

FIRST EQUITY PROPERTIES INC
Form 10-K
March 30, 2012

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

FORM 10-K

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

For the fiscal year ended December 31, 2011

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
None

Name of each exchange on which registered

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Non-accelerated filer (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

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, 2011 (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, 2011 by persons believed to be non-affiliates of the Registrant.

As of March 30, 2012, 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 Nevada 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.

FEPI has 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 has 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 of Kelly Lots Land located in Farmers Branch, TX, approximately 6.916 acres of Vineyard Land located in Grapevine, TX and approximately 5.618 acres and 6.25 acres of Nashville Land located in Nashville, TN all purchased from a related party.

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.

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, 2011, and through March 30, 2012, 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 March 30, 2012, 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, 2011, 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, 2011, are derived from the audited financial statements.

| | Year Ended December 31, | | | | |
|---|-------------------------|-------------|-------------|-------------|-------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| STATEMENT OF OPERATIONS DATA: | | | | | |
| Revenues | \$240,754 | \$240,754 | \$240,754 | \$241,413 | \$240,754 |
| Operating Expenses | 187,404 | 144,870 | 129,752 | 66,923 | 25,541 |
| Other income | 67,730 | - | - | - | - |
| Income from continuing operations | 121,078 | 95,884 | 111,002 | 174,490 | 215,213 |
| Impairment loss | - | - | - | - | - |
| Interest expense | (355,720) | (70,866) | (70,236) | (101,462) | - |
| Income from discontinued operations | - | - | - | - | - |
| Income (loss) before taxes | (234,640) | 25,018 | 40,766 | 73,028 | 215,213 |
| Income tax benefit (expense) | - | (3,778) | (9,097) | 9,004 | (54,945) |
| Net income (loss) applicable to common shareholders | \$(234,640) | \$21,240 | \$31,669 | \$82,032 | \$160,268 |
| Weighted average earnings per share: | | | | | |
| Income from continuing operations | \$(0.22) | \$0.02 | \$0.03 | \$0.08 | \$0.15 |
| Loss from discontinued operations | - | - | - | - | - |
| Net income loss applicable to common shareholders | \$(0.22) | \$0.02 | \$0.03 | \$0.08 | \$0.15 |
| Weighted average shares outstanding | 1,057,628 | 1,057,628 | 1,057,628 | 1,057,628 | 1,057,628 |
| BALANCE SHEET DATA: | | | | | |
| Total Assets | \$8,301,575 | \$6,523,341 | \$2,517,028 | \$2,537,458 | \$2,480,193 |
| Total Liabilities | \$7,655,275 | \$5,642,401 | \$1,657,328 | \$1,709,427 | \$1,734,194 |
| Stockholders' Equity | \$646,300 | \$880,940 | \$859,700 | \$828,031 | \$745,999 |

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

FEPI's 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 revenue consistent from year to year. Expenses are primarily related to professional and administrative fees and property taxes on land purchases. Within the current year, additional costs have been incurred due to interest and fees incurred on liabilities of The Company.

Results of operations for the year ended December 31, 2011 as compared to the same period ended 2010.

General and administrative expenses increased by \$11,381 as compared to the year ended 2010. This increase is primarily due to the addition of property tax expense from the land purchases.

Interest expense increased by \$284,854 as compared to the year ended 2010. This increase is primarily due to the interest incurred on notes payable as a result of the land purchases.

Results of Operations (Continued)

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

General and administrative expenses increased by \$10,445 as compared to the year ended 2009.

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

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

Financial Condition, Capital Resources and Liquidity

General

Our primary source of liquidity is from proceeds from accrued interest on notes receivables from affiliated entities. At December 31, 2011, we had total assets of \$8,301,575. Our overall liabilities have increased as compared to prior year. The increase in liabilities is due to the purchases of the subsidiary and land. We feel that our cash from operations is sufficient to provide for our current cash flow needs.

Cash flow analysis

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

2011 as compared to 2010 – The cash flow remained static as compared to the year ended 2010.

2010 as compared to 2009 – The decrease is mainly attributable to paying down our obligations to affiliates due in the current year.

Contractual obligations

We do not have any further contractual obligations and commitments in regards to payments of operating leases. See Note K regarding termination of operating lease.

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.

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, 2011, 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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

A review and evaluation was performed by management under the supervision and with the participation of the Principal Executive Officer and Chief Financial Officer of the effectiveness of the Company's disclosure controls and procedures, as required by Rule 13a-15(b) of the Securities Exchange Act of 1934 as of December 31, 2011. 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, 2011 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, 2011 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.

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, 2011. 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, 2011.

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, 2011 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.

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 two 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. A vacancy currently exists on the Board of Directors.

The names, ages and positions of the directors as of March 30, 2012 are set forth below.

| Name | Age | Position with the Company |
|----------------|-----|--|
| Daniel J. Moos | 62 | President and Treasurer |
| Steven Shelley | 29 | Director, Vice President and Secretary |

Daniel J. Moos, 62

President and Treasurer.

President (since April 2007) and Chief Executive Officer (effective March 2010) of ARL, TCI, IOT , (effective March 2007) of Prime and (effective April 30, 2011) of Pillar; Senior Vice President and Business Line Manager for U.S. Bancorp (NYSE:USB) working out of their offices in Houston, Texas from 2003 to April 2007; Executive Vice President and Chief Financial Officer, Fleetcor Technologies a privately held transaction processing company that was headquartered in New Orleans, Louisiana from 1998 to 2003; Senior Vice President and Chief Financial Officer, ICSA a privately held internet security and information company headquartered in Carlisle, Pennsylvania from 1996 to 1998; and for more than ten years prior thereto was employed in various financial and operating roles for PhoneTel Technologies, Inc. which was a publicly traded telecommunication company on the American Stock Exchange headquartered in Cleveland, Ohio (1992-1996) and LDI Corporation which was a publicly traded computer equipment sales/service and asset leasing company listed on the NASDAQ and headquartered in Cleveland, Ohio.

Steven Shelley, 29

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

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

The Company's Board of Directors held no formal meetings in 2011. The Board of Directors has no standing audit, nominating or compensation committee.

Meetings and Committees of Directors; Code of Ethics for Senior Financial Officers (Continued)

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., 1603 LBJ Freeway, 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., 1603 LBJ Freeway, 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 or cash compensation from the Company for acting in such capacity during the year ended December 31, 2011.

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 30, 2012, according to the stock transfer records of the Company and other information available to the Company, the following persons were known to be the beneficial owners of more than five percent (5%) of the outstanding shares of common stock of the Company:

| Title of Class | Name and Address of Beneficial Owner | Amount and Nature of Beneficial Ownership | Percent of Class (1) |
|--|--|---|----------------------|
| Shares of common stock, par value \$0.01 per share | Nevada Sea Investments, Inc. 1603 LBJ Freeway, Suite 300 Dallas, Texas 75234 | 792,821 shares | 74.96% |

(1) Based on 1,057,628 shares of common stock outstanding on March 30, 2012.

As of March 30, 2012, 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:

11

| 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 | Daniel J. Moos 1603 LBJ Freeway, Suite 300 Dallas, Texas 75234 | 792,821 | (b) 74.96% |
| Shares of common stock, par value \$0.01 per share | Steven Shelley 1603 LBJ Freeway, Suite 300 Dallas, Texas 75234 | 792,821 | (b) 74.96% |
| Shares of Common Stock, par value \$0.01 per share | All officers and directors as a group (2 persons) | 792,821 | (b) 74.96% |

(a) Based on 1,057,628 shares of common stock outstanding on March 30, 2012.

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

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

On December 31, 2010 the Company purchased ART Westwood FL, Inc., a Nevada corporation, for investment purposes. On March 31, 2011, ART Westwood FL, Inc. changed its name to Kelly Lot Development, Inc. and owns various parcels of undeveloped land consisting of approximately 7.53 acres of Kelly Lot Land located in Farmers Branch, TX, approximately 6.916 acres of Vineyard Land located in Grapevine, TX and approximately 5.618 acres of Nashville Land located in Nashville, TN all purchased from a related party. In April 2011, the Company purchased Seminary West Land consisting of 3.028 acres located in Fort Worth, TX and Travis Ranch Land consisting of 6.796 acres located in Kaufman County, TX from a related party. On November 30, 2011 the Company purchased Cook's Lane consisting of 21.754 acres and 1.483 acres located in Fort Worth, TX also from a related party.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table sets forth the aggregate fees for professional services rendered to FEPI for the years 2011 and 2010 by FEPI's principal accounting firm, Swalm & Associates, P.C.:

| Type of Fees | Swalm & Associates, P.C. | |
|---|--------------------------|----------|
| | 2011 | 2010 |
| Audit fees | \$21,500 | \$21,500 |
| Audit related fees | - | - |
| Tax fees -preparation of corporate federal income tax returns | 1,250 | 1,250 |
| All other fees | - | - |
| Total | \$22,750 | \$22,750 |

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.

PART IV

ITEM 15.

EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

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| Consolidated Balance Sheets as of December 31, 2011 and 2010 | 18 |
| Consolidated Statements of Operations for the years ended December 31, 2011, 2010 and 2009 | 19 |
| Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2011, 2010 and 2009 | 20 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009 | 21 |
| Notes to Consolidated Financial Statements | 22-26 |
| Financial Statement Schedules | |
| Schedule III Real Estate and Accumulated Depreciation | 28 |
| Schedule IV Mortgage Loans on Real Estate | 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.

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

Exhibit

Designation Description of Exhibit

2.1 Plan of Reorganization (as modified) dated March 22, 1996 (incorporation by reference is made by Exhibit 2.1 to Form 8-K of First Equity Properties, Inc. for event reported June 19, 1996).

2.2

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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).

| Exhibit Designation | Description of Exhibit |
|---------------------|---|
| 3.2 | Articles of Incorporation of First Equity Properties, Inc. filed with and approved by the Secretary of State of Nevada on December 19, 1996 (incorporation by reference is made to Exhibit 3.2 to Form 8-K of First Equity Properties, Inc. for event reported June 19, 1996). |
| 3.3 | Bylaws of First Equity Properties, Inc. as adopted December 20, 1996 (incorporation by reference is made to Exhibit 3.3 to Form 8-K of First Equity Properties, Inc. for event reported June 19, 1996). |
| 3.4 | Agreement and Plan of Merger of WESPAC Property Corporation and First Equity Properties, Inc. dated December 23, 1996 (incorporation by reference is made to Exhibit 3.4 to Form 8-K of First Equity Properties, Inc. for event reported June 19, 1996). |
| 3.5 | Articles of Merger of WESPAC Property Corporation into First Equity Properties, Inc. as filed with and approved with the Secretary of State in Nevada December 24, 1996 (incorporation by reference is made to Exhibit 3.5 to Form 8-K of First Equity Properties, Inc. for event reported June 19, 1996). |
| 3.6 | Certificate of Designation of Preferences and Relative Participating or Optional of Other Special Rights and Qualifications, Limitations or Restrictions thereof of the Series A 8% Cumulative Preferred Stock (incorporation by reference is made to Exhibit 3.6 to Form 10-KSB of First Equity Properties, Inc. for the fiscal year ended December 31, 1996). |
| 3.7 | Certificate of Amendment to Articles of Incorporation as filed with the Secretary of State of Nevada on July 12, 2004 (incorporation by reference is made to Exhibit 3.3 to Current Report on Form 8-K of First Equity Properties, Inc. for event reported May 1, 2004). |
| 14 | Code of Ethics for Senior Financial Officers (incorporation by reference is made to Exhibit 14 to Form 10-K of First Equity Properties, Inc. for the fiscal year ended December 31, 2003). |
| 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

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 30, 2012

FIRST EQUITY PROPERTIES, INC.

By: /S/ DANIEL J. MOOS
Daniel J. Moos
President & Treasurer

Dated: March 30, 2012

FIRST EQUITY PROPERTIES, INC.

By: /S/ STEVEN SHELLEY
Steven Shelley
Director, Vice President & Secretary

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/ DANIEL J. President and Treasurer
MOOS
Daniel J. Moos

March 30,
2012

/S/ STEVEN Director, Vice President and Secretary
SHELLEY
Steven Shelley

March 30,
2012

FIRST EQUITY PROPERTIES, INC.
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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.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
First Equity Properties, Inc.
Dallas, Texas

We have audited the accompanying consolidated balance sheet of First Equity Properties, Inc. as of December 31, 2011, and 2010 and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2011. 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 audits.

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

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Equity Properties, Inc. as of December 31, 2011, and 2010 the results of its operations, changes in stockholder's equity and its cash flows for each of the years in the three-year period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

/s/ SWALM & ASSOCIATES, P.C.

SWALM & ASSOCIATES, P.C.
March 30, 2012
Plano, Texas

FIRST EQUITY PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

As of December 31, 2011 and 2010

| | 2011 | 2010 |
|--|-------------|-------------|
| Assets | | |
| Real estate land holdings, at cost | \$5,256,279 | \$3,832,399 |
| Notes receivable and accrued interest - affiliates | 2,965,710 | 2,688,459 |
| Cash and cash equivalents | 508 | 151 |
| Other assets | 79,078 | - |
| Federal income tax receivable | - | 636 |
| Deferred tax asset | - | 1,696 |
| Total assets | \$8,301,575 | \$6,523,341 |
| Liabilities and Shareholders' Equity | | |
| Notes payable and accrued interest - affiliates | \$5,779,852 | \$5,535,275 |
| Notes payable - third party lender | 944,000 | - |
| Accounts payable - other | 56,927 | 52,566 |
| Accounts payable - affiliates | 874,496 | 54,560 |
| Total liabilities | 7,655,275 | 5,642,401 |
| 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) | (740,958) | (506,318) |
| Total shareholders' equity | 646,300 | 880,940 |
| Total liabilities and shareholders' equity | \$8,301,575 | \$6,523,341 |

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

FIRST EQUITY PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2011, 2010, and 2009

| | 2011 | 2010 | 2009 |
|---|---------------|------------|------------|
| Revenue | | | |
| Interest income | \$ 240,754 | \$ 240,754 | \$ 240,754 |
| Lease termination income | 67,730 | \$ - | \$ - |
| Total income | 308,484 | 240,754 | 240,754 |
| Operating Expenses | | | |
| General and administrative | 136,326 | 124,945 | 114,500 |
| Legal and professional fees | 51,078 | 19,925 | 15,252 |
| Total operating expenses | 187,404 | 144,870 | 129,752 |
| Income (loss) before interest expense and taxes | 121,080 | 95,884 | 111,002 |
| Other income (expense) | | | |
| Interest expense | (355,720) | (70,866) | (70,236) |
| Income (loss) before income taxes | (234,640) | 25,018 | 40,766 |
| Income tax (expense) benefit | - | (3,778) | (9,097) |
| Net income (loss) applicable to common shareholders | \$ (234,640) | \$ 21,240 | \$ 31,669 |
| Earnings (loss) per share | \$ (0.22) | \$ 0.02 | \$ 0.03 |
| Weighted average shares outstanding | 1,057,628 | 1,057,628 | 1,057,628 |

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

FIRST EQUITY PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the years ended December 31, 2011, 2010 and 2009

| | Common Stock | | Paid in Capital | Retained Earnings (Deficit) | Total Equity |
|-------------------------------|--------------|-----------|--------------------|-----------------------------------|-----------------|
| | Shares | Amount | | | |
| Balances at January 1, 2009 | 1,057,628 | \$ 10,576 | \$ 1,376,682 | \$(559,227) | \$ 828,031 |
| Net income (loss) | - | - | - | 31,669 | 31,669 |
| Balances at December 31, 2009 | 1,057,628 | 10,576 | 1,376,682 | (527,558) | 859,700 |
| Net income (loss) | - | - | - | 21,240 | 21,240 |
| Balances at December 31, 2010 | 1,057,628 | 10,576 | 1,376,682 | (506,318) | 880,940 |
| Net income (loss) | - | - | - | (234,640) | (234,640) |
| Balances at December 31, 2011 | 1,057,628 | \$ 10,576 | \$ 1,376,682 | \$(740,958) | \$ 646,300 |

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

FIRST EQUITY PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended December 31, 2011, 2010 and 2009

| | 2011 | 2010 | 2009 |
|---|--------------|-------------|------------|
| Cash Flows from Operating Activities | | | |
| Net Income (Loss) | \$(234,640) | \$21,240 | \$31,669 |
| Adjustments to reconcile net income applicable to common shareholders to net cash provided by (used in) operating activities: | | | |
| (Increase) decrease in | | | |
| Amortization | 5,814 | - | - |
| Notes / Interest receivable - affiliates | (277,250) | (177,623) | (103,296) |
| Federal income tax receivable | 636 | (636) | - |
| Deferred tax asset | 1,696 | 4,414 | 8,390 |
| Increase (decrease) in | | | |
| Accounts payable - other | 4,361 | 50,991 | (1,708) |
| Accounts payable - affiliates | 819,935 | 102,334 | (45,415) |
| Notes / Interest payable - affiliates | 244,577 | - | - |
| Federal income taxes payable | - | (651) | (4,976) |
| Net cash provided by (used for) operating activities | 565,129 | 69 | (115,336) |
| Cash Flows from Investing Activities | | | |
| Increase in investment in real estate | (979,880) | - | - |
| Net cash provided by (used for) investing activities | (979,880) | - | - |
| Cash Flows from Financing Activities | | | |
| Financing costs | (84,892) | - | - |
| Notes payable - third party lender | 500,000 | - | - |
| Net cash provided by (used for) financing activities | 415,108 | - | - |
| Net increase (decrease) in cash and cash equivalents | 357 | 69 | (115,336) |
| Cash and cash equivalents at the beginning of period | 151 | 82 | 115,418 |
| Cash and cash equivalents at the end of period | \$508 | \$151 | \$82 |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid for interest | \$- | \$23,091 | \$76,710 |
| Cash paid for income taxes | \$- | \$636 | \$5,768 |
| Non - cash items: | | | |
| Land acquisition financed by third party lender | \$444,000 | \$- | \$- |
| Land acquisition financed by affiliates | \$- | \$3,832,399 | \$- |

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

From 2010 forward, the Company has engaged in the business of investing in real estate and has purchased land held for investment or sale.

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

Organization and Business

First Equity Properties Inc. is Nevada based corporation organized in December 19, 1996 and the Company is headquartered in Dallas, TX. The Company's principal line of business and source of revenue has been earnings on investments and interest on notes receivable. The Company is currently in the business of real estate investing. FEPI is a publicly traded company however, no trading market presently exists for the shares of common stock and its value is therefore not determinable.

Basis of Presentation

The accompanying Consolidated Financial Statements include our accounts, and our subsidiary, which is wholly-owned. All significant intercompany balances and transactions have been eliminated in consolidation. Effective December 31, 2010 the Company has a subsidiary, ART Westwood FL, Inc. and March 31, 2011 changed its name to Kelly Land Development, Inc.

Cash Equivalents

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

Accounting Estimates

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

Income Taxes

The Company accounts for income taxes in accordance with Accounting Standards Codification, ("ASC") No. 740, "Accounting for Income Taxes". ASC 740 requires an asset and liability approach to financial accounting for income taxes. In the event differences between the financial reporting basis and the tax basis of the Company's assets and liabilities result in deferred tax assets, ASC 740 requires an evaluation of the probability of being able to realize the future benefits indicated by such assets. A valuation allowance is provided for a portion or all of the deferred tax assets when there is an uncertainty regarding the Company's ability to recognize the benefits of the assets in future

years. 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. Since management could not determine the likelihood that the benefit of the deferred tax asset would be realized no deferred tax asset was recognized by the Company.

Earnings (loss) per Share

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

FASB Accounting Standards Codification

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

NOTE B -NOTES RECIEVABLE AND ACCRUED INTEREST – AFFILIATE

Receivables from affiliates primarily 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. These notes came due December 31, 2011 and have been extended to December 31, 2013.

| | 2011 | 2010 |
|---|-------------|-------------|
| Notes receivable – affiliates | | |
| Unsecured, due on demand, interest rate of 10%, due monthly | \$2,407,540 | \$2,407,540 |
| Accrued interest | 240,754 | 181,390 |
| Accounts receivable – affiliates | 317,416 | 99,529 |
| Total notes and accounts receivable – affiliates | \$2,965,710 | \$2,688,459 |

NOTE C -LAND

On December 31, 2010 the Company owned various parcels of undeveloped land which consist of approximately 7.53 acres of Kelly Lots Land located in Farmers Branch, TX, approximately 6.916 acres of Vineyard Land located in Grapevine, TX and approximately 5.618 acres and 6.25 acres of Nashville Land located in Nashville, TN all purchased from a related party. On April 1, 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. On November 30, 2011 the Company purchased approximately 23.237 acres known as Cooks Lane located in Fort Worth, TX from a related party. The Company incurred two notes payables with Adams Realty, a third party lender, for \$500,000 maturing May 31, 2013 and \$444,000 maturing November 30, 2013 as a result of the 2011 land purchases.

NOTE D -NOTES PAYABLE AND ACCRUED INTEREST – AFFILIATE

| | 2011 | 2010 |
|--|-------------|-------------|
| Uncollateralized notes payable – affiliates | | |
| due on demand, interest at Prime+ 1%, payable quarterly | \$1,652,609 | \$1,652,609 |
| Real estate notes payable – affiliates | | |
| due December 31, 2015, interest at 6%, payable monthly, secured by land | 3,832,399 | 3,832,399 |
| Accrued interest | 294,844 | 50,267 |
| Total notes payable – affiliates | \$5,779,852 | \$5,535,275 |

| | Total | Payments due by period | | | | | Thereafter |
|----------------|-------------|------------------------|------|------|------|-------------|------------|
| | | 2011 | 2012 | 2013 | 2014 | 2015 | |
| Long term debt | \$5,779,852 | \$1,947,454 | \$- | \$- | \$- | \$3,832,399 | \$- |
| | \$5,779,852 | \$1,947,454 | \$- | \$- | \$- | \$3,832,399 | \$- |

NOTE E –NOTES PAYABLE-OTHER

| | 2011 | 2010 |
|---|-----------|------|
| Real estate notes payable, collateralized by land, entire amount due May 31, 2013, interest at 15%, payable monthly, substantial penalties will be assessed for early payment. | \$500,000 | \$- |
| Real estate notes payable, collateralized by land, entire amount due November 30, 2013, interest at \$5,550, per month, substantial penalties will be assessed for early payment. | \$444,000 | \$- |
| Total notes payable – other | \$944,000 | \$- |

| | Total | Payments due by period | | | | | |
|----------------|-----------|------------------------|------|-----------|------|------|------------|
| | | 2011 | 2012 | 2013 | 2014 | 2015 | Thereafter |
| Long term debt | \$944,000 | \$- | \$- | \$944,000 | \$- | \$- | \$- |
| | \$944,000 | \$- | \$- | \$944,000 | \$- | \$- | \$- |

NOTE F -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:

| | 2011 | 2010 | 2009 |
|------------------------------|------|---------|---------|
| Accumulated Amortization | \$- | \$1,696 | \$6,110 |
| Benefit of NOL carry forward | - | - | - |
| Deferred tax asset | - | 1,696 | 6,110 |
| Less: Valuation allowance | - | - | - |
| Total deferred tax asset | \$- | \$1,696 | \$6,110 |

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

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

| | 2011 | 2010 | 2009 |
|--|-------------|------------|----------|
| Federal income tax at statutory rate per books | \$(35,196) | \$3,753 | \$6,115 |
| Change in valuation allowance | 35,196 | - | - |
| Amortization | - | (8,161) | (5,479) |
| Federal income tax per tax return | \$- | \$(4,408) | \$636 |

| | | | | | | |
|---------------------------|-----|---|-----|---|-----|---|
| Effective income tax rate | 0.0 | % | 0.0 | % | 1.5 | % |
|---------------------------|-----|---|-----|---|-----|---|

NOTE G -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 H -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 I -COMPREHENSIVE INCOME

Accounting Standards Codification, ("ASC") No. 220, Reporting Comprehensive Income, (ASC 220), requires that total comprehensive income be reported in the financial statements. For the years ended December 31, 2011, 2010, and 2009, 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 J -QUARTERLY DATA (UNAUDITED)

The table below reflects the Company's selected quarterly information for the years ended December 31, 2011 and 2010.

| | Year ended December 31, 2011 | | | |
|---|------------------------------|-------------------|------------------|-------------------|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Revenue | \$59,364 | \$60,024 | \$60,683 | \$60,683 |
| Operating expenses | 51,560 | 56,647 | (27,910) | 39,377 |
| Net income from continuing operations before taxes | 7,804 | 3,377 | 88,593 | 21,306 |
| Interest expense | 74,017 | 81,004 | 94,769 | 105,930 |
| Income tax expense (benefit) | (9,932) | 10,568 | - | (636) |
| Net income applicable to common shareholders | \$(56,281) | \$(88,195) | \$(6,176) | \$(83,988) |
| Earnings per share | | | | |
| Weighted average earnings per share applicable to common shares | \$(0.05) | \$(0.08) | \$(0.01) | \$(0.08) |
| | Year ended December 31, 2010 | | | |
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Revenue | \$59,364 | \$60,024 | \$60,683 | \$60,683 |
| Operating expenses | 39,409 | 31,207 | 37,129 | 37,125 |
| Net income from continuing operations before taxes | 19,955 | 28,817 | 23,554 | 23,558 |
| Interest expense | 17,318 | 17,512 | 17,703 | 18,333 |
| Income tax expense (benefit) | 396 | 1,695 | 878 | 809 |
| Net income applicable to common shareholders | \$2,241 | \$9,610 | \$4,973 | \$4,416 |
| Earnings per share | | | | |
| Weighted average earnings per share applicable to | \$- | \$0.01 | \$0.01 | \$- |

common shares

NOTE K -LEASES

On September 18, 2008, the Company entered into a long-term lease commitment with Income Opportunity Realty Investors, Inc., a related party. The lease was for 4,288 square feet of commercial space at the Hickory One Office building, located in Farmers Branch, Texas. The base rent consisted of monthly installments of \$5,717 per month for a period of three years. The lease commenced on November 1, 2008 and extended through October 31, 2011. This lease has been terminated retroactive to June 30, 2010 by mutual agreement of the Company and the building's owner. Based on this agreement, the owner has agreed to reimburse the Company for rents paid after the effective termination date. The Company has recorded a note receivable from the owner in the amount of \$45,739 and income from this lease termination of \$67,730.

NOTE L -RELATED PARTIES TRANSACTIONS

The Company has historically engaged in and may continue to engage in certain business transactions with related parties, including but not limited to asset acquisition and dispositions. 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.

NOTE M -SUBSEQUENT EVENTS

The Company has evaluated subsequent events through March 30, 2012, the date the financial statements were available to be issued, and has determined that there are none to be reported.

