FIRST EQUITY PROPERTIES INC
Form 10-K
April 01, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2012

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)

Nevada (State or other jurisdiction of Incorporation or organization)	95-6799846 (IRS Employer Identification Number)
1603 LBJ Freeway, Suite 300 Dallas, Texas (Address of principal executive offices)	75234 (Zip Code)

Registrant's Telephone Number, including area code (469) 522-4200
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 x

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 x

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 x 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 x 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. x

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 smaller reporting company)	Smaller reporting company x

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

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, 2012 (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, 2012 by persons believed to be non-affiliates of the Registrant.

As of April 1, 2013, there were 1,057,628 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

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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”, “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 Neva corporation organized on December 19, 1996. FEPI is the successor-in-interest to WESPAC Investors Trust III, a California real estate investment trust (“WESPAC”) originally established August 22, 1983. The Company’s fiscal year ends December 31 of each year.

Prior to January 1, 1997, the Company’s business consisted of the management and operation of three motel properties in the Spokane, Washington area. During the fiscal years ended December 31, 1998 and 1999, the Company, through its subsidiaries, engaged in property, and real estate brokerage services. Between October 1999 and May 2004, the Company and its subsidiaries conducted no substantial business, but remained available to engage in property management and real estate brokerage activities.

Effective May 1, 2004, the Company sold all of the issued and outstanding common stock of a subsidiary company known as Carmel Realty, Inc., a Texas corporation (“Carmel”) and a 99% limited partnership interest in Carmel Realty Services, Ltd., a Texas limited partnership (“CRSL”) for an aggregate sale price of $2,072,540 (a basis equivalent to ten times capitalization of the management fees collected by Carmel and CRSL during 2003) to Regis. Regis paid cash of $250,000 to the Company and delivered a promissory note dated May 1, 2004 in the stated principal amount of $1,822,540 payable to the order of the Company on demand or, if no demand is made prior thereto, on December 31, 2011, with interest payable monthly as it accrues. This loan has been extended to December 31, 2013. Such promissory note is secured by a pledge of the common stock of Carmel and the partnership interest of CRSL sold.

From 1999 until 2010, the principal source of revenue for the Company was interest income on notes receivable due from affiliated and/or related parties. In 2010, the Company began engaging in the business of real estate investing, which resulted in purchases of land being held for development or sale. All purchases were from related parties. In June 2012, the Company determined that it could not obtain adequate funding to properly develop raw land parcels and entered into a contract to sell Kelly Lot Development effective April 1, 2012 to Tacco Financial, Inc. (“TFI”), a related party, for $5,576,494 comprised of $4,120,300 of debt reduction and the assumption of third party debt. The transaction resulted in $259,071 of gain on sale. With the disposition of Kelly Lot Development the Company no longer has any land holdings.

After giving effect to the sale of its subsidiaries on April 1, 2012, FEPI has no active subsidiaries and no employees.

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.

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.

As of December 31, 2010, the Company had purchased land from a related party and has a subsidiary, ART Westwood FL.

In 2010, the Company began exploring new business opportunities for the Company, resulting in multiple land purchases in December 2010 and the acquisition of a new subsidiary, ART Westwood FL. Effective March 31, 2011 ART Westwood FL, Inc. changed its name to Kelly Lot Development, Inc. At December 31, 2010 the Company owned various parcels of undeveloped land which consists of approximately 7.53 acres located in Farmers Branch, TX, approximately 6.916 acres of Vineyard Land located in Grapevine, TX and approximately 5.618 acres and 6.25 acres of Nashville Land located in Nashville, TN. All transactions were with related parties.

As of December 31, 2011, the Company made the following land purchases.

In April 2011 the Company purchased approximately 3.028 acres of Seminary West Land located in Fort Worth, Texas and 6.796 acres of Travis Ranch Land located in Kaufman County, Texas from a related party. In November 2011 the Company purchased approximately 23.237 acres known as Cooks Lane located in Fort Worth, TX from a related party.

As of December 31, 2012, the Company sold Kelly Lot Development, Inc.

The Company determined that it could not obtain adequate funding to properly develop raw land parcels and entered into a contract to sell Kelly Lot Development, Inc., which held all the Company's real estate holdings, effective April 1, 2012 to Tacco Financial, Inc. ("TFI"), a related party.

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.

ITEM 1.B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The Company's principal office is located at 1603 LBJ Freeway, Suite 300, Dallas, Texas 75234 in approximately 4,288 square feet of commercial office space. The space is suitable and adequate for the purposes for which it is utilized.

ITEM 3. LEGAL PROCEEDINGS

At December 31, 2012, and through April 1, 2013, the Company was not a party to or involved in any outstanding, unresolved litigation or proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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 April 1, 2013, 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, 2012, 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.

ITEM 6. SELECTED FINANCIAL DATA

The selected historical financial data presented below for the five fiscal years ended December 31, 2012, are derived from the audited financial statements.

	Year Ended December 31,				
	2012	2011	2010	2009	2008
STATEMENT OF OPERATIONS DATA:					
Revenues	$241,514	$240,754	$240,754	$240,754	$241,413
General and administrative	107,482	187,404	144,870	129,752	66,923
Other income	-	67,730	-	-	-
Income from continuing operations	134,032	121,080	95,884	111,002	174,490
Gain on sale	259,071	-	-	-	-
Interest expense	(170,478)	(355,720)	(70,866)	(70,236)	(101,462)
Income from discountinued operations	-	-	-	-	-
Income (loss) before taxes	222,625	(234,640)	25,018	40,766	73,028
Income tax benefit (expense)	-	-	(3,778)	(9,097)	9,004