

FIRST FINANCIAL CORP /IN/

Form 10-Q

November 04, 2010

Table of Contents

**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, 2010
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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☒.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐
(Do not check if a smaller
reporting company)

Smaller reporting
company ☐

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

As of November 3, 2010, the registrant had outstanding 13,151,630 shares of common stock, without par value.

FIRST FINANCIAL CORPORATION
FORM 10-Q
INDEX

Page No.

PART I. Financial Information

Item 1. Financial Statements:

<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Income</u>	4
<u>Consolidated Statements of Shareholders' Equity</u>	5
<u>Consolidated Statements of Cash Flows</u>	7
<u>Notes to Consolidated Financial Statements</u>	8

<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
--	----

<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	16
---	----

<u>Item 4. Controls and Procedures</u>	19
--	----

PART II. Other Information:

<u>Item 1. Legal Proceedings</u>	20
----------------------------------	----

<u>Item 1A. Risk Factors</u>	20
------------------------------	----

<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	20
--	----

<u>Item 3. Defaults upon Senior Securities</u>	20
--	----

<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	20
--	----

<u>Item 5. Other Information</u>	20
----------------------------------	----

<u>Item 6. Exhibits</u>	21
-------------------------	----

<u>Signatures</u>	22
-------------------	----

Exhibit 31.1

Exhibit 31.2

Exhibit 32.1

Table of Contents**Part I Financial Information**

Item 1. Financial Statements

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

	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Cash and due from banks	\$ 63,151	\$ 84,371
Federal funds sold and short-term investments	77,980	21,576
Securities available-for-sale	594,476	587,246
Loans:		
Commercial	881,741	870,977
Residential	443,630	447,379
Consumer	315,262	314,561
	1,640,633	1,632,917
Less:		
Unearned Income	(979)	(1,153)
Allowance for loan losses	(19,974)	(19,437)
	1,619,680	1,612,327
Restricted Stock	27,835	27,835
Accrued interest receivable	11,769	12,005
Premises and equipment, net	34,519	35,551
Bank-owned life insurance	65,597	64,057
Goodwill	7,102	7,102
Other intangible assets	3,860	4,916
Other real estate owned	4,743	5,885
FDIC indemnification asset	2,498	12,124
Other assets	48,933	43,727
TOTAL ASSETS	\$ 2,562,143	\$ 2,518,722
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	\$ 307,876	\$ 312,990
Interest-bearing:		
Certificates of deposit of \$100 or more	227,712	238,830
Other interest-bearing deposits	1,382,075	1,237,881
	1,917,663	1,789,701
Short-term borrowings	36,218	30,436
Other borrowings	219,160	332,737
Other liabilities	61,420	59,365

TOTAL LIABILITIES	2,234,461	2,212,239
Shareholders' equity		
Common stock, \$.125 stated value per share;		
Authorized shares-40,000,000		
Issued shares-14,450,966		
Outstanding shares-13,106,630 in 2010 and 13,116,630 in 2009	1,806	1,806
Additional paid-in capital	68,739	68,739
Retained earnings	291,017	277,357
Accumulated other comprehensive income (loss)	245	(7,904)
Treasury shares at cost-1,344,336 in 2010 and 1,334,336 in 2009	(34,125)	(33,515)
TOTAL SHAREHOLDERS' EQUITY	327,682	306,483
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 2,562,143	\$ 2,518,722

See accompanying notes.

Table of Contents

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,	
	2010	2009	2010	2009
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
INTEREST INCOME:				
Loans, including related fees	\$ 24,355	\$ 24,332	\$ 72,407	\$ 69,969
Securities:				
Taxable	4,544	5,712	14,394	17,699
Tax-exempt	1,680	1,672	4,982	4,961
Other	607	508	1,575	1,439
TOTAL INTEREST INCOME	31,186	32,224	93,358	94,068
INTEREST EXPENSE:				
Deposits	3,932	5,012	12,589	16,789
Short-term borrowings	80	145	250	425
Other borrowings	2,521	4,200	8,504	12,948
TOTAL INTEREST EXPENSE	6,533	9,357	21,343	30,162
NET INTEREST INCOME	24,653	22,867	72,015	63,906
Provision for loan losses	2,390	3,690	7,010	9,380
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	22,263	19,177	65,005	54,526
NON-INTEREST INCOME:				
Trust and financial services	1,077	1,174	3,533	3,120
Service charges and fees on deposit accounts	2,737	2,968	7,809	8,232
Other service charges and fees	2,027	1,871	5,786	5,055
Securities gains/(losses), net	28		273	2
Total Impairment Losses	(859)	(3,806)	(4,028)	(9,116)
Loss recognized in other comprehensive loss		484		1,229
Net impairment loss recognized in earnings	(859)	(3,322)	(4,028)	(7,887)
Insurance commissions	1,590	1,584	4,842	4,600
Gain on sales of mortgage loans	630	526	1,301	1,710
Gain on bargain purchase		5,409		5,409
Other	66	89	666	933
TOTAL NON-INTEREST INCOME	7,296	10,299	20,182	21,174
NON-INTEREST EXPENSE:				
Salaries and employee benefits	12,046	10,619	33,554	30,813

Edgar Filing: FIRST FINANCIAL CORP /IN/ - Form 10-Q

Occupancy expense	1,374	1,171	3,776	3,290
Equipment expense	1,190	1,174	3,611	3,404
FDIC Insurance	757	692	2,186	2,599
Other	5,213	4,855	14,434	13,104
TOTAL NON-INTEREST EXPENSE	20,580	18,511	57,561	53,210
INCOME BEFORE INCOME TAXES	8,979	10,965	27,626	22,490
Provision for income taxes	2,686	3,246	7,934	5,620
NET INCOME	\$ 6,293	\$ 7,719	\$ 19,692	\$ 16,870
PER SHARE DATA				
Basic and Diluted	\$ 0.48	\$ 0.59	\$ 1.50	\$ 1.29
Dividends Per Share			\$ 0.46	\$ 0.45
Weighted average number of shares outstanding (in thousands)	13,107	13,117	13,113	13,117

See accompanying notes.

Table of Contents

FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Three Months Ended
September 30, 2010, and 2009
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Common Stock	Additional Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
Balance, July 1, 2010	\$ 1,806	\$ 68,739	\$ 284,724	\$ (2,024)	\$ (34,059)	\$ 319,186
Comprehensive income:						
Net income			6,293			6,293
Change in net unrealized gains/(losses) on securities available for-sale				1,836		1,836
Change in unrealized gains(losses) on securities available-for-sale for which a portion of an other-than-temporary-impairment has been recognized in earnings, net of tax				255		255
Change in net unrealized gains/ (losses) on retirement plans				178		178
Total comprehensive income/(loss)						8,562
Treasury stock purchase (2,500 shares)					(66)	(66)
Balance, September 30, 2010	\$ 1,806	\$ 68,739	\$ 291,017	\$ 245	\$ (34,125)	\$ 327,682
Balance, July 1, 2009	\$ 1,806	\$ 68,654	\$ 269,696	\$ (13,714)	\$ (33,785)	\$ 292,657
Comprehensive income:						
Net income			7,719			7,719
Change in net unrealized gains/(losses) on securities available for-sale				9,248		9,248
Change in unrealized gains(losses) on securities available-for-sale for which a				(492)		

portion of an
other-than-temporary-impairment
has been recognized in earnings,
net of tax

Change in net unrealized gains/
(losses) on retirement plans

91

91

Total comprehensive
income/(loss)

17,058

Balance, September 30, 2009	\$ 1,806	\$ 68,654	\$ 277,415	\$ (4,867)	\$ (33,785)	\$ 309,715
-----------------------------	----------	-----------	------------	------------	-------------	------------

See accompanying notes.

Table of Contents

FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Nine Months Ended
September 30, 2010, and 2009
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Common Stock	Additional Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
Balance, January 1, 2010	\$ 1,806	\$ 68,739	\$ 277,357	\$ (7,904)	\$ (33,515)	\$ 306,483
Comprehensive income:						
Net income			19,692			19,692
Change in net unrealized gains/(losses) on securities available for-sale				5,341		5,341
Change in unrealized gains(losses) on securities available-for-sale for which a portion of an other-than-temporary-impairment has been recognized in earnings, net of tax				2,274		2,274
Change in net unrealized gains/ (losses) on retirement plans				534		534
Total comprehensive income/(loss)						27,841
Cash Dividends, \$.46 per share			(6,032)			(6,032)
Treasury stock purchase (23,000 shares)					(610)	(610)
Balance, September 30, 2010	\$ 1,806	\$ 68,739	\$ 291,017	\$ 245	\$ (34,125)	327,682
Balance, January 1, 2009	\$ 1,806	\$ 68,654	\$ 263,115	\$ (12,946)	\$ (33,785)	\$ 286,844
Comprehensive income:						
Net income			16,870			16,870
Change in net unrealized gains/(losses) on securities available for-sale				23,116		23,116
Change in unrealized gains(losses) on securities				(11,977)		

available-for-sale for which a
portion of an
other-than-temporary-impairment
has been recognized in earnings,
net of tax

Change in net unrealized gains/ (losses) on retirement plans	273	273
---	-----	-----

Total comprehensive income/(loss)	40,259
--------------------------------------	--------

Cumulative Effect of change in accounting principle, adoption of ASC320-10-65-65, net of tax	3,333	(3,333)
--	-------	---------

Cash Dividends, \$.45 per share	(5,903)	(5,903)
---------------------------------	---------	---------

Balance, September 30, 2009	\$ 1,806	\$ 68,654	\$ 277,415	\$ (4,867)	\$ (33,785)	\$ 321,200
-----------------------------	----------	-----------	------------	------------	-------------	------------

See accompanying notes.

Table of Contents

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

	Nine Months Ended September 30,	
	2010	2009
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 19,692	\$ 16,870
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization (accretion) of premiums and discounts on investments	(768)	(2,018)
Provision for loan losses	7,010	9,380
Securities (gains) losses	(273)	7,887
Securities impairment loss	4,028	
Gain on purchase of business unit		(5,409)
(Gain) loss on sale of other real estate	80	90
Depreciation and amortization	3,528	2,854
Other, net	6,347	(536)
NET CASH FROM OPERATING ACTIVITIES	39,644	29,118
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available-for-sale	7,250	
Calls, maturities and principal reductions on securities available-for-sale	174,359	89,911
Purchases of securities available-for-sale	(179,137)	(65,683)
Loans made to customers, net of repayment	(15,613)	(100,956)
Cash received from purchase of business unit		30,977
Proceeds from sales of other real estate owned	2,628	2,020
Net change in federal funds sold	(56,404)	6,530
Additions to premises and equipment	(1,440)	(2,739)
NET CASH FROM INVESTING ACTIVITIES	(68,357)	(39,940)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in deposits	127,838	18,475
Net change in short-term borrowings	5,782	59,292
Dividends paid	(11,940)	(11,805)
Purchase of treasury stock	(610)	
Proceeds from other borrowings	2,000	120,000
Repayments on other borrowings	(115,577)	(172,401)
NET CASH FROM FINANCING ACTIVITIES	7,493	13,561

NET CHANGE IN CASH AND CASH EQUIVALENTS	(21,220)	2,739
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	84,371	67,298
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 63,151	\$ 70,037

See accompanying notes.

Table of Contents

FIRST FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying September 30, 2010 and 2009 consolidated financial statements are unaudited. The December 31, 2009 consolidated financial statements are as reported in the First Financial Corporation (the Corporation) 2009 annual report. The information presented does not include all information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. The following notes should be read together with notes to the consolidated financial statements included in the 2009 annual report filed with the Securities and Exchange Commission as an exhibit to Form 10-K filed for the fiscal year ended December 31, 2009.

1. Significant Accounting Policies

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. Allowance for Loan Losses

The activity in the Corporation's allowance for loan losses is shown in the following analysis:

(Dollar amounts in thousands)	September 30, 2010	2009
Balance at beginning of year	\$ 19,437	\$ 16,280
Provision for loan losses	7,010	9,380
Recoveries of loans previously charged off	3,681	1,675
Loans charged off	(10,154)	(8,507)
Balance at End of Period	\$ 19,974	\$ 18,828

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. Large groups of smaller balance homogeneous loans, such as consumer, residential real estate and smaller commercial loans are collectively evaluated for impairment and, accordingly, they are not separately identified for impairment disclosures. Also included in impaired loans are loans acquired in the First National Bank of Danville acquisition. See Note 9 for further discussion of these loans. Impairment is primarily measured based on the fair value of the loan's collateral. The following table summarizes impaired loan information:

	(000 \$)	
	September 30, 2010	December 31, 2009
Impaired Loans with allocated allowance for loan losses	\$ 17,262	\$ 19,330
Impaired Loans with no allocated allowance for loan losses	5,980	5,344
	\$ 23,242	\$ 24,674

Amount of allowance allocated to impaired loans \$ 5,494 \$ 5,438
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.

Table of Contents**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 \$)			
	September 30, 2010			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government sponsored entities and entity mortgage-backed securities	\$ 2,033	\$ 58	\$	\$ 2,091
Mortgage Backed Securities Residential	299,894	16,682		316,576
Mortgage Backed Securities Commercial	142	4		146
Collateralized Mortgage Obligations	100,464	3,250		103,714
State and Municipal Obligations	153,060	10,870	(38)	163,892
Collateralized Debt Obligations	15,341		(13,145)	2,196
Equity Securities	5,128	1,391	(658)	5,861
	\$ 576,062	\$ 32,255	\$ (13,841)	\$ 594,476

	December 31, 2009			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. Government sponsored entities and entity mortgage-backed securities	\$ 4,103	\$ 45	\$	\$ 4,148
Mortgage Backed Securities Residential	285,964	14,260	(40)	\$ 300,184
Mortgage Backed Securities Commercial	162	6		\$ 168
Collateralized Mortgage Obligations	116,330	3,334	(100)	\$ 119,564
State and Municipal Obligations	143,039	5,926	(232)	\$ 148,733
Collateralized Debt Obligations	19,253		(17,837)	\$ 1,416
Other Securities	7,004	257	(189)	\$ 7,072
Equity Securities	5,668	1,462	(1,169)	5,961
	\$ 581,523	\$ 25,290	\$ (19,567)	\$ 587,246

Contractual maturities of debt securities at September 30, 2010 were as follows. Securities not due at a single maturity or with no maturity date, primarily mortgage-backed and equity securities are shown separately.

	September 30, 2010	
	Available-for-Sale	
(Dollar amounts in thousands)	Amortized Cost	Fair Value
Due in one year or less	\$ 9,024	\$ 9,162
Due after one but within five years	38,292	40,553
Due after five but within ten years	41,126	44,437
Due after ten years	182,456	177,741
	270,898	271,893
Mortgage-backed securities and equities	305,164	322,583

TOTAL \$ 576,062 \$ 594,476

There were \$348 thousand in gains and \$75 thousand in losses realized by the Corporation on investment sales and calls for the nine months ended September 30, 2010.

Table of Contents

The following tables show the securities' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position, at September 30, 2010 and December 31, 2009.

	Less Than 12 Months		September 30, 2010 More Than 12 Months		Total	
	Unrealized		Unrealized		Unrealized	
(Dollar amounts in thousands)	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
State and municipal obligations	\$	\$	1,009	(38)	1,009	(38)
Collateralized Debt Obligations			2,197	(13,145)	2,197	(13,145)
Equities	764	(100)	649	(558)	1,413	(658)
Total temporarily impaired securities	\$ 764	\$ (100)	\$ 3,855	\$ (13,741)	\$ 4,619	\$ (13,841)

	Less Than 12 Months		December 31, 2009 More Than 12 Months		Total	
	Unrealized		Unrealized		Unrealized	
(Dollar amounts in thousands)	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Mortgage Backed Securities						
Residential	\$ 6,985	\$ (38)	\$ 47	\$ (2)	\$ 7,032	\$ (40)
Collateralized mortgage obligations	6,094	(100)			6,094	(100)
State and municipal obligations	6,594	(45)	4,841	(187)	11,435	(232)
Collateralized Debt Obligations			1,416	(17,837)	1,416	(17,837)
Other Securities			811	(189)	811	(189)
Equities	543	(280)	1,150	(889)	1,693	(1,169)
Total temporarily impaired securities	\$ 20,216	\$ (463)	\$ 8,265	\$ (19,104)	\$ 28,481	\$ (19,567)

Management evaluates securities for other-than-temporary impairment (OTTI) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. The investment securities portfolio is evaluated for OTTI by segregating the portfolio into two general segments and applying the appropriate OTTI model. Investment securities classified as available for sale or held-to-maturity are generally evaluated for OTTI under FASB ASC 320, *Investments - Debt and Equity Securities*. However, certain purchased beneficial interests, including non-agency mortgage-backed securities, asset-backed securities, and collateralized debt obligations, that had credit ratings at the time of purchase of below AA are evaluated using the model outlined in FASB ASC 325-40, *Beneficial Interests in Securitized Financial Assets*.

In determining OTTI under the FASB ASC 320 model, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the security or more likely than not will be required to sell the security before its anticipated recovery. The assessment of whether other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

The second segment of the portfolio uses the OTTI guidance provided by FASB ASC 325 that is specific to purchased beneficial interests that, on the purchase date, were rated below AA. Under the FASB ASC 325 model, the Company compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. An OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

When OTTI occurs under either model, the amount of the OTTI recognized in earnings depends on whether an entity intends to sell the security or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss. If an entity intends to sell or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss, the OTTI shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the OTTI shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors is recognized in other comprehensive income, net of applicable taxes. The previous amortized cost basis less the OTTI recognized in earnings becomes the new amortized cost basis of the investment.

Gross unrealized losses on investment securities were \$13.84 million as of September 30, 2010 and \$19.6 million as of December 31, 2009. A majority of these losses represent negative adjustments to market value relative to the illiquidity in the markets on the securities and not losses related to the creditworthiness of the issuer. Unrealized losses on equity securities relate to investments in bank stocks held at the holding company. Bank stock values have been negatively impacted by the current economic environment and market pessimism. Based upon our review of the issuers during the third quarter of 2010, we recognized other-than-temporary impairment on our investment in the stock of Fifth Third Corporation in the amount of \$548 thousand. Based on our review of our other bank stock holdings we do not believe these investments to be other than temporarily impaired. It is not more likely than not that we will be required to sell them before their anticipated recovery.

Table of Contents

A significant portion of the total unrealized loss in investment securities relates to collateralized debt obligations that were separately evaluated under FASB ASC 325-40, Beneficial Interests in Securitized Financial Assets. Based upon qualitative considerations, such as a down grade in credit rating or further defaults of underlying issuers during the quarter, and an analysis of expected cash flows, we determined that one CDO included in collateralized debt obligations was other-than-temporarily impaired and wrote our investments in that CDO's totaling \$10.9 million down to their present value of expected cash flows through earnings of \$10.6 million at September 30, 2010 to properly reflect credit losses associated that CDO. The fair value of this CDO is \$528 thousand as compared to the current book value of \$10.6 million. The unrealized loss on this CDO of \$10.1 million makes up the majority of unrealized losses on CDOs of \$13.1 million. This CDO is part of the B-1 class of preTSL XI and has 65 underlying issuers, of which 49 are currently performing. Currently, deferrals and defaults make up 24% of remaining collateral. In the current quarter, one issuer that was previously in deferral has now been cured. Based on a review of the underlying issuers during the quarter, the financial condition of most issuers has remained relatively stable or improved with only a few issuers showing slight declines for the quarter, supporting the amount of OTTI recorded in relation to the total unrealized loss on this security. The issuers in these securities are primarily banks, but some of the pools do include a limited number of insurance companies. The Company uses the OTTI evaluation model to compare the present value of expected cash flows to the previous estimate to ensure there are no adverse changes in cash flows during the quarter. Three of the CDO's included in collateralized debt obligations did not have any adverse change in the projected cash flows during the quarter. During 2010 our analysis of expected cash flows determined that four CDO's included in collateralized debt obligations were other-than-temporarily impaired and recorded \$4.028 million of OTTI on these CDO's to write them down to present value of expected cash flows. The third quarter activity, which includes interest payments applied to principal on the two of the CDO's that did not experience additional impairment, brings the present value of expected cash flows through earnings of all four CDO's to \$13.16 million at September 30, 2010. The OTTI model considers the structure and term of the CDO and the financial condition of the underlying issuers. Specifically, the model details interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation of the payments to the note classes. Cash flows are projected using a forward rate LIBOR curve, as these CDOs are variable rate instruments. An average rate is then computed using this same forward rate curve to determine an appropriate discount rate (3 month LIBOR plus margin ranging from 160 to 180 basis points). The current estimate of expected cash flows is based on the most recent trustee reports and any other relevant market information including announcements of interest payment deferrals or defaults of underlying trust preferred securities. Assumptions used in the model include expected future default rates and prepayments. We assume no recoveries on defaults and treat all interest payment deferrals as defaults. In addition we use the model to stress each CDO, or make assumptions more severe than expected activity, to determine the degree to which assumptions could deteriorate before the CDO could no longer fully support repayment of the Company's note class.

Collateralized debt obligations include an additional investment in a CDO consisting of pooled trust preferred securities in which the issuers are primarily banks. This CDO with an amortized cost of \$2.2 million and a fair value of \$1.5 million is rated BAA1 and is the senior tranche, is not in the scope of FASB ASC 325 and is not considered to be other-than-temporarily impaired based on its credit quality.

Management has consistently used Standard & Poors pricing to value these investments. There are a number of other pricing sources available to determine fair value for these investments. These sources utilize a variety of methods to determine fair value. The result is a wide range of estimates of fair value for these securities. The Standard & Poors pricing ranges from .58 to 8.01 while Moody Investor Service pricing ranges from 8.90 to 76.01, with others falling somewhere in between. We recognize that the Standard & Poors pricing utilized is likely a conservative estimate, but have been consistent in using this source and its estimate of fair value.

The table below presents a rollforward of the credit losses recognized in earnings for the three and nine month periods ended September 30:

Three Months Ended
September 30,

Nine Months Ended
September 30,

Edgar Filing: FIRST FINANCIAL CORP /IN/ - Form 10-Q

	2010	2009	2010	2009
Beginning balance	\$ 14,529	\$ 9,124	\$ 11,360	\$ 6,145
Amounts related to credit loss for which an other-than-temporary impairment was not previously recognized	\$ 548	\$ 1,192	\$ 548	\$ 1,485
Increases to the amount related to the credit loss for which other-than-temporary impairment was previously recognized	311	5,950	3,480	8,636
Adoption of new accounting guidance on OTTI		(5,556)		(5,556)
Ending balance	\$ 15,388	\$ 10,710	\$ 15,388	\$ 10,710

Table of Contents**4. Fair Value**

FASB ASC No. 820-10 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1: Quoted prices (unadjusted) of identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant other observable inputs other than Level I prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair value of securities available for sale is determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

For those securities that cannot be priced using quoted market prices or observable inputs a Level 3 valuation is determined. These securities are primarily trust preferred securities, which are priced using Level 3 due to current market illiquidity and certain investments in bank equities. The fair value of the trust preferred securities is computed based upon discounted cash flows estimated using interest rates, principal balances of note classes and underlying issuers, the timing and amount of interest and principal payments of the underlying issuers, and the allocation to the note classes. Current estimates of expected cash flows is based on the most recent trustee reports and any other relevant market information, including announcements of interest payment deferrals or defaults of underlying issuers. The payment, default and recovery assumptions are believed to reflect the assumptions of market participants. Cash flows are discounted at appropriate market rates, including consideration of credit spreads and illiquidity discounts. The fair value of investments in bank equities is based on the prices of recent stock trades and is considered Level 3 because these stocks are not publicly traded.

The fair value of derivatives is based on valuation models using observable market data as of the measurement date (Level 2 inputs).

September 30, 2010
Fair Value Measurements Using Significant
Unobservable Inputs (Level 3)

(Dollar amounts in thousands)	Level 1	Level 2	Level 3	Carrying Value
U.S. Government sponsored entities and entity mortgage-backed securities	\$ 0	\$ 2,091	\$ 0	\$ 2,091
Mortgage Backed Securities-residential		316,576		316,576
Mortgage Backed Securities-commercial		\$ 146		146
Collateralized mortgage obligations		103,714		103,714
State and municipal		163,892		163,892
Collateralized debt obligations			2,196	2,196
Equities	2,529		3,332	5,861
TOTAL	\$ 2,529	\$ 586,419	\$ 5,528	\$ 594,476
Derivative Assets		2,451		
Derivative Liabilities		(2,451)		

Table of Contents

December 31, 2009
Fair Value Measurements Using Significant
Unobservable Inputs (Level 3)

(Dollar amounts in thousands)	Level 1	Level 2	Level 3	Carrying Value
U.S. Government sponsored entities and entity mortgage-backed securities	\$ 0	\$ 4,148	\$ 0	\$ 4,148
Mortgage Backed Securities-residential		300,184		300,184
Mortgage Backed Securities-commercial		\$ 168		168
Collateralized mortgage obligations		119,564		119,564
State and municipal		148,733		148,733
Collateralized debt obligations		0	1,416	1,416
Other Securities		7,072		7,072
Equities	2,600	0	3,361	5,961
TOTAL	\$ 2,600	\$ 579,869	\$ 4,777	\$ 587,246

Derivative Assets 889

Derivative Liabilities (889)

The table below presents a reconciliation and income statement classification of gains and losses for all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2010 and 2009.

	(000 s)			
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Beginning Balance	\$ 5,463	\$ 6,679	\$ 4,777	\$ 7,994
Total realized/unrealized gains or losses				
Included in earnings	(859)	(778)	(4,028)	(2,041)
Included in other comprehensive income	924		4,981	
Settlements	0		(202)	(52)
Transfers into Level 3				
Ending Balance	\$ 5,528	\$ 5,901	\$ 5,528	\$ 5,901

Changes in unrealized gains and losses recorded in earnings for the nine months ended September 30, 2010 for Level 3 assets and liabilities that are still held at September 30, 2010 were approximately \$4.0 million.

All impaired loans disclosed in footnote 2 are valued at Level 3 and are carried at a fair value of \$17.3 million, net of a valuation allowance of \$5.5 million at September 30, 2010. At December 31, 2009 impaired loans valued at Level 3 were carried at a fair value of \$19.3 million, net of a valuation allowance of \$5.4 million. The impact to the provision for loan losses was \$1.4 million for the nine months ended September 30, 2010, and was \$1.7 million for the year ended December 31, 2009. Fair value is measured based on the value of the collateral securing those loans, and is determined using several methods. Generally the fair value of real estate is determined based on appraisals by qualified licensed appraisers. If an appraisal is not available, the fair value may be determined by using a cash flow analysis, a broker's opinion of value, the net present value of future cash flows, or an observable market price from an

active market. Fair value on non real estate loans is determined using similar methods. In addition, business equipment may be valued by using the net book value from the business financial statements.

The carrying amounts and estimated fair value of financial instruments at September 30, 2010 and December 31, 2009, are shown below. Carrying amount is the estimated fair value for cash and due from banks, federal funds sold, short-term borrowings, accrued interest receivable and payable, demand deposits, short-term debt and variable-rate loans or deposits that reprice frequently and fully. Security fair values were described previously. For fixed-rate loans or deposits, variable rate loans or deposits with infrequent repricing or repricing limits, and for longer-term borrowings, fair value is based on discounted cash flows using current market rates applied to the estimated life and credit risk. Fair values of loans held for sale are based on market bids on the loans or similar loans. It was not practicable to determine the fair value of Federal Home Loan Bank stock due to restrictions placed on its transferability. Fair value of debt is based on current rates for similar financing. The fair value of off-balance sheet items is not considered material.

Table of Contents

The carrying amount and estimated fair value of financial instruments are presented in the table below and were determined based on the above assumptions:

(Dollar amounts in thousands)	September 30, 2010		December 31, 2009	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and due from banks	63,151	63,151	84,371	84,371
Federal funds sold	77,980	77,980	21,576	21,576
Securities available for sale	594,476	594,476	587,246	587,246
Federal Home Loan Bank stock	26,181	N/A	26,181	N/A
Loans, net	1,619,680	1,617,426	1,612,237	1,604,412
Accrued interest receivable	11,769	11,769	12,005	12,005
Deposits	(1,917,663)	(1,924,618)	(1,789,701)	(1,798,059)
Short term borrowings	(36,218)	(36,218)	(30,436)	(30,436)
Federal Home Loan Bank advances	(219,160)	(226,431)	(326,137)	(337,847)
Other borrowings	(6,600)	(6,600)	(6,600)	(6,600)
Accrued interest payable	(2,320)	(2,320)	(3,127)	(3,127)

5. Short-Term Borrowings

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

	(000 \$)	
	September 30, 2010	December 31, 2009
Federal Funds Purchased	\$ 4,847	\$ 5,754
Repurchase Agreements	29,427	22,578
Note Payable U.S. Government	1,944	2,104
	\$ 36,218	\$ 30,436

6. Other Borrowings

Other borrowings at period-end are summarized as follows:

	(000 \$)	
	September 30, 2010	December 31, 2009
FHLB Advances	\$ 212,560	\$ 326,137
City of Terre Haute, Indiana economic development revenue bonds	6,600	6,600
	\$ 219,160	\$ 332,737

7. Components of Net Periodic Benefit Cost

Three Months Ended September 30,
(000 \$)

Nine Months Ended September 30,
(000 \$)

Edgar Filing: FIRST FINANCIAL CORP /IN/ - Form 10-Q

	Pension Benefits		Post-Retirement Health Benefits		Pension Benefits		Post-Retirement Health Benefits	
	2010	2009	2010	2009	2010	2009	2010	2009
Service cost	\$ 773	\$ 768	\$ 16	\$ 27	\$ 2,319	\$ 2,304	\$ 49	\$ 82
Interest cost	828	693	54	60	2,485	2,080	164	180
Expected return on plan assets	(850)	(911)			(2,550)	(2,733)		
Amortization of transition obligation			16	15			45	45
Net amortization of prior service cost	(4)	(5)			(13)	(14)		
Net amortization of net (gain) loss	245	116	3	0	736	347	9	0
Net Periodic Benefit Cost	\$ 992	\$ 661	\$ 89	\$ 102	\$ 2,977	\$ 1,984	\$ 267	\$ 307

Table of Contents

Employer Contributions

First Financial Corporation previously disclosed in its financial statements for the year ended December 31, 2009 that it expected to contribute \$1.6 and \$1.2 million respectively to its Pension Plan and ESOP and \$185,000 to the Post Retirement Health Benefits Plan in 2010. Contributions of \$1.3 million have been made through the first nine months of 2010 for the Pension Plan. Contributions of \$154 thousand have been made through the third quarter of 2010 for the Post Retirement Health Benefits plan.

8. New accounting standards

In April 2010, the FASB issued ASU No. 2010-18, Receivables (Topic 310)-Effect of a Loan Modification When the Loan Is Part of a Pool That is Accounted for as a Single Asset . This ASU clarifies that modifications of loans that are accounted for within a pool under Topic 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. No additional disclosures are required with this ASU. The amendments in this ASU are effective for modifications of loans accounted for within pools under Topic 310-30 occurring in the first interim or annual period ending on or after July 15, 2010. The amendments are to be applied prospectively and early application is permitted. Upon initial adoption of the guidance in this ASU, an entity may make a onetime election to terminate accounting for loans as a pool under Topic 310-30. This election may be applied on a pool-by-pool basis and does not preclude an entity from applying pool accounting to subsequent acquisitions of loans with credit deterioration. The Corporation has evaluated the impact of adoption and does not expect the ASU will have a material impact on the Corporation's consolidated financial statements.

In July 2010, the FASB issued ASU 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. ASU 2010-20 will improve transparency in financial reporting for companies that hold financing receivables, which include loans, lease receivables and other long-term receivables. The additional disclosures required by ASU 2010-20 are effective for interim and annual reporting periods ending on or after December 15, 2010. The ASU has not yet been adopted and is not expected to have a material impact on our company's financial position, cash flows or results of operations.

9. Acquisitions

On July 2, 2009, the Bank entered into a purchase and assumption agreement with the Federal Deposit Insurance Corporation (FDIC) to assume all of the deposits (excluding brokered deposits) and certain assets of The First National Bank of Danville., a full service commercial bank headquartered in Danville, Illinois that had failed and been placed in receivership with the FDIC. The acquisition consisted of assets with a fair value of approximately \$151.8 million, including \$77.5 million of loans, \$24.2 million of investment securities, \$31.0 million of cash and cash equivalents, and \$146.3 million in liabilities, including \$145.7 million of deposits. A customer-related core deposit intangible asset of \$4.6 million was also recorded. In addition to the excess of liabilities over assets, the Bank received approximately \$14.6 million in cash from the FDIC and entered into a loss sharing agreement with the FDIC. Under the loss sharing agreement, the Bank will share in the losses on assets covered under the agreement (referred to as covered assets). On losses up to \$29 million, the FDIC has agreed to reimburse the Bank for 80 percent of the losses. On losses exceeding \$29 million, the FDIC has agreed to reimburse the bank for 95 percent of the losses. The loss sharing agreement is subject to following servicing procedures as specified in the agreement with the FDIC. The expected reimbursements under the loss sharing agreement were recorded as an indemnification asset at their estimated fair value of \$12.1 million on the acquisition date. At September 30, 2010 the indemnification asset was \$2.5 million. The decrease in this balance since acquisition date is due to reimbursement received from the FDIC on losses incurred. Based upon the acquisition date fair values of the net assets acquired, no goodwill was recorded. The transaction resulted in a gain of \$5.1 million, which was included in Non-Interest Income in the 2009 Consolidated Statement of Operations. Pro forma income statement information is not disclosed as the acquisition is immaterial to the Corporation.

Table of Contents

FASB ASC 310-30 Loans and Debt Securities Acquired with Deteriorated Credit Quality applies to a loan with evidence of deterioration of credit quality since origination, acquired by completion of a transfer for which it is probable, at acquisition, that the investor will be unable to collect all contractually required payments receivable. FASB ASC 310-30 prohibits carrying over or creating an allowance for loan losses upon initial recognition. The carrying amount of covered assets at September 30, 2010 and December 31, 2009, consisted of loans accounted for in accordance with FASB ASC 310-30, loans not subject to FASB ASC 310-30 and other assets as shown in the following table:

	September 30, 2010			
	ASC 310-30 Loans	Non ASC 310-30 Loans	Other	Total
Loans	\$ 13,230	\$ 37,383	\$	\$ 50,613
Foreclosed Assets			1,154	1,154
Total Covered Assets	\$ 13,230	\$ 37,383	\$ 1,154	\$ 51,767

	December 31, 2009			
	ASC 310-30 Loans	Non ASC 310-30 Loans	Other	Total
Loans	\$ 16,849	\$ 55,025	\$	\$ 71,874
Foreclosed Assets			1,256	1,256
Total Covered Assets	\$ 16,849	\$ 55,025	\$ 1,256	\$ 73,130

On the acquisition date, the preliminary estimate of the contractually required payments receivable for all SOP 03 -3 loans acquired in the acquisition were \$31.6 million, the cash flows expected to be collected were \$18.4 million including interest, and the estimated fair value of the loans were \$16.7 million. These amounts were determined based upon the estimated remaining life of the underlying loans, which include the effects of estimated prepayments. At September 30, 2010, a majority of these loans were valued based on the liquidation value of the underlying collateral, because the expected cash flows are primarily based on the liquidation of underlying collateral and the timing and amount of the cash flows could not be reasonably estimated. There was \$267 thousand allowance for credit losses related to these loans at September 30, 2010.

On the acquisition date, the preliminary estimate of the contractually required payments receivable for all Non FASB ASC 310-30 loans acquired in the acquisition were \$58.4 million and the estimated fair value of the loans were \$60.7 million.

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 2009 filed as an exhibit to the Corporation's 10-K filed for the fiscal year ended December 31, 2009.

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, 2009, 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, 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 and valuing investment securities. See further discussion of these critical accounting policies in the 2009 Annual Report on Form 10-K.

Table of Contents

Summary of Operating Results

Net income for the three and nine months ended September 30, 2010 was \$6.29 and \$19.69 million respectively compared to \$7.72 and \$16.87 million for the same period of 2009. Basic earnings per share decreased to \$0.48 for the third quarter of 2010 compared to \$0.59 for same period of 2009. Return on Assets and Return on Equity were 0.99% and 7.79% respectively for the three months ended September 30, 2010, compared to 1.26% and 10.25% for the three months ended September 30, 2009. The third quarter of 2009 results were positively impacted by the \$5.4 million gain on acquisition of The First National Bank of Danville from the FDIC that was recorded during that quarter. See note 9 for further discussion of this acquisition.

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 \$1.79 million in the three months ended September 30, 2010 to \$24.7 million from \$22.9 million in the same period in 2009. The net interest margin for the three months ended September 30, 2010 is 4.39% compared to 4.29% for the same period of 2009, a 2.33% increase, driven by a greater decline in the costs of funding than the decline in the income realized on earning assets.

Non-Interest Income

Non-interest income for the three months ended September 30, 2010 was \$7.3 million compared to the \$10.3 million for the same period of 2009. During the third quarter of 2009 a gain on acquisition of business of \$5.4 million was recognized as discussed in Note 9. Non-interest income was reduced by the other than temporary impairment loss on securities which was \$2.5 million less in the three months ended September 30, 2010 than for the same period of 2009. Further discussion on OTTI is included in Note 3. Mortgage loan sales for the Corporation as a result of the lower interest rate environment has produced gains on sale of mortgage loans of \$630 thousand, an increase of \$104 thousand in the third quarter of 2010 compared to the same period of 2009.

Non-Interest Expenses

The Corporation's non-interest expense for the quarter ended September 30, 2010 increased by \$2.1 million compared to the same period in 2009 due to increased personnel and occupancy costs of \$1.6 million associated in part with the acquisition of the business unit discussed in Note 9. The non-interest expenses are up for the year \$4.4 million includes nine months of expenses associated with the acquisition of the First National Bank of Danville while 2009 includes just three months of those expenses in the same nine month period.

Allowance for Loan Losses

The Corporation's provision for loan losses decreased \$2.37 million for the nine months ended September 30, 2010 compared to the same period of 2009. The provision was \$7.01 million for the nine months ended September 30, 2010, compared to \$9.38 million for the same period of 2009, while net charge-offs for the same periods decreased by \$359 thousand. The volume of impaired and non-accrual loans have remained relatively stable reflecting management's conservative approach to the recognition of problem credits as well as from the acquisition of a failed financial institution from the FDIC. The specific allocation of probable losses for these credits decreased by \$309 thousand from September 30, 2009, however, allocations on non-impaired classified loan pools have increased \$722 thousand for a net increase in allocations on classified loans of \$413 thousand. The allowance for loan losses has increased from 1.19% of gross loans, or \$19.4 million at December 31, 2009 to 1.22% of gross loans, or \$20.0 million at September 30, 2010. 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, 2010 and December 31, 2009 follows:

	(000 s)	
	September 30, 2010	December 31, 2009
Non-accrual loans	\$ 37,596	\$ 35,953
Restructured loans	61	90
Accruing loans past due over 90 days	6,286	8,218
	\$ 43,943	\$ 44,261
Ratio of the allowance for loan losses as a percentage of non-performing loans	45%	44%

Table of Contents

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

	(000 s)	
	September 30, 2010	December 31, 2009
Non-accrual loans		
Commercial loans	\$ 27,393	\$ 30,360
Residential loans	8,353	3,862
Consumer loans	1,850	1,731
	\$ 37,596	\$ 35,953
Past due 90 days or more		
Commercial loans	\$ 4,956	\$ 6,255
Residential loans	1,248	1,837
Consumer loans	82	126
	\$ 6,286	\$ 8,218

The following table is information on the non-accrual loans at September 30, 2010 that were from the assumption of assets from The First National Bank of Danville:

	(000 s) September 30, 2010	(000 s) December 31, 2009
Non-accrual loans		
Commercial loans	\$ 5,688	\$ 7,356
Residential loans	1,459	168
Consumer loans		
	\$ 7,147	\$ 7,524

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, 2010. 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 increase 1.38% over the next 12 months and increase 3.47% over the following 12 months.

Given a 100 basis point decrease in rates, net interest income would increase 0.01% over the next 12 months and decrease 1.02% 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	-1.08%	-4.03%	-6.24%
Down 100	0.01	-1.02	-1.96
Up 100	1.38	3.47	5.92
Up 200	2.73	6.44	11.26

Table of Contents

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 \$7.7 million of investments that mature throughout the coming 12 months. The Corporation also anticipates \$130.5 million of principal payments from mortgage-backed securities. Given the current rate environment, the Corporation anticipates \$11.7 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 third quarter of 2010 to the same period in 2009, loans, net of unearned discount are unchanged. Deposits are up \$190.0 million at September 30, 2010, a 11.0% increase from the balances at the same time in 2009. Shareholders' equity increased \$18.5 million from September 30, 2009. This financial performance increased book value per share 6.1% to \$25.00 at September 30, 2010 from \$23.58 at September 30, 2009. Book value per share is calculated by dividing the total shareholders' equity by the number of shares outstanding.

Capital Adequacy

As of September 30, 2010, 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. Below are the capital ratios for the Corporation and lead bank.

	September 30, 2010	December 31, 2009	To Be Well Capitalized
Total risk-based capital			
Corporation	17.33%	16.44%	N/A
First Financial Bank	16.99%	16.09%	10.00%
Tier I risk-based capital			
Corporation	16.30%	15.45%	N/A
First Financial Bank	16.10%	15.23%	6.00%
Tier I leverage capital			
Corporation	12.52%	12.01%	N/A
First Financial Bank	12.32%	11.86%	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, 2010, an evaluation was performed under the supervision and with the participation of management, including the principal executive officer and principal financial officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. Based on that evaluation, management, including the principal executive officer and principal financial officer, concluded that the Corporation's disclosure controls and procedures as of September 30, 2010 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 was no change in the Corporation's internal control over financial reporting that occurred during the quarter ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Table of Contents**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 1 A. Risk Factors.

There have been no material changes in the risk factors from those disclosed in the Corporation's 2009 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	(c) Maximum Number Of Shares That May Yet Be Purchased
July 1 - 31, 2010	2,500	26.50	N/A	N/A
August 1-31, 2010			N/A	N/A
September 1-30, 2010			N/A	N/A
Total	2,500	26.50	N/A	N/A

ITEM 3. Defaults upon Senior Securities.

Not applicable.

ITEM 4. (Removed and Reserved)**ITEM 5. Other Information.**

Not applicable.

Table of Contents

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 8-K filed on July 27, 2009.
10.1	Employment Agreement for Norman L. Lowery, dated March 26, 2010 and effective January 1, 2010 included as exhibit 10.1 of the Corporation's Form 10-Q filed May 7, 2010.
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	2010 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, 2009.
10.4	2010 Schedule of Named Executive Officer Compensation, incorporated by reference to the Corporation's Form 10-K filed for the fiscal year ended December 31, 2009.
10.5	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.
31.1	Sarbanes-Oxley Act 302 Certification for Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 by Principal Executive Officer, dated November 3, 2010.
31.2	Sarbanes-Oxley Act 302 Certification for Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 by Principal Financial Officer, dated November 3, 2010.
32.1	Certification, dated November 3, 2010, 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, 2010.

Table of Contents

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 3, 2010

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

Date: November 3, 2010

By: /s/ Norman L. Lowery
Norman L. Lowery, Vice Chairman and
CEO
(Principal Executive Officer)

Date: November 3, 2010

By: /s/ Rodger A. McHargue
Rodger A. McHargue, Treasurer and
CFO
(Principal Financial Officer)

Table of Contents

Exhibit Index

<i>Exhibit No.:</i>	<i>Description of Exhibit:</i>
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 8-K filed on July 27, 2009.
10.1	Employment Agreement for Norman L. Lowery, dated March 26, 2010 and effective January 1, 2010 included as exhibit 10.1 of the Corporation's Form 10-Q filed May 7, 2010.
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	2010 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, 2009.
10.4	2010 Schedule of Named Executive Officer Compensation, incorporated by reference to the Corporation's Form 10-K filed for the fiscal year ended December 31, 2009.
10.5	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.
31.1	Sarbanes-Oxley Act 302 Certification for Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 by Principal Executive Officer, dated November 3, 2010.
31.2	Sarbanes-Oxley Act 302 Certification for Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 by Principal Financial Officer, dated November 3, 2010.
32.1	Certification, dated November 3, 2010, 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, 2010.