

FIRST EQUITY PROPERTIES INC  
Form 10-Q  
November 13, 2009  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934**

For the quarterly period ended September 30, 2009

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

95-6799846  
(I.R.S. Employer

Identification No.)

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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 November 13, 2009)

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**FIRST EQUITY PROPERTIES, INC.**

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

<b>Assets</b>	September 30, 2009 (unaudited)	December 31, 2008
Cash and cash equivalents	\$ 615	\$ 115,418
Deferred tax asset	14,500	14,500
Notes and interest receivable - affiliate	2,407,540	2,407,540
<b>Total assets</b>	<b>\$ 2,422,655</b>	<b>\$ 2,537,458</b>
<b>Liabilities and Shareholders Equity</b>		
Accounts payable	\$ 80,023	\$ 3,283
Federal income taxes payable	4,149	5,627
Accounts payable - affiliate	1,487,079	1,700,517
<b>Total liabilities</b>	<b>1,571,251</b>	<b>1,709,427</b>
Preferred stock, \$0.01 par 4,960,000		
shares authorized, none issued and outstanding	-	-
Common stock, \$0.01 par 40,000,000		
shares authorized, 1,057,628 shares issued and outstanding	10,576	10,576
Capital in excess of par value	1,376,682	1,376,682
Retained deficit	(535,854)	(559,227)
<b>Total shareholders equity</b>	<b>851,404</b>	<b>828,031</b>
<b>Total liabilities and shareholders equity</b>	<b>\$ 2,422,655</b>	<b>\$ 2,537,458</b>

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

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

(unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
<b>Revenue</b>				
Interest income	\$ 60,683	\$ 60,683	\$ 180,071	\$ 180,730
<b>Expenses</b>				
General and administrative (\$24,651 and \$73,953 from affiliates for three and nine months respectively)	28,512	2,065	85,312	9,149
Legal and professional fees	2,590	1,485	14,563	10,609
Total expenses	31,102	3,550	99,875	19,758
Income before interest expense and taxes	29,581	57,133	80,196	160,972
<b>Other income (expense)</b>				
Interest expense	(17,703)	(25,091)	(52,533)	(80,362)
Income before income taxes	11,878	32,042	27,663	80,610
<b>Income tax expense</b>				
Current	(2,387)	(5,295)	(4,290)	(15,658)
Deferred	-	-	-	-
Corporate income tax expense	(2,387)	(5,295)	(4,290)	(15,658)
Net income available to common shareholders	\$ 9,491	\$ 26,747	\$ 23,373	\$ 97,952
<b>Earnings per share</b>				
Net income available to common shareholders	\$ 0.01	\$ 0.02	\$ 0.02	\$ 0.06
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.

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**FIRST EQUITY PROPERTIES, INC.**  
**STATEMENTS OF SHAREHOLDERS EQUITY**

For the nine months ended September 30, 2009

(unaudited)

	<u>Common Stock</u>		<u>Capital</u>		<u>Paid in</u>		<u>Retained</u>		<u>Earnings</u>		<u>Shareholders</u>
	1,057,628	\$	10,576	\$	1,376,682	\$	(559,227)	\$	828,031		
Balance, January 1, 2009											
Net income applicable to common shareholders	-	\$	-	\$	-	\$	23,373	\$	23,373		
Balance, September 30, 2009	1,057,628	\$	10,576	\$	1,376,682	\$	(535,854)	\$	851,404		

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

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

(unaudited)

	For the Nine Months Ended September 30,	
	2009	2008
Cash flows from operating activities		
Net income applicable to common shareholders	\$ 23,373	\$ 64,952
Adjustments to reconcile net income applicable to common shareholders to net cash provided by (used in) operating activities:		
Increase (decrease) in:		
Accounts payable	76,740	1,200
Federal income taxes payable	(1,478)	(38,968)
Accounts payable - affiliate	(213,438)	(26,147)
Net cash provided by (used in) operating activities	(114,803)	1,037
Net increase (decrease) in cash and cash equivalents	(114,803)	1,037
Cash and cash equivalents at the beginning of period	115,418	72,653
Cash and cash equivalents at the end of period	\$ 615	\$ 73,690

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



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**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 earnings, 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, 2008.

Certain amounts in the prior periods have been reclassified to conform with the current period presentation.

Operating results for the nine months ended September 30, 2009, are not necessarily indicative of the results that may be expected for the year ended December 31, 2009.

**NOTE 2. FEDERAL INCOME TAXES**

The accompanying interim unaudited 2009 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 tax accrual was calculated base on a rate of 15%. In addition, the deferred tax asset was amortized to estimate the book tax liability to the actual amount owed.

**NOTE 3. LEASES**

We have 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, 2009 was \$51,456 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.

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

We entered into an administrative agreement with Prime Income Asset Management, Inc., ( Prime ) an affiliated entity, for accounting and administrative services. We pay \$2,500 per month for these services.

**NOTE 5. NEWLY ISSUED ACCOUNTING STANDARDS**

In June 2009, the Financial Accounting Standards Board ( FASB ) issued Accounting Standard Update No. 2009-01 ( ASU No. 2009-01 ) to amend topic Accounting Standard Codification 105 ( ASC-105 ) Generally Accepted Accounting Principles an amendment based on Statement of Financial Accounting Standard No. 168 the FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles . This amendment establishes the FASB Accounting Standards Codification ( Codification ) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal security laws are also

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sources of authoritative GAAP for SEC registrants. The Codification is effective for interim and annual periods ending on or after September 15, 2009. Therefore, the Company is applying the Codification to its financial statements issued for interim and annual periods ending after September 30, 2009.

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

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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 I, Item 1 of this report for the nine months ended September 30, 2009 and 2008. 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. The outstanding principal balance on these notes is currently not being paid down, thus, the income from these notes are consistent and comparable to prior periods.

### ***Comparison of the three months ended September 30, 2009 to the same period ended 2008.***

We reported a net income applicable to common shareholders of \$9,491 for the three months ended September 30, 2009 as compared to a net income to common shareholders of \$26,747 for the same period ended 2008.

General and administrative expense increased due to entering into a lease agreement with IOT, an affiliated entity. The base rent is \$5,717 per month. This lease was not in effect for the Third Quarter ended 2008. In addition, we have entered into an administrative services agreement with Prime, an affiliated entity, for \$2,500 per month. The remaining increase was due to an increase in audit and filing fees.

Interest expense decreased due to a significant drop in the prime rate from prior period. Our interest expense is based on a rate of Prime plus one percent. On average the Prime rate was 6.41% and 3.25% for the nine months ended September 30, 2008 and 2009, respectively.

Income tax expense decreased due to the additional expenses associated with lease agreement and the administrative services agreement entered into which was not applicable in prior year.

### ***Comparison of the nine months ended September 30, 2009 to the same period ended 2008.***

We reported a net income applicable to common shareholders of \$23,373 for the nine months ended September 30, 2009 as compared to a net income to common shareholders of \$97,952 for the same period ended 2008.

General and administrative expense increased due to entering in to a lease agreement with IOT, an affiliated entity. The base rent is \$5,717 per month. In addition, we have entered into an administrative services agreement with Prime, an affiliated entity, for \$2,500 per month. The remaining increase was due to an increase in audit and filing fees, and legal expenses.

Interest expense decreased due to a significant drop in the prime rate from prior period. Our interest expense is based on a rate of Prime plus one percent. On average the Prime rate was 6.41% and 3.25% for the nine months ended September 30, 2008 and 2009, respectively.

Income tax expense decreased due to the additional expenses associated with lease agreement and the administrative services agreement entered into which was not applicable in prior year.

## **Liquidity and Capital Resources**



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***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, 2009:

We advanced \$168,023 to an affiliated entity, which reduced our cash balance and increased our receivables from affiliates. In addition, we paid cash for our lease commitments and administrative fees, which further reduced our cash balance.

Our interest receivable affiliated decreased as we collected the interest owed us on those notes.

Our accounts payables increased due to the additional accruals for lease and administrative expenses incurred and not paid.

Our accounts payables affiliated 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 a significant increase in cash used from operating activities as compared to the prior year. In the current year, we had an increase in operating expenses and advanced \$168,023 to an affiliated entity. This was offset by not paying the tax liability when due, and also extending our payables.

Although we had a significant cash outflow in the third quarter, we anticipate that our cash flows from operating activities will be sufficient to provide for our current cash flow needs.

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**ITEM 4T. 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 September 30, 2009, that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

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**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.

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**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 13, 2009

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

Vice President, Treasurer, Acting Principal Executive Officer  
and Principal Financial Officer