

FIRST EQUITY PROPERTIES INC

Form 10-K

March 31, 2009

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**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, 2008

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)

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Nevada (State or other jurisdiction of Incorporation or organization) 1800 Valley View Lane, Suite 300 Dallas, Texas (Address of principal executive offices) 95-6799846 (IRS Employer Identification Number) 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 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 Non-accelerated filer x (Do not check if smaller reporting company) Accelerated filer 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 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 June 30, 2008 (the last business day of the Registrant's most recently completed second 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 June 30, 2008 by persons believed to be non-affiliates of the Registrant.

As of March 2, 2008, 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, 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.

Prior to January 1, 1997, the predecessor of the Company's business consisted of the management and operation of three motel properties in the Spokane, Washington area. Until June 30, 1998, the Company was engaged in the hospitality business (management and operation of three motel properties, one of which was exchanged for a residential property and two of such properties were sold). During the fiscal years ended December 31, 1998 and 1999, the Company, through its subsidiaries engaged in property management (management of commercial real property, including retail centers, office buildings, industrial properties and hotels), and real estate brokerage (services in locating, leasing and purchasing real estate). Since October 1999, the Company and its subsidiaries have conducted no substantial business, but until May 1, 2004 remained available to engage in property management and real estate brokerage activities. Effective May 1, 2004, the Company sold its subsidiaries to Regis Realty I, LLC, a Texas limited liability company ( Regis ). Since May 1, 2004, the Company's principal line of business and source of revenue has been earnings on investments and interest on notes receivables.

Management of the Company is exploring alternatives, seeking to establish or acquire new business operations for the Company. However; management has reviewed opportunities in the cable systems industry, switching industry and high-speed data and telephone operations industries; no agreement or understanding presently exists to acquire any such business, and no assurance can be given that any operating enterprise will be acquired by the Company in the near future. Although discussions are continuing with the current owners of active business operations in various industries, 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.

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**Transaction of Succession**

FEPI is the successor-in-interest to WESPAC Investors Trust III, a California real estate investment trust ( WESPAC ) originally established August 22, 1983, which had its shares of beneficial interest, no par value, registered pursuant to Section 12(g) of the Securities Exchange Act of 1934. WESPAC was the subject of two filings for protection under Chapter 11 of the United States Bankruptcy Code, one filed April 13, 1988 (the 1988 Reorganization ) which resulted in a plan of reorganization approved and confirmed by the court on March 29, 1989 with certain amendments, and which was closed by the court on August 21, 1992 and a filing made January 27, 1994 in the case styled *In re: WESPAC Investors Trust III*, Case No. 94-00228-K11, in the United States Bankruptcy Court for the Eastern District of Washington (the 1994 Reorganization ). A plan of reorganization dated March 22, 1996 (as modified) was confirmed by Order Confirming Plan of Reorganization dated May 15, 1996, entered May 20, 1996, as amended by order entered October 29, 1996 approving First Modification to Plan of Reorganization (the Modified Plan ). Pursuant to the Modified Plan, and shareholders approval, WESPAC was converted from a California business trust into a Nevada corporation, coupled with a change of the name of the resulting entity. Pursuant to such transaction, persons deemed to be prior holders of shares of beneficial interest, no par value, of WESPAC became holders of FEPI Common Stock on a one-for-one exchange basis. On February 11, 1997, the Court entered its final decree, which closed the 1994 Reorganization.

**Property Management and Real Estate Brokerage**

Effective January 1, 1997, the Company acquired all of the issued and outstanding Common Stock of Carmel Realty, Inc., a Texas Corporation ( Carmel ), and an 81.6% limited partnership interest (subsequently increased to 99%) in Carmel Realty Services, Ltd.; a Texas limited partnership ( CRSL ). The general partner of CRSL is Basic Capital Management, Inc., a Nevada corporation ( BCM ) which, until June 30, 2003, was the contractual advisor to and/or performed administrative services for three other publicly held entities engaged in the real estate business.

Both Carmel and CRSL provided management services primarily to four publicly traded real estate entities throughout the continental United States through September 30, 1999. Effective October 1, 1999, the four publicly traded real estate entities transferred management of their properties to another entity and Carmel and CRSL ceased all such management 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 April 30, 2009, with interest payable monthly as it accrues. Such promissory note is secured by a pledge of the common stock of Carmel and the partnership interest of CRSL sold.

After giving effect to the sale of its subsidiaries on May 1, 2004, FEPI has no 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.

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*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.

*Since May 1, 2004, the Company has no active business operations and no subsidiaries.*

Since the sale of its subsidiaries available to engage in property management and real estate brokerage activities, the Company is exploring alternatives, seeking to establish or acquire new business operations for the Company. While Management has reviewed opportunities in various industries, and although discussions are continuing, we cannot predict or give any assurance that any new business enterprise will be acquired by the Company at any time in the near future. Since May 1, 2004, the Company's principal line of business and source of revenue has been interest on receivables.

*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.

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**ITEM 1.B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**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 Transcontinental Realty Investors, Inc. ( TCI ). The space is suitable and adequate for the purposes for which it is utilized. Louis J. Corna, an officer and director of the Company, is an executive officer of TCI.

**ITEM 3. LEGAL PROCEEDINGS**

At December 31, 2008, and through March 2, 2009, 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.



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**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 December 31, 2008, the 1,057,628 post-split shares of Common Stock of FEPI issued and outstanding were held by 1,811 holders of record.

During the three years ended December 31, 2008, 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.

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The selected historical financial data presented below for the five fiscal years ended December 31, 2008, are derived from the audited financial statements.

	Year Ended December 31,				
	2008	2007	2006	2005	2004*
<b>STATEMENT OF OPERATIONS DATA:</b>					
Revenues	\$ 241,413	\$ 240,754	\$ 240,838	\$ 240,755	\$ 181,000
General and administrative	66,923	25,541	30,005	32,179	60,850
Other income					36,736
Income from continuing operations	174,490	215,213	210,833	208,576	156,886
Impairment loss					(37,947,748)
Interest expense	(101,462)				
Income from discontinued operations					45,715
Income (loss) before taxes	73,028	215,213	210,833	208,576	(37,745,147)
Income tax benefit (expense)	9,004	(54,945)	(36,055)		
Net income (loss) applicable to common shareholders	\$ 82,032	\$ 160,268	\$ 174,778	\$ 208,576	\$ (37,745,147)
Weighted average earnings per share:					
Income from continuing operations	\$ 0.08	\$ 0.15	\$ 0.17	\$ 0.20	\$ 0.15
Loss from discontinued operations					(35.84)
Net income loss applicable to common shareholders	\$ 0.08	\$ 0.15	\$ 0.17	\$ 0.20	\$ (35.69)
Weighted average shares outstanding	1,057,628	1,057,628	1,057,628	1,057,628	1,057,628
<b>BALANCE SHEET DATA;</b>					
Total Assets	\$ 2,537,458	\$ 2,480,193	\$ 2,471,212	\$ 2,472,253	\$ 2,631,209
Total Liabilities	\$ 1,709,427	\$ 1,734,194	\$ 1,885,481	\$ 2,061,300	\$ 2,428,832
Stockholders' Equity	\$ 828,031	\$ 745,999	\$ 585,731	\$ 410,953	\$ 202,377

\* Shared data reflects a 1 for 10 reverse split for holders of record on July 12, 2004.

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**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 interest fees incurred on our liabilities owed and new lease contracts signed with affiliates.

*Results of operations for the year ended December 31, 2008 as compared to the same period ended 2007.*

General and administrative expenses increased by \$42,206 as compared to the prior period ended 2007. The majority of the increase is due to two new agreements signed in the current year. The first being an administrative services agreement. We entered into an agreement with Prime Income Asset Management, Inc., an affiliated entity, to provide monthly administrative services at a cost of \$2,500 per month. This accounts for \$30,000 of the increase. The second item is a lease agreement with an affiliated entity for office space effective November 1, 2008. The lease is for \$5,717 per month. We owe for two months in the current year, which accounts for \$11,434 of the increase.

Interest expense is \$101,462 for the current year ended December 31, 2008. In January of 2008, the parties to the affiliated payables demanded that interest at the rate of Prime plus 1% to be paid on the outstanding amounts owed. No interest expense was paid or recorded prior to this event.

Income tax expense has decreased as compared to prior year ended 2007. The decrease is due to increased operating expenses associate with three new agreements. An administrative services agreement which has increased costs by \$2,500 per month and a lease agreement which increased costs by \$5,717 per month effective in November of 2008, and a demand notice requiring monthly interest payments. These agreements were not applicable in the prior year, thus effectively lowering our taxable income.

*Results of operations for the year ended December 31, 2007 as compared to the same period ended 2006.*

General and administrative expenses increased by \$5,194 primarily due to increased costs associated with the filing of the quarterly reports.

Legal fees have decreased by \$9,658 due to fewer legal fees billed.

Income tax expense increased by \$18,890 as compared to the same period ended 2006. In 2006, we used our remaining Net Operating Loss (NOL) carry forward credit to offset our tax expense. We had no NOL carry forwards credits available for use in 2007.

**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, 2008, we had total assets of \$2,537,458. Of this amount, \$115,418 was held in cash. Management determined that we would generate income sufficient to use our deferred tax asset. Thus, we reversed our valuation allowance account and recorded a \$14,500 deferred tax asset. Our overall liabilities have

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increased as compared to prior year. The majority of the increase is for amounts owed to affiliates for administrative services and unpaid rent obligations. 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 10K and is not meant to be an all-inclusive discussion of the changes in our cash flows.

*2008 as compared to 2007* Our cash provided by operations has increased as compared to prior year ended 2007. The increase is mainly attributable to not paying down our obligations to affiliates due in the current year, offset by an increase in cash paid for income taxes.

*2007 as compared to 2006* Our cash provided by operations decreased in 2007 as compared to the prior year ended 2006. The decrease is due to several factors. In 2006, we collected on a significant accounts receivable balance that was not applicable in 2007. In 2007, we paid the 2006 accrued tax liability. No cash was paid for taxes in 2006, as there was no liability due. In addition, we paid down less of our accounts payables owed in 2007, than in 2006.

**Contractual obligations**

We have contractual obligations and commitments primarily in regards to payments of operating leases. The following table aggregates our expected contractual obligations and commitments subsequent to December 31, 2008.

	Total	2009	Payments due by period				
			2010	2011	2012	2013	thereafter
Long term debt	\$	\$	\$	\$	\$	\$	\$
Capital lease obligations							
Operating leases	194,378	68,604	68,604	57,170			
Purchase obligations							
	\$ 194,378	\$ 68,604	\$ 68,604	\$ 57,170	\$	\$	\$

**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.

**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.

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**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, 2008, 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**

Effective November 19, 2008, the company's Board of Directors engaged the Plano, Texas firm of Swalm & Associates, P.C. as the new Independent Registered Public Accountant to audit the Company's financial statements for the fiscal year ending December 31, 2008 and any interim period. There were no disagreements or reportable events as defined in Item 304 paragraph (a)(1)(v) or (a)(1)(iv) of Regulation S-K with the previous Independent Registered Public Accountant firm of Farmer, Fuqua & Huff, P.C. during the current or subsequent fiscal year.

**ITEM 9A(T). 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, 2008. 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, 2008 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. As a result of this evaluation, there were no significant changes in the Company's internal control over financial reporting during the three months ended December 31, 2008 that have materially affected or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**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.

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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, 2008. 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, 2008.

**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, 2008 that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION.**

Not applicable.

**Table of Contents****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. Each of the following individuals was named as a director and was elected by the Board of Directors to fill a vacancy created by a prior resignation. None of the Directors originally named in the Articles of Incorporation of the Company filed December 19, 1996 are currently Directors. A vacancy existed on the Board of Directors following the resignation effective March 1, 1997 of Georgie Liebelt. See Part III, Item 13. Certain Relationships and Related Transactions, and Director Independence. On April 5, 2001, F. Terry Shumate, a Director since inception, resigned creating a second vacancy. On February 1, 2002, acting in his capacity as the sole remaining Director, Karl Blaha, then President and a Director, elected Ronald E. Kimbrough to fill the vacancy created by the resignation of Georgie Liebelt and elected Ken Joines to fill the vacancy created by the resignation of F. Terry Shumate. Such action filled all three positions on the Board of Directors with Messrs. Kimbrough, Joines and Blaha. Kimbrough was also elected Vice President and Treasurer, and Joines was elected Secretary. On February 7, 2002, Karl L. Blaha resigned as a member of the Board of Directors and President of the Company. On May 31, 2004, Ronald E. Kimbrough resigned as a director of the Company, and Ken L. Joines, acting in his capacity as the sole remaining director, elected Louis J. Corna as a director of the Company effective June 1, 2004. On May 24, 2006, Steven A. Abney was elected a director, and elected Vice President, Treasurer, Chief Financial and Accounting Officer of the Company. On July 31, 2006, Ken Joines resigned, resulting in one vacancy remaining on the Board of Directors. On February 15, 2008, Steven A. Abney resigned as a director and officer of the Company. On February 26, 2008, the sole remaining member of the Board elected R Neil Crouch II as a Director, Vice President, Treasurer and Chief Financial and Accounting Officer and designated Mr. Crouch as the Principal Executive Officer. Effective March 24, 2009, R. Neil Crouch II resigned as a director and officer of the Company. As the sole member of the Board of Directors, Louis J. Corna elected Gene S. Bertcher to fill the vacancy created by Mr. Crouch's resignation.

The names, ages and positions of the directors as of March 5, 2009 are set forth below.

<b>Name</b>	<b>Age</b>	<b>Position with the Company</b>
Louis J. Corna	61	Director, Vice President and Secretary
Gene S. Bertcher	60	Director, Vice President, Treasurer, Chief Financial Officer, Principal Accounting Officer, and Principal Executive Officer.

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**Louis J. Corna, 61**

Director and Vice President of the Company since June 1, 2004 and Secretary since January 14, 2005. He is Executive Vice President, General Counsel/Tax Counsel and Secretary (since February 2004), Executive Vice President (October 2001 to February 2004), Executive Vice President and Chief Financial Officer (June 2001 to October 2001) and Senior Vice President – Tax (December 2000 to June 2001) of Income Opportunity Realty Investors, Inc. ( IOT ), Transcontinental Realty Investors, Inc. ( TCI ), American Realty Investors, Inc. ( ARL ) and Basic Capital Management, Inc. ( BCM ), Income Asset Management, Inc. ( PIAMI ) and Prime Income Asset Management, LLC ( Prime ); Private Attorney (January 2000 to December 2000); Vice President – Taxes and Assistant Treasurer (March 1998 to January 2000) of IMC Global, Inc.; Vice President – Taxes (July 1991 to February 1998) of Whitman Corporation. IOT has a class of securities listed and traded on the American Stock Exchange, Inc. and TCI and ARL each has a class of equity securities listed and traded on the New York Stock Exchange, Inc.

**R. Neil Crouch II, 56 (resigned March 24, 2009)**

R Neil Crouch II has been a director, Vice President, Treasurer, Chief Financial Officer, Principal Accounting Officer and Principal Executive Officer (February 2008 to March 2009) of the Company. He is also Chairman of the Board (February 2007 to March 2009) and a Director of IOT since August 2006. Mr. Crouch is President of Eurenergy Resources Corporation, a Nevada corporation ( ERI ), engaged in the exploration and development of oil, gas and mineral interests since January 2005, which is a subsidiary of Syntek West Inc. ( SWI ). Mr. Crouch is also a Director, Vice President, Secretary and Treasurer of SWI since August 1, 2006. Mr. Crouch was Executive Vice President and Chief Financial Officer of the Company from September 17, 2004 to December 16, 2005. Mr. Crouch was Corporate Controller (from September 2002 to September 15, 2004) of Apptricity Corporation, a small Dallas, Texas based software development company; prior thereto (from January 1999 to September 2002) he was Corporate Controller of AtENZA, Inc., a Dallas, Texas web-based computer self help company. Mr. Crouch has been a Certified Public Accountant since 1981.

Effective March 24, 2009, R. Neil Crouch II resigned as a Director, Vice President, Treasurer, and Chief Financial and Accounting Officer of First Equity Properties, Inc. (the Registrant or the Company or FEPI ). Mr. Crouch had no disagreement with the Registrant on any matter relating to the Registrant's operations, policies or practices. Mr. Crouch, age 57, was appointed as a Director, Vice President, Treasurer, Chief Financial and Accounting Officer of the Registrant effective February 26, 2008.

**Gene S. Bertcher, 60**

On March 24, 2009, the Board of Directors of FEPI appointed Gene S. Bertcher, age 60, Vice President and Treasurer of the Company and selected Mr. Bertcher as the Chief Financial Officer and Principal Accounting Officer of the Company. Mr. Bertcher was 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 LLC (the AMEX ), Executive Vice President (since February 2008) and Chief Accounting Officer (since May 2008) of Income Opportunity Realty Investors, Inc. ( IOT ), a Nevada corporation which has its common stock listed on the AMEX and American Realty Investors, Inc. ( ARL ), a Nevada corporation which has its common stock listed on the New York Stock Exchange, Inc. ( NYSE ) and Transcontinental Realty Investors, Inc. ( TCI ), a Nevada corporation which has its common stock listed on the NYSE. Mr. Bertcher has been a certified public accountant since 1973.

On March 24, 2009, the sole remaining member of the Board of Directors elected Gene S. Bertcher as a director to fill a vacancy on the Board of Directors.

There are no family relationships among the directors or executive officers of the Company.



**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 or its predecessor, WESPAC, for acting in such capacity during the two years ended December 31, 2008, in an amount required to be disclosed under this item. The only director or executive officer who received salaried compensation from the Company or its predecessor, WESPAC, was Georgie Liebelt whose compensation until her resignation effective March 1, 1997 was \$59,000 per year plus a \$6,000 per year car allowance. The Company has no retirement, annuity or pension plan covering its directors or executive officers.

**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 5, 2009, 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:

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

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(1) Based on 1,057,628 shares of common stock outstanding on March 5, 2009.

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As of March 5, 2009, 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	Louis J. Corna  1800 Valley View Lane, Suite 300  Dallas, Texas 75234	792,821 <sup>(b)</sup>	74.96%
Shares of common stock, par value \$0.01 per share	R. Neil Crouch II  1800 Valley View Lane, Suite 300  Dallas, Texas 75234	792,821 <sup>(b)</sup>	74.96%
Shares of Common Stock, par value \$0.01 per share	All officers and directors as a group (2 persons)	792,821 <sup>(b)</sup>	74.96%

(a) Based on 1,057,628 shares of common stock outstanding on March 5, 2009.

(b) Includes 792,821 shares owned by Nevada Sea Investments, Inc., of which the directors and executive officers (Messrs. Corna and Crouch) may be deemed to be the beneficial owners by virtue of their positions as directors and executive officers. Each of Messrs. Corna and Crouch have disclaimed any beneficial ownership of such shares.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Effective May 1, 2004, the Company sold all of the issued and outstanding common stock of Carmel and a 99% limited partnership interest in 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. During the fiscal year ended December 31, 2003, Carmel had management income of \$111,462 and CRSL had management income of \$95,792. The general partner of CRSL is BCM. The purchaser, Regis, performs certain property management and real estate and brokerage activities for other entities. Regis paid cash of \$250,000 to FEPI and delivered a promissory note dated May 1, 2004 in the stated principal amount of \$1,822,540 payable to the order of FEPI on demand or, if no demand is made prior thereto, on April 30, 2009, with interest payable monthly as it accrues. Such promissory note is secured by a pledge of the common stock of Carmel and partnership interest of CRSL sold by the Company.

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

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**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The following table sets forth the aggregate fees for professional services rendered to FEPI for the years 2008 and 2007 by FEPI's principal accounting firm, Farmer, Fuqua & Huff, P.C., and Swalm & Associates, P.C. (effective November 19, 2008):

Type of Fees	Farmer, Fuqua & Huff, P.C.		Swalm & Associates, P.C.	
	2008	2007	2008	2007
Audit fees	\$ 7,400	\$ 9,360	\$ 1,200	\$
Audit related fees				
Tax fees preparation of corporate federal income tax returns	750	760		
All other fees				
<b>Total</b>	<b>\$ 8,150</b>	<b>\$ 10,120</b>	<b>\$ 1,200</b>	<b>\$</b>

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:

	<b>Page</b>
1. Financial Statements.	
<u>Reports of Independent Registered Public Accounting Firms</u>	22
<u>Balance Sheets as of December 31, 2008 and 2007</u>	24
<u>Statements of Operations for the years ended December 31, 2008, 2007 and 2006</u>	25
<u>Statements of Changes in Shareholders' Equity for the years ended December 31, 2008, 2007 and 2006</u>	26
<u>Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006</u>	27
<u>Notes to Financial Statements</u>	28
2. Financial Statement Schedules.	

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**

<b>Designation</b>	<b>Description of Exhibit</b>
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).

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**Exhibit**

<b>Designation</b>	<b>Description of Exhibit</b>
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).
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

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**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: March 31, 2009

FIRST EQUITY PROPERTIES, INC.

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

**Chief Financial Officer, Principal Accounting Officer and**

**Principal Executive 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:

/s/ LOUIS J. CORNA	Director, Vice President and Secretary	March 31, 2009
<b>Louis J. Corna</b>		
/s/ GENE S. BERTCHER	Director, Vice President and Treasurer, Chief Financial Officer, Principal Accounting Officer and Principal Executive Officer	March 31, 2009
<b>Gene S. Bertcher</b>		

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**FIRST EQUITY PROPERTIES, INC.**

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<u>Statements of Operations for the years ended December 31, 2008, 2007 and 2006</u>	25
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<u>Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006</u>	27
<u>Notes to Financial Statements</u>	28
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.	



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors

First Equity Properties, Inc.

Dallas, Texas

We have audited the accompanying balance sheet of First Equity Properties, Inc. as of December 31, 2008 and the related statements of operations, shareholders' equity and cash flows for the year ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit 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 audit 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides 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 financial statements referred to above present fairly, in all material respects, the financial position of First Equity Properties, Inc. as of December 31, 2008 and the results of its operations, changes in stockholders' equity and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

/s/ SWALM & ASSOCIATES, P.C.

SWALM & ASSOCIATES, P.C.

February 24, 2009

Plano, Texas

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors

First Equity Properties, Inc.

We have audited the accompanying balance sheet of First Equity Properties, Inc. as of December 31, 2007 and the related statements of operations, changes in shareholders' equity and cash flows for the years ended December 31, 2007 and 2006. First Equity Properties, Inc.'s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit 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 financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of First Equity Properties, Inc. as of December 31, 2007 and the results of its operations and its cash flows for the years ended December 31, 2007 and 2006, in conformity with accounting principles generally accepted in the United States of America.

/s/ FARMER, FUQUA & HUFF, P.C

FARMER, FUQUA & HUFF, P.C.

March 31, 2008

Plano, Texas

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

## BALANCE SHEETS

As of December 31,

	2008	2007
<b>Assets</b>		
Cash and cash equivalents	\$ 115,418	\$ 72,653
Deferred tax asset	14,500	\$
Notes receivable - affiliates	2,407,540	2,407,540
<b>Total assets</b>	<b>\$ 2,537,458</b>	<b>\$ 2,480,193</b>
<b>Liabilities and Shareholders' Equity</b>		
Accounts payable	\$ 3,283	\$ 760
Federal income taxes payable	5,627	54,679
Accounts payable - affiliate	1,700,517	1,678,755
<b>Total liabilities</b>	<b>1,709,427</b>	<b>1,734,194</b>
<b>Shareholders' equity</b>		
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)	(559,227)	(641,259)
<b>Total shareholders' equity</b>	<b>828,031</b>	<b>745,999</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 2,537,458</b>	<b>\$ 2,480,193</b>

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

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

## STATEMENTS OF OPERATIONS

For the Years Ended December, 31

	2008	2007	2006
Revenue			
Interest income	\$ 241,413	\$ 240,754	\$ 240,838
Operating Expenses			
General and administrative	54,326	12,120	6,926
Legal and professional fees	12,597	13,421	23,079
Operating expenses	66,923	25,541	30,005
Income before interest expense and taxes	174,490	215,213	210,833
Other income (expense)			
Interest expense	(101,462)		
Income before income taxes	73,028	215,213	210,833
Income tax expense			
Amount currently payable	(5,496)	(54,945)	(36,055)
Deferred portion	14,500		
	9,004	(54,945)	(36,055)
Net income applicable to common shareholders	\$ 82,032	\$ 160,268	\$ 174,778
Earnings (loss) per share	\$ 0.08	\$ 0.15	\$ 0.17
Weighted average shares outstanding	1,057,628	1,057,628	1,057,628

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

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**FIRST EQUITIES PROPERTIES, INC.**

STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

For the years ended December 31, 2008, 2007 and 2006

	Common Stock		Paid in	Retained	Total
	Shares	Amount	Capital	Earnings / (Deficit)	Equity
Balances at January 1, 2006	1,057,628	\$ 10,576	\$ 1,376,682	\$ (976,305)	\$ 410,953
Net income				174,778	174,778
Balances at December 31, 2006	1,057,628	10,576	1,376,682	(801,527)	585,731
Net income				160,268	160,268
Balances at December 31, 2007	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

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

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

## STATEMENTS OF CASH FLOWS

For the years ended December 31, 2008, 2007 and 2006

	2008	2007	2006
Cash Flows from Operating Activities			
Net Income	\$ 82,032	\$ 160,268	\$ 174,778
Adjustments to reconcile net income applicable to common shareholders to net cash provided by (used in) operating activities:			
(Increase) decrease in			
Interest receivable			60,684
Deferred tax asset	(14,500)		
Increase (decrease) in			
Accounts payable	2,523	760	(7,320)
Federal income taxes payable	(49,052)	17,178	37,501
Accounts payable affiliate	21,762	(169,225)	(206,000)
Net cash provided by operating activities	42,765	8,981	59,643
Net increase (decrease) in cash and cash equivalents	42,765	8,981	59,643
Cash and cash equivalents at the beginning of period	72,653	63,672	4,029
Cash and cash equivalents at the end of period	\$ 115,418	\$ 72,653	\$ 63,672

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

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**FIRST EQUITY PROPERTIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Nature of Operations*

The Company and its subsidiaries provided management services to a variety of commercial and residential real estate entities throughout the continental United States. Effective October 1, 1999, substantially all of the contracts for management services were transferred from the Company. Effective May 1, 2004, the Company sold its subsidiaries to a related party. With the sale of the subsidiaries, the Company currently has no active business operations and no subsidiaries. Management of the Company is exploring alternatives, seeking to establish and/or acquire new business operations for the Company.

Our current source of revenue consists of the collections of interest on notes receivables from two affiliated entities. Any adverse conditions that could affect the financial condition of either of these two entities and specifically their ability to service debt obligation owed would have a severe material impact on our financial statements.

*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 Statement of Financial Accounting Standards No. 109 (SFAS No. 109), Accounting for Income Taxes. SFAS No. 109 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, SFAS No. 109 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 Statement of Financial Accounting Standards No. 128, Earnings per Share (SFAS No. 128), which was adopted in 1997 for both 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 SFAS No. 128 had no effect on previously reported EPS.

**NOTE B NOTES PAYABLE AFFILIATE**

The Company has a revolving line of credit with Nevada Sea Investments, Inc., a shareholder. Amounts borrowed under the line bear interest at 8% per year and are due on demand. As of December 31, 2008, there was no amount outstanding under this line of credit.

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## NOTES TO FINANCIAL STATEMENTS (Continued)

**NOTE C 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:

	2008	2007	2006
Accumulated Amortization	\$ 14,500	\$ 27,583	\$ 41,807
Benefit of NOL carryforward			
Deferred tax asset	14,500	27,583	41,807
Less: Valuation allowance		(27,583)	(41,807)
Total deferred tax asset	\$ 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. Therefore, the Company established a valuation allowance for deferred tax assets of \$27,583 and \$41,807 as of December 31, 2007 and 2006, respectively.

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.

	2008	2007	2006
Federal income tax at statutory rate per books	\$ 13,259	\$ 65,747	\$ 61,974
Utilization of net operating loss carry forwards			(15,760)
Amortization	(7,763)	(10,802)	(10,159)
Federal income tax per tax return	\$ 5,496	\$ 54,945	\$ 36,055
Effective income tax rate	7.5%	25.8%	7.5%

**NOTE D 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 E 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 F SUPPLEMENTAL CASH FLOW INFORMATION**



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	2008	2007	2006
Cash paid for federal income taxes	\$ 54,626	\$ 37,767	\$
Cash paid for interest expense	\$ 94,998	\$	\$

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## NOTES TO FINANCIAL STATEMENTS (Continued)

**NOTE G COMPREHENSIVE INCOME**

Statement of Financial Accounting Standards No. 130, Reporting Comprehensive Income, (SFAS No. 130), requires that total comprehensive income be reported in the financial statements. For the years ended December 31, 2008, 2007, and 2006, 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.

**NOTE H QUARTERLY DATA (UNAUDITED)**

The table below reflects the Company's selected quarterly information for the years ended December 31, 2008 and 2007.

	Year ended December 31, 2008			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	\$ 60,024	\$ 60,023	\$ 60,683	\$ 60,683
Operating expenses	9,517	6,691	3,550	47,165
Net income from continuing operations before taxes	50,507	53,332	57,133	13,518
Interest expense	30,332	24,939	25,091	21,100
Income tax expense	6,105	4,258	5,295	(24,662)
Net income applicable to common shareholders	\$ 14,070	\$ 24,135	\$ 26,747	\$ 17,080
Earnings per share				
Weighted average earnings per share applicable to common shares	\$ 0.01	\$ 0.02	\$ 0.03	\$ 0.02

	Year ended December 31, 2007			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenue	\$ 59,363	\$ 60,025	\$ 60,682	\$ 60,684
Operating expenses	8,445	12,187	3,813	1,096
Net income from continuing operations before taxes	50,918	47,838	56,869	59,588
Income tax expense	19,675	16,265	19,518	(513)
Net income applicable to common shareholders	\$ 31,243	\$ 31,573	\$ 37,351	\$ 60,101
Earnings per share				
Weighted average earnings per share applicable to common shares	\$ 0.03	\$ 0.03	\$ 0.03	\$ 0.06

**NOTE I AFFILIATED NOTES RECEIVABLE**

Receivables from affiliates consist of two notes of \$1,822,540 and \$585,000 which are payable in quarterly installments of interest only. The notes accrue interest at 10% per annum.

**NOTE J LEASES**

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On September 18, 2008, we entered into a long-term lease commitment with Transcontinental 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 three-year period is \$194,378.