

FIRST EQUITY PROPERTIES INC

Form 10-Q

November 06, 2014

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, 2014

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.

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 5, 2014)

FIRST EQUITY PROPERTIES, INC.
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST EQUITY PROPERTIES, INC.
BALANCE SHEET

	September 30, 2014 (unaudited)	December 31, 2013
Assets		
Notes receivable and accrued interest - affiliates	2,313,165	2,694,033
Cash and cash equivalents	3,642	346
Total assets	\$ 2,316,807	\$ 2,694,379
Liabilities and Shareholders' Equity		
Notes payable and accrued interest - affiliates	\$ 1,108,096	\$ 1,493,010
Accounts payable - other	3,244	3,015
Accounts payable - affiliates	337,460	318,822
Total liabilities	1,448,800	1,814,847
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)	(519,251)	(507,726)
Total shareholders' equity	868,007	879,532
Total liabilities and shareholders' equity	\$ 2,316,807	\$ 2,694,379

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

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Revenue				
Interest income - affiliates	\$54,149	\$60,683	\$164,871	\$180,071
Total income	54,149	60,683	164,871	180,071
Operating Expenses				
General and administrative - affiliates	15,000	15,000	45,000	37,500
General and administrative	5,037	3,106	10,992	14,953
Legal and professional fees	11,049	2,715	33,643	32,445
Total operating expenses	31,086	20,821	89,635	84,898
Income (loss) before interest expense and taxes	23,063	39,862	75,236	95,173
Other income (expense)				
Interest expense - affiliates	(26,621)	(34,535)	(86,761)	(88,336)
Income (loss) before income taxes	(3,558)	5,327	(11,525)	6,837
Income tax (expense) benefit	-	-	-	-
Net income (loss) applicable to common shareholders	\$(3,558)	\$5,327	\$(11,525)	\$6,837
Earnings (loss) per share	\$-	\$0.01	\$(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.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the nine months ended September 30, 2014
(unaudited)

	Common Stock		Paid in	Retained	
	Shares	Amount	Capital	Earnings	Total
				(Deficit)	Equity
Balances at January 1, 2014	1,057,628	\$ 10,576	\$ 1,376,682	\$(507,726)	\$ 879,532
Net income (loss)	-	-	-	(11,525)	(11,525)
Balances at September 30, 2014	1,057,628	\$ 10,576	\$ 1,376,682	\$(519,251)	\$ 868,007

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

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

	For the nine months ended September 30,	
	2014	2013
Cash Flows from Operating Activities		
Net Income (Loss)	\$(11,525)	\$6,837
Adjustments to reconcile net income applicable to common shareholders to net cash provided by (used in) operating activities:		
(Increase) decrease in		
Interest receivable - affiliates	75,883	(126,680)
Increase (decrease) in		
Accounts payable - other	229	(7,218)
Accounts payable - affiliates	18,638	(27,501)
Interest payable - affiliates	(70,914)	(46,363)
Net cash provided by (used for) operating activities	12,311	(200,925)
Cash Flows from Investing Activities		
Notes receivable - affiliates	304,985	482,168
Net cash provided by (used for) investing activities	304,985	482,168
Cash Flows from Financing Activities		
Notes payable - affiliates	(314,000)	(282,469)
Net cash provided by (used for) financing activities	(314,000)	(282,469)
Net increase (decrease) in cash and cash equivalents	3,296	(1,226)
Cash and cash equivalents at the beginning of period	346	1,542
Cash and cash equivalents at the end of period	\$3,642	\$316
Supplemental disclosures of cash flow information:		
Cash paid for interest to affiliates	\$157,674	\$-
Cash paid for principal on notes payable	\$314,000	\$282,469
Cash received for principal on notes receivable	\$304,985	\$-
Cash received for interest on notes receivable	\$240,754	\$482,168

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

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. Management of the Company is exploring 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 by the Company at any time in the near future. FEPI's common stock is publicly held 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, 2013, 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, 2013.

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 – AFFILIATE

Receivables from affiliates primarily consist of two notes with balances at September 30, 2014 of \$1,625,513 and \$522,781 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. The Company received \$304,985 of principal which includes \$45,739 of other receivable and \$240,754 of interest on these notes during the nine months ending September 30, 2014.

	9-30-14	12-31-13
Notes receivable – affiliates		
Unsecured, due on demand, interest rate of 10%, due monthly	\$ 2,148,294	\$ 2,407,540
Accrued interest – affiliates	164,871	240,754
Other receivable – affiliates	-	45,739
Total notes receivable – affiliates	\$ 2,313,165	\$ 2,694,033

Subsequent payments for principal and interest on notes receivable were received in October 2014 for \$194,065.92 which make the notes and interest receivable balances current.

NOTE 4. NOTES PAYABLE AND ACCRUED INTEREST – AFFILIATE

	2014	2013
Uncollateralized notes payable – affiliates		
due on demand, interest rate of 10%, payable quarterly	\$ 1,056,140	\$ 1,370,140
Accrued interest and intercompany - affiliates	51,956	122,870
Total notes payable – affiliates	\$ 1,108,096	\$ 1,493,010

	Total	2014	Principal payments due by period					2018	thereafter
			2015	2016	2017				
Long term debt	\$ 1,108,096	\$ 51,956	\$ 1,056,140	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	\$ 1,108,096	\$ 51,956	\$ 1,056,140	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Subsequent payments for principal and interest on notes payable were paid in October 2014 totaling \$251,956.75 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 nine months ended September 30, 2014 was \$45,000

which is included in General and Administrative expenses of the Statement of Operations.

NOTE 6. SUBSEQUENT EVENTS

The Company has evaluated subsequent events for the period ended September 30, 2014 and has determined that there have been subsequent payments made in October 2014 for principal and interest on notes payable and receivable.

ITEM 2. MANAGEMENT'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 nine months ended September 30, 2014 and 2013. 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 nine months ended September 30, 2014, 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 affiliated 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 affiliated notes.

Comparison of the three months ended September 30, 2014 to the same period ended 2013.

We reported net loss applicable to common shareholders of (\$3,558) for the three months ended September 30, 2014 as compared to a net income to common shareholders of \$5,327 for the same period ended 2013.

Comparison of the nine months ended September 30, 2014 to the same period ended 2013.

We reported net loss applicable to common shareholders of (\$11,525) for the nine months ended September 30, 2014 as compared to a net income to common shareholders of \$6,837 for the same period ended 2013.

The change to a net loss was due to less interest income being recognized in 2014 due to partial pay down of the notes receivables.

Liquidity and Capital Resources

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 September 30, 2014:

Our notes receivable and accrued interest – affiliates decreased due to payments received on principal and interest on notes receivables.

Our notes payable and accrued interest – affiliates 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.

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, 2014, that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

PART II – OTHER INFORMATION

ITEM 4. 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.

101 Interactive data files pursuant to Rule 405 of Regulation S-T.

*

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 5, 2014

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

FIRST EQUITY PROPERTIES, INC.

Date: November 5, 2014

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

