

FIRST EQUITY PROPERTIES INC
Form 10-Q
August 15, 2006

FORM 10-Q
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

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

FOR THE QUARTER ENDED JUNE 30, 2006

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)

95-6799846
(I.R.S. Employer
Identification No.)

1800 Valley View Lane, Suite 300
Dallas, Texas 75234
(Address of principal executive offices)
(Zip Code)

(214) 750-5800
(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 an accelerated filer (as defined in Rule 12b-2 of the Act). 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 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 June 30, 2006)**

FIRST EQUITY PROPERTIES, INC.
FORM 10-Q
TABLE OF CONTENTS

PART I: FINANCIAL INFORMATION	PAGE
Item 1. Financial Statements	
Balance Sheets at June 30, 2006 (Unaudited) and December 31, 2005	3
Statements of Earnings for the three and six months ended June 30, 2006 and 2005 (Unaudited)	4
Statements of Cash Flows for the six months ended June 30, 2006 and 2005 (Unaudited)	5
Notes to Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	7
Item 4. Controls and Procedures	7
 PART II. OTHER INFORMATION	
Item 6. Exhibits	8
SIGNATURE PAGES	9

FIRST EQUITY PROPERTIES, INC.
BALANCE SHEETS

	June 30, 2006 (Unaudited)	December 31, 2005
Assets		
Cash and cash equivalents	\$ 4,652	\$ 4,029
Notes and interest receivable	2,407,540	2,468,224
Deferred tax asset	6,800	—
	\$ 2,418,992	\$ 2,472,253
Liabilities and Stockholders' Equity		
Accounts payable	\$ 7,733	\$ 7,320
Federal income taxes payable	27,400	—
Accounts payable - affiliate	1,892,980	2,053,980
Total liabilities	1,928,113	2,061,300
Shareholders' equity		
Preferred stock, \$0.01 par, 4,960,000 shares authorized, none issued and outstanding	—	—
Common stock, \$0.01 par, 40,000,000 shares authorized, 1,057,628 shares issued and outstanding	10,576	10,576
Capital in excess of par value	1,376,682	1,376,682
Retained earnings (deficit)	(896,379)	(976,305)
Total shareholders' equity	490,879	410,953
	\$ 2,418,992	\$ 2,472,253

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

FIRST EQUITY PROPERTIES, INC.
STATEMENTS OF EARNINGS
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2006	2005	2006	2005
Revenue				
Interest income	\$ 60,023	\$ 60,023	\$ 119,387	\$ 119,388
Operating expenses				
General and administrative	1,100	754	2,157	1,890
Legal and professional fees	5,024	5,044	16,704	9,419
Total operating expenses	6,124	5,798	18,861	11,309
Net income from continuing operations	53,899	54,225	100,526	108,079
Corporate income tax expense	(18,450)	—	(34,200)	—
Deferred tax benefit	—	—	13,600	—
NET EARNINGS	\$ 35,449	\$ 54,225	\$ 79,926	\$ 108,079
Earnings (loss) per share				
Net earnings from continuing operations	\$ 0.03	\$ 0.05	\$ 0.08	\$ 0.10
Net earnings (loss)	\$ 0.03	\$ 0.05	\$ 0.08	\$ 0.10
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 Consolidated Financial Statements.

FIRST EQUITY PROPERTIES, INC.
STATEMENTS OF CASH FLOWS
(Unaudited)

**For the Six Months
Ended June 30,
2006 2005**
(dollars in thousands)

Cash Flows from Operating Activities

Net earnings	\$	79,926	\$	108,079
Adjustments to reconcile net income to net cash provided by (used for) operating activities				
(Increase) decrease in				
Interest receivable		60,684		77,847
Deferred tax asset		(6,800)		—
Increase (decrease) in				
Accounts payable		413		—
Federal income taxes payable		27,400		—
Accounts payable - affiliate		(161,000)		(189,596)
Net cash provided by (used for) operating activities		623		(3,670)
Net increase (decrease) in cash and cash equivalents		623		(3,670)
Cash and cash equivalents at the beginning of period		4,029		4,621
Cash and cash equivalents at the end of period	\$	4,652	\$	951

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

FIRST EQUITY PROPERTIES, INC.
NOTES TO FINANCIAL STATEMENTS

NOTE A. - BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements have been prepared by First Equity Properties, Inc. (the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission. The financial statements reflect all adjustments that are, in the opinion of management, necessary to fairly present such information. All such adjustments are of a normal recurring nature. Although the Company believes that the disclosures are adequate to make the information presented not misleading, certain information and footnote disclosures, including a description of significant accounting policies normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, have been condensed or omitted pursuant to such rules and regulations.

These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2005 Annual Report on Form 10-K filed with the Securities and Exchange Commission. The results of operations for interim periods are not necessarily indicative of the results for any subsequent quarter or the entire fiscal year ending December 31, 2006.

NOTE B. FEDERAL INCOME TAXES

The accompanying unaudited 2006 financial statements contain an accrual for current federal income taxes calculated using annualized net income of approximately of \$200,000. Using an estimated tax rate of 34%, the estimated tax liability for the year would be approximately \$68,000. The \$34,200 included as current income tax expense in the accompanying unaudited 2006 financial statements represents one half of the estimated tax liability for the year. There are no significant differences between the Company's net income for financial and income tax reporting.

The Company reduced the valuation allowance on the deferred tax asset related to the net operating loss carryforward of approximately \$40,000 resulting in a deferred tax benefit of approximately \$13,500 as reflected in the accompanying unaudited 2006 financial statements. The Company reduced the allowance because management has determined that they will more likely than not be able to utilize the net operating loss carryforward

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

Results of Operations

Three months ended June 30, 2006 compared to three months ended June 30, 2005.

Currently the Company's primary assets are interest bearing securities. Revenues from operations remained at \$60,023 due to no change in the principal balance of the notes receivable. Total operating expenses remained relatively the same at \$6,124 in 2006 compared to \$5,798 in 2005. Estimated tax expense increased by \$18,450 in 2006 compared to the same period in 2005 due to using all but \$40,000 of the operating loss carryforward, therefore the company is anticipating paying taxes on its earnings for 2006.

Six months ended June 30, 2006 compared to six months ended June 30, 2005.

Revenues from operations remained at \$119,387 from prior year of \$119,388 due to no change in the principal balance of the notes receivable. Total operating expenses increased to \$18,861 in 2006 from \$11,309 in 2005. The increase in operating expenses was due to an increase in legal and professional fees in 2006. Estimated tax expense increased by \$34,200 in 2006 compared to the same period in 2005 due to using all but \$40,000 of the operating loss carryforward, therefore the company is anticipating paying taxes on its earnings for 2006.

Financial Condition and Liquidity

At June 30, 2006, the Company had total assets of \$2,418,992 compared to \$2,472,253 at December 31, 2005. Cash and cash equivalents were \$4,652 at June 30, 2006 up marginally from \$4,029 at December 31, 2005. Assets were down due to the collection of interest receivable and use of that cash to pay accounts payable - affiliate.

Total liabilities were \$1,928,113 versus \$2,061,300 at December 31, 2005. The decrease in liabilities results from the collection of interest receivable which was in turn used to pay liabilities.

ITEM 4. CONTROLS AND PROCEDURES

- (a) 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, 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 concluded that the Company's disclosure controls and procedures are effective in timely alerting him to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.
- (b) There have been no changes in the Company's internal controls over financial reporting during the quarter ended June 30, 2006, that have materially affected or are reasonably likely to materially affect the Company's internal controls over financial reporting.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS

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 Acting Principal Executive Officer and Chief Financial and Accounting 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.

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, 2006

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