FIRST FINANCIAL CORP /TX/
Form 10-K
April 15, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2008

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

For the transition period from ______ to ______

Commission File Number: 0-5559

FIRST FINANCIAL CORPORATION

(Name of small business issuer as specified in its charter)

Texas (State or other jurisdiction of incorporation or organization)	**74-1502313** (I.R.S. Employer Identification No.)
800 Washington Avenue, Waco, Texas	**76701**

(Address of principal executive offices) (Zip Code)

Issuer s telephone number**(254) 757-2424**

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock (no par value per share)

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ___ No _X__

Indicate by check mark whether the Issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act.

Yes ___ No _X__

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes _X__ No ___

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Issuer 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 filed, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer ____	Accelerated filer ____
Non-accelerated filer ____	Smaller reporting company __X__

Indicate by check mark whether the Issuer is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ___ No _X__

There is no established trading market for the Issuer s class of voting stock; therefore, the Issuer cannot determine the aggregate value of voting stock held by non-affiliates.

Number of shares of the Issuer s Common Stock outstanding on December 31, 2008, was 402,058.

DOCUMENTS INCORPORATED BY REFERENCE

None.

Part I

Item 1. Business

Forward-looking Information

Certain statements in this Form 10-K constitute forward-looking statements, including but not limited to those identified by the words expect, believe, seek to, intend, will, possible, may and similar expressions that ar to the Company or its management. No forward-looking statements of the Company or its management are guarantees of future outcomes. These statements involve risks and uncertainties, and actual results may differ materially from those anticipated by the forward-looking statements.

General

First Financial Corporation was incorporated in the State of Texas in 1964 and its principal place of business is in Waco, Texas. During the four years prior to April 28, 2006, the primary business of the Company, through its subsidiaries, was originating and servicing residential mortgage loans, engaging in insurance activities, providing consulting and data processing services to related companies and servicing a decreasing portfolio of manufactured home loans.

The Company s business historically included originating and servicing residential mortgage loans through its wholly-owned subsidiary, First Preference Mortgage Corp. (FPMC). Prior to April 28, 2006, FPMC operated retail branch offices in Waco, Tyler, College Station and Victoria, Texas, and Tulsa, Oklahoma, each staffed with loan originators who solicited residential mortgage loans in their respective markets. FPMC s business also included originating loans received from approximately 600 independent mortgage loan brokers located throughout Texas. Substantially all of the loans originated by FPMC were sold to third parties. During 2003, 2004, 2005, and 2006, FPMC originated approximately $706 million, $347 million, $296 million, and $70 million respectively, in new residential mortgage loans. FPMC originated no loans in 2007 or 2008.

Discontinuance of Operations

In order to participate in the FHA mortgage insurance program, FPMC was required to maintain a minimum net worth requirement. As of December 31, 2005, FPMC was below the minimum net worth requirement of the Department of Housing and Urban Development (HUD), as a result of which FPMC became ineligible for participation in the HUD mortgage insurance programs.

FPMC funded the loans it originated prior to the sale of such loans to investors. The source of money to fund these loans was a warehouse line of credit with Colonial Bank N.A. (Colonial) under which Colonial advanced up to 99% of the amount of each loan that was to be paid by the investor, but not to exceed the unpaid principal of the loan. The advance was repaid when the loan was sold to the investor. Another funding source for loans originated by FPMC was loan participation agreements with Citizens State Bank of Woodville, Texas (CSB). Under these agreements CSB underwrote selected loans originated by FPMC and had the option to purchase up to 100% undivided interest in each loan approved for the program. When a subject mortgage loan was sold in the secondary market, CSB recouped its investment plus a specified yield on its investment. In March and April of 2006, respectively, Colonial and CSB discontinued their agreements with FPMC.

No new mortgage loans have been funded since April 28, 2006. Despite its efforts, management of the Company has been unable to obtain alternate sources of funding for FPMC s mortgage loan operations and management believes that all reasonable avenues for obtaining such funding have been exhausted. FPMC s mortgage loan operations were the Company s only significant source of operating revenue.

First Advisory Services, Inc., (FAS) a wholly-owned subsidiary of the Company, has provided accounting, personnel, general and administrative, and information technology services to entities that are affiliated through common ownership. Due to the discontinuance of the Company s mortgage operation, the services provided by FAS have been substantially reduced.

As of December 31, 2008, the Company and its consolidated subsidiaries employed one employee.

The Company has not spent any significant amounts on research and development or compliance with environmental laws.

Sale of the Assets of First Preference Mortgage Corp.

On December 1, 2006, FPMC and Citizens Mortgage Corporation (CMC) executed an agreement entitled Memorandum of Asset Purchase (the Agreement) under which FPMC sold to CMC substantially all of its furniture, fixtures and equipment and its retail and wholesale loan production operations and going concern value for a purchase price of $333,873, of which $78,873 was paid in cash on the date of execution and the $255,000 balance was paid in the form of CMC s promissory note. The promissory note was unsecured, earned interest at 0.75% below the prime rate published in the Wall Street Journal (initially, 7.50%), and was repayable in 12 quarterly installments of principal and accrued interest starting March 15, 2007. The effective date provided in the Agreement was May 1, 2006. Payments on the promissory note were made periodically in 2007, with the balance paid in full on December 27, 2007. Under the Agreement CMC assumed no liabilities, obligations or commitments of FPMC, other than certain equipment lease agreements. In connection with the discontinuance by FPMC of its loan production operations, CMC employed certain of FPMC s former employees and took over the processing of loan applications that had been received by FPMC.

CMC is a wholly-owned subsidiary of Citizens State Bank of Woodville, Texas, the president and chief executive officer of which is David W. Mann and the parent company of which is majority-owned by Mr. Mann and his affiliates. Mr. Mann is also the chief executive officer and a director of both FPMC and the Company. Mr. Mann and his affiliates have controlling beneficial ownership of the Company and the parent company of CMC.

The purchase price and terms provided in the Agreement were negotiated on behalf of FPMC by the independent Directors of the Company and by legal counsel selected by them. The purchase price was based on an evaluation provided by an independent expert.

Item 1A. Risk Factors

For risk factors applicable to the Company arising from (i) the Company s lack of profitable operations in recent years, (ii) the Company s lack of liquidity and significant negative net worth, and (iii) the lack of a public trading market in the Company s common stock, see Discontinuance of Operations under Item 1, Item 5, and Liquidity and Capital Resources under Item 7.

Item 1B. Unresolved Staff Comments

There are no unresolved staff comments for the fiscal year covered by this report.

Item 2. Description of Property

The principal office of the Company and its subsidiaries (including FPMC) is located at 800 Washington Ave., Waco, Texas. This property is owned by JRPM Investments, Ltd. (JRPM). Since May 2006, Security Bancshares Service Corp. (SBSC) has leased the building from JRPM, and FPMC has subleased a portion of the building from SBSC. See Item 12 (Certain Relationships and Related Transactions) for more information regarding these leases.

Item 3. Legal Proceedings

On August 28, 2006, CitiMortgage, Inc. (CitiMortgage) initiated an action in the United States District Court for the Eastern District of Missouri naming FPMC, CMC, and David W. Mann as defendants and alleging breach of contract claims and a fraudulent transfer claim (the CitiMortgage Litigation). On March 26, 2008, CitiMortgage, FPMC, and Mr. Mann entered into a settlement agreement to resolve all claims that CitiMortgage may have had against FPMC, Mr. Mann, the Company and all related parties. On November 4, 2008, the CitiMortgage litigation was permanently dismissed with prejudice and Mr. Mann, FPMC, the Company, and all related parties were released from all claims that CitiMortgage made, or could have made, in the litigation. This settlement is described in Item 12 of this Form 10-K.

In addition to the foregoing, the Company is involved in routine litigation incidental to its business, both as a plaintiff and a defendant. Management of the Company, after consulting with legal counsel, believes that liability resulting from such litigation, if any, will not have a material effect on the financial position of the Company.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

Part II

Item 5. Market for Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

There is no established public trading market for the Company s no par value common stock. On December 31, 2008, the Company had approximately 440 holders of record of its common stock.

The Company did not pay any cash dividends during the last two fiscal years and does not intend to do so for the foreseeable future. Except in limited circumstances, the Texas Business Corporation Act would prohibit the Company from paying a dividend if, after giving effect to the dividend, the Company would be insolvent or if the dividend exceeded the Company s surplus.

The Company has no equity compensation plans and no securities authorized for issuance under any such plans.

The Company and its affiliates made no purchases of its equity securities during fourth quarter of 2008.

Item 6. Selected Financial Data

This item is not required for smaller reporting companies.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Operations

As a result of FPMC s discontinuation of the mortgage loan production as of April 28, 2006, the Company originated no new residential mortgage loans in 2007 or 2008. Prior to the discontinuation of the mortgage loan production, the Company s revenue was derived from loan origination fees, interest on mortgage loans until their sale to investors and revenue on the sale of mortgage loans to investors.

The Company s only current operations consist of seeking negotiated resolutions of the claims of its creditors.

Results of Operations

The Company had a net gain before discontinued operations and other comprehensive gain (loss) of $788,451 for 2008, compared to a net loss of $1,669,980 for that item in 2007.

Loan administration and production revenue for 2008 was $886 compared to $1,394 for 2007. No loans were originated during 2007 or 2008. In 2007 and 2008, loan administration and production revenue consisted of only loan servicing fees.

Interest income for 2008 amounted to $341 compared to $16,711 in 2007. In 2007, FPMC earned $15,295 in interest from a promissory note from CMC. The balance on the note was paid in full on December 27, 2007. This promissory note is described further in Item 1 (Description of Business).

During 2008, the Company earned oil and gas royalties in the amount of $131,859 compared to $77,102 in 2007.

The Company realized no gain (loss) on sale of mortgage loans during 2008. For the year ended December 31, 2007, the Company realized a gain on sale of mortgage loans of $7,405.

Salaries and related expenses for 2008 were $103,621 compared to $147,614 in 2007. At December 31, 2008, the Company had one employee.

Interest expense for the year ended December 31, 2008, amounted to $179,819 compared to $10,293 for the same period in 2007. The increase in interest expense is due to the $2,500,000 consent judgment entered into in connection with the settlement of the CitiMortgage Litigation described in Item 12 (Certain Relationships and Related Transactions). The judgment bears interest at a rate of 9% per year.

During 2008, the Company recorded a reverse provision for loan losses of $1,222,865. During 2007, the Company recorded a provision for loan losses of $1,050,153. The reverse provision for loan losses recorded in 2008 was largely the result of the settlement of the CitiMortgage litigation described in Item 12 (Certain Relationships and Related Transactions). At December 31, 2008, the reserve for loan losses amounted to $2,610,011 compared to $4,332,843 at December 31, 2007. In 2007, the Company recovered approximately $170,000 from errors and omissions insurance claim with regard to certain defaulted loans. There was no such recovery in 2008. Loss charge-offs amounted to $84,000 for the year ended December 31, 2008, and $7,614 for the year ended December 31, 2007. During 2005 and 2004, the Company experienced an increase in the delinquency and default rate on the mortgage loans it originated and sold to investors. No loans have been funded since April 28, 2006, but the Company is at risk under certain of its agreements with these investors for credit losses and cost of foreclosure on default of the borrower.

Operating expenses for 2008 were $349,407 compared to $663,430 in 2007. This is primarily due to a decrease in legal fees from 2007 to 2008. Legal fees were $184,081 in 2008 compared to $478,774 in 2007.

Other comprehensive income consists of unrealized holding gains (losses) on marketable investment securities. For the year ended December 31, 2008, unrealized holding losses amounted to $1,134,760 compared to gains of $1,002,544 for the same period in 2007.

Financial Condition

At December 31, 2008, the Company s total assets were $266,682 compared to $1,664,841 at December 31, 2007. The decrease in total assets is primarily due to the decreased value of marketable investment securities of $1,155,425 from a balance of $1,371,507 at December 31, 2007, to a balance of $216,081 at December 31, 2008. In addition, $83,999 of accounts receivable was written-off against the reserve for loan losses. Cash and cash equivalents also decreased by $80,940 from December 31, 2007 to December 31, 2008. The Company s primary source of potential value is its net operating loss carryforward in the amount of approximately $17.2 million which, in circumstances permitted by United States federal income tax laws and regulations, could be available to shelter taxable income produced by the operations of certain entities if those operations and the Company s operations were combined. Under those laws and regulations, entities that could make maximum use of the Company s net operating loss carry forwards would be those controlled by David W. Mann.

Liquidity and Capital Resources

Prior to the discontinuance of the Company s mortgage origination operations in 2006, the Company s primary sources of liquidity were proceeds from the sale on mortgage loans, net interest income, fees earned from originating mortgage loans and borrowings under FPMC s warehouse line of credit. When those operations were discontinued and FPMC s warehouse line of credit was terminated, the Company lost its primary source of liquidity. The only remaining sources of liquidity are interest and investment income from cash, cash equivalents, and investments. The Company does not trade investment securities as a source of liquidity and does not intend to do so in the future.

As reflected in the attached financial statements, the stockholder s equity of the Company was $(5,655,440) at December 31, 2008, compared to stockholders equity of $(5,309,131) at December 31, 2007. The Company had no commitments for capital expenditures at December 31, 2008.

At this time, management does not intend to cause the Company or FPMC to seek protection under the bankruptcy laws and will instead seek to obtain satisfactory settlements with its creditors. If creditors can be satisfied, the Company may retain some residual value that will be preserved for shareholders. It is entirely possible, however, that this process will be unsuccessful, in which case the Company or FPMC have to seek protection under the bankruptcy laws or may be forced into involuntary bankruptcy by its creditors. If that occurs, the Company s common stock would be likely to have no value.

Off-balance sheet Arrangements

The Company does not, and did not during 2008, have any off-balance sheet arrangements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

This item is not required for smaller reporting companies.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements of the Company and its subsidiaries and the independent auditors report appear on pages F-1 through F-21 herein.

In the balance sheet as of September 30, 2008 and the statement of income for the periods then ended that were included in the Company s Form 10-Q for the quarter ended September 30, 2008, there was an error resulting from the failure to record the expense side of certain intercompany transactions. First Advisory Services (FAS), a subsidiary of the Company, performs accounting and advisory services for the Company and its subsidiary FPMC. FAS bills the Company and FPMC monthly for these services. Eliminating entries are generally made to eliminate these offsetting intercompany transactions. For three months during the nine months ended September 30, 2008, the revenue and resulting receivable were recorded on the books of FAS; however, the expense and resulting payable were not recorded on the books of the Company and FPMC. At the end of the third quarter, the intercompany revenue and receivable on the books of FAS were eliminated and an equal amount of expenses and payables were eliminated from the books of the Company and FPMC, as if the original entries had been recorded correctly. This resulted in the overstatement of net income and the understatement of accounts payable by $44,850. In the statement of income for the nine months ended September 30, 2008 professional fees and other administrative expenses were reported as $267,091 and should have been reported as $311,941. A Net loss was reported of $284,479, but should have been reported as $329,329. On the balance sheet as of September 30, 2008, retained earnings were reported as $(8,051,751) and should have been reported as $(8,096,601). Accounts payable was reported as $143,017 and should have been reported as $187,867. These errors have been corrected in the financial statements appearing in this Form 10-K.

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

The Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered by this report. The evaluation was carried out under the supervision of and with the participation of the Company s Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures are effective in timely alerting them to material information relating to the Company, including its consolidated subsidiaries, required to be included in reports the Company files with or submits to the Securities and Exchange Commission under the Securities Act of 1934.

Evaluation of Internal Control Over Financial Reporting

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The Company s internal control system was designed to provide reasonable assurance to the Company s management and Board of Directors regarding the preparation and fair presentation of published financial statements.

Management assessed the effectiveness of the Company s internal control over financial reporting (as defined in the Securities Exchange Act of 1934 Rule 13a-15 and 15d-15(f)) as of December 31, 2007. In making this assessment, it used the criteria set forth in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on management s assessment the Company believes that, as of December 31, 2008, the Company s internal control over financial reporting is effective based on those criteria. This assessment is supported by the attestation report of our independent registered public accounting firm.

Change of Internal Controls

There have been no changes in the Company s internal control over financial reporting that occurred during the fourth quarter of fiscal year 2008 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Item 9B. Other Information

None.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Information About Directors and Executive Officer

The table below provides certain information as of March 31, 2009, with respect to each director and our executive officer. Unless otherwise indicated, each person has been engaged in the principal occupation shown for the past five years.

Name and Principal Occupation for the Last Five Years	Age	Director Since	Positions With Company
David W. Mann President, First Financial Corporation since May 21, 1992; Chairman of the Board, First Financial Corporation since May 15, 2001, Director since 1991; President, First Preference Mortgage Corp. from February 7, 1993 to September 30, 2004, from October 8, 2004 to September 30, 2005, and since April 1, 2006; Chairman of the Board, First Preference Mortgage Corp. since February 5, 2002; President, Chief Executive Officer, Citizens State Bank, Woodville, Texas since March 25, 1997, Vice Chairman of the Board, Citizens State Bank, Woodville, Texas since June 28, 1994 until April 25, 2006, Chairman of the Board, Citizens State Bank, Woodville, Texas since April 25, 2006; Mr. Mann is also an officer and director of certain insurance agencies and companies and holds positions with several other family-owned entities.	53	5-21-91	President, Chief Executive Officer, Chief Financial Officer, and Chairman of the Board

James Lee Motheral	54	2-6-01	Director
Since January 1, 1996, Mr. Motheral has been employed in the field of print management as President of Motheral Printing Company.			
Dr. Raymond A. Parker	80	11-15-01	Director
Dr. Parker is a retired minister.			
Joseph Edward Walker	78	2-06-01	Director
Since January 1, 1996, Mr. Walker was employed by Video Productions and Impact Productions. Mr. Walker retired in 2005.			

Code of Ethics

The Company has adopted a Code of Ethics applicable to its Chief Executive Officer and senior financial officers, which was filed as Exhibit 14.1 to the 10-KSB for the year ended December 31, 2003, filed with the Securities and Exchange Commission on April 14, 2004.

Audit Committee

The Board of Directors has no audit committee, or any other committee performing similar functions. The Board as a whole performs the functions that would otherwise be performed by the audit committee.

In connection with performing its functions as an audit committee, the full Board has determined that David W. Mann qualifies as an audit committee financial expert, as that term is defined in Item 407(d) of the Securities and Exchange Commission s Regulation S-K. Mr. Mann, because he is an officer and principal owner of the Company, would not be considered independent within the meaning of the independence requirements of any national securities exchange or national securities association. It should be noted, however, that, because the Company s securities are not listed on any such exchange or traded on a trading system maintained by any national securities association, no financial expert is required to be on the Company s Board of Directors or to be independent.

Item 11. Executive Compensation

Executive Compensation

The following table sets forth information regarding the compensation paid to or for the Company s chief executive officer, who is the Company s only executive officer.

Summary Compensation Table		
Name and Principal Position	**Year**	**Salary** (1)
David W. Mann	2008	$ 25,000
President, Chief Executive Officer and Chief Financial Officer	2007	$100,000

(1) Salary was the only form of compensation Mr. Mann received in the years presented.

There were no outstanding equity awards as of December 31, 2008.

Director Compensation

During 2008, each non-employee Director of the Company (all Directors other than David W. Mann) was paid a fee of $1,000 for each regular Board of Directors meeting attended. There were three such meetings in 2008. Mr. Mann receives compensation as an executive officer as disclosed under Executive Compensation. He does not receive any additional compensation for his service as Director. The Company had no other compensation arrangements with any Director of the Company during the last completed fiscal year.

Director Compensation	
Name of Director	**Fees Earned or Paid in Cash** (1)
James Lee Motheral	$ 3,000
Raymond A. Parker	$ 3,000
Joseph Edward Walker	$ 3,000

(1) Fees earned or paid in cash were the only form of compensation received by the Company s Directors in 2008.

Item 12. Security Ownership of Certain Beneficial Owners and Management and

Related Stockholder Matters

Stock Ownership of Certain Beneficial Owners

As of March 31, 2009, the persons and entities named below were, to our knowledge, the only beneficial owners of more than 5 percent of our outstanding common stock, determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934, other than David W. Mann, whose beneficial ownership of our common stock is described below in the table entitled Security Ownership of Directors and Executive Officer. Except as otherwise indicated, the parties named below have sole voting and investment power with respect to the shares beneficially owned by them.

Security Ownership of Certain Beneficial Owners		
Name and Address of Beneficial Owner	**Number of Shares Beneficially Owned**	**Percentage of All Outstanding Shares**
First Financial Holdings, Ltd.[1] 800 Washington Ave. Waco, Texas 76701	102,898	25.6%
Harold E. Allison, III[2] 102 West Bluff Street Woodville, Texas 75979	102,898	25.6%
JRPM Investments, Ltd.[3] 800 Washington Ave. Waco, Texas 76701		