

FIRST EQUITY PROPERTIES INC
Form 10-Q
August 13, 2015

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 June 30, 2015

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)

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

1603 LBJ Freeway, 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

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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 July 31, 2015)

FIRST EQUITY PROPERTIES, INC.
FORM 10-Q
TABLE OF CONTENTS

| PART I. FINANCIAL INFORMATION | | PAGE |
|-------------------------------|---|------|
| Item 1. | Financial Statements | |
| | Consolidated Balance Sheets as of June 30, 2015 (unaudited) and December 31, 2014 | 3 |
| | Consolidated Statements of Operations for the three and six months ended June 30, 2015 and 2014 (unaudited) | 4 |
| | Consolidated Statement of Shareholders' Equity for the six months ended June 30, 2015 (unaudited) | 5 |
| | Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014 (unaudited) | 6 |
| | Notes to Financial Statements | 7-8 |
| Item 2. | Management's Discussion and Analysis of Financial Condition and Results of Operations | 9-10 |
| Item 3. | Controls and Procedures | 10 |
| PART II. OTHER INFORMATION | | |
| Item 6. | Exhibits | 11 |
| SIGNATURES | | 12 |

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST EQUITY PROPERTIES, INC.
CONSOLIDATED BALANCE SHEETS

| | June 30, 2015 (unaudited) | December 31, 2014 |
|---|---------------------------------|-------------------------|
| Assets | | |
| Notes receivable and accrued interest - related parties | \$2,204,446 | \$2,172,752 |
| Cash and cash equivalents | 7,102 | 1,776 |
| Total assets | \$2,211,548 | \$2,174,528 |
| Liabilities and Shareholders' Equity | | |
| Notes payable and accrued interest - related parties | \$857,501 | \$877,850 |
| Accounts payable - other | 661 | 3,177 |
| Accounts payable - related parties | 482,038 | 417,555 |
| Total liabilities | 1,340,200 | 1,298,582 |
| 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) | (515,910) | (511,312) |
| Total shareholders' equity | 871,348 | 875,946 |
| Total liabilities and shareholders' equity | \$2,211,548 | \$2,174,528 |

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

FIRST EQUITY PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

| | For the three months ended June 30, | | For the six months ended June 30, | |
|---|---|------------|--------------------------------------|------------|
| | 2015 | 2014 | 2015 | 2014 |
| Revenue | | | | |
| Interest income - related parties | \$52,356 | \$53,560 | \$104,446 | \$110,722 |
| | | | | |
| Total income | 52,356 | 53,560 | 104,446 | 110,722 |
| | | | | |
| Operating Expenses | | | | |
| General and administrative - related parties | 15,000 | 15,000 | 30,000 | 30,000 |
| General and administrative | 2,776 | 3,872 | 7,672 | 5,954 |
| Legal and professional fees | 13,625 | 13,462 | 29,227 | 22,595 |
| | | | | |
| Total operating expenses | 31,401 | 32,334 | 66,899 | 58,549 |
| | | | | |
| Income (loss) before interest expense and taxes | 20,955 | 21,226 | 37,547 | 52,173 |
| | | | | |
| Other income (expense) | | | | |
| Interest expense - related parties | (20,353) | (26,356) | (42,145) | (60,140) |
| | | | | |
| Income (loss) before income taxes | 602 | (5,130) | (4,598) | (7,967) |
| | | | | |
| Income tax (expense) benefit | - | - | - | - |
| | | | | |
| Net income (loss) applicable to common shareholders | \$602 | \$(5,130) | \$(4,598) | \$(7,967) |
| | | | | |
| Earnings (loss) per share | \$- | \$(0.01) | \$- | \$(0.01) |
| | | | | |
| 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.

FIRST EQUITY PROPERTIES, INC.
 CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
 For the six months ended June 30, 2015
 (unaudited)

| | Common Stock | | Paid in Capital | Retained Earnings (Deficit) | Total Equity |
|-----------------------------|--------------|----------|--------------------|-----------------------------------|-----------------|
| | Shares | Amount | | | |
| Balances at January 1, 2015 | 1,057,628 | \$10,576 | \$1,376,682 | \$(511,312) | \$875,946 |
| Net income (loss) | - | - | - | (4,598) | (4,598) |
| Balances at June 30, 2015 | 1,057,628 | \$10,576 | \$1,376,682 | \$(515,910) | \$871,348 |

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

FIRST EQUITY PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

| | For the six months ended June 30, | |
|---|--------------------------------------|------------|
| | 2015 | 2014 |
| Cash Flows from Operating Activities | | |
| Net Income (Loss) | \$(4,598) | \$(7,967) |
| Adjustments to reconcile net income applicable to common shareholders to net cash provided by (used in) operating activities: | | |
| (Increase) decrease in | | |
| Interest receivable - related parties | (50,794) | 130,032 |
| Increase (decrease) in | | |
| Accounts payable - other | (2,516) | 375 |
| Accounts payable - related parties | 64,483 | (15,362) |
| Interest payable - related parties | 19,416 | (97,535) |
| Net cash provided by (used for) operating activities | 25,991 | 9,543 |
| Cash Flows from Investing Activities | | |
| Notes receivable - related parties | 19,100 | 304,985 |
| Net cash provided by (used for) investing activities | 19,100 | 304,985 |
| Cash Flows from Financing Activities | | |
| Notes payable - related parties | (39,765) | (314,000) |
| Net cash provided by (used for) financing activities | (39,765) | (314,000) |
| Net increase (decrease) in cash and cash equivalents | 5,326 | 528 |
| Cash and cash equivalents at the beginning of period | 1,776 | 346 |
| Cash and cash equivalents at the end of period | \$7,102 | \$874 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid for interest expense to related parties | \$22,730 | \$157,674 |
| Cash received for interest on notes receivable | \$53,653 | \$240,754 |

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

FIRST EQUITY PROPERTIES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND BASIS OF PRESENTATION

Organization and business

First Equity Properties, Inc. is a Nevada based corporation organized in December 19, 1996 and the Company is headquartered in Dallas, TX. The Company's principal line of business and source of revenue is currently investments and interest on notes receivable. The Company is currently in the business of real estate investing. 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.

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, 2014, 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, 2014.

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. 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 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.

Recognition of the benefits of deferred tax assets will require the Company to generate future taxable income. There is no assurance that the Company will generate earnings in future years.

NOTE 3. NOTES RECEIVABLE AND ACCRUED INTEREST – RELATED PARTIES

Receivables from related parties primarily consist of two notes of \$1,600,000 and \$500,000 which are payable in quarterly installments of interest only. The notes accrue interest at 10% per annum. The maturity date of these notes has been extended to December 31, 2015. A payment was received in March 2015 for \$72,752.12 which paid the remaining interest balance due in 2014 and some principal on these notes.

| | 2015 | 2014 |
|---|--------------|--------------|
| Notes receivable – related parties | | |
| Unsecured, due on demand, interest rate of 10%, due monthly | \$ 2,100,000 | \$ 2,119,099 |
| Accrued interest – related parties | 104,446 | 53,653 |
| | | |
| Total notes and accounts receivable – related parties | \$ 2,204,446 | \$ 2,172,752 |

A subsequent payment for principal and interest on notes receivable was received in July 2015 for \$150,000 which makes the notes and interest receivable balances current.

NOTE 4. NOTES PAYABLE AND ACCRUED INTEREST – RELATED PARTIES

| | 2015 | 2014 |
|--|-----------|-----------|
| Uncollateralized notes payable – related parties | | |
| due on demand, interest rate of 10%, payable quarterly | \$816,376 | \$856,140 |
| Accrued interest and intercompany – related parties | 41,125 | 21,710 |
| | | |
| Total notes payable – related parties | \$857,501 | \$877,850 |

| | Total | Principal and interest payments due by period | | | | | |
|----------------|-----------|---|------|------|------|------|------------|
| | | 2015 | 2016 | 2017 | 2018 | 2019 | thereafter |
| Long term debt | \$857,501 | \$857,501 | \$- | \$- | \$- | \$- | \$- |
| | \$857,501 | \$857,501 | \$- | \$- | \$- | \$- | \$- |

Subsequent payments for interest on notes payable were paid in July 2015 totaling \$41,126 which make the notes and interest payable balances current.

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 an administrative agreement with Pillar Income Asset Management, Inc., an affiliated entity, for accounting and administrative services. The total expense of the six months ended June 30, 2015 was \$30,000 which is included in General and Administrative expenses of the Consolidated Statements of Operations.

NOTE 6. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through June 30, 2015, the date the financial statements were available to be issued, and has determined that there have been subsequent payments made in July 2015 for principal and interest on notes payable and notes receivable.

ITEM 2. MANAGER'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. This 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 are intended 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.

Related parties

We apply ASC Topic 805, "Business Combinations", to evaluate business relationships. Related parties are persons or entities who have one or more of the following characteristics, which include entities for which investments in their equity securities would be required, trust for the benefit of persons including principal owners of the entities and members of their immediate families, management personnel of the entity and members of their immediate families and other parties with which the entity may deal if one party controls or can significantly influence the decision making of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests, or affiliates of the entity.

Results of Operations

The following discussion is based on our Statement of Operations within our Financial Statements as presented in Part 1, Item 1 of this report for the six months ended June 30, 2015 and 2014. 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 six months ended June 30, 2015, are not necessarily indicative of the results that may be expected for other interim periods or for the full fiscal year.

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

Comparison of the three months ended June 30, 2015 to the same period ended 2014.

We reported net income applicable to common shareholders of \$602 for the three months ended June 30, 2015 as compared to a net loss to common shareholders of (\$5,130) for the same period ended 2014. The change from net loss to net income is due to the decrease in interest expense due to the reduction in note principal.

Comparison of the six months ended June 30, 2015 to the same period ended 2014.

We reported a net loss applicable to common shareholders of (\$4,598) for the six months ended June 30, 2015 as compared to a net loss to common shareholders of (\$7,967) for the same period ended 2014. The decrease in net loss is due to the decrease in interest expense as a result of the reduction in note principal partially offset by an increase in legal and professional fees.

Liquidity and Capital Resources

General

Our principal liquidity needs for the next twelve months are funding of normal recurring expenses including interest expense and legal and administrative fees.

Our principal source of cash is proceeds from interest income on our notes receivables. The following impacted our balance sheet as of June 30, 2015:

Our notes receivable and accrued interest – related parties increased due to payments not yet received for interest on notes receivables.

Our notes payable and accrued interest – related parties decreased due to payments made on principal and interest owed on notes payable.

ITEM 3.

CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

A review and evaluation was performed by management under the supervision and with the participation of the Principal Executive Officer and Chief Financial Officer of the effectiveness of the Company's disclosure controls and procedures, as required by Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of June 30, 2015. Based upon that most recent evaluation, which was completed as of the end of the period covered by this Form 10-K, the Principal Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective at June 30, 2015 to ensure that information required to be disclosed in reports that the Company files submits under the Securities Exchange Act is recorded, processed, summarized and reported within the time period specified by the Securities and Exchange Commission ("SEC") rules and forms. As a result of this evaluation, there were no significant changes in the Company's internal control over financial reporting during the period ended June 30, 2015 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

(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 June 30, 2015, that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

PART II – OTHER INFORMATION

ITEM 6. EXHIBITS

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

| Exhibit Number | Description |
|----------------|---|
| 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 Principal Executive Officer pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934. |
| 31.2* | Certification of Principal 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.

11

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: August 13, 2015

By: /s/ Daniel J. Moos
Daniel J. Moos
Director, President & Treasurer

FIRST EQUITY PROPERTIES, INC.

Date: August 13, 2015

By: /s/ Steven Shelley
Steven Shelley
Director, Vice President & Secretary

