreement by and between Joe s Jeans and Mr. Dahan	Definitive Proxy Statement on Schedule 14A filed on September 5, 2007
10.2	Investor Rights Agreement by and between Joe s Jeans and Mr. Dahan	Exhibit 10.2 to Current Report on Form 8-K filed on October 31, 2007
23.1	Consent of Dustin Huffine, Esq. (included in Exhibit 5)	Filed herewith
23.2	Consent of Independent Registered Public Accounting Firm	Filed herewith
24	Power of Attorney (included on the signature page of this registration statement)	Filed herewith

Item 17. Undertakings.

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment

to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information in this registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in this registration statement or any material change to such information in this registration statement.

provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) of this Item 17 do not apply if the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed with or furnished to the SEC by the undersigned registrant pursuant to section 13 or section 15(d) of the Exchange Act that are incorporated by reference in this registration statement or that is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of this registration statement;

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) That for purposes of determining liability under the Securities Act to any purchaser, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

(d) The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(e) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant s annual report pursuant to section 13(a) or section 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan s annual report pursuant to section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Commerce, State of California, on the 29th day of February, 2008.

JOE S JEANS INC.

By: /s/ Marc Crossman
Marc Crossman
Chief Executive Officer (Principal Executive Officer),
and President

By: /s/ Hamish Sandhu
Hamish Sandhu
Chief Financial Officer (Principal Financial Officer
and Principal Accounting Officer)

POWER OF ATTORNEY

KNOW ALL PERSON BY THESE PRESENTS that each individual whose signature appears below constitute and appoints Marc Crossman and his true and lawful attorneys-in-fact and agents with full power of substitution, for him or her and in his or her name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement, and to sign any registration statement for the same offering covered by the registration statement that is to be effective upon filing pursuant to Rule 462(b) promulgated under the Securities Act of 1933, and all post-effective amendments thereto, and to file the same, with all exhibits thereto and all documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or his, her or their substitute or substitutes, may lawfully do or cause to be done or by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the date indicated.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK. SIGNATURE PAGE TO FOLLOW.]

Signature	Capacity	Date
/s/ Marc B. Crossman Marc B. Crossman	Chief Executive Officer (Principal Executive Officer), President and Director	February 29, 2008
/s/ Hamish Sandhu Hamish Sandhu	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	February 29, 2008
/s/ Joseph M. Dahan Joseph M. Dahan	Creative Director and Director	February 29, 2008
/s/ Samuel J. Furrow Samuel J. Furrow	Chairman of the Board of Directors	February 29, 2008
/s/ Kelly Hoffman Kelly Hoffman	Director	February 29, 2008
/s/ Thomas O Riordan Thomas O Riordan	Director	February 29, 2008
/s/ Suhail R. Rizvi Suhail R. Rizvi	Director	February 29, 2008
/s/ Kent A. Savage Kent A. Savage	Director	February 29, 2008

EXHIBIT INDEX

Exhibit No.	Description of Exhibit
2.1	Agreement and Plan of Merger dated February 6, 2007 by and between Joe s Jeans, Joe s Subsidiary, JD Holdings and Mr. Dahan **
2.2	First Amendment to Merger Agreement dated June 25, 2007 by and between Joe s Jeans, Joe s Subsidiary, JD Holdings and Mr. Dahan **
2.3	Exhibit A to Merger Agreement - Amended and Restated Plan of Merger by and between Joe s Jeans, Joe s Subsidiary, JD Holdings and Mr. Dahan **
5	Opinion of Dustin Huffine, Esq .*
10.1	Amended and Restated Employment Agreement by and between Joe s Jeans and Mr. Dahan **
10.2	Investor Rights Agreement by and between Joe s Jeans and Mr. Dahan **
23.1	Consent of Dustin Huffine, Esq. (included in Exhibit 5) *
23.2	Consent of Independent Registered Public Accounting Firm *
24	Power of Attorney (included on the signature page of this registration statement) *

* Filed herewith.

** Previously Filed