

FIRST FINANCIAL CORP /TX/
Form 10QSB
August 18, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-QSB

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

For the quarterly period ended June 30, 2006

TRANSITION REPORT UNDER SECTION 13 OR 15(D) ON THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number 0-5559

FIRST FINANCIAL CORPORATION

(Exact 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
(Address of principal executive offices)

76701
(Zip Code)

Issuer's telephone number (254) 757-2424

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 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 shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

Number of shares of the Issuer's Common Stock outstanding on July 31, 2006 was 173,528.

Transitional Small Business Disclosure Format (check one) Yes No

FORM 10-QSB

FIRST FINANCIAL CORPORATION
June 30, 2006

INDEX

Part I Financial Information	<u>Page No.</u>
Item 1. Financial Statements	
<u>Consolidated Balance Sheet as of</u> June 30, 2006	1
<u>Consolidated Statements of Income</u> for the Six-Months ended June 30, 2006 and 2005	2
<u>Consolidated Statements of Cash</u> Flow for the Six-Months ended June 30, 2006 and 2005	3
<u>Notes to Consolidated Financial</u> Statements	4
<u>Item 2. Management's Discussion and Analysis</u> Or Plan of Operation	7
<u>Item 3. Controls and Procedures</u>	12
Part II Other Information	
<u>Item 1. Legal Proceedings</u>	12
<u>Item 6. Exhibits and Reports on Form 8-K</u>	13

First Financial Corporation
Consolidated Balance Sheet
June 30, 2006
(Unaudited)

Assets		

Cash and cash equivalents	\$	248,780
Restricted cash		-
Accounts receivable, net of allowance for doubtful accounts of \$148,848		19,985
Marketable investment securities		385,564
Restricted marketable investment securities		-
Real estate held for investment, at cost		-
Mortgage loans		108,004
Property and equipment		138,714
Other assets		205,914
Total Assets	\$	1,106,961
Liabilities and Stockholders' Deficit		

Notes on line of credit	\$	0
Note payable		3,426,931
Accounts payable		349,982
Estimated reserve for indemnifications and early payment default losses		2,595,377
Estimated reserve for losses under servicing agreements		-
Estimated reserve for losses under insurance policies		-
Other liabilities		215,462
Total Liabilities		6,587,752
Stockholders' deficit:		
Common stock - no par value; authorized 500,000 shares; issued 183,750 shares, of which 10,222 shares are held in treasury shares		1,000
Additional paid-in capital		518,702
Retained earnings		(6,162,732)
Accumulated other comprehensive income:		
Unrealized gain (loss) on marketable securities, net of tax		197,548
		(5,445,482)
Less: Treasury stock - at cost		(35,309)
Total Stockholders' Deficit		(5,480,791)
Total Liabilities and Stockholders' Deficit	\$	1,106,961
See accompanying notes to consolidated financial statements.		

First Financial Corporation
Consolidated Statements of Income
Three months and Six months ended June 30, 2006 and 2005
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Revenues:				
Loan administration	\$326,087	\$1,228,980	\$1,101,461	\$2,313,504
Interest income	1,115	304,079	5,764	651,037
Other income	1,061,931	216,866	1,316,332	548,604
Total Revenues	1,389,133	1,749,925	2,423,557	3,513,145
Expenses:				
Salaries and related expenses	354,151	1,190,021	1,329,218	2,329,344
Interest expense	38,577	276,689	114,328	592,167
Provision for Loan Losses	1,704,067	639,432	1,712,845	655,008
Impairment of Assets	807,237	-	807,237	-
Other operating expenses	1,074,983	858,015	1,803,543	1,646,280
Total Expenses	3,979,015	2,964,157	5,767,171	5,222,799
Income (loss) before income taxes,	(2,589,882)	(1,214,232)	(3,343,614)	(1,709,654)
Federal income taxes	64	-	64	-
Net income (loss)	(2,589,946)	(1,214,232)	(3,343,678)	(1,709,654)
Other comprehensive				

income:				
Unrealized holding gains (losses)	183,301	(6,068)	196,169	(20,395)
Comprehensive income (loss)	\$(2,406,645)	\$(1,220,300)	\$(3,147,509)	\$(1,730,049)
Income Per Common Share	(\$13.87)	(\$7.05)	(\$18.14)	(\$9.97)

See accompanying notes to consolidated financial statements.

First Financial Corporation
Consolidated Statement of Cash Flows
(Unaudited)

	Six Months Ended	
	2006	2005
Cash flows from operating activities:		
Net income (loss)	(\$3,343,678)	(\$1,709,654)
Adjustments to reconcile net income(loss) to net cash used by operating activities:		
Depreciation	1,285,455	195,431
Provision for loan losses	1,340,045	655,008
Loan and insurance losses paid	(1,188,551)	(360,479)
Realized (gains) losses on marketable investment securities	(11,669)	(7,272)
Gain on sale of real estate held for investment	(696,164)	-
Net (increase) decrease in accounts receivable	152,011	(9,636)
Net (increase) decrease in other assets	317,318	42,700
Net increase (decrease) in accounts payable	(47,547)	21,600
Net increase (decrease) in reserve for losses under insurance policies	-	(308,696)
Net increase (decrease) in other liabilities	(278,789)	(191,310)
(Increase) decrease in restricted cash used in operating activities - net	-	479,495
Mortgage loans funded	(70,392,273)	(164,464,166)
Mortgage loans sold	86,221,199	173,217,243
Increase (decrease) in mortgage loans participations sold	(15,670,637)	(1,850,227)
Other	6,073	3,822
Net cash provided (used) for operating activities	(2,307,206)	5,713,859
Cash flows from investing activities:		
Proceeds from sale of marketable investment securities	61,669	1,943,694
Purchases of marketable investment securities	(136,669)	(904,648)
Unrealized holding (gain) loss	(102,435)	(20,395)
Proceeds from sale of real estate held for investment	1,250,000	-
Purchase of property and equipment	(78,258)	(108,245)
Principal collections on mortgage loans	14,727	7,253
(Increase) decrease in deferred gain on sale of property & equipment	-	87,559
Net cash provided (used) for investing activities	1,009,034	1,005,218
Cash flows from financing activities:		
Net change in short term borrowings		(6,712,993)
Proceeds from notes payable	1,138,343	-
Payments on notes payable	(1,145,878)	-

BMO Capital Markets Corp. is an affiliate of Bank of Montreal, and, as such, has a conflict of interest in this offering within the meaning of FINRA Rule 5121. Consequently, the offering is being conducted in compliance with the provisions of Rule 5121. BMO Capital Markets Corp. is not permitted to sell Notes in this offering to an account over which it exercises discretionary authority without the prior specific written approval of the account holder.

Trustee Conflict of Interest

Edgar Filing: FIRST FINANCIAL CORP /TX/ - Form 10QSB

Wells Fargo Securities, LLC, an affiliate of the trustee, is an underwriter for this offering. Therefore, if a default occurs with respect to the Notes, the trustee would have a conflicting interest for purposes of the Trust Indenture Act of 1939. In that event, except in very limited circumstances, the trustee would be required to resign as trustee under the senior indenture under which the Notes are being issued and we would be required to appoint a successor trustee. If the trustee resigns following a default, it may be difficult to identify and appoint a qualified successor trustee. The trustee will remain the trustee under the senior indenture until a successor is appointed. During the period of time until a successor is appointed, the trustee will have both (a) duties to noteholders under the senior indenture and (b) a conflicting interest under the senior indenture for purposes of the Trust Indenture Act.

Selling Restrictions

The Notes are being offered for sale in jurisdictions in the United States and outside the United States where it is legal to make such offers. The underwriters have represented and agreed that they have not offered, sold or delivered, and will not offer, sell or deliver, any of the Notes, directly or indirectly, or distribute this pricing supplement, the accompanying prospectus supplement or the accompanying prospectus or any other material relating to the Notes, in or from any jurisdiction except under circumstances that will result in compliance with the applicable laws and regulations thereof, and will not impose any obligations on Bank of Montreal except as set forth in the Terms Agreement.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), an offer to the public of any Notes may not be made in that Relevant

PS-14

Table of Contents

Member State except that an offer to the public in that Relevant Member State of any Notes may be made (and this pricing supplement, the accompanying prospectus supplement and the accompanying prospectus distributed), at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than EUR43,000,000; and (3) an annual net turnover of more than EUR50,000,000, as shown in its last annual or consolidated accounts;

(c) to fewer than 100, or if the Relevant Member State has implemented the relevant provisions of the 2010 PD Amending Directive, 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant underwriters or underwriters nominated by the Bank for any such offer; or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Notes referred to in (a) to (d) above shall require the Bank or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

Each purchaser of the Notes described in this pricing supplement located in a Relevant Member State who receives any communication in respect of, or who acquires any Notes under, the offer contemplated in this pricing supplement will be deemed to have represented, warranted and agreed with each underwriter and Bank of Montreal that (a) it is a qualified investor within the meaning of Article 2(1)(e) of the Prospectus Directive and (b) in the case of any Notes acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the Notes acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State, other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the underwriters has been given to the offer or resale; or (ii) where the Notes have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of such Notes to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this provision, the expression an offer of Notes to the public in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and the expression Prospectus Directive means Directive 2003/71/EC and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State and includes any relevant implementing measure in each Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

United Kingdom

In relation to anything to be done in the United Kingdom:

(a) this pricing supplement, the accompanying prospectus supplement and the accompanying prospectus have only been communicated and will only be communicated in circumstances in which section 21(1) of the Financial Services and Markets Act 2000 (the FSMA) does not apply to the Bank; and

(b) each person involved in the issue of the Notes has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Notes in, from or otherwise involving the United Kingdom.

PS-15

Table of Contents

Hong Kong

The Notes may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), or (ii) to professional investors within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a prospectus within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to professional investors within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the Financial Instruments and Exchange Law) and each underwriter has agreed that it will not offer or sell any securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Singapore

This pricing supplement has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this pricing supplement and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes may not be circulated or distributed, nor may the Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the SFA), (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 by a relevant person which is: (a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the Notes under Section 275 except: (1) to an institutional investor under Section 274 of the SFA or to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA; (2) where no consideration is given for the transfer; or (3) by operation of law.

VALIDITY OF THE NOTES

The validity of the Notes will be passed upon for us by Osler, Hoskin & Harcourt LLP, Toronto, Ontario, as to matters of Canadian law and applicable matters of Ontario law, and by Sullivan & Cromwell LLP, New York, New York, as to matters of New York law. The underwriters have been represented by Shearman & Sterling LLP, Toronto, Ontario.

Table of Contents

US\$

Senior Medium-Term Notes, Series B

consisting of

US\$ % Senior Notes due

US\$ Floating Rate Notes due

Pricing Supplement

BMO Capital Markets

Morgan Stanley

BofA Merrill Lynch

Wells Fargo Securities