FIRST FINANCIAL CORP /IN/
Form 10-Q
August 08, 2007

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 June 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 þ No o.
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 o Accelerated filer þ Non-accelerated filer o.
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ.
As of August 1, 2007, the Registrant had outstanding 1,304,145 shares of common stock, without par value.

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Part I Financial Information

Item 1. Financial Statements

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

	June 30, 2007 (Unaudited)	December 31, 2006
ASSETS		
Cash and due from banks	$ 71,074	$ 77,682
Federal funds sold and short-term investments	12,769	21,437
Securities available-for-sale	599,018	559,053
Loans:		
Commercial, financial and agricultural	434,248	407,995
Real estate construction	27,997	33,336
Real estate mortgage	680,208	691,989
Installment	266,645	257,065
Lease financing	2,303	2,604
	1,411,401	1,392,989
Less:		
Unearned income	(235)	(234)
Allowance for loan losses	(15,349)	(16,169)
	1,395,817	1,376,586
Accrued interest receivable	12,673	13,972
Premises and equipment, net	32,651	33,267
Bank-owned life insurance	58,927	57,905
Goodwill	7,102	7,102
Other intangible assets	2,150	2,363
Other real estate owned	2,993	3,194
Other assets	25,120	23,437
TOTAL ASSETS	$ 2,220,294	$ 2,175,998
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits:		
Noninterest-bearing	$ 229,666	$ 227,808
Interest-bearing:		
Certificates of deposit of $100 or more	210,264	189,323
Other interest-bearing deposits	1,070,888	1,085,551
	1,510,818	1,502,682

Short-term borrowings	31,625	16,203
Other borrowings	366,277	341,805
Other liabilities	41,779	44,048
TOTAL LIABILITIES	1,950,499	1,904,738
Shareholders equity		
Common stock, $.125 stated value per share;		
Authorized shares-40,000,000		
Issued shares-14,450,966		
Outstanding shares-13,161,821 in 2007 and 13,270,321 in 2006	1,806	1,806
Additional paid-in capital	68,003	68,003
Retained earnings	243,052	235,967
Accumulated other comprehensive income	(10,723)	(5,494)
Treasury shares at cost-1,289,145 in 2007 and 1,180,645 in 2006	(32,343)	(29,022)
TOTAL SHAREHOLDERS EQUITY	269,795	271,260
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 2,220,294	$ 2,175,998

See accompanying notes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
	(Unaudited)		(Unaudited)	
INTEREST INCOME:				
Loans, including related fees	$ 25,950	$ 24,707	$ 51,602	$ 48,813
Securities:				
Taxable	5,836	5,802	11,448	10,867
Tax-exempt	1,606	1,538	3,182	3,073
Other	812	730	1,594	1,447
TOTAL INTEREST INCOME	34,204	32,777	67,826	64,200
INTEREST EXPENSE:				
Deposits	10,384	9,360	20,589	17,558
Short-term borrowings	449	143	681	285
Other borrowings	4,806	4,763	9,534	9,450
TOTAL INTEREST EXPENSE	15,639	14,266	30,804	27,293
NET INTEREST INCOME	18,565	18,511	37,022	36,907
Provision for loan losses	1,240	645	2,930	2,848
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	17,325	17,866	34,092	34,059
NON-INTEREST INCOME:				
Trust department income	942	1,003	1,920	1,917
Service charges and fees on deposit accounts	3,020	3,099	5,741	5,836
Other service charges and fees	1,462	1,280	2,767	2,627
Securities gains/(losses), net	0	1	20	9
Insurance commissions	1,546	1,479	2,944	2,853
Gain on sale of mortgage loans	220	23	404	154
Other	339	330	1,880	1,232
TOTAL NON-INTEREST INCOME	7,529	7,215	15,676	14,628
NON-INTEREST EXPENSES:				
Salaries and employee benefits	9,615	10,304	19,567	20,563

Occupancy expense	1,031	944	2,071	1,885
Equipment expense	1,069	1,125	2,167	2,168
Other	4,393	3,838	8,361	7,811
TOTAL NON-INTEREST EXPENSE	16,108	16,211	32,166	32,427
INCOME BEFORE INCOME TAXES	8,746	8,870	17,602	16,260
Provision for income taxes	2,333	2,445	4,766	4,326
NET INCOME	$ 6,413	$ 6,425	$ 12,836	$ 11,934
PER SHARE DATA:				
Basic and Diluted	$ 0.48	$ 0.48	$ 0.97	$ 0.90
Dividends per share	$ 0.43	$ 0.42	$ 0.43	$ 0.42
Weighted average number of shares outstanding (in thousands)	13,200	13,295	13,225	13,323

See accompanying notes

FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
Three Months Ended
June 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, April 1, 2007	$ 1,806	$ 68,003	$ 242,304	$ (4,754)	$ (30,430)	$ 276,929
Comprehensive income:						
Net income			6,413			6,413
Change in net unrealized gains/(losses) on securities available-for-sale				(6,080)		(6,080)
Change in Pension Liability				111		111
Total comprehensive income/(loss)						444
Cash dividends, $.43 per share			(5,665)			(5,665)
Treasury stock purchases					(1,913)	(1,913)
Balance, June 30, 2007	$ 1,806	$ 68,003	$ 243,052	$ (10,723)	$ (32,343)	$ 269,795
Balance, April 1, 2006	$ 1,806	$ 67,670	$ 229,219	$ 594	$ (27,456)	$ 271,833
Comprehensive income:						
Net income			6,425			6,425
Change in net unrealized gains/ (losses) on securities available-for-sale				(4,226)		(4,226)
Total comprehensive income						2,199
Cash dividends, $.42 per share			(5,573)			(5,573)
Treasury stock purchases					(1,383)	(1,383)
Balance, June 30, 2006	$ 1,806	$ 67,670	$ 230,071	$ (3,632)	$ (28,839)	$ 267,076

See accompanying notes.

FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY
Six Months Ended
June 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			12,836			12,836
Change in net unrealized gains/(losses) on securities available-for-sale				(5,659)		(5,659)
Change in Pension Liability				430		430
Total comprehensive income/(loss)						7,607
Adoption of FIN 48			(86)			(86)
Cash dividends, $.43 per share			(5,665)			(5,665)
Treasury stock purchases					(3,321)	(3,321)
Balance, June 30, 2007	$ 1,806	$ 68,003	$ 243,052	$ (10,723)	$ (32,343)	$ 269,795
Balance, January 1, 2006	$ 1,806	$ 67,670	$ 223,710	$ 1,903	$ (25,766)	$ 269,323
Comprehensive income:						
Net income			11,934			11,934
Change in net unrealized gains/(losses) on securities available-for-sale				(5,535)		(5,535)
Total comprehensive income						6,399
Cash dividends, $.42 per share			(5,573)			(5,573)
Treasury stock purchases					(3,073)	(3,073)

Balance, June 30, 2006	$ 1,806	$ 67,670	$ 230,071	$ (3,632)	$ (28,839)	$ 267,076

See accompanying notes.

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

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 12,836	$ 11,934
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization (accretion) of premiums and discounts on investments	(1,285)	(1,246)
Provision for loan losses	2,930	2,848
Securities (gains) losses	(20)	(9)
Gain on sale of other real estate	(34)	
Depreciation and amortization	1,767	1,771
Other, net	720	5,878
NET CASH FROM OPERATING ACTIVITIES	16,914	21,176
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available-for-sale	2,939	737
Calls, maturities and principal reductions on securities available-for-sale	44,472	87,485
Purchases of securities available-for-sale	(95,503)	(122,300)
Loans made to customers, net of repayments	(23,671)	5,004
Proceeds from sales of other real estate owned	1,510	
Net change in federal funds sold	8,668	(3,708)
Additions to premises and equipment	(938)	(2,046)
NET CASH FROM INVESTING ACTIVITIES	(62,523)	(34,828)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in deposits	8,136	34,556
Net change in short-term borrowings	15,422	12,715
Dividends paid	(5,708)	(5,603)
Purchase of treasury stock	(3,321)	(3,073)
Proceeds for other borrowings	81,000	
Repayments on other borrowings	(56,528)	(297)
NET CASH FROM FINANCING ACTIVITIES	39,001	38,298
NET CHANGE IN CASH AND CASH EQUIVALENTS	(6,608)	24,646

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	77,682	78,201
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 71,074	$ 102,847

See accompanying notes.

FIRST FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying June 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) June 30, 2007	(000's) December 31, 2006
Impaired loans with no related allowance for loan losses	$ 0	$ 503
Impaired loans with related allowance for loan losses calculated under SFAS No. 114	2,780	4,865
	$ 2,780	$ 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) June 30, 2007		(000's) December 31, 2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
United States Government entity mortgage- backed securities	$ 356,385	$ 346,978	$ 334,383	$ 330,846
Collateralized Mortgage Obligations	26,567	26,149	9,935	9,970
State and Municipal Obligations	146,916	147,887	136,124	140,070
Corporate Obligations	68,841	69,156	68,952	69,472
Equity Securities	4,637	8,848	4,556	8,695
	$ 603,346	$ 599,018	$ 553,950	$ 559,053

4. Short-Term Borrowings

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

	(000's)	
	June 30, 2007	December 31, 2006
Federal Funds Purchased	$ 8,465	$ 10,179
Repurchase Agreements	22,671	5,407
Note Payable U.S. Government	489	617
	$ 31,625	$ 16,203

5. Other Borrowings

Other borrowings at period-end are summarized as follows:

	(000's) June 30, 2007	(000's) December 31, 2006
FHLB advances	$ 359,677	$ 335,205
City of Terre Haute, Indiana economic development revenue bonds	6,600	6,600
	$ 366,277	$ 341,805

6. Components of Net Periodic Benefit Cost

	Three Months ended June 30 (000's)				**Six Months ended June 30,** (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	$ 1,574	$ 1,502	$ 59	$ 58
Interest cost	704	593	78	75	1,409	1,187	156	51
Expected return on plan assets	(911)	(698)			(1,822)	(1,397)		
Amortization of transition obligation			15	15			30	30
Amortization of prior service cost	14	14			28	28		
Amortization of net (gain) loss	111	191	43	60	223	381	86	120
Net Periodic Benefit Cost	$ 705	$ 851	$ 165	$ 179	$ 1,412	$ 1,701	$ 331	$ 350

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 $87,000 have been made through the first six 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 June 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.

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 or on the Corporation s Web site at 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 three months ended June 30, 2007 was $6.4 million. Basic earnings per share was $0.48 for the second quarter of 2007. These results are similar to the results for the second quarter of 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 $18.6 million in the first three months of 2007 from $18.5 million in the same period in 2006, a 0.3% increase. The net interest margin decreased to 3.87% in 2007 from 3.90% in 2006, a 0.03% 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 six months ended June 20, 2007 in comparison with the same period in 2006 is similar to the quarterly comparison. While net interest income increased slightly, net interest margin decreased to 3.89% from 3.92%, or 3%, for the same period in 2006.

Non-Interest Income

Non-interest income for the quarter was $7.5 million. Increased other income from sale of mortgage loans was the major difference between these results and the $7.2 million of non-interest income reported for the same period in 2006. Income from insurance commissions and other service fees were also increased as compared to the same period of 2006. Non-interest income for the six months ended June 30, 2007 was also higher than the same period in 2006, increasing from $14.6 million to $15.7 million, or 7.2%. This higher level of non-interest income is 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 quarter ended June 30, 2007 compared to the same period in 2006 decreased by $103 thousand or 0.6%. Non-interest expense for the six months ended June 20, 2007 in comparison with the same period in 2006 has also decreased, from $32.4 million to $32.2 million or 0.8%. Occupancy and other expenses were higher during the second quarter and for the first six months of 2007 compared to the same periods of 2006. Salaries and benefits expenses were reduced by $689 thousand for the second quarter of 2007 and $996 thousand for the first six months of 2007 compared to the same periods of 2006. The Corporation has reduced the number of full time equivalent employees as a continuation of the benefits of consolidating bank subsidiaries into one bank. The effective tax rate decreased from 27.6% to 26.7% for the second quarter of 2007 when compared to the same quarter in 2006, and increased from 26.6% to 27.1% for the six months ended June 20, 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 increased $595 thousand for the second quarter and $82 thousand for the first six months of 2007 compared to the same periods of 2006. Net charge-offs were increased $362 thousand for the three months ended June 30, 2007 and $1.0 million for the first six months of 2007 compared to the same periods of 2006. During the second quarter of 2006 the provision was reduced after analysis of the adequacy of the allowance for loan losses revealed that net charge-off s of previously identified credits were lower than anticipated. The allowance for loan losses has decreased from 1.16% of gross loans, or $16.1 million at June 30, 2006 to 1.09% of gross loans, or $15.3 million at June 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 June 30, 2007 and December 31, 2006 follows:

	(000's)	
	June 30, 2007	December 31, 2006
Non-accrual loans	$ 8,839	$ 9,893
Restructured loans	51	52
	8,890	9,945
Accruing loans past due over 90 days	3,706	4,691
	$ 12,596	$ 14,636
Ratio of the allowance for loan losses as a percentage of non-performing loans	122%	110%

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

	(000's)	
	June 30, 2007	December 31, 2006
Non-Accrual Loans:		

1-4 family residential	$	1,389	$	1,598
Commercial loans		5,839		6,551
Installment loans		1,611		1,744
	$	8,839	$	9,893
Past due 90 days or more:				
1-4 family residential	$	1,064	$	1,607
Commercial loans		1,534		2,542
Installment loans		1,108		542
	$	3,706	$	4,691

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 June 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 3.46% over the next 12 months and decrease 1.94% over the following 12 months. Given a 100 basis point decrease in rates, net interest income would increase 1.73% over the next 12 months and increase .21% 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	Percentage Change in Net Interest Income		
Interest Rate Change	12 months	24 months	36 months
Down 200	2.97	-.20	-3.37
Down 100	1.73	.21	-1.38
Up 100	-3.46	-1.94	-.07
Up 200	-9.16	-6.41	-2.45

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 $12.5 million of investments that mature throughout the coming 12 months. The Corporation also anticipates $65.7 million of principal payments from mortgage-backed securities. Given the current rate environment, the Corporation anticipates $13.2 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 six months of 2007 to the same period in 2006, average net loans are up $16.2 million. Average deposits are up $5.2 million. Average investments increased $12.5 million. Average borrowings increased $9.9 million. The average allowance for loan and lease losses declined from 1.23% at June 30, 2006 to 1.15% at June 30, 2007. Although there was an increase amount of net-charge-offs, the improved overall credit quality allowed the Corporation to reduce its allowance percentage of loans outstanding.

Capital Adequacy

As of June 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.

	To Be Well Capitalized

	June 30, 2007	December 31, 2006	
Total risk-based capital ratio			
Corporation	17.85%	17.78%	N/A
First Financial Bank	17.98%	17.74%	10.00%
Tier I risk-based capital ratio			
Corporation	16.89%	16.77%	N/A
First Financial Bank	17.18%	16.90%	6.00%
Tier I leverage capital ratio			
Corporation	12.40%	12.43%	N/A
First Financial Bank	12.59%	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 June 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 June 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 June 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.

	(a) Total Number Of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number Of Shares Purchased As Part Of Publicly Announced Plans Or Programs *	(d) Maximum Number Of Shares That May Yet Be Purchased *
April 1 - 30 2007	10,000	31.50	N/A	N/A
May 1 31, 2007	34,500	29.80	N/A	N/A
June 1 30, 2007	20,000	28.52	N/A	N/A
Total	64,500	29.66	N/A	N/A

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

ITEM 3. Defaults upon Senior Securities.

Not applicable.

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

(a) The Annual Meeting of the shareholders of the Corporation was held on April 18, 2007.

(b) The following were elected Directors of the Corporation for a three year term as follows:

	Votes for	Votes Against
Donald E. Smith	9,119,414	97,381
Ronald K. Rich	9,122,074	94,721
W. Curtis Brighton	9,139,592	77,203

The following individual s terms as directors continued after the meeting: B. Guille Cox, Jr., Thomas T. Dinkel, Anton H. George, Gregory Gibson, Norman L. Lowery, Patrick O Leary and Virginia L. Smith.

(c) At the annual meeting, the only item for consideration was the election of the three directors. The vote tabulation for the election of such Directors is set forth above.

ITEM 5. Other Information

Not applicable.

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 March 29, 2006 and effective January 1, 2006, incorporated by reference to Exhibit 10.1 to the Corporation s Form 10-Q filed for the quarter ended June 30, 2006.
10.2	2001 Long-Term Incentive Plan of First Financial Corporation, incorporated by reference to Exhibit 10.3 of the Corporation s Form 10-Q filed for the quarter ended September 30, 2002.
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.
31.1	Sarbanes-Oxley Act 302 Certification for Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 by Principal Executive Officer, dated August 7, 2007
31.2	Sarbanes-Oxley Act 302 Certification for Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 by Principal Financial Officer, dated August 7, 2007.
32.1	Certification, dated August 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 June 30, 2007.

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: August 7, 2007	By	/s/ Donald E. Smith
		Donald E. Smith, Chairman
Date: August 7, 2007	By	/s/ Norman L. Lowery
		Norman L. Lowery, Vice Chairman and CEO
Date: August 7, 2007	By	/s/ Michael A. Carty
		Michael A. Carty, Treasurer and CFO

Exhibit Index

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