

FIRST EQUITY PROPERTIES INC

Form 10-Q

November 15, 2010

Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2010

Or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-11777

**FIRST EQUITY PROPERTIES, INC.**

(Exact Name of Registrant as Specified in Its Charter)

Nevada  
(State or Other Jurisdiction of

Incorporation or Organization)

1800 Valley View Lane, Suite 300

Dallas, Texas 75234

95-6799846  
(I.R.S. Employer

Identification No.)

Edgar Filing: FIRST EQUITY PROPERTIES INC - Form 10-Q

(Address of principal executive offices)

(Zip Code)

(469) 522-4200

(Registrant's telephone number, including area code)

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

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

\* The registrant has not yet been phased into the interactive data requirements

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

Common Stock, \$.01 par value  
(Class)

1,057,628  
(Outstanding at November 15, 2010)

**Table of Contents**

**FIRST EQUITY PROPERTIES, INC.**

**FORM 10-Q**

**TABLE OF CONTENTS**

<b><u>PART I. FINANCIAL INFORMATION</u></b>	<b>PAGE</b>
Item 1. <u>Financial Statements</u>	
<u>Balance Sheets as of September 30, 2010 (unaudited) and December 31, 2009</u>	3
<u>Statements of Operations for the three and nine months ended September 30, 2010 and 2009 (unaudited)</u>	4
<u>Statement of Shareholders' Equity for the nine months ended September 30, 2010 (unaudited)</u>	5
<u>Statements of Cash Flows for the nine months ended September 30, 2010 and 2009 (unaudited)</u>	6
<u>Notes to Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	7
Item 4T. <u>Controls and Procedures</u>	8-9
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 6. <u>Exhibits</u>	10
<u>SIGNATURES</u>	11

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****FIRST EQUITY PROPERTIES, INC.****BALANCE SHEETS**

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
<b>Assets</b>	<b>(unaudited)</b>	
Cash and cash equivalents	\$ 533	\$ 82
Deferred tax asset	6,110	6,110
Notes receivable and accrued interest - affiliates	2,596,727	2,510,836
<b>Total assets</b>	<b>\$ 2,603,370</b>	<b>\$ 2,517,028</b>
<b>Liabilities and Shareholders Equity</b>		
Accounts payable	\$ 71,268	\$ 1,575
Federal income taxes payable	2,969	651
Accounts payable and accrued interest - affiliates	1,652,609	1,655,102
<b>Total liabilities</b>	<b>1,726,846</b>	<b>1,657,328</b>
<b>Shareholders equity</b>		
Common stock, \$0.01 par value; 40,000,000 shares authorized; 1,057,628 issued and outstanding	10,576	10,576
Preferred stock, \$0.01 par value; 4,960,000 shares authorized; none issued or outstanding	-	-
Paid in capital	1,376,682	1,376,682
Retained earnings (deficit)	(510,734)	(527,558)
<b>Total shareholders equity</b>	<b>876,524</b>	<b>859,700</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 2,603,370</b>	<b>\$ 2,517,028</b>

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

**Table of Contents****FIRST EQUITY PROPERTIES, INC.****STATEMENTS OF OPERATIONS**

(unaudited)

	<b>For the three months ended September 30,</b>		<b>For the nine months ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>Revenue</b>				
Interest income	\$ 60,683	\$ 60,683	\$ 180,071	\$ 180,071
<b>Operating Expenses</b>				
General and administrative	35,679	28,512	93,909	85,312
Legal and professional fees	1,450	2,590	13,836	14,563
Total operating expenses	37,129	31,102	107,745	99,875
Income before interest expense and taxes	23,554	29,581	72,326	80,196
<b>Other income (expense)</b>				
Interest expense	(17,703)	(17,703)	(52,533)	(52,533)
Income before income taxes	5,851	11,878	19,793	27,663
Income tax (expense) benefit	(878)	(2,386)	(2,969)	(4,290)
Net income applicable to common shareholders	\$ 4,973	\$ 9,492	\$ 16,824	\$ 23,373
Earnings (loss) per share	\$ 0.01	\$ 0.01	\$ 0.02	\$ 0.02
Weighted average shares outstanding	1,057,628	1,057,628	1,057,628	1,057,628

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

**Table of Contents**

**FIRST EQUITY PROPERTIES, INC.**

**STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY**

**For the nine months ended September 30, 2010**

	Common Stock		Paid in Capital	Retained	Total Equity
	Shares	Amount		Earnings/(Deficit)	
Balances at January 1, 2010	1,057,628	\$ 10,576	\$ 1,376,682	\$ (527,558)	\$ 859,700
Net income (unaudited)	-	-	-	16,824	16,824
Balances at September 30, 2010	1,057,628	\$ 10,576	\$ 1,376,682	\$ (510,734)	\$ 876,524

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

**Table of Contents****FIRST EQUITY PROPERTIES, INC.****STATEMENTS OF CASH FLOWS**

(unaudited)

	<b>For the nine months ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash Flows from Operating Activities</b>		
Net Income	\$ 16,824	\$ 23,373
Adjustments to reconcile net income applicable to common shareholders to net cash provided by (used in) operating activities:		
(Increase) decrease in		
Interest receivable - affiliates	(120,706)	-
Notes receivable - affiliates	34,815	-
Accounts payable - affiliates	-	(213,438)
Increase (decrease) in		
Accounts payable	69,693	76,740
Federal income taxes payable	2,318	(1,478)
Accounts payable and accrued interest - affiliates	(2,493)	-
Net cash provided by (used for) operating activities	451	(114,803)
Net increase (decrease) in cash and cash equivalents	451	(114,803)
Cash and cash equivalents at the beginning of period	82	115,418
Cash and cash equivalents at the end of period	\$ 533	\$ 615

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

**Table of Contents**

**FIRST EQUITY PROPERTIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION**

First Equity Properties, Inc. ( FEPI , The Company , We , Us , or Our ) is the successor in interest to WESPAC Investors Trust III, a California real estate investment trust ( WESPAC ) originally established August 22, 1983. FEPI is a Nevada Corporation. Our Company is headquartered in Dallas, Texas.

The accompanying condensed financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission, and accordingly, do not include all of the information and footnotes required by generally accepted accounting principles in the United States of America for complete financial statements. In the opinion of management of First Equity Properties, Inc., all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of First Equity Properties, Inc.'s balance sheets, statements of operations, statements of shareholders' equity and statements of cash flows, have been included. You should read these financial statements in conjunction with the financial statements and footnotes thereto in our annual report on Form 10-K for the year ended December 31, 2009.

Operating results for the nine months ended September 30, 2010, are not necessarily indicative of the results that may be expected for the year ended December 31, 2010.

**NOTE 2. FEDERAL INCOME TAXES**

The accompanying interim unaudited 2010 financial statements contain an estimated accrual for current federal income taxes calculated using the graduated tax rate as published by the Internal Revenue Service (IRS). The second quarter tax accrual was calculated based on a rate of 15%. In addition, the deferred tax asset was analyzed and determined to be unchanged.

**NOTE 3. LEASES**

The Company has a long term operating lease commitment with an affiliated entity, Income Opportunity Realty Investors, Inc. ( IOT ) an affiliated entity. The lease extends through October 31, 2011. The total lease expense for the nine months ended September 30, 2010 was \$52,427 which is included in General and Administrative expenses of the Statements of Operations.

**NOTE 4. RELATED PARTY**

Transactions involving related parties cannot be presumed to be carried out on an arm's length basis due to the absence of free market forces that naturally exist in business dealings between two or more unrelated entities. Related party transactions may not always be favorable to our business and may include terms, conditions and agreements that are not necessarily beneficial to or in the best interests of our company.

The Company has a lease agreement with IOT, an affiliated entity. The lease commenced November 1, 2008 and extends through October 31, 2011, see Note 3. Leases.

The Company has an administrative agreement with Prime Income Asset Management, Inc., an affiliated entity, for accounting and administrative services. The total expense for the nine months ended September 30, 2010 was \$22,500 which is included in General and Administrative expenses of the Statements of Operations.



**ITEM 2. MANAGERMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. We caution investors that any forward-looking statements presented in this report, or which management may make orally or in writing from time to time, are based on beliefs and assumptions made by, and information currently available to, management. When used, the words anticipate , believe , estimate , expect , intend , may , might , plan , project , result , should , will and similar expressions which do not relate solely to historical matters to identify forward-looking statements. Such statements are subject to risks, uncertainties and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected by the forward-looking statements. We caution you that while forward-looking statements reflect our good-faith beliefs when we make them, they

## **Table of Contents**

are not guarantees of future performance and are impacted by actual events when they occur after we make such statements. Accordingly, investors should use caution in relying on forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

### **Results of Operations**

The following discussion is based on our Statement of Operations within our Financial Statements as presented in Part 1, Item 1 of this report for the nine months ended September 30, 2010 and 2009. The discussion is not meant to be an all inclusive discussion of the changes within our operations. Instead, we have focused on the significant items relevant to obtain an understanding of the changes in our operations.

Our sole source of income is from interest on notes receivables from two affiliated entities. The ability of these entities to make payments on these note obligations is imperative for us to continue as a going concern. Management of the Company is generally aware of the financial condition of the affiliated entities and believes that no impairment reserve is necessary regarding the collectability of the notes.

#### ***Comparison of the three months ended September 30, 2010 to the same period ended 2009.***

We reported a net income applicable to common shareholders of \$4,973 for the three months ended September 30, 2010 as compared to a net income to common shareholders of \$9,492 for the same period ended 2009.

The decrease in net income was due to an increase in General and Administrative expenses as compared to the period ended 2009. Income tax expense decreased due to the decrease in earnings.

#### ***Comparison of the nine months ended September 30, 2010 to the same period ended 2009.***

We reported a net income applicable to common shareholders of \$16,824 for the nine months ended September 30, 2010 as compared to a net income to common shareholders of \$23,373 for the same period ended 2009.

The decrease was due to an increase in General and Administrative expenses as compared to the period ended 2009. Income tax expense decreased due to the reduction in earnings.

### **Liquidity and Capital Resources**

#### ***General***

Our principal liquidity needs for the next twelve months are funding of normal recurring expenses including interest expense, leases, legal and administrative fees, and federal income tax payments.

Our principal source of cash is proceeds from interest income on our notes receivables.

The following significantly impacted our balance sheet as of September 30, 2010:

Our *notes receivable and accrued interest affiliates* increased as we did not collect the interest owed us on those notes.

Our *accounts payables and accrued interest affiliates* decreased due to the payment of interest expense.

#### ***Cash Flow Summary***

The following summary discussion of our cash flow is based on the statements of cash flows as presented in Item 1 and is not meant to be an all-inclusive discussion of the changes in our cash flow.

We had no significant change in cash from operating activities as compared to prior year.

## Edgar Filing: FIRST EQUITY PROPERTIES INC - Form 10-Q

We anticipate that our cash flows from operating activities will be sufficient to provide for our current cash flow needs.

### **ITEM 4T. CONTROLS AND PROCEDURES**

Based on an evaluation by our management (with the participation of our Principal Executive Officer and Principal Financial Officer), as of the end of the period covered by this report, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act ), were effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized

**Table of Contents**

and reported within the time periods specified in SEC rules and forms and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, in a manner that allows for timely decisions regarding required disclosures and are effective in ensuring that such information is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

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

**Table of Contents**

**PART II OTHER INFORMATION**

**ITEM 6. EXHIBITS**

The following exhibits are filed with this report or incorporated by reference as indicated.

**Exhibit**

<b>Number</b>	<b>Description</b>
3.1	Articles of Incorporation of Wespac Property Corporation as filed with and endorsed by the Secretary of State of California on December 16, 1996 (incorporation by reference is made to Exhibit 3.1 to Form 8-K of First Equity Properties, Inc. for event reported June 19, 1996).
3.2	Articles of Incorporation of First Equity Properties, Inc. filed with and approved by the Secretary of State of Nevada on December 19, 1996 (incorporation by reference is made to Exhibit 3.2 to Form 8-K of First Equity Properties, Inc. for event reported June 19, 1996).
3.3	Bylaws of First Equity Properties, Inc. as adopted December 20, 1996 (incorporation by reference is made to Exhibit 3.3 to Form 8-K of First Equity Properties, Inc. for event reported June 19, 1996).
3.4	Agreement and Plan of Merger of Wespac Property Corporation and First Equity Properties, Inc. dated December 23, 1996 (incorporation by reference is made to Exhibit 3.4 to Form 8-K of First Equity Properties, Inc. for event reported June 19, 1996).
3.5	Articles of Merger of Wespac Property Corporation into First Equity Properties, Inc. as filed with and approved with the Secretary of State in Nevada December 24, 1996 (incorporation by reference is made to Exhibit 3.5 to Form 8-K of First Equity Properties, Inc. for event reported June 19, 1996).
3.6	Certificate of Designation of Preferences and Relative Participating or Optional of Other Special Rights and Qualifications, Limitations or Restrictions thereof of the Series A 8% Cumulative Preferred Stock (incorporation by reference is made to Exhibit 3.6 to Form 10-KSB of First Equity Properties, Inc. for the fiscal year ended December 31, 1996.)
31.1*	Certification of Acting Principal Executive Officer and Chief Financial and Accounting Officer pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934.
32.1*	Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

\* Filed herewith.

**Table of Contents**

**SIGNATURE PAGE**

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

FIRST EQUITY PROPERTIES, INC.

Date: November 15, 2010

By: /s/ Gene S. Bertcher  
Gene S. Bertcher

Vice President & Treasurer (Acting Principal

Executive

Officer and Chief Financial Officer)