

FIRST EQUITY PROPERTIES INC

Form 10-Q

May 20, 2011

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2011

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)

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

**Nevada**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**95-6799846**  
(I.R.S. Employer  
Identification No.)

**1800 Valley View Lane, Suite 300**

**Dallas, Texas 75234**

(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 May 6, 2011)



**Table of Contents**

**FIRST EQUITY PROPERTIES, INC.**

**FORM 10-Q**

**TABLE OF CONTENTS**

	<b>PAGE</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Balance Sheets as of March 31, 2011 (unaudited) and December 31, 2010</u>	3
<u>Consolidated Statements of Operations for the three months ended March 31, 2011 and 2010 (unaudited)</u>	4
<u>Consolidated Statement of Shareholders' Equity for the three months ended March 31, 2011 (unaudited)</u>	5
<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2011 and 2010 (unaudited)</u>	6
<u>Notes to Financial Statements</u>	7-8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	9
Item 3. <u>Controls and Procedures</u>	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.****CONSOLIDATED BALANCE SHEETS**

(unaudited)

	<b>March 31, 2011</b>	<b>December 31, 2010</b>
<b>Assets</b>		
Real estate land holdings, at cost	\$ 3,832,399	\$ 3,832,399
Real estate development projects, at cost	1,013,324	
Notes receivable and accrued interest - affiliates	2,730,954	2,688,459
Cash and cash equivalents	329	151
Federal income tax receivable	10,568	636
Deferred tax asset	1,696	1,696
<b>Total assets</b>	<b>\$ 7,589,270</b>	<b>\$ 6,523,341</b>
<b>Liabilities and Shareholders' Equity</b>		
Notes payable and accrued interest - affiliates	\$ 6,528,908	\$ 5,535,275
Accounts payable - other	89,378	52,566
Accounts payable - affiliates	146,325	54,560
<b>Total liabilities</b>	<b>6,764,611</b>	<b>5,642,401</b>
Shareholders' equity		
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)	(562,599)	(506,318)
<b>Total shareholders' equity</b>	<b>824,659</b>	<b>880,940</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 7,589,270</b>	<b>\$ 6,523,341</b>

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

**Table of Contents**

**FIRST EQUITY PROPERTIES, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(unaudited)

	For the three months ended March 31,	
	2011	2010
Revenue		
Interest income	\$ 59,364	\$ 59,364
Operating Expenses		
General and administrative	41,444	29,023
Legal and professional fees	10,116	10,386
Total operating expenses	51,560	39,409
Income before interest expense and taxes	7,804	19,955
Other income (expense)		
Interest expense	(74,017)	(17,318)
Income before income taxes	(66,213)	2,637
Income tax (expense) benefit	9,932	(396)
Net income / (loss) applicable to common shareholders	\$ (56,281)	\$ 2,241
Earnings (loss) per share	\$ (0.05)	\$
Weighted average shares outstanding	1,057,628	1,057,628

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

**Table of Contents**

**FIRST EQUITY PROPERTIES, INC.**

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY**

For the three months ended March 31, 2011

(unaudited)

	Common Stock		Paid in Capital	Retained Earnings (Deficit)	Total Equity
	Shares	Amount			
Balances at January 1, 2011	1,057,628	\$ 10,576	\$ 1,376,682	\$ (506,318)	\$ 880,940
Net income (loss)				(56,281)	(56,281)
Balances at March 31, 2011	1,057,628	\$ 10,576	\$ 1,376,682	\$ (562,599)	\$ 824,659

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

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

(unaudited)

	<b>For the three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash Flows from Operating Activities</b>		
Net Income	\$ (56,281)	\$ 2,241
Adjustments to reconcile net income applicable to common shareholders to net cash provided by (used in) operating activities:		
(Increase) decrease in		
Interest receivable - affiliates	(42,495)	(59,364)
Notes receivable - affiliates		21,500
Federal income tax receivable	(9,932)	
Increase (decrease) in		
Accounts payable - other	36,812	18,871
Accounts payable and accrued interest - affiliates	98,826	17,318
Federal income taxes payable		396
Net cash provided by (used for) operating activities	26,930	962
<b>Cash Flows from Investing Activities</b>		
Increase in investment in real estate	(26,752)	
Net cash provided by (used for) investing activities	(26,752)	
Net increase (decrease) in cash and cash equivalents	178	962
Cash and cash equivalents at the beginning of period	151	82
Cash and cash equivalents at the end of period	\$ 329	\$ 1,044
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid for interest	\$	\$
Cash paid for income taxes	\$	\$
<b>Non - cash items:</b>		
Real estate development projects financed by affiliate	\$ 986,572	\$

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**

*Organization*

First Equity Properties Inc. ( FEPI ) is Nevada based corporation organized in December 19, 1996 and the company is headquartered in Dallas, TX. FEPI is a publicly traded company however, no trading market presently exists for the shares of common stock and its value is therefore not determinable.

The Company's principal line of business and source of revenue has been earnings on investment and interest on notes receivable. During 2010 the Company purchased certain parcels of land for potential future sale or development.

*Basis of presentation*

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States, or GAAP, have been condensed or omitted in accordance with such rules and regulations, although management believes the disclosures are adequate to prevent the information presented from being misleading. In the opinion of management, all adjustments (consisting of normal recurring matters) considered necessary for a fair presentation have been included.

The year-end Balance Sheet at December 31, 2010, was derived from the audited financial statements at that date, but does not include all of the information and disclosures required by GAAP for complete financial statements. For further information, refer to the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

*Cost capitalization*

Costs related to planning and developing a project are capitalized and classified as Real Estate development costs in the Consolidated Balance Sheets. We capitalized certain operating expenses until development is substantially complete, but no later than one year from the cessation of major development activity.

*Newly issued accounting pronouncements*

We have considered all other newly issued accounting guidance that is applicable to our operations and the preparation of our statements, including that which we have not yet adopted. We do not believe that any such guidance will have a material effect on our financial position or results of operation.

**NOTE 2. REAL ESTATE ACTIVITY**

The Company purchased land on December 31, 2010 and now has a subsidiary, ART Westwood FL, Inc. Effective March 31, 2011 ART Westwood FL, Inc. changed its name to Kelly Lot Development, Inc. The Company owns various parcels of undeveloped land. This land consists of approximately 7.53 acres of Kelly Lot Land located in Farmers Branch, TX approximately 6.916 acres of Vineyard Land located in Grapevine, TX and approximately 5.618 acres of Nashville Land located in Nashville, TN.

During the first quarter of 2011 the Company has invested in various real estate projects that are under development. The investments include payments to related parties for costs incurred by them and direct payments to third parties. The development costs include architectural fees, feasibility studies, legal fees and other such costs. None of these projects have reached the stage where land has been acquired and construction has begun.

**NOTE 3. FEDERAL INCOME TAXES**

The Company accounts for income taxes in accordance with Accounting Standards Codification, ( ASC ) No. 740, Accounting for Income Taxes . ASC 740 requires an asset and liability approach to financial accounting for income taxes. In the event differences between the financial

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

reporting basis and the tax basis of the Company's assets and liabilities result in deferred tax assets, ASC 740 requires an evaluation of the probability of being able to realize the future benefits indicated

**Table of Contents**

The accompanying interim unaudited 2011 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 first 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 4. LEASES**

On September 18, 2008, the Company entered into a long-term lease commitment with Income Opportunity Realty Investors, Inc., a related party. The lease is for 4,288 square feet of commercial space at the Hickory One Office building,

located in Farmers Branch, Texas. The base rent consists of monthly installments of \$5,717 per month for a period of three years. The lease commenced on November 1, 2008 and extends through October 31, 2011. The total lease commitment over the remaining periods is \$40,019. The total lease expense for the three months ended March 31, 2011 was \$17,152 which is included in General and Administrative expenses of the Statements of Operations.

**NOTE 5. RELATED PARTIES TRANSACTIONS**

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 best interest 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 4. Leases.

The Company has an administrative agreement with Prime Income Asset Management, Inc., an affiliated entity, for accounting and administrative services. The total expense of the three months ended March 31, 2011 was \$7,500 which is included in General and Administrative expenses of the Consolidated Statements of Operations.

---

**Table of Contents**

**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 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 three months ended March 31, 2011 and 2010. 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.

The results of operations for the three months ended March 31, 2011, are not necessarily indicative of the results that may be expected for other interim periods or for the full fiscal year. Effective December 31, 2010 the company has a subsidiary, ART Westwood FL, Inc. Effective March 31, 2011 ART Westwood FL, Inc. changed its name to Kelly Lot Development, Inc.

Our sole source of income is from the interest received on affiliated receivables. The principal balances on those receivables have been consistent for the past years, thus making our revenues consistent from year to year. Our expenses are primarily related to professional and administrative fees and interest on affiliated notes.

***Comparison of the three months ended March 31, 2011 to the same period ended 2010.***

We reported a net loss applicable to common shareholders of (\$56,281) for the three months ended March 31, 2011 as compared to a net income to common shareholders of \$2,241 for the same period ended 2010.

The decrease was due to an increase in general and administrative expense and interest expense due to the addition of the various notes payable with affiliate as compared to the period ended 2010. 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 March 31, 2011:

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* increased due to unpaid interest expense.

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

Our *accounts payable* *other* increased due to the accruals for lease and administrative expenses incurred and not paid.

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

### **ITEM 3. CONTROLS AND PROCEDURES**

#### **(a) Evaluation of Disclosure Controls and Procedures.**

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Financial Officer and Acting Principal Executive Officer of the Company's disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based upon that evaluation, the Company's Chief Financial Officer and Acting Principal Executive Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting him to material information relating to the Company required to be included in the Company's periodic SEC filings.

#### **(b) Changes in Internal Controls over Financial Reporting.**

There have been no changes in the Company's internal controls over financial reporting during the quarter ended March 31, 2011, that have materially affected or are reasonably likely to materially affect the Company's internal controls 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.

<b>Exhibit 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: May 20, 2011

By: /s/ Daniel J. Moos  
Daniel J. Moos

President and Treasurer

FIRST EQUITY PROPERTIES, INC.

Date: May 20, 2011

By: /s/ Steven Shelley  
Steven Shelley

Director, Vice President and Secretary