FIRST FINANCIAL CORP /IN/
Form 10-Q
November 08, 2006

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, 2006

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 X No .

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

Large accelerated filer ___ Accelerated filer X Non-accelerated filer ___.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ___ No X .

As of November 3, 2006, the Registrant had outstanding 13,290,321 shares of common stock, without par value.

FIRST FINANCIAL CORPORATION

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Part I - Financial Information
Item 1. Financial Statements

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

	September 30, 2006 (Unaudited)	December 31, 2005
ASSETS		
Cash and due from banks	$ 67,900	$ 78,201
Federal funds sold and short-term investments	80	2,982
Securities available-for-sale	557,905	536,291

Loans:		
Commercial, financial and agricultural	408,306	382,214
Real estate - construction	29,299	31,918
Real estate - mortgage	695,679	707,008
Installment	258,109	272,062
Lease financing	2,657	2,845
	1,394,050	1,396,047
Less:		
Unearned income	(255)	(306)
Allowance for loan losses	(15,822)	(16,042)
	1,377,973	1,379,699
Accrued interest receivable	12,989	12,537
Premises and equipment, net	31,261	31,270
Bank-owned life insurance	57,342	55,832
Goodwill	7,102	7,102
Other intangible assets	2,480	2,860
Other real estate owned	3,853	4,115
Other assets	22,884	26,029
TOTAL ASSETS	$2,141,769	$2,136,918
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing	$ 215,025	$ 182,416
Interest-bearing:		
Certificates of deposit of $100 or more	209,282	189,493
Other interest-bearing deposits	1,053,295	1,093,009
	1,477,602	1,464,918
Short-term borrowings	17,014	26,224
Other borrowings	341,817	343,866
Other liabilities	27,845	32,587
TOTAL LIABILITIES	1,864,278	1,867,595
Shareholders' equity		
Common stock, $.125 stated value per share; Authorized shares--40,000,000 Issued shares-14,450,966 Outstanding shares--13,256,321 in 2006 and 13,373,570 in 2005	1,806	1,806
Additional paid-in capital	67,670	67,670
Retained earnings	235,526	223,710
Accumulated other comprehensive income	1,677	1,903
Treasury shares at cost 1,194,645 in 2006 and 1,077,396 in 2005	(29,188)	(25,766)
TOTAL SHAREHOLDERS' EQUITY	277,491	269,323
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$2,141,769	$2,136,918

See accompanying notes.

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,	
	2006	2005	2006	2005
	(Unaudited)		(Unaudited)	
INTEREST INCOME:				
Loans, including related fees	$25,390	$24,654	$74,203	$71,879
Securities:				
Taxable	5,488	4,211	16,355	11,958
Tax-exempt	1,578	1,561	4,651	4,731
Other	556	467	2,003	1,466
TOTAL INTEREST INCOME	33,012	30,893	97,212	90,034
INTEREST EXPENSE:				
Deposits	9,693	7,132	27,251	19,577
Short-term borrowings	254	143	539	434
Other borrowings	4,821	4,933	14,271	14,717
TOTAL INTEREST EXPENSE	14,768	12,208	42,061	34,728
NET INTEREST INCOME	18,244	18,685	55,151	55,306
Provision for loan losses	2,495	2,608	5,343	8,614
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	15,749	16,077	49,808	46,692
NON-INTEREST INCOME:				
Trust and financial services	1,021	1,001	2,938	2,857
Service charges and fees on deposit accounts	2,941	3,071	8,777	8,650
Other service charges and fees	1,325	1,837	3,952	4,857
Securities gains/ (losses), net	(1)	545	8	570
Insurance commissions	1,608	1,516	4,461	4,393
Gain on sale of mortgage loans	26	336	180	959
Other	144	501	1,376	2,060
TOTAL NON-INTEREST INCOME	7,064	8,807	21,692	24,346
NON-INTEREST EXPENSES:				
Salaries and employee benefits	10,178	9,560	30,741	28,444
Occupancy expense	983	980	2,868	2,892
Equipment expense	1,043	1,024	3,211	2,863
Other	3,466	4,401	11,277	12,884
TOTAL NON-INTEREST EXPENSE	15,670	15,965	48,097	47,083
INCOME BEFORE INCOME TAXES	7,143	8,919	23,403	23,955
Provision for income taxes	1,688	2,596	6,014	6,329
NET INCOME	$ 5,455	$ 6,323	$17,389	$17,626
EARNINGS PER SHARE:				
Basic and Diluted	$ 0.41	$ 0.47	$ 1.31	$ 1.31
Dividends per share	$ --	$ --	$ 0.42	$ 0.40

Weighted average number of shares outstanding (in thousands)	13,261	13,395	13,302	13,457

See accompanying notes

FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Nine months Ended
September 30, 2006 and 2005
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasu Stoc
Balance, January 1, 2006	$1,806	$67,670	$223,710	$1,903	$(25,7
Comprehensive income:					
Net income			17,389		
Change in net unrealized gains/ (losses) on securities available-for-sale				(226)	
Total comprehensive income					
Cash dividends, $.42 per share			(5,573)		
Treasury stock purchase					(3,4
Balance, September 30, 2006	$1,806	$67,670	$235,526	$1,677	$(29,1
Balance, January 1, 2005	$1,806	$67,519	$211,623	$8,357	$(20,9
Comprehensive income:					
Net income			17,626		
Change in net unrealized gains/ (losses) on securities available-for-sale				(3,501)	
Total comprehensive income/(loss)					
Cash dividends, $.40 per share			(5,364)		
Treasury stock purchase					(4,6
Balance, September 30, 2005	$1,806	$67,519	$223,885	$4,856	$(25,5

See accompanying notes.

FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Three Months Ended
September 30, 2006, and 2005
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/ (Loss)	Treasury Stock
Balance, July 1, 2006	$1,806	$67,670	$230,071	$(3,632)	$(28,839)
Comprehensive income:					
Net income			5,455		
Change in net unrealized gains/ (losses) on securities available-for-sale				5,309	
Total comprehensive income					
Treasury stock purchase					(349)
Balance, September 30, 2006	$1,806	$67,670	$235,526	$ 1,677	$(29,188)
Balance, July 1, 2005	$1,806	$67,519	$217,562	$ 6,413	$(24,755)
Comprehensive income					
Net income			6,323		
Change in net unrealized gains/ (losses) on securities available for sale				(1,557)	
Total comprehensive income					
Treasury stock purchase					(821)
Balance, September 30, 2005	$1,806	$67,519	$223,885	$ 4,856	$(25,576)

See accompanying notes.

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

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
	(Unaudited)	

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 17,389	$ 17,626
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization (accretion) of premiums and discounts on investments	(1,894)	(734)
Provision for loan losses	5,343	8,614
Securities (gains), net	(8)	(570)
Depreciation and amortization	2,646	2,493
Other, net	(478)	(3,828)
NET CASH FROM OPERATING ACTIVITIES	22,998	23,601
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales of securities available-for-sale	737	11,900
Maturities and principal reductions on securities available-for-sale	124,118	137,324
Purchases of securities available-for-sale	(144,942)	(201,734)
Loans made to customers, net of repayments	(6,257)	26,758
Net change in federal funds sold	2,902	(2,705)
Additions to premises and equipment	(2,257)	(1,177)
NET CASH FROM INVESTING ACTIVITIES	(25,699)	(29,634)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in deposits	12,684	43,457
Net change in short-term borrowings	(9,210)	(29,966)
Dividends paid	(5,603)	(10,778)
Purchase of treasury stock	(3,422)	(4,606)
Repayments on other borrowings	(2,049)	(18,608)
NET CASH FROM FINANCING ACTIVITIES	(7,600)	(20,501)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(10,301)	(26,534)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	78,201	94,928
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 67,900	$ 68,394

See accompanying notes.

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FIRST FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying September 30, 2006 and 2005 consolidated financial statements are unaudited. The December 31, 2005 consolidated financial statements are as reported in the First Financial Corporation (the "Corporation") 2005 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 2005 annual report filed with the Securities and Exchange Commission as an exhibit to Form 10-K.

1. The significant accounting policies followed by the Corporation and its subsidiaries for interim financial reporting are consistent with the accounting policies followed for annual financial reporting. All adjustments which are, in

the opinion of management, necessary for a fair statement of the results for the periods reported have been included in the accompanying consolidated financial statements and are of a normal recurring nature. The Corporation reports financial information for only one segment, banking. Some items in the prior year financials were reclassified to conform to the current presentation.

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

	(000's)	
	September 30, 2006	December 31, 2005
Impaired loans with related allowance for loan losses calculated under SFAS No. 114	$1,850	$3,622
Impaired loans with no related allowance for loan losses	504	500
	$2,354	$4,122

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) September 30, 2006		(000's) December 31, 2005	
	Amortized Cost	Fair Value	Amortized Cost	Fair V
United States Government entity mortgage-backed securities	$336,992	$332,041	$306,697	$301,
Collateralized Mortgage Obligations	111	118	2,357	2,
State and Municipal Obligations	136,151	139,450	129,916	134,
Corporate Obligations	77,340	77,854	89,740	90,
Equity Securities	4,518	8,442	4,410	8,
	$555,112	$557,905	$533,120	$536,

4. Short-Term Borrowings

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

	September 30, 2006 (000's)	December 31, 2005 (000's)
Federal Funds Purchased	$10,974	$19,032
Repurchase Agreements	4,919	5,579
Note Payable - U.S. Government	1,121	1,613
	$17,014	$26,224

5. Other Borrowings

Other borrowings at period-end are summarized as follows:

	September 30, 2006 (000's)	December 31, 2005 (000's)
FHLB advances	$335,217	$337,266
City of Terre Haute, Indiana economic development revenue bonds	6,600	6,600
	$341,817	$343,866

6. Components of Net Periodic Benefit Cost

	Three Months ended September 30 (000's)				Nine Months ended (000's	
	Pension Benefits		Post-Retirement Health Benefits		Pension Benefits	
	2006	2005	2006	2005	2006	2005
Service cost	$ 749	$ 701	$ 29	$ 35	$ 2,248	$ 2,104
Interest cost	591	622	75	80	1,773	1,867
Expected return on plan assets	(698)	(821)	--	--	(2,095)	(2,463)
Amortization of transition obligation	--	--	15	15	--	--
Amortization of prior service cost	14	14	--	--	42	42
Amortization of net (gain) loss	191	62	60	63	572	185
Net Periodic Benefit Cost	$ 847	$ 578	$179	$193	$ 2,540	$ 1,735

Employer Contributions

First Financial Corporation previously disclosed in its financial statements for the year ended December 31, 2005 that it expected to contribute $1.5 and $1.2 million respectively to its Pension Plan and ESOP and $294,000 to the Post Retirement Health Benefits Plan in 2006. First Financial Corporation anticipates contributing $1.5 and $1.2 million respectively to its Pension Plan and ESOP in 2006. Contributions of $261,000 have been made through the third quarter of 2006 for the Post Retirement Health Benefits plan. First Financial Corporation anticipates contributing an additional $71,000 to the Post Retirement Health Benefits plan in 2006.

7. Recent Accounting Pronouncements

FASB Interpretation No. 48 - In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" (FIN 48), which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are still evaluating the impact, if any, the adoption of FIN 48 will have on our financial statements.

SFAS No. 157 -- In September 2006, the Financial Accounting Standards Board (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 new standard is effective for fiscal years beginning after November 15, 2007. The Company does not believe that the adoption of SFAS No. 157 will have a material impact to the financial statements.

SPAS No. 158 -- In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 158 Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans -- an amendment of FASB Statements No. 87, 88, 106 and 132(R). This Statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in the funded status in the year in which the changes occur through comprehensive income. Defined benefit plan assets and obligations are to be measured as of the date of the employer's fiscal year-end. The employer must disclose in the notes to the financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of gains and losses, prior service costs or credits, and transition asset or obligation. The new standard is effective for employers with publicly traded equity securities as of the end of the fiscal year ending after December 15, 2006. The Company has not completed it's evaluation of the impact of the adoption of SFAS No. 158. The Corporation currently has a

prepaid asset in the financial statements and anticipates recording a liability under this new accounting standard, as the projected benefit obligation exceeds the fair value of plan assets.

SAB 108 -- In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 (SAB 108). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a potential current year misstatement. Prior to SAB 108, companies might evaluate the materiality of financial statement misstatements using either the income statement or balance sheet approach, with the income statement approach focusing on new misstatements added in the current year, and the balance sheet approach focusing on the cumulative amount of misstatement present in a company's balance sheet. Misstatements that would be material under one approach can be viewed as immaterial under another approach, and not be corrected. SAB 108 now requires that companies view financial statement misstatements as material if they are material according to either the income statement or balance sheet approach. This statement is effective as of the end of the fiscal year ending after December 15, 2006. The Corporation is currently evaluating the impact of adopting SAB 108 on the consolidated financial statements.

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 2005.

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, 2005, 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 2005 Annual Report on Form 10-K.

Summary of Operating Results

Net income for the nine months ended September 30, 2006 was $17.4 million compared to $17.6 million for the same period in 2005. Basic earnings per share was the same for those periods at $1.31 per average share outstanding. The three months ending on September 30, 2006 produced $5.5 million and $0.41 per share compared to $6.3 million and $0.47 per share for the same period in 2005.

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 was down $155 thousand in the first nine months of 2006 from the same period in 2005. The net interest margin was one basis point higher at 3.92% in 2006 from 3.91% in 2005. The net interest income for the third quarter of 2006 at $18.2 million was down $441 thousand from the same period in 2005.

Non-Interest income

Non-interest income for the first nine months of 2006 was $21.7 million. The strategy of holding mortgage loans in the portfolio has the effect of reducing non-interest income. Loan fees are deferred and amortized over the life of the loan when retained, rather than recognized upon sale. Additionally, there are reduced gains from the sale of loans. This was the primary difference between current year results and the $24.3 million of non-interest income for the same period in 2005 when loans were being sold. Deposit fee income, however, increased due to the higher level of deposits in 2006. Gains from the sale of investment securities are also down $562 thousand when compared year over year through September 30. Non-interest income for the three months ended September 30, 2006 was $7.1 million compared to $8.8 million for the third quarter of 2005. Gains on investment securities and loan sales combined accounted for $856 thousand of this $1.7 million decrease.

Non-Interest Expenses

The Corporation's non-interest expense for the nine months ended September 30, 2006 compared to the same period in 2005 increased by $1.0 million. Equipment expenses and personnel costs were higher during the first nine months of 2006 compared to the same period of 2005. Cost increases included merit increases in salaries and higher benefit costs, as well as the new banking center in Vincennes, Indiana opened early in 2006. The effective tax rate for 2006 has increased to 25.7% compared to 26.4% for 2005. The non-interest expense for the three months ended September 30, 2006 was less than the same period of 2005 by $295 thousand.

Provision for Loan Losses

The Corporation's provision for loan losses decreased $3.3 million for the nine months ended September 30, 2006 compared to the same period of 2005. Net charge-offs for the first nine months of 2006 were $5.6 million compared to $12.2 million for the same period in 2005. The provision for loan losses was virtually the same for the third quarter of 2006 compared to 2005. The allowance for loan losses as a percentage of total loans has remained relatively stable at 1.14% as of September 30, 2006, compared to 1.15% as of December 31, 2005.

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, 2006 and December 31, 2005 follows:

	(000's)	
	September 30, 2006	December 31, 2005
Non-accrual loans	$10,152	$ 8,464
Restructured loans	52	57
	10,204	8,521
Accruing loans past due over 90 days	4,702	6,354
	$14,906	$14,875
Ratio of the allowance for loan losses as a percentage of non-performing loans	106%	108%

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

	(000's)	
	September 30, 2006	December 31, 2005
Non-Accrual Loans:		
1-4 family residential	$ 1,593	$1,118
Commercial loans	6,585	5,888
Installment loans	1,974	1,458
	$10,152	$8,464

Past due 90 days or more:		
1-4 family residential	$ 2,094	$3,197
Commercial loans	1,983	1,554
Installment loans	625	1,603
	$ 4,702	$6,354

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, 2006. 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 4.45% over the next 12 months and decrease 1.76% over the following 12 months. Given a 100 basis point decrease in rates, net interest income would increase 1.31% over the next 12 months and decrease 1.55% over the following 12 months. These estimates assume all rate changes occur overnight and management takes no action as a result of this change.

	Percentage Change in Net Interest Income		
Basis Point Interest Rate Change	12 months	24 months	36 months

Down 200	3.62	-2.53	-4.56
Down 100	1.31	-1.55	-8.87
Up 100	-4.45	-1.76	1.76
Up 200	-12.60	-7.65	-.76

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.

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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 $12.7 million of investments that mature throughout the coming 12 months. The Corporation also anticipates $68.7 million of principal payments from mortgage-backed securities. Given the current rate environment, the Corporation anticipates $22.3 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

In the first nine months of 2006 loans are down $1.9 million from the end of 2005. Deposits are up $12.7 million. Investments increased $21.6 million. Short and long term borrowings decreased $11.3 million. The percentage of the allowance for loan and lease losses remained virtually the same at 1.14% of loans at September 30, 2006 compared to 1.15% at December 31,2005. The Corporation's equity increased $8.2 million.

Capital Adequacy

As of September 30, 2006, the most recent notification from the respective regulatory agencies categorized the subsidiary banks as well capitalized under the regulatory framework for prompt corrective action regulations. 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 actual and required capital ratios for the Corporation and lead bank.

	September 30, 2006	December 31, 2005	To Be Well Capitalized
Total risk-based capital ratio			
Corporation	17.68%	16.99%	N/A
First Financial Bank	17.79%	17.09%	10.00%
Tier I risk-based capital ratio			
Corporation	16.69%	15.99%	N/A
First Financial Bank	16.98%	16.20%	6.00%
Tier I leverage capital ratio			

Corporation	12.51%	11.89%	N/A
First Financial Bank	11.31%	11.94%	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, 2006, 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 including the Chief Executive Officer and Chief Financial Officer, concluded that disclosure controls and procedures as of September 30, 2006 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, 2006 that have materially affected, or is 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 2005 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 Nu Shares That Be Purch
July 1 - 31, 2006	--	--	N/A	N/A
August 1 - 31, 2006	11,700	29.85	N/A	N/A
September 1 - 30, 2006	--		N/A	N/A
Total	11,700	29.85	N/A	N/A

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

ITEM 5. Other Information.

Not applicable.

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ITEM 6. Exhibits.

Exhibit No.:	Description of Exhibit:
3.1	Amended and Restated Articles of Incorporation of First Financial Corporation, incorporated by reference to Exhibit 3(i) of the Corporation's Form 10-Q filed for the quarter ended September 30, 2002.
3.2	Code of By-Laws of First Financial Corporation, incorporated by reference to Exhibit 3(ii) of the Corporation's Form 10-Q filed for the quarter ended September 30, 2002.
10.1	Employment Agreement for Norman L. Lowery, dated March 29, 2006 and effective January 1, 2006, incorporated by reference to Exhibit 10.1 to the Corporation's Form 8-K filed on March 31, 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	2006 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, 2005.
10.4	First Amendment to 2001 Long-Term Incentive Plan of First Financial Corporation.
10.5	Second Amendment to 2001 Long-Term Incentive Plan of First Financial Corporation.
10.6	2006 Schedule of Named Executive Officer Compensation, incorporated by reference to Exhibit 10.4 of the Corporation's

Form 10-K filed for the fiscal year ended December 31, 2005.

10.7	First Financial Executives' Supplemental Retirement Plan.
10.8	First Amendment to First Financial Corporation Executives' Supplemental Retirement Plan.
10.9	Second Amendment to First Financial Corporation Executives' Supplemental Retirement Plan.
10.10	First Financial Corporation Executives' Deferred Compensation Plan.
10.11	First Amendment to First Financial Corporation Executives' Deferred Compensation Plan.
31.1	Sarbanes-Oxley Act 302 Certification for Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 by Principal Executive Officer, dated November 3, 2006.
31.2	Sarbanes-Oxley Act 302 Certification for Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 by Principal Financial Officer, dated November 3, 2006.
32.1	Certification, dated November 3, 2006, of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act on Form 10-Q for the quarter ended September 30, 2006.

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, 2006 By /s/ Donald E. Smith

Donald E. Smith, Chairman

Date: November 3, 2006 By /s/ Norman L. Lowery

Norman L. Lowery, Vice Chairman and CEO

Date: November 3, 2006 By /s/ Michael A. Carty

Michael A. Carty, Treasurer and CFO

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