

FIRST EQUITY PROPERTIES INC
Form 10-Q
August 14, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For The Quarterly Period Ended June 30, 2007

Or

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

For the transition period from _____ to _____

Commission File Number 000-11777

FIRST EQUITY PROPERTIES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Nevada
(State or Other Jurisdiction of
Incorporation or Organization)

1800 Valley View Lane, Suite 300

Dallas, Texas 75234

95-6799846
(I.R.S. Employer

Identification No.)

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(Address of principal executive offices)

(Zip Code)

(469) 522-4200

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition 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

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

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

Common Stock, \$.01 par value
(Class)

1,057,628
(Outstanding at August 14, 2007)

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FIRST EQUITY PROPERTIES, INC.

FORM 10-Q

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Table of Contents**FIRST EQUITY PROPERTIES, INC.****BALANCE SHEETS**

| | June 30, 2007 (unaudited) | December 31, 2006 |
|---|---------------------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 66,612 | \$ 63,672 |
| Notes and interest receivable | 2,407,540 | 2,407,540 |
| Total assets | \$ 2,474,152 | \$ 2,471,212 |
| Liabilities and Stockholders Equity | | |
| Accrued expenses | \$ 2,950 | \$ |
| Federal income taxes payable | 35,674 | 37,501 |
| Due to affiliate | 1,786,981 | 1,847,980 |
| Total liabilities | 1,825,605 | 1,885,481 |
| Stockholders equity | | |
| Common stock, \$0.01 par, 40,000,000 shares authorized, 1,057,628 shares issued and outstanding | 10,576 | 10,576 |
| Additional paid-in capital | 1,376,682 | 1,376,682 |
| Retained earnings (deficit) | (738,711) | (801,527) |
| Total stockholders equity | 648,547 | 585,731 |
| | \$ 2,474,152 | \$ 2,471,212 |

The accompanying notes are an integral part of these Financial Statements.

Table of Contents**FIRST EQUITY PROPERTIES, INC.****STATEMENTS OF EARNINGS****(unaudited)**

| | For the Three Months | | For the Six Months | |
|--|------------------------|-----------|------------------------|------------|
| | Ended June 30, 2007 | 2006 | Ended June 30, 2007 | 2006 |
| Revenue | | | | |
| Interest income | \$ 60,025 | \$ 60,023 | \$ 119,388 | \$ 119,387 |
| Operating Expenses | | | | |
| General and administrative | 6,614 | 1,100 | 7,349 | 2,157 |
| Legal and professional fees | 5,573 | 5,024 | 13,283 | 16,704 |
| Total operating expenses | 12,187 | 6,124 | 20,632 | 18,861 |
| Net income before income taxes | 47,838 | 53,899 | 98,756 | 100,526 |
| Corporate income tax expense | (16,265) | (18,450) | (35,940) | (34,200) |
| Deferred tax benefit | | | | 13,600 |
| NET INCOME | \$ 31,573 | \$ 35,449 | \$ 62,816 | \$ 79,926 |
| Earnings per share: | | | | |
| Net income | \$ 0.03 | \$ 0.03 | \$ 0.06 | \$ 0.08 |
| Weighted average shares outstanding | 1,057,628 | 1,057,628 | 1,057,628 | 1,057,628 |

The accompanying notes are an integral part of these Financial Statements.

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**FIRST EQUITY PROPERTIES, INC.
STATEMENTS OF STOCKHOLDERS EQUITY**

For the Six Months Ended June 30, 2007

(unaudited)

| | Common Stock | | Paid-in | Retained | Stockholders |
|--------------------------|--------------|-----------|--------------|-----------------------|--------------|
| | Stock | Capital | Capital | Earnings (Deficit) | Equity |
| Balance, January 1, 2007 | 1,057,628 | \$ 10,576 | \$ 1,376,682 | \$ (801,527) | \$ 585,731 |
| Net income | | | | 62,816 | 62,816 |
| Balance, June 30, 2007 | 1,057,628 | \$ 10,576 | \$ 1,376,682 | \$ (738,711) | \$ 648,547 |

The accompanying notes are an integral part of these Financial Statements.

Table of Contents**FIRST EQUITY PROPERTIES, INC.****STATEMENTS OF CASH FLOWS****(unaudited)**

| | For the Six Months Ended June 30, | |
|--|--|-------------|
| | 2007 | 2006 |
| Cash Flows From Operating Activities: | | |
| Net income | \$ 62,816 | \$ 79,926 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| (Increase) decrease in | | |
| Interest receivable | | 60,684 |
| Deferred tax asset | | (6,800) |
| Increase (decrease) in | | |
| Accrued expenses | 2,950 | 413 |
| Federal income taxes payable | (1,827) | 27,400 |
| Due to affiliate | (60,999) | (161,000) |
| Net cash provided by operating activities | 2,940 | 623 |
| | | |
| Net increase in cash and cash equivalents | 2,940 | 623 |
| Cash and cash equivalents, at the beginning of period | 63,672 | 4,029 |
| | | |
| Cash and cash equivalents, at the end of period | \$ 66,612 | \$ 4,652 |

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. ORGANIZATION AND BASIS OF PRESENTATION

First Equity Properties, Inc. (FEPI , The Company , We , Us , or Our) is the successor-in interest to WESPAC Investors Trust III, a California estate investment trust (WESPAC) originally established August 22, 1983. FEPI is a Nevada Corporation. The Company is externally advised and has no employees.

The accompanying condensed financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission, and accordingly, do not include all of the information and footnotes required by generally accepted accounting principles in the United States of America for complete financial statements. In the opinion of management of First Equity Properties, Inc., all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of First Equity Properties, Inc.'s balance sheet, statement of earnings and statement of cash flows, have been included. You should read these financial statements in conjunction with the financial statements and footnotes thereto in our annual report on Form 10-K for the year ended December 31, 2006. Hereafter in this document, First Equity Properties, Inc. is referred to as FEPI.

Operating results for the six months ended June 30, 2007, are not necessarily indicative of the results that may be expected for the year ended December 31, 2007.

NOTE B. FEDERAL INCOME TAXES

The accompanying unaudited 2007 financial statements contain an accrual for current federal income taxes calculated using an estimated tax rate of 34%. There are no significant differences between the Company's net income for financial and income tax reporting.

ITEM 2. MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of the Company's results of operations and financial condition. This discussion should be read in conjunction with the financial statements and notes.

Results of Operations

The Company's revenues are consistent with the prior periods. The major operating expenses are related to the professional fees required to maintain the organization. The majority of these expenses consist of legal and accounting fees. The Company is not making quarterly tax payments and is using a tax rate of 34% to estimate the effect of its tax liabilities and penalties.

Three months ended June 30, 2007 compared to the three months ended June 30, 2006:

The Company's primary source of income is from interest on notes receivable from affiliated entities. The outstanding balance on the note has remained unchanged since December 31, 2006. Thus, the interest income of approximately \$60,000 has not changed from period to period. General and administrative expenses increased by \$5,514 in the current period due to additional costs associated with the filings that were not incurred in prior period. The increase in expenses and resulting decrease in the current period's net income before taxes effectively lowered the estimated income tax expense by \$2,185 in the current period.

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Six months ended June 30, 2007 compared to the six months ended June 30, 2006:

The Company's primary source of income is from interest on notes receivable from affiliated entities. The outstanding balance on the note has remained unchanged since December 31, 2006. Thus the interest income of approximately \$119,000 has not changed from period to period. General and administrative expenses increased by \$5,192 in the current period due to additional costs associated with the filings that were not incurred in prior period. The increase in income tax expense of \$1,740 is due to the estimate including interest and penalties to be incurred due to not making quarterly estimated tax payments in the current period.

Capital Resources and Liquidity

The Company's significant assets consist of cash of \$66,612 and two notes receivables from affiliated parties totaling \$2,407,540.

The Company is estimating paying federal income taxes and related penalties and interest of \$35,940 for the six-month period ended June 30, 2007 and has accrued a federal tax liability of \$35,674 to date.

Due to affiliates consists of four affiliated payables totaling \$1,786,981. The Company has paid down \$60,999 of this obligation through the six months period ended June 30, 2007.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Not applicable.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures.

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Vice President, Treasurer and Chief Accounting Officer, and Acting Principal Executive Officer of the Company's disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based upon that evaluation, the Company's Vice President, Treasurer and Chief Accounting Officer and Acting Principal Executive Officer concluded that the Company's disclosure controls and procedures are effective in timely alerting him to material information relating to the Company required to be included in the Company's periodic SEC filings.

(b) Changes in Internal Control over Financial Reporting.

There have been no changes in the Company's internal controls over financial reporting during the quarter ended June 30, 2007, that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

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The following exhibits are filed with this report or incorporated by reference as indicated;

Exhibit

| Number | Description |
|---------------|---|
| 3.1 | Articles of Incorporation of Wespac Property Corporation as filed with and endorsed by the Secretary of State of California on December 16, 1996 (incorporation by reference is made to Exhibit 3.1 to Form 8-K of First Equity Properties, Inc. for event reported June 19, 1996). |
| 3.2 | Articles of Incorporation of First Equity Properties, Inc. filed with and approved by the Secretary of State of Nevada on December 19, 1996 (incorporation by reference is made to Exhibit 3.2 to Form 8-K of First Equity Properties, Inc. for event reported June 19, 1996). |
| 3.3 | Bylaws of First Equity Properties, Inc. as adopted December 20, 1996 (incorporation by reference is made to Exhibit 3.3 to Form 8-K of First Equity Properties, Inc. for event reported June 19, 1996). |
| 3.4 | Agreement and Plan of Merger of Wespac Property Corporation and First Equity Properties, Inc. dated December 23, 1996 (incorporation by reference is made to Exhibit 3.4 to Form 8-K of First Equity Properties, Inc. for event reported June 19, 1996). |
| 3.5 | Articles of Merger of Wespac Property Corporation into First Equity Properties, Inc. as filed with and approved with the Secretary of State in Nevada December 24, 1996 (incorporation by reference is made to Exhibit 3.5 to Form 8-K of First Equity Properties, Inc. for event reported June 19, 1996). |
| 3.6 | Certificate of Designation of Preferences and Relative Participating or Optional of Other Special Rights and Qualifications, Limitations or Restrictions thereof of the Series A 8% Cumulative Preferred Stock (incorporation by reference is made to Exhibit 3.6 to Form 10-KSB of First Equity Properties, Inc. for the fiscal year ended December 31, 1996.) |
| 31.1* | Certification of President and Chief Operating Officer pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934 |
| 32.1* | Rule 1350 Certification of Acting Principal Executive Officer and Chief Financial and Accounting Officer pursuant to 18 U.S.C. Section 1350 |

* Filed herewith.

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SIGNATURE PAGE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST EQUITY PROPERTIES, INC.

Date: August 14, 2007

By: /s/ Steven A. Abney
Steven A. Abney
Vice President, Treasurer, Chief Financial and Accounting
Officer and Acting Principal Executive Officer