FIRST EQUITY PROPERTIES INC
Form 10-K
March 31, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 0-11777

First Equity Properties, Inc.

(Exact name of registrant as specified in its charter)

Nevada	**95-6799846**
(State or other jurisdiction of	**(IRS Employer**
Incorporation or organization)	**Identification Number)**
1800 Valley View Lane, Suite 300	**75234**
Dallas, Texas	**(Zip Code)**
(Address of principal executive offices)	

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, or a non-accelerated filer. See definitions of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (check one).

Large accelerated filer ¨ **Accelerated filer** ¨ **Non-accelerated filer** x

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, 2007 (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, 2007 by persons believed to be non-affiliates of the Registrant.

As of March 20, 2008, there were 1,057,628 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None

Table of Contents

INDEX TO

ANNUAL REPORT ON FORM 10-K

		Page
	PART I	
Item 1.	Business	3
Item 1A.	Risk Factors	5
Item 1B.	Unresolved Staff Comments	6
Item 2.	Properties	6
Item 3.	Legal Proceedings	6
Item 4.	Submission of Matters to a Vote of Security Holders	6
	PART II	
Item 5.	Market for Registrant s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities	7
Item 6.	Selected Financial Data	8
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operations	9
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	10
Item 8.	Financial Statements and Supplementary Data	10
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	10
Item 9A(T).	Controls and Procedures	10
Item 9B.	Other Information	11
	PART III	
Item 10.	Directors, Executive Officers and Corporate Governance	12
Item 11.	Executive Compensation	14
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	14
Item 13.	Certain Relationships and Related Transactions, and Director Independence	14
Item 14.	Principal Accountant Fees and Services	16
	PART IV	
Item 15.	Exhibits and Financial Statement Schedules	17
Signature Page		19

Table of Contents

PART I

Forward-Looking Statements

This report of First Equity Properties, Inc. may contain forward-looking statements. All statements other than statements of historical fact may be forward-looking statements. These include statements regarding any future financial results, operating results, business strategies, projected costs and capital expenditures, products, competitive positions, and plans and objectives of management for the future operations. Forward-looking statements may be identified by the words such as may, will, should, expect, plan, anticipate, believe, estimate, predict, intend and continue, or the negative of these terms and include the assumptions that underlie such stateme 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 ITEM 1.A. 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). See Property Management And Real Estate Brokerage below. 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.

With the sale of the subsidiaries available to engage in property management and real estate brokerage activities, the Company currently has no active business operations and no subsidiaries. Management of the Company is exploring alternatives, seeking to establish or acquire new business operations for the Company. Management has reviewed opportunities in the cable systems industry, switching industry and high-speed data and telephone operations industries; however, 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.

Table of Contents

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.

Hospitality Business

Prior to January 1, 1997, the predecessor (WESPAC) of the Company s business consisted of the ownership and operation of two Comfort Inn hotels and one Rodeway Inn hotel (sold June 1, 1997 and foreclosed on by the Company in January 1998) located in Spokane, Washington. The two Comfort Inn hotels were The Comfort Inn-Valley (a 76-room hotel located at N. 905 Sullivan Road, Spokane Valley, Washington) and The Comfort Inn-North (a 96-room hotel located at N. 7111 Division Street, Spokane, Washington). Such properties are collectively referred to as the Spokane Properties.

During June 1998, FEPI entered into a contract for deed to sell the two Comfort Inn hotels (Comfort Inn North and Comfort Inn Valley) to an unaffiliated Washington corporation for a total of $4,000,000 with a small down payment and an all inclusive wrap-around note which wraps certain existing underlying indebtedness. As a part of the transaction, FEPI ceded the management of the properties to the unaffiliated Washington corporation which also assumed the underlying indebtedness due to U.S. Bank. During March 2001, the underlying indebtedness to U.S. Bank was paid in full through a refinancing of the properties and the contract for deed satisfied; at that time, FEPI ceased to hold any record title to the real property and received second lien notes for the balances owed.

Also during June 1998, FEPI exchanged the Rodeway Inn hotel to an unaffiliated party for a residential property in Couer d Alene, Idaho which has since been sold. The Rodeway Inn had previously been sold on June 1, 1997 to a corporation owned by a former director and officer of the Company. The Rodeway Inn is a 90-room hotel located at W. 4301 Sunset Boulevard, Spokane, Washington. See ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS. During January 1998, the Company foreclosed on the Spokane Rodeway following a failure of performance by the purchaser on the related note receivable.

Such dispositions ended the Company s direct ownership in the hospitality line of business.

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.

Table of Contents

See also ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS. Carmel was engaged in the management and direction of various portfolios of commercial real property including retail centers, office buildings, industrial properties and hotels. Carmel maintained the management responsibility for five hotels totaling 1,000 rooms and approximately 15,000,000 square feet of commercial real estate through September 30, 1999. CRSL managed multi-family portfolios which included over 32,000 multi-family units through seven third-party regional management companies through September 30, 1999.

Both Carmel and CRSL provided management services primarily to four publicly-traded real estate entities throughout the continental United States through September 30, 1999. Under such arrangements Carmel or CRSL received a fee of 5% or less of the monthly gross rents collected on the properties under Management. CRSL subcontracted with other entities for the provision of property level services. 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.

Carmel also provided real estate brokerage services (on a nonexclusive basis) to three publicly-traded real estate entities and a number of other entities and individuals and received brokerage commissions under varying arrangements from a fixed amount to a sliding scale on a percentage basis. In general, such services included assistance in locating, leasing, or purchasing real estate. Carmel received fees equal to the lesser of (i) a percentage of the cost of acquisition, inclusive of commissions, if any, paid to nonaffiliated brokers, or (ii) the compensation customarily charged in arm s-length transactions by others rendering similar property acquisition services as an ongoing public activity in the same geographical location and for comparable property. During the fourth quarter of 1999, the four publicly-traded real estate entities transferred their brokerage operations to another entity.

During the fiscal year ended December 31, 2003, Carmel had management income of $111,462 and CRSL had management income of $95,792. 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 1.A. ***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.

Table of Contents

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, 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. 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.

ITEM 1.B. *UNRESOLVED STAFF COMMENTS*

Not applicable.

ITEM 2. *PROPERTIES*

The Company s principal offices are located at 1800 Valley View Lane, Suite 300, Dallas, Texas 75234. In the opinion of the Company s Management, the Company s offices are suitable and adequate for its present operations.

ITEM 3. *LEGAL PROCEEDINGS*

At December 31, 2007, and through March 24, 2008, the Company was not a party to or involved in any outstanding, unresolved litigation or proceedings.

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

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

Table of Contents

PART II

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

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

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

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

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

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

As of December 31, 2007, the 1,057,628 post-split shares of Common Stock of FEPI issued and outstanding were held by 1,815 holders of record.

During the three years ended December 31, 2007, FEPI did not issue or sell any securities, nor did FEPI purchase any of its equity securities. The Board of Directors has not authorized any stock repurchase program.

Table of Contents

ITEM 6. ***SELECTED FINANCIAL DATA***

The selected historical financial data presented below for the five fiscal years ended December 31, 2007 are derived from the audited financial statements and reflect (i) the adoption of fresh start reporting in accordance with AICPA Statement of Position 90-7, (ii) confirmation and consummation of the Modified Plan, which resulted in a short period from June 15, 1996 (fresh start) through December 31, 1996, (iii) the transaction of succession, (iv) the acquisition by the Company of Carmel and an 81.6% limited partnership interest (subsequently increased to 99%) in CRSL, and (v) the disposition by the Company effective May 1, 2004 of the common stock of Carmel and the 99% limited partnership interest in CRSL. The following data should be read in conjunction with the Financial Statements and Notes thereto included elsewhere herein and MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

	Year Ended December 31,				
	2007	2006	2005	2004	2003
STATEMENT OF OPERATIONS DATA:					
Revenues	$ 240,754	$ 240,838	$ 240,755	$ 181,000	$ 53,541
General and administrative	25,541	30,005	32,179	60,850	32,079
Other income				36,736	
Income from continuing operations	215,213	210,833	208,576	156,886	21,462
Impairment loss				(37,947,748)	
Income from Discountinued operations				45,715	207,254
Income (loss) before taxes	215,213	210,833	208,576	(37,745,147)	228,716
Income tax expense	(54,945)	(36,055)			
Net income (loss) applicable to common shareholders	$ 160,268	$ 174,778	$ 208,576	$ (37,745,147)	$ 228,716
Weighted average earnings per share:					
Income from continuing operations	$ 0.15	$ 0.17	$ 0.20	$ 0.15	$ 0.02
Income loss from discountinued operations				(35.84)	0.20
Net income loss applicable to common shareholders	$ 0.15	$ 0.17	$ 0.20	$ (35.69)	$ 0.22
Weighted Average Shares Outstanding	1,057,628	1,057,628	1,057,628	1,057,628	1,057,628
BALANCE SHEET DATA;					
Total Assets	$ 2,480,193	$ 2,471,212	$ 2,472,253	$ 2,631,209	$ 41,519,453
Total Liabilities	$ 1,734,194	$ 1,885,481	$ 2,061,300	$ 2,428,832	$ 3,571,929
Stockholders Equity	$ 745,999	$ 585,731	$ 410,953	$ 202,377	$ 37,947,524

8

Table of Contents

ITEM 7. ***MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***
The following discussion and analysis provide information 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 and notes thereto.

Results of Operations

2007 Compared to 2006. Our sole source of income is from interest on notes receivable from affiliated entities. We receive approximately $60,000 per quarter. We received $240,754 in interest income for the twelve months ended December 31, 2007. The revenues were consistent in 2007 and 2006.

The major operating expenses are related to the professional fees and general and administrative expenses required to maintain the organization. General and administrative expenses have increased by $5,194 primarily due to costs associated with filing quarterly filings. Legal and accounting fees have decreased by $9,658 due to fewer legal fees incurred. Our federal income tax expense has increase by $18,890. In the prior year, we had a net operating loss (NOL) tax credit that we applied to the tax expense. There were no NOL s available in the current year.

2006 compared to 2005. Our sole source of income is from interest on notes receivable from affiliated entities. We receive approximately $60,000 per quarter. We received $240,838 in interest income for the twelve months ended December 31, 2006. The revenues were consistent in 2006 and 2005.

The major operating expenses are related to professional fees and general and administrative expenses required to maintain the organization. Our operating expenses were relatively consistent between the two years. Our income tax expense increased by $36,055 in 2006 due to using the remainder of our NOL. We did not have enough NOL to offset our entire tax expense. In the prior year, our NOL was sufficient to offset our entire tax expense.

Financial Condition, Capital Resources and Liquidity

Our primary sources of liquidity are from operations, proceeds from accrued interest on notes receivables from affiliated companies. At December 31, 2007, the Company had total assets of $2,480,193. Of that amount, $72,653 was held in cash. The Company had no long-term debt as of December 31, 2007.

The Company is anticipating paying federal income taxes of $52,959 and a tax penalty of $1,667 for the year ended December 31, 2007. We have accrued a federal tax liability of $54,679 for this tax provision.

The Company s payable consists of four affiliated payables of $1,678,755. The company has paid down $169,225 of this obligation in the current year. The obligations are non-interest bearing and carry no stated maturity dates.

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.

Table of Contents

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, 2007, the Company has determined that there was no material market risk exposure to the Company s financial position, results of operations or cash flows as of such date.

ITEM 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***
The Financial Statements, together with an index thereto, are attached hereto following the signature page to this report.

ITEM 9. ***CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE***
None.

ITEM 9A(T). ***CONTROLS AND PROCEDURES***

Evaluation of Disclosure Controls and Procedures

A review and evaluation was performed by management under the supervision and with the participation of the Acting 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, 2007. Based upon that most recent evaluation, which was completed as of the end of the period covered by this Form 10-K, the Acting Principal Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective at December 31, 2007 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, 2007 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.

Table of Contents

Under the supervision and with the participation of our management, including our CFO, we conducted an assessment of the effectiveness of our internal control over financial reporting as of December 31, 2007. 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, 2007.

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, 2007 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 GOVERNACE*

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 ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS. 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 Acting Principal Executive Officer.

The names, ages and positions of the directors are set forth below.

Name	Age	Position with the Company
Louis J. Corna	60	Director, Vice President and Secretary
R. Neil Crouch, II	56	Director, Vice President, Treasurer, Chief Financial and Accounting Officer

Louis J. Corna, 60

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

Table of Contents

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), Prime 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

R. Neil Crouch II, has been a director, Vice President, Treasurer, Chief Financial Accounting Officer (since February 2008) of the Company. He is also Chairman of the Board (since February 23, 2007) 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 Attenza, Inc., a Dallas, Texas web-based computer self help company. Mr. Crouch has been a Certified Public Accountant since 1981.

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

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

The Company s Board of Directors acted upon 14 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 Code of Ethics 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. at 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.

Table of Contents

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, 2007, 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 24, 2008, 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,	Nevada Sea Investments, Inc.	792,821 shares	74.96%
par value $0.01 per share	1800 Valley View Lane, Suite 300		
	Dallas, Texas 75234		

(1) Based on 1,057,628 shares of common stock outstanding on March 20, 2008.

As of March 20, 2008, 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