

FIRST FINANCIAL CORP /TX/
Form 10-Q
November 14, 2008

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 September 30, 2008

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 000-05559

First Financial Corporation

(Exact name of registrant 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)

Registrant's telephone number, including area code: (254) 757-2424

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, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of October 31, 2008, there were 402,058 shares of common stock outstanding.

FORM 10-Q

FIRST FINANCIAL CORPORATION

September 30, 2008

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Item 1. Financial
Statements

First Financial Corporation
Consolidated Balance Sheet

As of September 30, 2008 and December 31, 2007
(Unaudited)

| | <u>9/30/2008</u> | <u>12/31/2007</u> |
|--|------------------|-------------------|
| Assets | | |
| ----- | | |
| Cash and cash equivalents | \$ 14,099 | \$ 82,769 |
| Accounts receivable | 84,586 | 88,449 |
| Marketable investment securities | 746,403 | 1,371,507 |
| Mortgage loans | 1,780 | 5,080 |
| Property and equipment | - | 2,160 |
| Prepaid expense and other assets | 68,087 | 114,876 |
| Total Assets | \$ 914,955 | \$ 1,664,841 |
| Liabilities and Stockholders' Deficit | | |
| ----- | | |
| Notes payable | \$ 2,843,318 | \$ 2,464,970 |
| Accounts payable | 143,017 | 51,438 |
| Estimated reserve for indemnifications and early payment default losses | 3,916,875 | 4,332,843 |
| Accrued expenses and other liabilities | 216,309 | 124,721 |
| Total Liabilities | 7,119,519 | 6,973,972 |
| Stockholders' deficit: | | |
| Common stock - no par value; authorized 500,000 shares; issued 402,058 shares | 1,000 | 1,000 |
| Additional paid-in capital | 1,454,594 | 1,454,594 |
| Retained earnings | (8,051,751) | (7,767,269) |
| Accumulated other comprehensive income: | | |
| Unrealized gain (loss) on marketable securities, net of tax | 391,593 | 1,002,544 |
| | (6,204,563) | (5,309,131) |
| Less: Treasury stock - at cost | - | - |

| | | | | |
|--|----|-------------|----|-------------|
| Total Stockholders' Deficit | | (6,204,563) | | (5,309,131) |
| Total Liabilities and Stockholders' Deficit | \$ | 914,955 | \$ | 1,664,841 |

See accompanying notes to consolidated
financial statements.

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First Financial Corporation
Consolidated Statements of Income
Three months and nine months ended September 30, 2008 and 2007
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|----------------------------------|-------------------------------------|--------------------|------------------------------------|----------------------|
| | <u>2008</u> | <u>2007</u> | <u>2008</u> | <u>2007</u> |
| Revenues: | | | | |
| Loan administration | \$ 170 | \$ 300 | \$ 660 | \$ 8,285 |
| Interest income | 94 | 4,013 | 321 | 13,715 |
| Oil and gas royalties | 44,234 | 20,169 | 122,352 | 34,699 |
| Net gain from sale of securities | 26,230 | 35,265 | 56,332 | 84,448 |
| Other income | 0 | - | 545 | 9,226 |
| Total Revenues | 70,728 | 59,747 | 180,210 | 150,373 |
| Expenses: | | | | |
| Salaries and related expenses | 20,919 | 34,340 | 75,994 | 109,855 |
| Interest expense | 58,342 | 3,348 | 121,604 | 7,593 |
| Provision for loan losses | - 4,597 | 304,972 141,023 | - 267,091 | 1,050,153 425,773 |

Professional
fees and other
administrative
expenses

| | | | | |
|-------------------|--------|---------|---------|-----------|
| Total Expenses | 83,857 | 483,682 | 464,689 | 1,593,374 |
|-------------------|--------|---------|---------|-----------|

| | | | | |
|---|----------|-----------|-----------|-------------|
| Income (loss) before provision for income tax | (13,129) | (423,935) | (284,479) | (1,443,000) |
|---|----------|-----------|-----------|-------------|

| | | | | |
|----------------------------|---|---|---|---|
| Federal income taxes | - | - | - | - |
|----------------------------|---|---|---|---|

| | | | | |
|-------------------------|----------|-----------|-----------|-------------|
| Net income (loss) | (13,129) | (423,935) | (284,479) | (1,443,000) |
|-------------------------|----------|-----------|-----------|-------------|

Other
comprehensive
income:

| | | | | |
|---|--------|-----------|-----------|---------|
| Unrealized holding gains (losses) | 73,633 | (513,372) | (610,951) | 995,529 |
|---|--------|-----------|-----------|---------|

| | | | | |
|--------------------------------|-----------|--------------|--------------|--------------|
| Comprehensive income (loss) | \$ 60,504 | \$ (937,307) | \$ (895,430) | \$ (447,471) |
|--------------------------------|-----------|--------------|--------------|--------------|

| | | | | |
|----------------------------------|--------|----------|----------|----------|
| Income Per Common Share | \$0.15 | (\$2.33) | (\$2.23) | (\$1.11) |
|----------------------------------|--------|----------|----------|----------|

See accompanying
notes to consolidated
financial statements.

First Financial Corporation
Consolidated Statement of Cash Flows
Nine months ended September 30, 2008 and 2007
(Unaudited)

| | Nine Months Ended | |
|--|-------------------|---------------|
| | <u>2008</u> | <u>2007</u> |
| Cash flows from operating activities: | | |
| Net income (loss) | (\$284,479) | (\$1,443,000) |
| Adjustments to reconcile net income (loss) to net cash used by operating activities: | | |
| Depreciation | 2,160 | 14,944 |
| Provision for loan losses | (415,968) | 1,050,153 |
| Loan and insurance losses paid | - | 170,023 |
| Realized (gains) losses on marketable investment securities | (56,332) | (84,448) |
| Gain on sale of real estate held for investment | - | - |
| Net (increase) decrease in accounts receivable | 3,863 | 4,137 |
| Net (increase) decrease in other assets | 46,787 | 32,138 |
| Net increase (decrease) in accounts payable | 91,579 | (182,347) |
| Net increase (decrease) in other liabilities | 91,588 | 118,394 |
| Mortgage loans sold | - | 13,604 |
| Other | | 122 |
| Net cash provided (used) for operating activities | (520,802) | (306,279) |
| Cash flows from investing activities: | | |
| Net (increase) decrease in notes receivable | - | 75,000 |
| Proceeds from sale of marketable investment securities | 70,485 | 106,069 |

| | | |
|--|-----------|-----------|
| Purchases of marketable investment securities | - | (279,883) |
| Proceeds from sale of real estate held for investment | - | - |
| Purchase of property and equipment | - | - |
| Principal collections on mortgage loans | 3,300 | 3,902 |
| (Increase) decrease in deferred gain on sale of property & equipment | - | - |
| Net cash provided (used) for investing activities | 73,784 | (94,912) |
| Cash flows from financing activities: | | |
| Net change in short term borrowings | - | - |
| Proceeds from notes payable | 418,348 | 59,287 |
| Payments on notes payable | (40,000) | - |
| Proceeds from additional paid-in capital | - | - |
| Proceeds from sale of treasury stock | - | - |
| Net cash used for financing activities | 378,348 | 59,287 |
| Net increase (decrease) in cash and cash equivalents | (68,670) | (341,904) |
| Cash and cash equivalents at beginning of year | 82,769 | 463,031 |
| Cash and cash equivalents at end of period | \$14,099 | \$121,127 |
| Supplemental Disclosure of Cash Flow Information | | |
| Interest Paid | \$121,604 | \$7,593 |

See accompanying notes to consolidated financial statements.

FIRST FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

PART I FINANCIAL INFORMATION

1 - Basis of Presentation

The financial information included herein for First Financial Corporation, and all of its wholly owned subsidiaries (the "Company") is unaudited; however, such unaudited information reflects all adjustments which are, in management's opinion, necessary for a fair presentation of the financial position, results of operations and statement of cash flows for the interim periods, assuming that the Company will continue as a going concern. In preparing these financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenue and expense for the period. Actual results could differ significantly from those estimates.

The results of operations and changes in cash flow for the nine-month period ended September 30, 2008 are not necessarily indicative of the results to be expected for the full year or any future period.

Certain reclassifications were made to prior periods to ensure comparability with the current period.

2 Going Concern

The accompanying financial statements have been prepared assuming the Company will continue as a going concern. At September 30, 2008, the Company has unrestricted cash and cash equivalents of \$14,099 and an accumulated deficit of \$6.2 million. At December 31, 2007, the Company had cash and cash equivalents of \$82,769 and an accumulated deficit of \$5.3 million. The Company recorded a loss before provision for income tax of \$284,479 during the nine months ended September 30, 2008 and a net loss before income taxes of \$1.670 million during the year ended December 31, 2007.

First Preference Mortgage Corporation (FPMC), a wholly owned subsidiary of the Company that historically contributed over 90% to the Company's total revenue, had incurred net losses of \$1.65 million, \$4.4 million, and \$4.9 million for the years ended December 31, 2007, 2006, and 2005 respectively.

In 2005 and 2006, FPMC lost its sources of funding for its mortgage origination activities upon the termination of its mortgage warehouse line of credit and loan participation agreements with commercial banks and its ineligibility to participate in mortgage insurance programs sponsored by the Department of Housing and Urban Development (HUD).

Significant losses for the years ended December 31, 2007, 2006, 2005, and 2004, the inability of FPMC to fund new loan originations through a mortgage warehouse line or participation agreement, and FPMC's ineligibility to participate in HUD programs, create significant doubt about FPMC's and possibly the Company's ability to continue as a going concern. Management has discontinued the mortgage operation, the Company's and FPMC's only significant source of revenue, with no new mortgage loans being funded after April 28, 2006. The financial statements do not include any adjustments that might be necessary if FPMC or the Company is unable to continue as a going concern.

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 CMC's 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 (CSB) of which David W. Mann, the company's chief executive officer and controlling beneficial owner, is also chief executive officer and controlling beneficial owner.

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.

3 Notes Payable

During and prior to 2006, FPMC had agreements with CitiMortgage, Inc. (CitiMortgage), Washington Mutual Bank, F.A. (Washington Mutual) or the Department of Housing and Urban Development (HUD), under which mortgages originated by FPMC were sold to those parties. Amounts payable to CitiMortgage and Washington Mutual under these agreements have been reflected as notes payable on the Company's balance sheets and, because they were zero interest obligations the amounts were determined on a net present value basis. During the month of June 2006, and

subsequently, FPMC did not make payment to CitiMortgage, Washington Mutual or HUD as required by FPMC's agreements with those parties. The last payments made by FPMC under each of these agreements were remitted in May 2006. Upon FPMC's non-payment of the payments due after May 2006, FPMC raised the note payable balance to reflect the total of the future scheduled payments to CitiMortgage and Washington Mutual. This resulted in a total increase to notes payable in the amount of \$223,822. This increase was reflected in the previously reported amounts for June 2006.

On September 15, 2006, FPMC entered into a Release and Settlement Agreement with Washington Mutual. For consideration of \$65,000 paid by FPMC, Washington Mutual released FPMC of any claims, complaints, liabilities, obligations, promises, agreements, contracts and causes of action, against FPMC. Notes payable was decreased by \$685,000.

On August 28, 2006, 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 25, 2008, FPMC, David W. Mann, the President, Chief Executive Officer and beneficial owner of approximately 82.4% of the Company s outstanding shares, and CitiMortgage entered into a settlement agreement to resolve the litigation initiated by CitiMortgage. The settlement agreement provides for the entry of a consent judgment in favor of CitiMortgage against FPMC in the amount of \$2,500,000 and a stay of the action against the defendants. The consent judgment was entered by the court on March 27, 2008 and thereafter bears interest at a rate of 9% per year. The consent judgment is included in notes payable on the Company s September 30, 2008 balance sheet. The stay remained in effect until CitiMortgage received \$600,000 in two payments of \$300,000 each on March 31, 2008 and July 31, 2008, respectively, at which time the releases described below became effective.

The two \$300,000 payments were made by Mr. Mann and other entities of which he is a principal owner (other than the Company and its subsidiaries). Upon CitiMortgage s receipt of the second payment on July 31, 2008, CitiMortgage assigned the \$2,500,000 judgment against FPMC to Mr. Mann.

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. The \$2,500,000 consent judgment against FPMC, which was not released in the releases given by CitiMortgage, bears interest at the rate of 9% per annum from date of entry, is currently payable by FPMC and is enforceable by Mr. Mann against FPMC.

Pursuant to the judgment described above, the note payable to CitiMortgage recorded on FPMC s books was increased by \$415,968 to \$2,500,000 during the quarter ended March 31, 2008. The offset to this entry was a \$415,968

reduction of the estimated reserve for indemnifications and early payment default losses.

On March 28, 2007 JRPM loaned the Company \$110,000 in order to fund the Company's exercise of a warrant held by the Company to purchase 246,429 shares of Inspiration Mining Corporation (IMC) at a price of \$0.450 CAD per share, or \$.0389 USD per share. At the time of the loan the closing price of the IMC shares on the Toronto Stock Exchange was \$3.12 CAD per share, or \$2.69 USD per share. The \$110,000 loan is represented by a promissory note that bears interest at 9.5% per year, was originally payable in full as to principal and interest on July 25, 2007, and is secured by a pledge of 82,143 of the IMC shares. Through September 30, 2008, \$9,089.34 of interest and \$85,000 of principal have been paid on the note. On that date the principal balance of the note had been reduced to \$25,000 and the repayment date has been extended to January 19, 2009. Interest on the note continues to accrue at 9.5% per year.

4 - Authorized Shares

In an Amendment to the Articles of Incorporation dated August 22, 2008, the Company was given the authority to issue 2,000,000 shares of capital stock. As of the date of this report, the amendment has not been filed with the Texas Secretary of State; therefore, the number of authorized shares reflected on the balance sheet dated September 30, 2008 is 500,000.

5 - Earnings Per Share

Earnings per common share were computed by dividing net income by the weighted average number of shares outstanding during the period.

6 - Income Taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of the loan loss reserve for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred taxes also are recognized for operating losses that are available to offset future taxable income and tax credits that are available to offset future federal income taxes. As of December 31, 2007, the Company had

approximately \$18.2 million in available net operating loss carryforward benefits for financial statement purposes to offset future income, if any. A valuation allowance has been provided for all tax benefits; therefore, no asset is reflected on the Company's balance sheet for the net operating loss carryforward benefits.

7 - Contingencies

In the ordinary course of FPMC's mortgage business, prior to its discontinuance in April, 2006, FPMC sold loans to institutional investors without recourse that may have to be subsequently repurchased due to defects that occurred during the origination of the loan. In addition, mortgage loans sold to investors were subject to repurchase or indemnification if the loans became a specified number of months delinquent within a specified period of time after the loans were sold (i.e., early payment default). When a loan sold to an investor without recourse failed to perform, the investor would typically review the loan file to determine whether defects in the origination process occurred. If a defect was identified, FPMC would be required to either repurchase the loan or indemnify the investor for losses sustained. If there were no defects, FPMC had no commitment to repurchase the loan. FPMC has accrued for this potential loss exposure. At September 30, 2008, the estimated reserve for indemnifications and early payment default losses of the Company was \$3,916,875. The CitiMortgage litigation was dismissed in its entirety on November 4, 2008. The settlement is described further in Note 3.

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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 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

The Company had a net loss of \$284,479 for the nine months ended September 30, 2008 compared to a net loss of \$1,443,000 for the same period in 2007. The Company had a net loss of \$13,129 for the three months ended September 30, 2008 compared to a net loss of \$423,935 for the same period in 2007. The total expenses during the nine months ended September 30, 2008 were \$464,689 as compared to \$1,593,374 for the same period last year. The total expenses during the quarter ended September 30, 2008 were \$83,857 as compared to \$483,682 for the same period last year.

Loan administration revenues were \$660 for the first nine months of 2008 compared to \$8,285 for the same period of 2007. For the quarter ended September 30, 2008, loan administration revenues were \$170 compared to \$300 for the same period of 2007. Interest income for the nine months ended September 30, 2008 amounted to \$321 compared to \$13,715 for the same period in 2007. Interest income for the three months ended September 30, 2008 amounted to \$94 compared to \$4,013 for the same period in 2007. Because of the discontinuance of FPMC's mortgage operations, the Company's loan administration revenues and interest income will continue to be insignificant.

Oil and gas royalties for the nine months ended September 30, 2008 amounted to \$122,352 compared to \$34,699 for the same period in 2007. Oil and gas royalties for the quarter ended September 30, 2008 amounted to \$44,234 compared to \$20,169 for the same period in 2007. The Company received a \$60,020 oil and gas lease bonus in the first quarter of 2008. Oil and gas royalties fluctuate with oil and gas prices and the amount of production from the properties covered by the royalties. The lease bonus is not expected to recur.

Net gain from sale of securities for the nine months ended September 30, 2008 was \$56,332 compared to \$84,448 for the same period in 2007. For the quarter ended September 30, 2008, net gain from sale of securities was \$26,230 compared to \$35,265 for the same period in 2007.

Other income for the nine months ended September 30, 2008 was \$545 compared to \$9,226 for the same period in 2007. For the quarters ended September 30, 2008 and September 30, 2007, other income was zero.

Other comprehensive income consists of unrealized holding gains (losses) on marketable investment securities.

Unrealized holding losses for the nine months ended September 30, 2008 amounted to \$610,951 compared to gains of \$995,529 for the same period in 2007. For the three months ended September 30, 2008, unrealized holding gains amounted to \$73,633 compared to losses of \$513,372 for the same period in 2007. Most of the volatility is attributable to the change in the market value of shares of stock of a Canadian mining company, Inspiration Mining Corporation (ISM), which is traded on the Toronto Stock Exchange.

Salaries and related expenses decreased to \$75,994 for the nine months ended September 30, 2008 compared to \$109,855 for the same period in 2007. Salaries and related expenses were \$20,919 for the quarter ended September 30, 2008 compared to \$34,340 for the same period in 2007.

Interest expense for the nine months ended September 30, 2008 was \$121,604 compared to \$7,593 for the same time period in 2007. Interest expense for the quarter ended September 30, 2008 was \$58,342 compared to \$3,348 for the same time 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 Note 3 to the financial statements filed with this report. The judgment bears interest at a rate of 9% per year.

Professional fees and other administrative expenses for the nine months ended September 30, 2008 amounted to \$267,091 compared to \$425,773 for the same period in 2007. Professional fees and other administrative expenses for the three months ended September 30, 2008 amounted to \$4,597 compared to \$141,023 for the same period in 2007.

During the nine months ended September 30, 2008, FPMC did not record a provision for loan losses, indemnifications and early default losses. During the nine months ended September 30, 2007, FPMC increased its provision for loan losses, indemnifications and early default losses by \$1,050,153, resulting in a charge against income in that amount. At September 30, 2008, the reserve for loan losses amounted to \$3,916,875 compared to \$4,340,457 at September 30, 2007. During the quarter ended March 31, 2008, the note payable to CitiMortgage recorded on FPMC's books was increased by \$415,968 and the offset was recorded to the reserve for loan losses causing the reserve to decrease from September 30, 2007 to September 30, 2008. FPMC is at risk under certain of its agreements with private investors and HUD for credit losses and cost of foreclosure on default of the borrower. FPMC calculates the loan loss reserve based on historical loan losses, current claims against FPMC, and recoverability of losses under FPMC's Errors and Omissions insurance policy as well as other factors.

Financial Condition

At September 30, 2008, the Company's total assets were \$914,955 compared to \$1,664,841 at December 31, 2007 and \$2,671,838 at September 30, 2007. The decrease in total assets is primarily due to the decreased value of marketable investment securities of \$625,104 and \$1,376,277 compared to December 31, 2007 and September 30, 2007, respectively. The decrease in cash and cash equivalents of \$68,670 and \$107,028 compared to December 31, 2007 and September 30, 2007, respectively also contributed to the decrease in total assets. There was also a decrease in the note receivable balance of \$180,000 since September 30, 2007 due to the payoff of the note receivable from CMC described under Note 2. The Company's primary source of potential value is its net operating loss carryforward in the amount of approximately \$18.2 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. As reflected in the financial statements, the stockholders' deficit of the Company was \$6,204,563 at September 30, 2008, \$5,309,131 at December 31, 2007, and \$4,314,946 at September 30, 2007.

Liquidity and Capital Resources

As of April 28, 2006, FPMC's mortgage operations, its primary source of revenue ceased. Further discussion can be found under "Liquidity and Capital Resources" in the 10-KSB filed by the Company on April 16, 2007 for the year ended December 31, 2006.

On a consolidated basis, cash and cash equivalents were \$14,099 at September 30, 2008. On that date the Company had an accumulated deficit (that is, total liabilities in excess of total assets) of approximately \$6.2 million.

At this time, management does not intend to cause the Company or FPMC to seek protection under the bankruptcy laws, but intends to seek settlements with creditors, to the extent that such settlements are in the best interest of the Company, as part of the orderly winding down of FPMC's business. FPMC has reached settlements with Washington Mutual and has settled the litigation with CitiMortgage, as reported in Note 3 to the financial statements filed with this report. If its other creditors can be satisfied, FPMC 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 FPMC, the Company or both may have to seek protection under the bankruptcy laws or may be forced into involuntary bankruptcy by creditors. If that occurs, the Company's common stock would be likely to have no value.

Forward-looking Information

Certain statements made above and elsewhere in this Form 10-Q constitute forward-looking statements, including but not limited to those identified by the words expect, believe, seek to, intend, will, possible, may and similar that are attributed 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 in the forward-looking statements as a result of various factors, including but not limited to the value that can be obtained from the sale of the Company's mortgage operations and Company assets and the terms on which creditors will agree to be repaid.

Item 3. Controls and Procedures

The Company evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of September 30, 2008. The evaluation was carried out under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer. Based on the evaluation, Mr. Mann, the Chief Executive Officer and the Chief Financial Officer, concluded that the design and operation of the Company's disclosure controls and procedures are effective in providing assurance that information required to be disclosed by the Company in the reports that it files or submits to the Securities and Exchange Commission under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to management as appropriate to allow timely decisions regarding disclosure. There have been no changes during the fiscal quarter ended September 30, 2008 in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

FPMC's litigation and recent settlement with CitiMortgage is reported in Note 3 to the financial statements filed with this report. In addition, the Company is also 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 3. Defaults Upon Senior Securities

Information is contained in Note 3 to the financial statements filed with this report as to the default by FPMC upon its obligations to CitiMortgage, the settlement of the CitiMortgage litigation and the consent judgment in the amount of \$2,500,000 entered in that litigation in favor of CitiMortgage and assigned to Mr. David Mann. FPMC is in default of its obligations to pay the principal amount of the consent judgment and interest accrued thereon.

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

The annual meeting of shareholders was held on August 21, 2008, in connection with which an Information Statement dated July 22, 2008 was furnished to the shareholders of record. All directors of the Company were elected at the meeting. The matters submitted to a vote of shareholders the annual meeting and the results of each vote are shown below.

| Matter | For | Against | Withheld | Abstain | Non-Vote |
|---|---------|---------|----------|---------|----------|
| Election of Directors | | | | | |
| David W. Mann | 331,428 | - | - | - | - |
| James Lee Motheral | 331,428 | - | - | - | - |
| Dr. Raymond A. Parker | 331,428 | - | - | - | - |
| Joseph Edward Walker | 331,428 | - | - | - | - |
| Approval of Amendment to Company's Articles of Incorporation increasing the number of authorized shares of common stock to 2,000,000. | 331,428 | - | - | - | - |
| Ratification of Pattillo, Brown & Hill, L.L.P., as the Company's independent accountants. | 331,428 | - | - | - | - |

Item 6. Exhibits

Exhibit 3.1 Restated Articles of Incorporation of First Financial Corporation (incorporated by reference to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002); Amendment to Articles of Incorporation filed herewith.

Exhibit 3.2 Amended and Restated Bylaws of First Financial Corporation (incorporated by reference to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 2002).

Exhibit 10.2 Memorandum of Asset Purchase between First Preference Mortgage Corp. and Citizens Mortgage Corp. dated December 1, 2006 (incorporated by reference to the Company's Annual Report on form 10-KSB/A for fiscal year ended December 31, 2006.)

Exhibit 10.3 Settlement Agreement and Mutual Release entered into March 28, 2008, by and among CitiMortgage, Inc., First Preference Mortgage Corporation and David W. Mann (incorporated by reference to the Company's Annual Report on form 10-KSB for fiscal year ended December 31, 2007).

Exhibit 31.1 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 filed herewith.

Exhibit 32.1 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 filed herewith.

SIGNATURES

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

First Financial Corporation

Date November 14, 2008

/s/ David W. Mann

David W. Mann
President
Duly Authorized Officer and
Principal Financial Officer

(Remainder of page purposely left blank.)

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