

FIRST FINANCIAL CORP /IN/

Form 10-Q

November 07, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q  
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For The Quarterly Period Ended September 30, 2007  
Commission File Number 0-16759  
**FIRST FINANCIAL CORPORATION**  
(Exact name of registrant as specified in its charter)**

INDIANA	35-1546989
(State or other jurisdiction incorporation or organization)	(I.R.S. Employer Identification No.)
One First Financial Plaza, Terre Haute, IN	47807
(Address of principal executive office)	(Zip Code)
(812)238-6000	
(Registrant's telephone number, including area code)	

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 period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):  
Large accelerated filer  Accelerated filer  Non-accelerated filer .

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

As of November 5, 2007, the Registrant had outstanding 13,105,359 shares of common stock, without par value.

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## Item 1. Financial Statements

**FIRST FINANCIAL CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(Dollar amounts in thousand, except per share data)

	September 30, 2007 (Unaudited)	December 31, 2006
<b>ASSETS</b>		
Cash and due from banks	\$ 59,090	\$ 77,682
Federal funds sold and short-term investments	725	21,437
Securities available-for-sale	600,574	559,053
Loans:		
Commercial, financial and agricultural	435,822	407,995
Real estate construction	30,271	33,336
Real estate mortgage	687,307	691,989
Installment	273,074	257,065
Lease financing	2,330	2,604
	1,428,804	1,392,989
Less:		
Unearned income	(227)	(234)
Allowance for loan losses	(15,507)	(16,169)
	1,413,070	1,376,586
Accrued interest receivable	14,051	13,972
Premises and equipment, net	32,640	33,267
Bank-owned life insurance	59,438	57,905
Goodwill	7,102	7,102
Other intangible assets	2,044	2,363
Other real estate owned	1,681	3,194
Other assets	26,091	23,437
<b>TOTAL ASSETS</b>	<b>\$ 2,216,506</b>	<b>\$ 2,175,998</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Deposits:		
Noninterest-bearing	\$ 227,303	\$ 227,808
Interest-bearing:		
Certificates of deposit of \$100 or more	206,687	189,323
Other interest-bearing deposits	1,061,951	1,085,551
	1,495,941	1,502,682
Short-term borrowings	59,364	16,203

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Other borrowings	341,048	341,805
Other liabilities	41,745	44,048
<b>TOTAL LIABILITIES</b>	<b>1,938,098</b>	<b>1,904,738</b>
Shareholders' equity		
Common stock, \$.125 stated value per share;		
Authorized shares-40,000,000		
Issued shares-14,450,966		
Outstanding shares-13,105,359 in 2007 and 13,270,321 in 2006	1,806	1,806
Additional paid-in capital	68,003	68,003
Retained earnings	249,414	235,967
Accumulated other comprehensive income (loss)	(6,905)	(5,494)
Treasury shares at cost-1,345,607 in 2007 and 1,180,645 in 2006	(33,910)	(29,022)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>278,408</b>	<b>271,260</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 2,216,506</b>	<b>\$ 2,175,998</b>

See accompanying notes.

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**FIRST FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**  
(Dollar amounts in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(Unaudited)		(Unaudited)	
<b>INTEREST INCOME:</b>				
Loans, including related fees	\$ 26,661	\$ 25,390	\$ 78,263	\$ 74,203
Securities:				
Taxable	5,957	5,488	17,405	16,355
Tax-exempt	1,694	1,578	4,876	4,651
Other	603	556	2,197	2,003
<b>TOTAL INTEREST INCOME</b>	<b>34,915</b>	<b>33,012</b>	<b>102,741</b>	<b>97,212</b>
<b>INTEREST EXPENSE:</b>				
Deposits	10,676	9,693	31,265	27,251
Short-term borrowings	499	254	1,180	539
Other borrowings	4,991	4,821	14,525	14,271
<b>TOTAL INTEREST EXPENSE</b>	<b>16,166</b>	<b>14,768</b>	<b>46,970</b>	<b>42,061</b>
<b>NET INTEREST INCOME</b>	<b>18,749</b>	<b>18,244</b>	<b>55,771</b>	<b>55,151</b>
Provision for loan losses	1,575	2,495	4,505	5,343
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>17,174</b>	<b>15,749</b>	<b>51,266</b>	<b>49,808</b>
<b>NON-INTEREST INCOME:</b>				
Trust department income	926	1,021	2,846	2,938
Service charges and fees on deposit accounts	3,062	2,941	8,803	8,777
Other service charges and fees	1,492	1,325	4,259	3,952
Securities gains/(losses), net		(1)	20	8
Insurance commissions	1,715	1,608	4,659	4,461
Gain on sale of mortgage loans	211	26	615	180
Other	429	144	2,309	1,376
<b>TOTAL NON-INTEREST INCOME</b>	<b>7,835</b>	<b>7,064</b>	<b>23,511</b>	<b>21,692</b>
<b>NON-INTEREST EXPENSES:</b>				
Salaries and employee benefits	9,606	10,178	29,173	30,741

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Occupancy expense	1,003	983	3,074	2,868
Equipment expense	1,078	1,043	3,245	3,211
Other	4,441	3,466	12,802	11,277
<b>TOTAL NON-INTEREST EXPENSE</b>	<b>16,128</b>	<b>15,670</b>	<b>48,294</b>	<b>48,097</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>8,881</b>	<b>7,143</b>	<b>26,483</b>	<b>23,403</b>
Provision for income taxes	2,519	1,688	7,285	6,014
<b>NET INCOME</b>	<b>\$ 6,362</b>	<b>\$ 5,455</b>	<b>\$ 19,198</b>	<b>\$ 17,389</b>
<b>PER SHARE DATA:</b>				
Basic and Diluted	\$ 0.48	\$ 0.41	\$ 1.45	\$ 1.31
Dividends per share	\$	\$	\$ 0.43	\$ 0.42
Weighted average number of shares outstanding (in thousands)	13,136	13,261	13,195	13,302

See accompanying notes



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FIRST FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY  
Nine Months Ended  
September 30, 2007 and 2006  
(Dollar amounts in thousands, except per share data)  
(Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
Balance, January 1, 2007	\$ 1,806	\$ 68,003	\$ 235,967	\$ (5,494)	\$ (29,022)	\$ 271,260
Comprehensive income:						
Net income			19,198			19,198
Change in net unrealized gains/(losses) on securities available-for-sale				(1,951)		(1,951)
Change in Pension Liability				540		540
Total comprehensive income/(loss)						17,787
Adoption of FIN 48			(86)			(86)
Cash dividends, \$.43 per share			(5,665)			(5,665)
Treasury stock purchases					(4,888)	(4,888)
Balance, September 30, 2007	\$ 1,806	\$ 68,003	\$ 249,414	\$ (6,905)	\$ (33,910)	\$ 278,408
Balance, January 1, 2006	\$ 1,806	\$ 67,670	\$ 223,710	\$ 1,903	\$ (25,766)	\$ 269,323
Comprehensive income:						
Net income			17,389			17,389
Change in net unrealized gains/(losses) on securities available-for-sale				(226)		(226)
Total comprehensive income/(loss)						17,163
Cash dividends, \$.42 per share			(5,573)			(5,573)
Treasury stock purchases					(3,422)	(3,422)

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Balance, September 30, 2006	\$ 1,806	\$ 67,670	\$ 235,526	\$ 1,677	\$ (29,188)	\$ 277,491
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See accompanying notes.

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FIRST FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
Three Months Ended  
September 30, 2007, and 2006  
(Dollar amounts in thousands, except per share data)  
(Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/ (Loss)	Treasury Stock	Total
Balance, July 1, 2007	\$ 1,806	\$ 68,003	\$ 243,052	\$ (10,723)	\$ (32,343)	\$ 269,795
Comprehensive income:			6,362			6,362
Change in net unrealized gains/(losses) on securities available-for-sale				3,708		3,708
Change in Pension Liability				110		110
Total comprehensive income/(loss)						10,180
Treasury stock purchases					(1,567)	(1,567)
Balance, September 30, 2007	\$ 1,806	\$ 68,003	\$ 249,414	\$ (6,905)	\$ (33,910)	\$ 278,408
Balance, July 1, 2006	\$ 1,806	\$ 67,670	\$ 230,071	\$ (3,632)	\$ (28,839)	\$ 267,076
Comprehensive income:						
Net income			5,455			5,455
Change in net unrealized gains/(losses) on securities available-for-sale				5,309		5,309
Total comprehensive income/(loss)						10,764
Treasury stock purchases					(349)	(349)
Balance, September 30, 2006	\$ 1,806	\$ 67,670	\$ 235,526	\$ 1,677	\$ (29,188)	\$ 277,491

See accompanying notes.



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FIRST FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Dollar amounts in thousands, except per share data)

	Nine Months Ended September 30, 2007                      2006 (Unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 19,198	\$ 17,389
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization (accretion) of premiums and discounts on investments	(1,941)	(1,894)
Provision for loan losses	4,505	5,343
Securities (gains) losses	(20)	(8)
Gain on sale of other real estate	(163)	
Depreciation and amortization	2,600	2,646
Other, net	(5,497)	(478)
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<b>18,682</b>	<b>22,998</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sales of securities available-for-sale	2,939	737
Calls, maturities and principal reductions on securities available-for-sale	67,929	124,118
Purchases of securities available-for-sale	(113,680)	(144,942)
Loans made to customers, net of repayments	(47,987)	(6,257)
Proceeds from sales of other real estate owned	3,400	
Net change in federal funds sold	20,712	2,902
Additions to premises and equipment	(1,654)	(2,257)
<b>NET CASH FROM INVESTING ACTIVITIES</b>	<b>(62,341)</b>	<b>(25,699)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net change in deposits	(6,741)	12,684
Net change in short-term borrowings	43,161	(9,210)
Dividends paid	(5,708)	(5,603)
Purchase of treasury stock	(4,888)	(3,422)
Proceeds for other borrowings	81,000	
Repayments on other borrowings	(81,757)	(2,049)
<b>NET CASH FROM FINANCING ACTIVITIES</b>	<b>25,067</b>	<b>(7,600)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(18,592)</b>	<b>(10,301)</b>

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	77,682	78,201
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 59,090	\$ 67,900

See accompanying notes.

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**FIRST FINANCIAL CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The accompanying September 30, 2007 and 2006 consolidated financial statements are unaudited. The December 31, 2006 consolidated financial statements are as reported in the First Financial Corporation (the Corporation) 2006 annual report. The information presented does not include all information and footnotes required by U.S. generally accepted accounting procedures for complete financial statements. The following notes should be read together with notes to the consolidated financial statements included in the 2006 annual report filed with the Securities and Exchange Commission as an exhibit to Form 10-K.

1. The significant accounting policies followed by the Corporation and its subsidiaries for interim financial reporting are consistent with the accounting policies followed for annual financial reporting. All adjustments, which are, in the opinion of management, necessary for a fair statement of the results for the periods reported have been included in the accompanying consolidated financial statements and are of a normal recurring nature. The Corporation reports financial information for only one segment, banking. Some items in the prior year financials were reclassified to conform to the current presentation.

2. A loan is considered to be impaired when, based upon current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan. Impairment is primarily measured based on the fair value of the loan's collateral. The following table summarizes impaired loan information:

	(000 s)	
	September 30, 2007	December 31, 2006
Impaired loans with no related allowance for loan losses	\$	\$ 503
Impaired loans with related allowance for loan losses calculated under SFAS No. 114	\$ 2,737	4,865
	\$ 2,737	\$ 5,368

Interest payments on impaired loans are typically applied to principal unless collection of the principal amount is deemed to be fully assured, in which case interest is recognized on a cash basis.

### 3. Securities

The amortized cost and fair value of the Corporation's investments are shown below. All securities are classified as available-for-sale.

	(000 s)		(000 s)	
	September 30, 2007		December 31, 2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
United States Government entity mortgage-backed securities	\$ 350,934	\$ 347,090	\$ 334,383	\$ 330,846
Collateralized Mortgage Obligations	26,418	26,263	9,935	9,970
State and Municipal Obligations	149,390	151,651	136,124	140,070
Corporate Obligations	67,299	67,370	68,952	69,472
Equity Securities	4,678	8,200	4,556	8,695

\$ 598,719    \$ 600,574    \$ 553,950    \$ 559,053

4. Short-Term Borrowings

Period end short-term borrowings were comprised of the following:

	(000 s)	
	September 30, 2007	December 31, 2006
Federal Funds Purchased	\$ 35,013	\$ 10,179
Repurchase Agreements	22,672	5,407
Note Payable - U.S. Government	1,679	617
	\$ 59,364	\$ 16,203



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Other borrowings at period-end are summarized as follows:

	(000 s)	
	September 30, 2007	December 31, 2006
FHLB advances	\$ 334,448	\$ 335,205
City of Terre Haute, Indiana economic development revenue bonds	6,600	6,600
	\$ 341,048	\$ 341,805

**6. Components of Net Periodic Benefit Cost**

	Three Months ended September 30				Nine Months ended September 30,			
	(000 s)				(000 s)			
	Pension Benefits		Post-Retirement Health Benefits		Pension Benefits		Post-Retirement Health Benefits	
	2007	2006	2007	2006	2007	2006	2007	2006
Service cost	\$ 787	\$ 751	\$ 29	\$ 29	\$ 2,361	\$ 2,254	\$ 88	\$ 87
Interest cost	704	593	78	75	2,113	1,780	234	226
Expected return on plan assets	(911)	(698)			(2,733)	(2,095)		
Amortization of transition obligation			15	15			45	45
Amortization of prior service cost	14	14			42	42		
Amortization of net (gain) loss	111	191	43	60	334	572	129	180
Net Periodic Benefit Cost	\$ 705	\$ 851	\$ 165	\$ 179	\$ 2,117	\$ 2,553	\$ 496	\$ 538

**Employer Contributions**

First Financial Corporation previously disclosed in its financial statements for the year ended December 31, 2006 that it expected to contribute \$1.8 and \$1.2 million respectively to its Pension Plan and ESOP and \$319,000 to the Post Retirement Health Benefits Plan in 2007. Plan changes to the Post Retirement Health Benefits Plan have reduced the expected contributions for 2007 to \$180,000. First Financial Corporation still anticipates contributing \$1.8 and \$1.2 million respectively to its Pension Plan and ESOP in 2007. Contributions of \$132 thousand have been made through the first nine months of 2007 for the Post Retirement Health Benefits plan.

**7. New accounting standards**

We adopted the provisions of Financial Accounting Standards Board ( FASB ) Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 ( FIN 48 ), on January 1, 2007. The adoption of Fin 48 was recognized as a cumulative effect adjustment, reducing retained earnings and increasing liabilities by \$86 thousand on January 1, 2007.

The amount of unrecognized tax benefits as of January 1, 2007 totaled \$588, which would increase income from continuing operations, and thus impact the Company's effective tax rate, if ultimately recognized into income. Unrecognized state income tax benefits are reported net of their related deferred federal income tax benefit.

It is the Company's policy to recognize interest and penalties related to uncertain tax positions in income tax expense, and interest was accrued and included in the \$588 amount above as of January 1, 2007. There were no material changes in unrecognized tax positions as of September 30, 2007.

The Company and its subsidiaries file a consolidated U.S. federal income tax return and combined returns in the state of Indiana and Illinois. These returns are subject to examination by taxing authorities for years after 2002. We are currently under audit by the Internal Revenue Service for the 2004 and 2005 tax years. The anticipated effect on unrecognized tax benefits resulting from this audit cannot be determined at this time.

Additionally, the Company anticipates that the statute of limitations will close during 2007 on a tax position taken in the federal income tax return. Should this statute close on the position as taken in the return, the Company will recognize these tax benefits, which will reduce income tax expense by an immaterial amount.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The new standard is effective for the Corporation on January 1, 2008. The Corporation has not completed its evaluation of the impact of adoption of SFAS No. 159 but currently does not expect the adoption to have a material impact on its financial statements.

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In September 2006, the FASB issued Statement No. 157, Fair Value Measurements. This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. The Company has not completed its evaluation of the impact of the adoption of this standard.

### **ITEMS 2. and 3. Management's Discussion and Analysis of Financial Condition and Results of Operations and Quantitative and Qualitative Disclosures About Market Risk**

The purpose of this discussion is to point out key factors in the Corporation's recent performance compared with earlier periods. The discussion should be read in conjunction with the financial statements beginning on page three of this report. All figures are for the consolidated entities. It is presumed the readers of these financial statements and of the following narrative have previously read the Corporation's annual report for 2006.

This Quarterly Report on Form 10-Q contains forward-looking statements. Forward-looking statements provide current expectations or forecasts of future events and are not guarantees of future performance, nor should they be relied upon as representing management's views as of any subsequent date. The forward-looking statements are based on management's expectations and are subject to a number of risks and uncertainties. Although management believes that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from those expressed or implied in such statements. Risks and uncertainties that could cause actual results to differ materially include, without limitation, the Corporation's ability to effectively execute its business plans; changes in general economic and financial market conditions; changes in interest rates; changes in the competitive environment; continuing consolidation in the financial services industry; new litigation or changes in existing litigation; losses, customer bankruptcy, claims and assessments; changes in banking regulations or other regulatory or legislative requirements affecting the Corporation's business; and changes in accounting policies or procedures as may be required by the Financial Accounting Standards Board or other regulatory agencies. Additional information concerning factors that could cause actual results to differ materially from those expressed or implied in the forward-looking statements is available in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2006, and subsequent filings with the United States Securities and Exchange Commission (SEC). Copies of these filings are available at no cost on the SEC's Web site at [www.sec.gov](http://www.sec.gov) or on the Corporation's Web site at [www.first-online.com](http://www.first-online.com). Management may elect to update forward-looking statements at some future point; however, it specifically disclaims any obligation to do so.

#### **Critical Accounting Policies**

Certain of the Corporation's accounting policies are important to the portrayal of the Corporation's financial condition and results of operations, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Facts and circumstances, which could affect these judgments, include, but without limitation, changes in interest rates, in the performance of the economy or in the financial condition of borrowers. Management believes that its critical accounting policies include determining the allowance for loan losses and the valuation of goodwill. See further discussion of these critical accounting policies in the 2006 Annual Report on Form 10-K.

#### **Summary of Operating Results**

Net income for the nine months ended September 30, 2007 was \$19.2 million compared to \$17.4 million for the same period in 2006. Basic earnings per share at September 30, 2007 increased to \$1.45 per average share outstanding compared to the \$1.31 per average share outstanding at September 30, 2006. The three months ending on September 30, 2007 produced \$6.4 million and \$0.48 per share compared to \$5.5 million and \$0.41 per share for the same period in 2006.

The primary components of income and expense affecting net income are discussed in the following analysis.

#### **Net Interest Income**

The Corporation's primary source of earnings is net interest income, which is the difference between the interest earned on loans and other investments and the interest paid for deposits and other sources of funds. Net interest

income increased to \$55.7 million in the first nine months of 2007 from \$55.1 million in the same period in 2006, a 1.1% increase. The net interest margin decreased to 3.89% in 2007 from 3.92% in 2006, a 0.77% decrease, driven by a greater increase in the costs of funding than the increases realized on earning assets. The net interest income increased due to the increase in earning assets. Results for the three months ended September 30, 2007 was \$18.7 million compared to \$18.2 million for the same period in 2006 with a similar trend in net interest margin for the quarters as on a year-to-date basis.

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Non-interest income for the nine months ended September 30, 2007 was \$23.5 million compared to \$21.7 million for the same period of 2006. Increased other income from sale of mortgage loans and sales of other real estate owned was the major difference between the periods. Income from insurance commissions and other service fees was also increased as compared to the same period of 2006. Non-interest income for the three months ended September 30, 2007 was also higher than the same period in 2006, increasing from \$7.1 million to \$7.8 million, or 10.9%. This higher level of non-interest income for the quarter is also the result of increased other income from sales of other real estate, sale of mortgage loans, insurance commissions and other service fees.

**Non-Interest Expenses**

The Corporation's non-interest expense for the nine months ended September 30, 2007 compared to the same period in 2006 increased by \$197 thousand or 0.4%. Non-interest expense for the three months ended September 30, 2007 in comparison with the same period in 2006 also increased, from \$15.7 million to \$16.1 million or 2.9%. Loan production expenses were higher during the third quarter and for the first nine months of 2007 compared to the same periods of 2006. Salaries and benefits expenses were reduced by \$572 thousand for the third quarter of 2007 and \$1.6 million for the first nine months of 2007 compared to the same periods of 2006. The Corporation has reduced the number of full time equivalent employees by 2.6% as a continuation of the benefits of consolidating bank subsidiaries into one bank. The effective tax rate increased from 23.6% to 28.3% for the third quarter of 2007 when compared to the same quarter in 2006, and increased from 25.7% to 27.5% for the nine months ended September 30, 2007 when compared to the same period in 2006. The changes are a result of higher and lower levels of tax-exempt income for the periods.

**Allowance for Loan Losses**

The Corporation's provision for loan losses decreased \$920 thousand for the third quarter and \$838 thousand for the first nine months of 2007 compared to the same periods of 2006. Net charge-offs were decreased \$1.4 million for the three months ended September 30, 2007 and \$396 thousand for the first nine months of 2007 compared to the same periods of 2006. With the modest loan growth and the improvement in non-performing and impaired loans, the allowance for loan losses has decreased from 1.13% of gross loans, or \$15.8 million at September 30, 2006 to 1.09% of gross loans, or \$15.5 million at September 30, 2007. Based on management's analysis of the current portfolio, an evaluation that includes consideration of historical loss experience, non-performing loans trends, and probable incurred losses on identified problem loans, management believes the allowance is adequate.

**Non-performing Loans**

Non-performing loans consist of (1) non-accrual loans on which the ultimate collectability of the full amount of interest is uncertain, (2) loans which have been renegotiated to provide for a reduction or deferral of interest or principal because of a deterioration in the financial position of the borrower, and (3) loans past due ninety days or more as to principal or interest. A summary of non-performing loans at September 30, 2007 and December 31, 2006 follows:

	(000 \$)	
	September 30, 2007	December 31, 2006
Non-accrual loans	\$ 9,082	\$ 9,893
Restructured loans	51	52
	9,133	9,945
Accruing loans past due over 90 days	3,225	4,691
	\$ 12,358	\$ 14,636

Ratio of the allowance for loan losses as a percentage of non-performing loans 125% 110%

The following loan categories comprise significant components of the nonperforming loans:

	(000 s)	
	September 30, 2007	December 31, 2006
Non-Accrual Loans:		
1-4 family residential	\$ 1,977	\$ 1,598
Commercial loans	5,631	6,551
Installment loans	1,474	1,744
	\$ 9,082	\$ 9,893
Past due 90 days or more:		
1-4 family residential	\$ 1,233	\$ 1,607
Commercial loans	1,192	2,542
Installment loans	800	542
	\$ 3,225	\$ 4,691

**Table of Contents****Interest Rate Sensitivity and Liquidity**

First Financial Corporation has established risk measures, limits and policy guidelines for managing interest rate risk and liquidity. Responsibility for management of these functions resides with the Asset Liability Committee. The primary goal of the Asset Liability Committee is to maximize net interest income within the interest rate risk limits approved by the Board of Directors.

**Interest Rate Risk**

Management considers interest rate risk to be the Corporation's most significant market risk. Interest rate risk is the exposure to changes in net interest income as a result of changes in interest rates. Consistency in the Corporation's net interest income is largely dependent on the effective management of this risk.

The Asset Liability position is measured using sophisticated risk management tools, including earning simulation and market value of equity sensitivity analysis. These tools allow management to quantify and monitor both short-term and long-term exposure to interest rate risk. Simulation modeling measures the effects of changes in interest rates, changes in the shape of the yield curve and the effects of embedded options on net interest income. This measure projects earnings in the various environments over the next three years. It is important to note that measures of interest rate risk have limitations and are dependent on various assumptions. These assumptions are inherently uncertain and, as a result, the model cannot precisely predict the impact of interest rate fluctuations on net interest income. Actual results will differ from simulated results due to timing, frequency and amount of interest rate changes as well as overall market conditions. The Committee has performed a thorough analysis of these assumptions and believes them to be valid and theoretically sound. These assumptions are continuously monitored for behavioral changes.

The Corporation from time to time utilizes derivatives to manage interest rate risk. Management continuously evaluates the merits of such interest rate risk products but does not anticipate the use of such products to become a major part of the Corporation's risk management strategy.

The table below shows the Corporation's estimated sensitivity profile as of September 30, 2007. The change in interest rates assumes a parallel shift in interest rates of 100 and 200 basis points. Given a 100 basis point increase in rates, net interest income would decrease 2.38% over the next 12 months and decrease 1.27% over the following 12 months. Given a 100 basis point decrease in rates, net interest income would increase 0.83% over the next 12 months and decrease 0.30% over the following 12 months. These estimates assume all rate changes occur overnight and management takes no action as a result of this change.

Basis Point Interest Rate Change	Percentage Change in Net Interest Income		
	12 months	24 months	36 months
Down 200	1.12	-1.12	-4.44
Down 100	0.83	-0.30	-2.01
Up 100	-2.38	-1.27	.67
Up 200	-6.99	-5.03	-0.73

Typical rate shock analysis does not reflect management's ability to react and thereby reduce the effect of rate changes, and represents a worst-case scenario.

**Liquidity Risk**

Liquidity is measured by each bank's ability to raise funds to meet the obligations of its customers, including deposit withdrawals and credit needs. This is accomplished primarily by maintaining sufficient liquid assets in the form of investment securities and core deposits. The Corporation has \$12.9 million of investments that mature throughout the coming 12 months. The Corporation also anticipates \$53.4 million of principal payments from mortgage-backed securities. Given the current rate environment, the Corporation anticipates \$24.6 million in securities to be called within the next 12 months. With these sources of funds, the Corporation currently anticipates adequate liquidity to meet the expected obligations of its customers.

**Financial Condition**

Comparing the first nine months of 2007 to the same period in 2006, average net loans are up \$20.6 million. Average deposits are up \$11.4 million. Average investments increased \$21.4 million. Average borrowings increased \$16.6 million. The average allowance for loan and lease losses declined from 1.20% at September 30, 2006 to 1.13%

at September 30, 2007. The decreased amount of net-charge-offs and the improved overall credit quality allowed the Corporation to reduce its allowance percentage of loans outstanding.

Capital Adequacy

As of September 30, 2007, the most recent notification from the respective regulatory agencies categorized the subsidiary banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the banks must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the bank's category.



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	September 30, 2007	December 31, 2006	To Be Well Capitalized
Total risk-based capital ratio			
Corporation	18.15%	17.78%	N/A
First Financial Bank	18.25%	17.74%	10.00%
Tier I risk-based capital ratio			
Corporation	17.18%	16.77%	N/A
First Financial Bank	17.44%	16.90%	6.00%
Tier I leverage capital ratio			
Corporation	12.58%	12.43%	N/A
First Financial Bank	12.54%	12.48%	5.00%

**ITEM 4. Controls and Procedures**

First Financial Corporation's management is responsible for establishing and maintaining effective disclosure controls and procedures, as defined under Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. As of September 30, 2007, an evaluation was performed under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. Based on that evaluation, management concluded that the Corporation's disclosure controls and procedures as of September 30, 2007 were effective in ensuring material information required to be disclosed in this Quarterly Report on Form 10-Q was recorded, processed, summarized, and reported on a timely basis. Additionally, there were no changes in the Corporation's internal control over financial reporting that occurred during the quarter ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

**PART II Other Information****ITEM 1. Legal Proceedings.**

There are no material pending legal proceedings, other than routine litigation incidental to the business of the Corporation or its subsidiaries, to which the Corporation or any of the subsidiaries is a party or of which any of their respective property is subject. Further, there is no material legal proceeding in which any director, officer, principal shareholder, or affiliate of the Corporation or any of its subsidiaries, or any associate of such director, officer, principal shareholder or affiliate is a party, or has a material interest, adverse to the Corporation or any of its subsidiaries.

**ITEM 1A. Risk Factors.**

There have been no material changes in the risk factors from those disclosed in the Corporation's 2006 Annual Report on Form 10-K.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

(a) None.

(b) Not applicable.

**(c) Purchases of Equity Securities**

The Corporation periodically acquires shares of its common stock directly from shareholders in individually negotiated transactions. The Corporation has not adopted a formal policy or adopted a formal program for repurchases of shares of its common stock. Following is certain information regarding shares of common stock purchased by the Corporation during the quarter covered by this report.

(c)

Total Number Of

(d)

	(a) Total Number Of Shares Purchased	(b) Average Price Paid Per Share	Shares Purchased As Part Of Publicly Announced Plans Or Programs *	Maximum Number Of Shares That May Yet Be Purchased *
July 1 31 2007	15,000	27.95	N/A	N/A
August 1 31, 2007	20,000	25.80	N/A	N/A
September 1 30, 2007	21,462	30.07	N/A	N/A
Total	56,462	27.99	N/A	N/A

\* The Corporation has not adopted a formal policy or program regarding repurchases of its shares of stock.

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ITEM 3. Defaults upon Senior Securities

Not applicable.

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

Not applicable.

ITEM 5. Other Information

Not applicable.

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ITEM 6. Exhibits.

Exhibit No:	Description of Exhibit:
3.1	Amended and Restated Articles of Incorporation of First Financial Corporation, incorporated by reference to Exhibit 3(i) of the Corporation's Form 10-Q filed for the quarter ended September 30, 2002.
3.2	Code of By-Laws of First Financial Corporation, incorporated by reference to Exhibit 3(ii) of the Corporation's Form 10-Q filed for the quarter ended September 30, 2002.
10.1	Employment Agreement for Norman L. Lowery, dated August 29, 2007 and effective January 1, 2007, incorporated by reference to Exhibit 10.1 to the Corporation's Form 8-K filed September 4, 2007.
10.2	2005 Long-Term Incentive Plan of First Financial Corporation, incorporated by reference to Exhibit 10.7 of the Corporation's Form 8-K filed September 4, 2007.
10.3	2007 Schedule of Director Compensation, incorporated by reference to Exhibit 10.3 of the Corporation's Form 10-K filed for the fiscal year ended December 31, 2006.
10.4	2007 Schedule of Named Executive Officer Compensation, incorporated by reference to the Corporation's Form 8-K filed on December 22, 2006.
10.5	2005 Executives Deferred Compensation Plan, incorporated by reference to Exhibit 10.5 of the Corporation's Form 8-K filed September 4, 2007.
10.6	2005 Executives Supplemental Retirement Plan, incorporated by reference to Exhibit 10.6 of the Corporation's Form 8-K filed September 4, 2007.
31.1	Sarbanes-Oxley Act 302 Certification for Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 by Principal Executive Officer, dated November 7, 2007
31.2	Sarbanes-Oxley Act 302 Certification for Quarterly Report on Form 10-Q for the quarter ended September 30, 2007 by Principal Financial Officer, dated November 7, 2007.
32.1	Certification, dated November 7, 2007, of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2005 on Form 10-Q for the quarter ended September 30, 2007.

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SIGNATURES

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 FINANCIAL CORPORATION**

(Registrant)

Date: November 7, 2007

By /s/ Donald E. Smith  
Donald E. Smith, Chairman

Date: November 7, 2007

By /s/ Norman L. Lowery  
Norman L. Lowery, Vice Chairman and  
CEO

Date: November 7, 2007

By /s/ Michael A. Carty  
Michael A. Carty, Treasurer and CFO

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