

FIRST EQUITY PROPERTIES INC

Form 10-K

April 15, 2011

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2010

OR

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

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-K

<p>Nevada (State or other jurisdiction of Incorporation or organization)</p>	<p>95-6799846 (IRS Employer Identification Number)</p>
<p>1800 Valley View Lane, Suite 300</p>	<p>75234 (Zip Code)</p>
<p>Dallas, Texas (Address of principal executive offices)</p>	<p>Registrant's Telephone Number, including area code (469) 522-4200</p>

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of each exchange on which registered
None	

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, \$0.01 par value.**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input checked="" type="checkbox"/>

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

The aggregate market value of the shares of voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the price at which the common equity was last sold, or the average bid and ask price of such common equity as of September 30, 2010 (the last business day of the Registrant's most recently completed third fiscal quarter) is not determinable since no trading market existed on that date or presently exists for the shares of Common Stock. 264,807 shares were held as of September 30, 2010 by persons believed to be

non-affiliates of the Registrant.

As of March 31, 2011, there were 1,057,628 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

Table of Contents

**INDEX TO
ANNUAL REPORT ON FORM 10-K**

		Page
PART I		
Item 1.	<u>Business</u>	3
Item 1A.	<u>Risk Factors</u>	3
Item 1B.	<u>Unresolved Staff Comments</u>	4
Item 2.	<u>Properties</u>	4
Item 3.	<u>Legal Proceedings</u>	4
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	4
PART II		
Item 5.	<u>Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities</u>	5
Item 6.	<u>Selected Financial Data</u>	6
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	6
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	8
Item 8.	<u>Financial Statements and Supplementary Data</u>	8
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	8
Item 9A.	<u>Controls and Procedures</u>	8
Item 9B.	<u>Other Information</u>	9
PART III		
Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	9
Item 11.	<u>Executive Compensation</u>	10
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	10
Item 13.	<u>Certain Relationships and Related Transactions</u>	11
Item 14.	<u>Principal Accounting Fees and Services</u>	11
PART IV		
Item 15.	<u>Exhibits, Financial Statement Schedules</u>	12
	<u>Signatures</u>	14

Table of Contents

PART I

Forward-Looking Statements

This report of First Equity Properties, Inc. may contain forward-looking statements. All statements other than statements of historical fact may be forward-looking statements. These include statements regarding any future financial results, operating results, business strategies, projected costs and capital expenditures, products, competitive positions, and plans and objectives of management for the future operations. Forward-looking statements may be identified by the words such as may, will, should, expect, plan, anticipate, believe, estimate, predict, intend and continue or the negative of these terms and include the assumptions that underlie such statements. Actual results could differ materially from those expressed or implied in these forward-looking statements as a result of various risks and uncertainties and other factors that might cause such differences, some of which could be material, including but not limited to economic and other market conditions, financing risks (such as the inability to obtain debt or equity financing on favorable terms), the level and volatility of interest rates, as well as other risks identified in this report, including those set forth in the section entitled Part I, Item 1A. **Risk Factors.** All forward-looking statements in this report are based on information available to management as of the date hereof, and management assumes no obligation to update any such statements. The information in this report should be read in conjunction with the financial statements and notes thereto included in this report.

ITEM 1. BUSINESS

As used herein, the terms (FEPI, we, us, our, or the Company) refer to First Equity Properties, Inc. a Nevada corporation organized on December 19, 1996. The Company's fiscal year ends December 31 of each year.

The Company's principal line of business and source of revenue has been earnings on investments and interest on notes receivables. On December 31, 2010 the Company purchased ART Westwood FL, Inc., for investment purposes. ART Westwood FL, Inc. is a Nevada corporation which owns approximately 0.753 acres of Kelly Lots Land 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.

ITEM 1A. RISK FACTORS

An investment in equity securities of the Company involves a high degree of risk as there is no active trading market for our securities and liquidity is not assured. You should carefully consider the following information keeping in mind that the matters described below are not the only potential risks that may affect the Company. Additional risks, which we do not presently consider material or of which we are not currently aware, may also have an adverse impact upon us.

Our governing documents contain anti-takeover provisions that make it difficult for a third party to seek to acquire control of the Company.

Certain provisions of the Articles of Incorporation, Bylaws and Nevada law could, together or separately, discourage, delay or prevent a third party from acquiring the Company, even if doing so might benefit stockholders. The provisions may also affect the price investors might be able to receive for their shares of the Company's common stock. Examples of these provisions are:

The right of our Board of Directors to issue preferred stock with rights and privileges, which are senior to the common stock, without prior stockholder approval.

Certain limitations upon the stockholders to make, adopt, alter, amend, change, or repeal the Bylaws of the Corporation except by a vote of 66 2/3% of the holders of record of shares outstanding.

So-called business combination control requirements when the combination involves the Company and a person that beneficially owns 20% or more of the outstanding common stock, except under certain circumstances.

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

In addition, while one entity is currently the owner of approximately 75% of the issued and outstanding common stock, the likelihood of any offer to acquire a significant position in the Company's common stock is remote.

There is no established independent trading market for the shares of common stock of the Company.

No trading market presently exists for the shares of common stock and its value is therefore not determinable. Holders of our common stock do not have a vested right to redeem their shares, and therefore may not be able to liquidate their investment in the event of an emergency or otherwise. There simply is no active trading market for the shares of common stock, and accordingly, the transferability of such shares is limited at best.

Table of Contents

ITEM 1A. RISK FACTORS (CONTINUED)

The Company is managed by the Board of Directors.

Management has established the operating policies and procedures of the Company, which may be modified or waived by the Board of Directors without stockholder approval. The ultimate effect of any such changes may adversely affect future operations. The Company's business is conducted so as not to become a regulated investment company under the Investment Company Act, which exempt entities that are primarily engaged in the business of purchasing or otherwise acquiring mortgages and other liens on and interest in real estate.

The Company's primary source of income is from affiliated entities.

Our primary source of income is from affiliated entities. If any of these entities were to become insolvent or unable to pay their obligations, it would have a material impact on our financial statements and our ability to continue as a going concern. Management of the Company is exploring other alternatives, seeking to establish or acquire new business operations for the Company. Management cannot predict or give any assurance that any new business enterprise will be acquired or developed at any time in the near future.

ITEM 1.B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company's principal office is located at 1800 Valley View Lane, Suite 300, Dallas, Texas 75234 in approximately 4,288 square feet of commercial office space, which the Company leases from Income Opportunity Realty Investors, Inc. (IOT). The space is suitable and adequate for the purposes for which it is utilized.

As of December 31, 2010, the Company has purchased land and has a subsidiary.

On December 31, 2010 the Company acquired ART Westwood FL, Inc. which owns land parcels located in Farmers Branch, TX, Grapevine, TX and Nashville, TN. The Land was acquired in exchange for non-recourse notes aggregating \$3,832,399. Effective December 31, 2010 the Company has a subsidiary, ART Westwood FL, Inc.

ITEM 3. LEGAL PROCEEDINGS

At December 31, 2010, and through April 15, 2011, the Company was not a party to or involved in any outstanding, unresolved litigation or proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of the fiscal year covered by this report, no matter was submitted to a vote of security holders of the Company.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Pursuant to the requirements of NRS 78.2055, on June 7, 2004, the members of the Board of Directors of the Company proposed and recommended to the stockholders a reverse-split on a 1-for-10 basis of the shares of Common Stock, par value \$0.01 per share without any adjustment to the par value per share and without any reduction in the authorized number of shares of Common Stock at the same par value. The recommendation was submitted to the holder of approximately 75% of the outstanding Common Stock, Nevada Sea Investments, Inc. (Nevada Sea), which executed a written consent dated June 8, 2004, pursuant to NRS 78.320 adopting and approving the 1-for-10 reverse stock-split of the shares of Common Stock without any change in the par value and without any reduction in the authorized number of shares of Common Stock of the Company pursuant to the Articles of Incorporation. The 1-for-10 reverse stock split was ultimately effective July 12, 2004, following the distribution of an Information Statement on Schedule 14C to the other stockholders of the Company, and following the filing of an amendment to the Certificate of Incorporation of the Company with the Secretary of State of Nevada. The CUSIP Number for the post-split shares is 320097-20-7.

Under the approved action, based upon the 10,570,944 old shares outstanding on the effective date of July 12, 2004, the 1-for-10 reverse stock-split decreased the number of outstanding shares by approximately 90% which, after giving effect to an upward adjustment or rounding up for any fractional shares, added 534 shares to result in 1,057,628 post-split shares outstanding. The 1-for-10 reverse stock-split did not adversely affect any stockholder's proportionate equity interest in the Company, subject to the provisions for elimination of fractional shares by rounding up to the next whole share which slightly increased the proportionate holdings of all stockholders other than Nevada Sea. Each post-split share continues to be entitled to one vote, as was the case with each outstanding old share.

In connection with the implementation of a 1-for-10 reverse stock-split, no certificate or script representing any fractional share interest was issued, but a holder of the old shares received in lieu of any fraction of a post-split share to which the holder would otherwise have been entitled a single, whole post-split share on a rounding up basis without regard to any price. The result of this rounding up process increased slightly the holdings of those stockholders who held a number of old shares which were not evenly divisible by ten, resulting in an increase of 534 shares.

FEPI's old shares of Common Stock, while available for trading in the over-the-counter market, to the knowledge of Management, have not had any material trading activity since their initial issuance in 1997. The old shares were issued pursuant to the terms of the Modified Plan in the bankruptcy proceeding styled *In Re: WESPAC Investors Trust III*, Case No. 94-00228-K-11 in the United States Bankruptcy Court for the Eastern District of Washington. The CUSIP Number of the old shares was 320097-10-8. The shares of beneficial interest of WESPAC Investors Trust III traded through the first quarter of 1988, and at one time, were quoted on the National Association of Securities Dealers Automatic Quotation System (NASDAQ). Since the cessation of trading on NASDAQ, there has been no established, independent trading market for the shares of beneficial interest of WESPAC or the old shares of Common Stock of FEPI as the successor, or the new shares of Common Stock of the Company after giving effect to the 1-for-10 reverse stock split.

No cash dividends have been declared or paid during the period from January 1, 1994 to the present on either the shares of Beneficial Interest of the Trust or the old shares of Common Stock of FEPI as the successor or the new shares of Common Stock after giving effect to the 1-for-10 reverse stock split.

As of March 31, 2011, the 1,057,628 post-split shares of Common Stock of FEPI issued and outstanding were held by approximately 1,800 holders of record.

During the three years ended December 31, 2010, FEPI did not issue or sell any securities, nor did FEPI purchase any of its equity securities. The Board of Directors has not authorized any stock repurchase program.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

The selected historical financial data presented below for the five fiscal years ended December 31, 2010, are derived from the audited financial statements.

	Year Ended December 31,				
	2010	2009	2008	2007	2006
STATEMENT OF OPERATIONS DATA:					
Revenues	\$ 240,754	\$ 240,754	\$ 241,413	\$ 240,754	\$ 240,838
Operating	144,870	129,752	66,923	25,541	30,005
Other income					
Income from continuing operations	95,884	111,002	174,490	215,213	210,833
Impairment loss					
Interest expense	(70,866)	(70,236)	(101,462)		
Income from discontinued operations					
Income (loss) before taxes	25,018	40,766	73,028	215,213	210,833
Income tax benefit (expense)	(3,778)	(9,097)	9,004	(54,945)	(36,055)
Net income (loss) applicable to common shareholders	\$ 21,240	\$ 31,669	\$ 82,032	\$ 160,268	\$ 174,778
Weighted average earnings per share:					
Income from continuing operations	\$ 0.02	\$ 0.03	\$ 0.08	\$ 0.15	\$ 0.17
Loss from discontinued operations					
Net income loss applicable to common shareholders	\$ 0.02	\$ 0.03	\$ 0.08	\$ 0.15	\$ 0.17
Weighted average shares outstanding	1,057,628	1,057,628	1,057,628	1,057,628	1,057,628
BALANCE SHEET DATA:					
Total Assets	\$ 6,523,341	\$ 2,517,028	\$ 2,537,458	\$ 2,480,193	\$ 2,471,212
Total Liabilities	\$ 5,642,401	\$ 1,657,328	\$ 1,709,427	\$ 1,734,194	\$ 1,885,481
Stockholders' Equity	\$ 880,940	\$ 859,700	\$ 828,031	\$ 745,999	\$ 585,731

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is not an all-inclusive discussion of our operations. The information provided relates to significant items, which Management believes is relevant to an assessment and understanding of the Company's results of operations and financial condition. The discussion should be read in conjunction with the financial statements presented and the notes to the financial statements as included in this Form 10K.

Results of Operations

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. Within the current year, we have incurred additional costs due to operating.

Results of operations for the year ended December 31, 2010 as compared to the same period ended 2009.

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

Operating expenses increased by \$15,118 as compared to the year ended 2009.

Interest expense remained the same as compared to the year ended 2009.

Table of Contents**Results of Operations (Continued)**

Results of operations for the year ended December 31, 2009 as compared to the same period ended 2008.

Operating expenses increased by \$62,829 as compared to the year ended 2008. The majority of the increase is due to a full year of the lease agreement signed in the prior year. The lease agreement is with an affiliated entity for office space that was effective November 1, 2008. The lease is for \$5,717 per month, which accounts for \$57,170 of the increase.

Interest expense decreased by \$31,226 as compared to the year ended 2008. The affiliated payables were reduced during 2009 which decreased the interest expense incurred.

A substantial asset concentration relates to notes receivables from affiliated entities which is the primary source of income consisting of interest on such receivables. Any adverse conditions effecting the financial condition of either or both of these entities, specifically their ability to service the debt obligation owed, could have a severe adverse impact upon the financial statements of the Company. However, as the entities are related parties to the Company, management of the Company is generally aware of the related parties financial condition. The entities are currently not in default on their obligations and management does not consider it necessary at this time to provide other financial information for such entities. However, management of the Company is aware of the circumstances and any conditions that might impact the ability of such related parties to meet their respective obligations. Management of the Company considers the collectability of such obligations to not be a question at this time.

Financial Condition, Capital Resources and Liquidity*General*

Our primary source of liquidity is from proceeds from accrued interest on notes receivables from affiliated entities. At December 31, 2010, we had total assets of \$6,523,341. Management determined that we would generate income sufficient to use our deferred tax asset of \$1,696. Our overall liabilities have increased and the increase is due to the purchases of the subsidiary and land. We feel that our cash from operations is sufficient to provide for our current cash flow needs.

Cash flow analysis

The following summary discussion of our cash flows are based on the Statements of Cash Flows as presented in this Form 10-K and is not meant to be an all-inclusive discussion of the changes in our cash flows.

2010 as compared to 2009 The cash flow remained static as compared to the year ended 2009.

2009 as compared to 2008 The decrease is mainly attributable to paying down our obligations to affiliates due in the current year.

Contractual Obligations

We have contractual obligations and commitments primarily in regards to payments of operating leases and various notes payable. The following table aggregates our expected contractual obligations and commitments subsequent to December 31, 2010. The \$3, 832,399 of long term debt was a result of acquisition of various land parcels. The debt is due to related parties and is collateralized by land and is non-recourse to the Company.

	Total	2011	Payments due by period			2015	Thereafter
			2012	2013	2014		
Long term debt	\$ 5,535,275	\$ 1,702,876	\$	\$	\$	\$ 3,832,399	\$
Operating leases	57,170	57,170					

\$ 5,592,445	\$ 1,760,046	\$	\$	\$	\$ 3,832,399	\$
--------------	--------------	----	----	----	--------------	----

Environmental Matters

Under various federal, state and local environmental laws, ordinances and regulations, the Company may be potentially liable for removal or remediation costs, as well as certain other potential costs, relating to hazardous or toxic substances (including governmental fines and injuries to persons and property) where any property-level manager in the employee of a subsidiary of the Company may have arranged for the removal, disposal or treatment of hazardous or toxic substances. Management is not aware of any environmental liability relating to the above matters that would have a material adverse effect on the Company's business, assets, or results of operations.

Table of Contents

Inflation

The effects of inflation on the Company's operations are not quantifiable. To the extent that inflation affects interest rates, the Company's earnings from any short-term investments and the cost of new financings as well as the cost of variable rate financing will be affected.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from changes in interest rates, which may adversely affect its financial position, results of operations and cash flows. In seeking to minimize the risks from interest rate fluctuations, the Company manages exposures through its regular operating activities. The Company does not use financial instruments for trading or other speculative purposes and is not a party to any leveraged financial instruments.

Based upon the Company's market risk sensitive instruments (including variable rate debt) outstanding at December 31, 2010, the Company has determined that there was no material market risk exposure to the Company's financial position, results of operations or cash flows as of such date.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Financial Statements, together with an index thereto, are attached hereto following the signature page to this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 of December 31, 2010. 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 December 31, 2010 to ensure that information required to be disclosed in reports that the Company files submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and timely reported as provided in the Securities and Exchange Commission (SEC) rules and forms.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the Exchange Act Rules 13a-15(f). The Company's internal control over financial reporting is a process designed under the supervision of the Company's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the degree of compliance with policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Financial and Accounting Officer, we conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2010. The assessment was based on criteria established in the framework *Internal Control - Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concluded that our internal control over financial reporting was effective as of December 31, 2010.

Changes in Internal Control Over Financial Reporting

There has been no change in the Registrant's internal control over financial reporting during the quarter ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting.

Table of Contents

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors and Executive Officers

The business affairs of the Company are managed by, or under the direction of, the Board of Directors. The Board of Directors are responsible for the general investment policies of the Company and for such general supervision of the business of the Company conducted by its officers, agents, employees, advisors or independent contractors as may be necessary to insure that such business conforms to policies adopted by the Board of Directors. Pursuant to Article III, Section 3.1, of the Bylaws of the Company, there shall not be less than three (3) nor more than fifteen (15) directors of the Company. The number of directors shall be determined from time to time by resolution of the directors and the last count of that number of directors was at three (3) at the time of creation of the Company. The initial three directors were the three members of the Board of Trustees of the Trust. The term of office of each director is one year and until the election and qualification of his or her successor. Directors may succeed themselves in office and are to be elected at an annual meeting of stockholders or appointed by the Company's incumbent Board of Directors.

The current directors of the Company (both of whom are also executive officers) are listed below, together with their ages, all positions and offices with the Company, their principal occupation, business experience and directorship with other companies during the last five years or more.

The names, ages and positions of the directors as of April 15, 2011 are set forth below.

Name	Age	Position with the Company
Gene S. Bertcher	62	Director, Vice President, Treasurer, Chief Financial Officer, Principal Accounting Officer, and Principal Executive Officer.
Steven Shelley	28	Director, Vice President, and Secretary.

Gene S. Bertcher, 62
 Director, Chief Financial Officer and Principal Accounting Officer, and Vice President and Treasurer of the Company. Mr. Bertcher is also designated as the acting Principal Executive Officer. Mr. Bertcher is Chief Executive Officer (since December 2006) and Chief Financial Officer (since January 3, 2003) and a Director (from November 1989 to September 1996 and from June 1999 to the present) of New Concept Energy, Inc. (NCE), a Nevada corporation which has its common stock listed on the American Stock Exchange, Executive Vice President (since February 2008) and Chief Financial Officer (since October 2009) of Income Opportunity Realty Investors Inc., a Nevada corporation (IOT) which has its common stock listed and traded on the AMEX, American Realty Investors, Inc., a Nevada corporation (ARI) which has its common stock listed and traded on the New York Stock Exchange (NYSE) and Transcontinental Realty Investors Inc., a Nevada corporation (TCI) which has its common stock listed and traded on the NYSE. Mr. Bertcher has been a certified public accountant since 1973.

Steven Shelley, 28

Director, Vice President and Secretary of the Company. Mr. Shelley has been employed by Prime for more than the last five years and is (since May 2006) a Vice President of IOT, ARL and TCI.

Table of Contents**Meetings and Committees of Directors; Code of Ethics for Senior Financial Officers**

The Company's Board of Directors acted upon 15 matters by unanimous written consent since December 19, 1996 and has held no formal meetings. The Board of Directors has no standing audit, nominating or compensation committee.

The Board of Directors adopted on February 23, 2004, a Code of Ethics policy for Senior Financial Officers that applies to the principal executive officer, president, principal financial officer, chief financial officer, principal accounting officer and controller. FEPI does not have a website, but a copy of such document may be obtained by written request to the Secretary of FEPI. Those requests should be sent to Secretary, First Equity Properties, Inc., 1800 Valley View Lane, Suite 300 Dallas, Texas 75234.

Stockholders may also send communications to Board members by either sending a communication to the Board or a particular Board member in care of the Secretary of First Equity Properties, Inc., 1800 Valley View Lane, Suite 300, Dallas, Texas 75234.

Compliance With Section 16(a) of the 1934 Act

Under the securities laws of the United States, the Company's directors, executive officers, and any person holding more than 10% of the Company's shares of common stock are required to report their ownership of the Company's shares and any changes in ownership to the Commission. Specific due dates for these reports have been established and the Company is required to report any failure to file by the date. All the filing requirements were satisfied by the Company's directors, executive officers and 10% holders during 1996. In making these statements, the Company has relied on the written representations of its directors and executive officers and its 10% holders and copies of the reports that they filed with the Commission, both with respect to the Trust, as a predecessor to the Company, and the Company.

ITEM 11. EXECUTIVE COMPENSATION

Neither the executive officers nor directors received salaries nor cash compensation from the Company for acting in such capacity during the two years ended December 31, 2010.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The Company's voting securities consist of the shares of common stock, par value \$0.01 per share. As of March 31, 2011, according to the stock transfer records of the Company and other information available to the Company, the following persons were known to be the beneficial owners of more than five percent (5%) of the outstanding shares of common stock of the Company:

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class (1)
Shares of common stock, par value \$0.01 per share	Nevada Sea Investments, Inc. 1800 Valley View Lane, Suite 300 Dallas, Texas 75234	792,821 shares	74.96%

(1) Based on 1,057,628 shares of common stock outstanding on March 31, 2011.

Table of Contents**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS (CONTINUED)**

As of March 31, 2011, according to the stock transfer records of the Company and other information available to the Company, each of the directors and executive officers of the Company, and all present executive officers and directors as a group, beneficially own the following shares:

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class (a)
Shares of common stock, par value \$0.01 per share	Gene S. Bertcher 1800 Valley View Lane, Suite 300 Dallas, Texas 75234	792,821 ^(b)	74.96%
Shares of Common Stock, par value \$0.01 per share	All officers and directors as a group (2 persons)	792,821 ^(b)	74.96%

(a) Based on 1,057,628 shares of common stock outstanding on March 31, 2011.

(b) Includes 792,821 shares owned by Nevada Sea Investments, Inc., of which the directors and executive officers have disclaimed any beneficial ownership of such shares.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company leases its office space from IOT, an entity in which Mr. Bertcher, officer and director of the Company, serve as executive officer. See Item 2 Properties for a description of the lease.

On December 31, 2010 the Company purchased ART Westwood FL, Inc., for the investment purposes. ART Westwood FL, Inc. is a Nevada based corporation which owns land parcels located in Farmers Branch, TX, Grapevine, TX and Nashville, TN. Effective December 31, 2010 the Company has a subsidiary, ART Westwood FL, Inc.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table sets forth the aggregate fees for professional services rendered to FEPI for the years 2010 and 2009 by FEPI's principal accounting firm, Swalm & Associates, P.C.:

Type of Fees	Swalm & Associates, P.C.	
	2010	2009
Audit fees	\$ 21,500	\$ 10,055
Audit related fees		
Tax fees - preparation of corporate federal income tax returns	1,250	750
All other fees		
Total	\$ 22,750	\$ 10,805

There is currently no standing Audit Committee. The Board of Directors fulfills that responsibility. As a result, there are no Audit Committee pre-approval policies and procedures in existence.

Table of Contents**PART IV****ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) Financial Statements. The following documents are filed as part of this report:

	Page
Reports of Independent Registered Public Accounting Firm	17
Notes to Consolidated Financial Statements	
Consolidated Balance Sheets as of December 31, 2010 and December 31, 2009	18
Consolidated Statements of Operations for the years ended December 31, 2010, 2009 and 2008	19
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2010, 2009 and 2008	20
Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009 and 2008	21
Notes to Financial Statements	22-25
Financial Statement Schedules	
Schedule III Real Estate and Accumulated Depreciation	26
Schedule IV Mortgage Loans on Real Estate	27

All other schedules and financial statements are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

(b) Exhibits. The following documents are filed herewith as exhibits or incorporated by the references indicated below:

Exhibit Designation	Description of Exhibit
2.1	Plan of Reorganization (as modified) dated March 22, 1996 (incorporation by reference is made by Exhibit 2.1 to Form 8-K of First Equity Properties, Inc. for event reported June 19, 1996).
2.2	First Amended Disclosure Statement (as modified) dated March 22, 1996 (incorporation by reference is made to Exhibit 2.2 to Form 8-K of First Equity Properties, Inc. for event reported June 19, 1996).
2.3	Order Confirming Plan of Reorganization dated May 15, 1996 entered May 20, 1996 (incorporation by reference is made to Exhibit 2.3 to Form 8-K of First Equity Properties, Inc. for event reported June 19, 1996).
2.4	First Modification to Plan of Reorganization (as modified) dated October 29, 1996 (incorporation by reference is made to Exhibit 2.4 to Form 8-K of First Equity Properties, Inc. for event reported June 19, 1996).
2.5	Ex parte Order approving modification to Plan of Reorganization (as modified) entered October 29, 1996 (incorporation by reference is made to Exhibit 2.5 to Form 8-K of First Equity Properties, Inc. for event reported June 19, 1996).
2.6	Certificate of Substantial Consummation dated January 21, 1997 (incorporation by reference is made to Exhibit 2.6 to Form 8-K of First Equity Properties, Inc. for event reported June 19, 1996).
2.7	Final Decree issued by the Court on February 11, 1997 (incorporation by reference is made to Exhibit 2.7 to Form 8-K of First Equity Properties, Inc. for event reported June 19, 1996).
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).

Table of Contents

EXHIBITS AND FINANCIAL STATEMENT SCHEDULES (CONTINUED)

(b) Exhibits. The following documents are filed herewith as exhibits or incorporated by the references indicated below:

Exhibit Designation	Description of Exhibit
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).
3.7	Certificate of Amendment to Articles of Incorporation as filed with the Secretary of State of Nevada on July 12, 2004 (incorporation by reference is made to Exhibit 3.3 to Current Report on Form 8-K of First Equity Properties, Inc. for event reported May 1, 2004).
14	Code of Ethics for Senior Financial Officers (incorporation by reference is made to Exhibit 14 to Form 10-K of First Equity Properties, Inc. for the fiscal year ended December 31, 2003).
21.1*	List of Subsidiaries.
31.1*	Certification of Acting Principal Executive Officer and Chief Financial and Accounting Officer.
32.1*	Rule 1350 Certification by Acting Principal Executive Officer and Chief Financial and Accounting Officer.

* filed herewith

Table of Contents

SIGNATURES

Pursuant to the requirements Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed by the undersigned, thereunto duly authorized.

Dated: April 15, 2011

FIRST EQUITY PROPERTIES, INC.

By: */s/* GENE S. BERTCHER
Gene S. Bertcher
Vice President & Treasurer

(Acting Principal Executive Officer and Chief Financial Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacity and on the dates indicated:

<i>/s/</i> GENE S. BERTCHER Gene S. Bertcher	Director, Vice President and Treasurer, Chief Financial Officer, (Principal Accounting Officer and Acting Principal Executive Officer)	April 15, 2011
<i>/s/</i> STEVEN SHELLEY Steven Shelley	Director, Vice President and Secretary	April 15, 2011

Table of Contents

FIRST EQUITY PROPERTIES, INC.

TABLE OF CONTENTS

	Page
<u>Reports of Independent Registered Public Accounting Firm</u>	17
<u>Consolidated Balance Sheets as of December 31, 2010 and December 31, 2009</u>	18
<u>Consolidated Statements of Operations for the years ended December 31, 2010, 2009 and 2008</u>	19
<u>Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2010, 2009 and 2008</u>	20
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009 and 2008</u>	21
<u>Notes to Consolidated Financial Statements</u>	22-25
Financial Statement Schedules	
<u>Schedule III Real Estate and Accumulated Depreciation</u>	26
<u>Schedule IV Mortgage Loans on Real Estate</u>	27
All other schedules and financial statements are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.	

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors

First Equity Properties, Inc.

Dallas, Texas

We have audited the accompanying consolidated balance sheets of First Equity Properties, Inc. as of December 31, 2010 and 2009 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ending December 31, 2010. First Equity Properties Inc.'s management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in the notes to the financial statements, First Equity Properties, Inc. has significant transactions with and balances due from affiliates.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Equity Properties, Inc. as of December 31, 2010 and 2009 the results of its operations, changes in stockholders' equity and its cash flows for each of the years in the three-year period ending December 31, 2010, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. Schedules III and IV are presented for the purpose of complying with the Securities and Exchange Commission's rule and are not a required part of the basic consolidated financial statements and, in our opinion, fairly state, in all material respect, the financial data required to be set forth therein in relation to the basic consolidated financial statements taken as a whole.

/s/ SWALM & ASSOCIATES, P.C.

SWALM & ASSOCIATES, P.C.

March 31, 2011

Plano, Texas

Table of Contents**FIRST EQUITIES PROPERTIES, INC.**

CONSOLIDATED BALANCE SHEETS

As of December 31, 2010 and 2009

	2010	2009
Assets		
Real estate land holdings, at cost	\$ 3,832,399	\$
Notes receivable - affiliates	2,688,459	2,510,836
Cash and cash equivalents	151	82
Federal income tax receivable	636	
Deferred tax asset	1,696	6,110
Total assets	\$ 6,523,341	\$ 2,517,028
Liabilities and Shareholders Equity		
Notes payable and accrued interest - affiliates	\$ 5,535,275	\$ 1,655,102
Accounts payable	52,566	1,575
Accounts payable - affiliates	54,560	
Federal income tax payable		651
Total liabilities	5,642,401	1,657,328
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)	(506,318)	(527,558)
Total shareholders equity	880,940	859,700
Total Liabilities and Shareholders Equity	\$ 6,523,341	\$ 2,517,028

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

Table of Contents**FIRST EQUITIES PROPERTIES, INC.**

CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2010, 2009, and 2008

	2010	2009	2008
Revenue			
Interest income	\$ 240,754	\$ 240,754	\$ 241,413
Operating Expenses			
General and administrative	124,945	114,500	54,326
Legal and professional fees	19,925	15,252	12,597
Total operating expenses	144,870	129,752	66,923
Income before interest expense and taxes	95,884	111,002	174,490
Other income (expense)			
Interest expense	(70,866)	(70,236)	(101,462)
Income before income taxes	25,018	40,766	73,028
Income tax (expense) benefit	(3,778)	(9,097)	9,004
Net income applicable to common shareholders	\$ 21,240	\$ 31,669	\$ 82,032
Earnings (loss) per share	\$ 0.02	\$ 0.03	\$ 0.08
Weighted average shares outstanding	1,057,628	1,057,628	1,057,628

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

Table of Contents

FIRST EQUITIES PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

For the years ended December 31, 2010, 2009 and 2008

	Common Stock		Paid in	Retained	Total
	Shares	Amount	Capital	Earnings/(Deficit)	Equity
Balances at January 1, 2008	1,057,628	\$ 10,576	\$ 1,376,682	\$ (641,259)	\$ 745,999
Net income				82,032	82,032
Balances at December 31, 2008	1,057,628	10,576	1,376,682	(559,227)	828,031
Net income				31,669	31,669
Balances at December 31, 2009	1,057,628	10,576	1,376,682	(527,558)	859,700
Net income				21,240	21,240
Balances at December 31, 2010	1,057,628	\$ 10,576	\$ 1,376,682	\$ (506,318)	\$ 880,940

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

Table of Contents**FIRST EQUITIES PROPERTIES, INC.**

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2010, 2009 and 2008

	2010	2009	2008
Cash flows from operating activities:			
Net income	\$ 21,240	\$ 31,669	\$ 82,032
Adjustments to reconcile net income applicable to common shareholders to net cash provided by (used in) operating activities:			
(Increase) decrease in			
Notes receivable - affiliates	(177,623)	(103,296)	(1,775)
Federal income tax receivable	(636)		
Deferred tax asset	4,414	8,390	(14,500)
Increase (decrease) in			
Accounts payable	50,991	(1,708)	2,523
Accounts payable and accrued interest - affiliates	102,334	(45,415)	23,537
Federal income taxes payable	(651)	(4,976)	(49,052)
Net cash provided by operating activities	69	(115,336)	42,765
Net increase (decrease) in cash and cash equivalents	69	(115,336)	42,765
Cash and cash equivalents at the beginning of period	82	115,418	72,653
Cash and cash equivalents at the end of period	\$ 151	\$ 82	\$ 115,418

Supplemental disclosures of cash flow information:

Cash paid for interest	\$ 23,091	\$ 76,710	\$ 94,998
Cash paid for income taxes	\$ 636	\$ 5,768	\$ 54,626

Non - cash items:

Land acquisition financed by affiliate	\$ 3,832,399
--	--------------

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

Table of Contents

FIRST EQUITY PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The Company and its subsidiaries historically provided management services to a variety of commercial and residential real estate companies throughout the continental United States however by 2004 the management contracts and operating subsidiaries were either transferred or sold to other entities. Management of the Company is exploring alternatives, seeking to establish and/or acquire new business operations.

Our current source of revenue consists of the collections of interest on notes receivables from two affiliated entities. We also own several parcels of undeveloped land.

Organization and Business

First Equity Properties Inc. is 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 has been earnings on investments and interest on notes receivable. 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 Consolidated Financial Statements include our accounts, and our subsidiary, which is wholly-owned. All significant intercompany balances and transactions have been eliminated in consolidation. Effective December 31, 2010 the Company has a subsidiary, ART Westwood FL, Inc.

Cash Equivalents

For purposes of the statement of cash flows, the Company considers all short-term investments with original maturities of three months or less to be cash equivalents.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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 by such assets. A valuation allowance is provided for a portion or all of the deferred tax assets when there is an uncertainty regarding the Company's ability to recognize the benefits of the assets in future years.

Earnings (loss) per Share

Earnings (loss) per share (EPS) are calculated in accordance with Accounting Standards Codification, (ASC) No. 260, Earnings per Share (ASC 260), which was adopted in 1997 for all years presented. Basic EPS is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS does not apply to the Company due to the absence of dilutive potential common shares. The adoption of ASC 260 had no effect on previously reported EPS.

Table of Contents**NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)***FASB Accounting Standards Codification*

The company presents its financial statements in accordance with generally accepted accounting principles in the United States (GAAP). In June 2009, the Financial Accounting Standards Board (FASB) completed its accounting guidance codification project. The FASB Accounting Standards Codification (ASC) became effective for the Company s financial statements issued subsequent to June 30, 2009 and is the single 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. As of the effective date, the company will no longer refer to the authoritative guidance dictating its accounting methodologies under the previous accounting standards hierarchy. Instead, the Company will refer to the ASC Codification as the sole source of authoritative literature.

Reclassifications

Certain accounts have been reclassified for 2009 and 2008 to be consistent with the current year presentation. These reclassifications did not affect earnings or equity.

NOTE B NOTES RECEIVABLE AND ACCRUED INTEREST AFFILIATE

	2010	2009
Notes receivable - affiliates		
Unsecured, due on demand, interest rate of 10%, due monthly	\$ 2,407,540	\$ 2,407,540
Accrued interest	181,390	
Accounts receivable - affiliates	99,529	103,269
Total notes and accounts receivable - affiliates	\$ 2,688,459	\$ 2,510,836

NOTE C LAND

On December 31, 2010 Company owned three parcels of undeveloped land. Of which approximately 7.53 acres of Kelly Lots 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.

NOTE D NOTES PAYABLE AND ACCRUED INTEREST AFFILIATE

	2010	2009
Uncollateralized notes payable - affiliates due on demand, interest at Prime + 1%, payable quarterly	\$ 1,652,609	\$ 1,652,609
Real estate notes payable - affiliates due December 31, 2015, interest at 6%, payable monthly, secured by land	3,832,399	
Accrued interest	50,267	2,493
Total notes payable - affiliates	\$ 5,535,275	\$ 1,655,102

	Total	2011	2012	Payments due by period			
				2013	2014	2015	Thereafter
Long term debt	\$ 5,535,275	\$ 1,702,876	\$	\$	\$	\$ 3,832,399	\$

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

\$ 5,535,275 \$ 1,702,876 \$ \$ \$ \$ 3,832,399 \$

Table of Contents**NOTE E INCOME TAXES**

Deferred income taxes reflect the tax effects of temporary timing differences between carrying amounts of assets and liabilities reflected on the financial statements and the amounts used for income tax purposes. The tax effects of temporary differences and net operating loss carry forwards that give rise to the deferred tax assets are presented below:

	2010	2009	2008
Accumulated Amortization	\$ 1,696	\$ 6,110	\$ 14,500
Benefit of NOL carry forward			
Deferred tax asset	1,696	6,110	14,500
Less: Valuation allowance			
Total deferred tax asset	\$ 1,696	\$ 6,110	\$ 14,500

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.

The following table presents the principal reasons for the differences between the Company's effective tax rate and the United States statutory income tax rate.

	2010	2009	2008
Federal income tax at statutory rate per books	\$ 3,753	\$ 6,115	\$ 13,259
Change in valuation allowance			14,500
Amortization	(8,161)	(5,479)	(22,256)
Federal income/(loss) tax per tax return	\$ (4,408)	\$ 636	\$ 5,503
Effective income tax rate	0.0%	1.5%	7.5%

NOTE F FINANCIAL INSTRUMENTS

The carrying values of cash and cash equivalents, accounts receivable affiliate, notes receivable affiliate and accounts payable affiliate approximate fair value due to short-term maturities of these assets and liabilities.

NOTE G COMMITMENTS AND CONTINGENCIES

The Company is not involved in any legal proceedings. Management is not aware of any actions that could potentially have a material adverse effect on the Company's financial position.

NOTE H COMPREHENSIVE INCOME

Accounting Standards Codification, (ASC) No. 220, Reporting Comprehensive Income, (ASC 220), requires that total comprehensive income be reported in the financial statements. For the years ended December 31, 2010, 2009, and 2008, the Company's comprehensive income was equal to its net income and the Company does not have income meeting the definition of other comprehensive income.

Table of Contents**NOTE I QUARTERLY DATA (UNAUDITED)**

The table below reflects the Company's selected quarterly information for the years ended December 31, 2010 and 2009.

	Year ended December 31, 2010			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	\$ 59,364	\$ 60,024	\$ 60,683	\$ 60,683
Operating expenses	39,409	31,207	37,129	37,125
Net income from continuing operations before taxes	19,955	28,817	23,554	23,558
Interest expense	17,318	17,512	17,703	18,333
Income tax expense	396	1,695	878	809
Net income applicable to common shareholders	\$ 2,241	\$ 9,610	\$ 4,973	\$ 4,416
Earnings per share				
Weighted average earnings per share applicable to common shares	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.00

	Year ended December 31, 2009			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	\$ 59,364	\$ 60,024	\$ 60,683	\$ 60,683
Operating expenses	36,588	32,184	31,102	29,878
Net income from continuing operations before taxes	22,776	27,840	29,581	30,805
Interest expense	17,318	17,511	17,703	17,704
Income tax expense	613	1,290	2,387	4,807
Net income applicable to common shareholders	\$ 4,845	\$ 9,039	\$ 9,491	\$ 8,294
Earnings per share				
Weighted average earnings per share applicable to common shares	\$ 0.00	\$ 0.01	\$ 0.01	\$ 0.01

NOTE J 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 \$57,170.

NOTE K SUBSEQUENT EVENTS

The date to which events occurred after December 31, 2010, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosures is April 15, 2011, which is the date on which the financial statements were available to be issued.

Table of Contents**SCHEDULE III****FIRST EQUITY PROPERTIES, INC.****Real Estate and Accumulated Depreciation****For the Years Ended December 31,**

	2010	2009	2008
Reconciliation of Real Estate			
Balance at January 1,	\$	\$	\$
Additions			
Acquisitions and improvements	3,832,399		
Deductions			
Sale of real estate			
Balance at December 31,	\$ 3,832,399		
Reconciliation of Acc. Depreciation			
Balance at January 1,	\$	\$	\$
Additions			
Depreciation			
Deductions			
Sale of real estate			
Balance at December 31,	\$	\$	\$

Table of Contents

SCHEDULE IV

FIRST EQUITY PROPERTIES, INC.

Mortgage Loans on Real Estate

For the Years Ended December 31,

	2010	2009	2008
Balance at January 1,	\$	\$	\$
Additions			
New mortgages	3,832,399		
Deductions			
Balance at December 31,	\$ 3,832,399		