

FIRST FINANCIAL CORP /IN/

Form 10-K

March 13, 2009

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2008**

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 0-16759  
FIRST FINANCIAL CORPORATION  
(Exact name of registrant as specified in its charter)**

**INDIANA  
(State of Incorporation)**

**35-1546989  
(I.R.S. Employer Identification Number)**

**One First Financial Plaza  
Terre Haute, Indiana  
(Address of Registrant's Principal Executive Offices)**

**47807  
(Zip Code)**

**(812) 238-6000  
(Registrant's Telephone Number, Including Area Code)  
Securities registered pursuant to Section 12(b) of the Act:**

| <b>Title of each class</b>  | <b>Name of Exchange on Which Registered</b> |
|---|---|
| <b>Common Stock, no par value<br/>Securities registered pursuant to Section 12(g) of the Act:</b> | <b>The NASDAQ Stock Market LLC</b>          |

**None**

Indicate by check mark if the registrant is a well-known-seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 definition of "accelerated filer", "large accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act of 1934.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No   
As of June 30, 2008 the aggregate market value of the voting stock held by nonaffiliated of the registrant based on the average bid and ask prices of such stock was \$388,150,497. (For purposes of this calculation, the Corporation excluded the stock owned by certain beneficial owners and management and the Corporation's ESOP.)  
Shares of Common Stock outstanding as of March 12, 2009 13,116,630 shares.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the 2008 Annual Report to Shareholders are incorporated by reference into Parts I and II. Portions of the Definitive Proxy Statement for the First Financial Corporation Annual Meeting of Shareholders to be held April 15, 2009 are incorporated by reference into Part III.

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**PART I**

**ITEM 1. BUSINESS**

First Financial Corporation (the Corporation) is a financial holding company. The Corporation was originally organized as an Indiana corporation in 1984 to operate as a bank holding company. For more information on the Corporation's business, please refer to the following sections of the 2008 Annual Report to Shareholders, which are incorporated by reference into this Form 10-K:

1. The first 4 paragraphs on page 37.
2. The first 5 paragraphs of Note 1 to the Consolidated Financial Statements on page 14.

As a financial holding company, the Corporation is subject to regulation under the Bank Holding Company Act of 1956, as amended (the BHC Act), is subject to periodic examination by the Federal Reserve and is required to file periodic reports of its operations and any additional information that the Federal Reserve may require. With some limited exceptions, the BHC Act requires every holding company to obtain the prior approval of the Federal Reserve before acquiring another bank holding company or acquiring more than five percent of the voting shares of a bank (unless it already owns or controls the majority of such shares).

The BHC Act restricts the Corporation's non-banking activities to those which are determined by the Federal Reserve Board to be financial in nature, incidental to such financial activity, or complementary to a financial activity. The BHC Act does not place territorial restrictions on the activities of non-bank subsidiaries of financial holding companies. The Corporation's banking subsidiaries are subject to limitations with respect to transactions with affiliates.

The Corporation is qualified as a financial holding company and as such is authorized to engage in, or acquire companies engaged in, a broader range of activities than are permitted for a bank holding company that is not qualified as a financial holding company. These activities include those that are determined to be financial in nature, including insurance underwriting, securities underwriting and dealing, and making merchant banking investments in commercial and financial companies. If any of our banking subsidiaries ceases to be well capitalized or well managed under applicable regulatory standards, the Federal Reserve may, among other things, place limitations on our ability to conduct these broader financial activities or, if the deficiencies persist, require us to divest the banking subsidiary. In addition, if any of our banking subsidiaries receives a rating of less than satisfactory under the Community Reinvestment Act of 1977 (CRA), we would be prohibited from engaging in any additional activities other than those permissible for bank holding companies that are not financial holding companies. Our banking subsidiaries currently meet these capital, management and CRA requirements.

The Corporation and the Bank are also subject to certain regulatory restrictions, capital adequacy guidelines and various legal and regulatory restrictions on the payment of dividends, as summarized in Note 16 to the Consolidated Financial Statements.

In accordance with Federal Reserve Board policy, the Corporation is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances in which the Corporation might not otherwise do so.

The Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act), which became law on July 30, 2002, added new legal requirements for public companies affecting corporate governance, accounting and corporate reporting. The Sarbanes-Oxley Act provides for, among other things:

- independence requirements for audit committee members;
- independence requirements for company auditors;
- certification of financial statements on Forms 10-K and 10-Q reports by the chief executive officer and the chief financial officer;
- disclosure of off-balance sheet transactions;

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disclosure of a code of ethics for financial officers and filing a Form 8-K for a change in or waiver of such code;  
the reporting of securities violations up the ladder by both in-house and outside attorneys;  
restrictions on the use of non-GAAP financial measures in press releases and SEC filings;  
the formation of a public accounting oversight board; and  
various increased criminal penalties for violations of securities laws.

The SEC has been delegated the task of enacting rules to implement various provisions of the Sarbanes-Oxley Act. In addition, each of the national stock exchanges developed corporate governance rules, including rules strengthening director independence requirements for boards, and the adoption of corporate governance codes and charters for the nominating, corporate governance and audit committees.

The Corporation's earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve Bank's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve Board have major effects upon the levels of bank loans, investments and deposits through its open market operations in United States government securities and through its regulation of the discount rate on borrowings of member banks and the reserve requirements against member bank deposits. It is not possible to predict the nature or impact of future changes in monetary and fiscal policies.

As an FDIC-insured institution, the Bank is required to pay deposit insurance premium assessments to the FDIC. The FDIC has adopted a risk-based assessment system whereby FDIC-insured depository institutions pay insurance premiums at rates based on their risk classification. An institution's risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators. Under the regulations of the FDIC, as presently in effect, insurance assessments range from 0.12% to 0.50% of total deposits for the first quarter 2009 assessment period only (subject to the application of assessment credits, if any, issued by the FDIC in 2008). Effective April 1, 2009, insurance assessments will range from 0.07% to 0.78%, depending on an institution's risk classification, as well as its unsecured debt, secured liability and brokered deposits. In addition, under an interim rule, the FDIC may impose a 20 basis point emergency special assessment on insured depository institutions on June 30, 2009. The emergency special assessment will be collected on September 30, 2009. The interim rule also authorizes the FDIC to impose an additional emergency special assessment after June 30, 2009, of up to 10 basis points, if necessary to maintain public confidence in federal deposit insurance.

Deposits in the Bank are insured by the FDIC up to a maximum amount, which is generally \$250,000 (in effect until December 31, 2009) per depositor subject to aggregation rules. The Bank is also subject to assessment for the Financial Corporation ( FICO ) to service the interest on its bond obligations. The amount assessed on individual institutions, including the Bank, by FICO is in addition to the amount paid for deposit insurance according to the risk-related assessment rate schedule. Increases in deposit insurance premiums or changes in risk classification will increase the Bank's cost of funds, and it may not be able to pass these costs on to its customers. During 2007, the FDIC began collecting deposit insurance premiums in arrears. The last payment was made by the Bank on December 30, 2008, for the quarter ended September 30, 2008, in the amount of \$22,105.97.

The Bank is subject to the provisions of the National Bank Act, is under the supervision of, and is subject to periodic examination by, the Comptroller of the Currency (the OCC), is subject to the rules and regulations of the OCC, Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (FDIC). The Bank is also subject to certain laws of each state in which it is located.

The Federal Reserve adopted Regulation CC and its commentary to implement the Check Clearing for the 21st Century Act (the Check 21 Act ). To facilitate check truncation and electronic check exchange, the Check 21 Act authorizes a new negotiable instrument called a substitute check and provides that a properly prepared substitute check is the legal equivalent of the original check for all purposes. A substitute check is a paper reproduction of the original check that can be processed just like the original check. The Check 21 Act does not require any bank to create substitute checks or to accept checks electronically.





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The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the USA Patriot Act ) is intended to strengthen the ability of U.S. Law Enforcement to combat terrorism on a variety of fronts. The USA Patriot Act contains sweeping anti-money laundering and financial transparency laws and requires financial institutions to implement additional policies and procedures with respect to, or additional measures designed to address, any or all of the following matters, among others: money laundering and currency crimes, customer identification verification, cooperation among financial institutions, suspicious activities and currency transaction reporting.

Federal law extensively regulates other various aspects of the banking business such as reserve requirements. Current federal law also requires banks, among other things to make deposited funds available within specified time periods. In addition, with certain exceptions, a bank and a subsidiary may not extend credit, lease or sell property or furnish any services or fix or vary the consideration for the foregoing on the condition that (i) the customer must obtain or provide some additional credit, property or services from, or to, any of them, or (ii) the customer may not obtain some other credit, property or service from a competitor, except to the extent reasonable conditions are imposed to assure the soundness of credit extended.

Interest and other charges collected or contracted by the Bank are subject to state usury laws and federal laws concerning interest rates. The Bank's loan operations are also subject to federal and state laws applicable to credit transactions, such as the:

- Truth-In-Lending Act and state consumer protection laws governing disclosures of credit terms and prohibiting certain practices with regard to consumer borrowers;
- Home Mortgage Disclosure Act of 1975, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act and other fair lending laws, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act of 1978 and Fair and Accurate Credit Transactions Act of 2003, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Practices Act, governing the manner in which consumer debts may be collected by collection agencies; and rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The deposit operations of the Bank also are subject to the:

Customer Information Security Guidelines. The federal bank regulatory agencies have adopted final guidelines (the Guidelines ) for safeguarding confidential customer information. The Guidelines require each financial institution, under the supervision and ongoing oversight of its Board of Directors, to create a comprehensive written information security program designed to ensure the security and confidentiality of customer information, protect against any anticipated threats or hazards to the security or integrity of such information; protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer; and implement response programs for security breaches.

Electronic Funds Transfer Act and Regulation E. The Electronic Funds Transfer Act, which is implemented by Regulation E, governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

Gramm-Leach-Bliley Act, Fair and Accurate Credit Transactions Act. The Gramm-Leach-Bliley Act, the Fair and Accurate Credit Transactions Act, and the implementing regulations govern consumer financial privacy, provide disclosure requirements and restrict the sharing of certain consumer financial information with other parties.



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The federal banking agencies have established guidelines which prescribe standards for depository institutions relating to internal controls, information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, asset quality, earnings, compensation fees and benefits, and management compensation. The agencies may require an institution which fails to meet the standards set forth in the guidelines to submit a compliance plan. Failure to submit an acceptable plan or adhere to an accepted plan may be grounds for further enforcement action.

The federal banking agencies may assess civil and criminal penalties against depository institutions and certain institution-affiliated parties, including management, employees, and agents of a financial institution, as well as independent contractors and consultants such as attorneys and accountants and others who participate in the conduct of the financial institution's affairs. In addition, regulators may commence enforcement actions against institutions and institution-affiliated parties. Possible enforcement actions include the termination of deposit insurance. Furthermore, regulators may issue cease-and-desist orders to, among other things, require affirmative action to correct any harm resulting from a violation or practice, including restitution, reimbursement, indemnifications or guarantees against loss. A financial institution may also be ordered to restrict its growth, dispose of certain assets, rescind agreements or contracts, or take other actions as determined by the regulator to be appropriate.

Congress, the United States Department of the Treasury ( Treasury ) and the federal banking regulators, including the FDIC, have taken broad action since early September 2008 to address volatility in the U.S. banking system and financial markets. In October 2008, the Emergency Economic Stabilization Act of 2008 ( EESA ) was enacted. The EESA authorizes Treasury to purchase from financial institutions and their holding companies up to \$700 billion in mortgage loans, mortgage-related securities and certain other financial instruments, including debt and equity securities issued by financial institutions and their holding companies in a troubled asset relief program ( TARP ). The purpose of TARP is to restore confidence and stability to the U.S. banking system and to encourage financial institutions to increase their lending to customers and to each other. As part of TARP, Treasury has allocated \$250 billion towards the Capital Purchase Program (the CPP ). Under the CCP, Treasury will purchase debt or equity securities from participating institutions. Participants in the CPP are subject to executive compensation limits and are encouraged to expand their lending and mortgage loan modifications.

EESA also increased FDIC deposit insurance on most accounts from \$100,000 to \$250,000. This increase is in place until the end of 2009 and is not covered by deposit insurance premiums paid by the banking industry. Following a systemic risk determination, on October 14, 2008, the FDIC established a Temporary Liquidity Guarantee Program ( TLGP ). The TLGP includes the Transaction Account Guarantee Program ( TAGP ), which provides unlimited deposit insurance coverage through December 31, 2009 for noninterest-bearing transaction accounts (typically business checking accounts) and certain funds swept into noninterest-bearing savings accounts. Institutions participating in the TAGP pay a 10 basis points fee (annualized) on the balance of each covered account in excess of \$250,000, while the extra deposit insurance is in place. The TLGP also includes the Debt Guarantee Program ( DGP ), under which the FDIC guarantees certain senior unsecured debt of FDIC-insured institutions and their holding companies. The unsecured debt must be issued on or after October 14, 2008 and not later than June 30, 2009, and the guarantee is effective through the earlier of the maturity date or June 30, 2012. The DGP coverage limit is generally 125% of the entity's eligible debt outstanding on September 30, 2008 and scheduled to mature on or before June 30, 2009 or, for certain insured institutions, 2% of their total liabilities as of September 30, 2008. Depending on the term of the debt maturity, the nonrefundable DGP fee ranges from 50 to 100 basis points (annualized) for covered debt outstanding until the earlier of maturity or June 30, 2012. The TAGP and DGP are in effect for all eligible entities, unless the entity opted out on or before December 5, 2008. The Corporation did not opt out of the TAGP but did opt out of the DGP.

On February 17, 2009, President Barack Obama signed the American Recovery and Reinvestment Act of 2009 ( ARRA ), more commonly known as the economic stimulus or economic recovery package. ARRA includes a wide variety of programs intended to stimulate the economy and provide for extensive infrastructure, energy, health and education needs. In addition, ARRA imposes new executive compensation and corporate governance limits on current and future participants in the Treasury's Capital Purchase Program, which would include the Corporation if it participates the Capital Purchase Program, which are in addition to those previously announced by Treasury. The new limits remain in place until the participant has redeemed the preferred stock sold to Treasury, which is now permitted

under ARRA without penalty and without the need to raise new capital, subject to Treasury's consultation with the recipient's appropriate federal regulator.

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**Available Information**

The Corporation files annual reports on Form 10-K, quarterly reports on Form 10-Q, proxy statements and other information with the Securities and Exchange Commission. Such reports, proxy statements and other information can be read and copied at the public reference facilities maintained by the Securities and Exchange Commission at the Public Reference Room, 100 F Street, NE, Washington, D.C. 20549. Information regarding the operation of the Public Reference Room may be obtained by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission maintains a web site (<http://www.sec.gov>) that contains reports, proxy statements, and other information. The Corporation's filings are also accessible at no cost on the Corporation's website at [www.first-online.com](http://www.first-online.com).

**ITEM 1A. RISK FACTORS**

**Difficult Conditions In The Capital Markets And The Economy Generally May Materially Adversely Affect Our Business And Results Of Operations.**

Our results of operations are materially affected by conditions in the capital markets and the economy generally. The capital and credit markets have been experiencing extreme volatility and disruption for more than twelve months at unprecedented levels. In many cases, these markets have produced downward pressure on stock prices of, and credit availability to, certain companies without regard to those companies' underlying financial strength.

Recently, concerns over inflation, energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market and a declining U.S. real estate market have contributed to increased volatility and diminished expectations for the economy and the capital and credit markets going forward. These factors, combined with volatile oil prices, declining business and consumer confidence and increased unemployment, have precipitated an economic slowdown and national recession. In addition, the fixed-income markets are experiencing a period of extreme volatility which has negatively impacted market liquidity conditions. Initially, the concerns on the part of market participants were focused on the subprime segment of the mortgage-backed securities market. However, these concerns have since expanded to include a broad range of mortgage-and asset-backed and other fixed income securities, including those rated investment grade, the U.S. and international credit and interbank money markets generally, and a wide range of financial institutions and markets, asset classes and sectors.

Factors such as consumer spending, business investment, government spending, the volatility and strength of the capital markets, and inflation all affect the business and economic environment and, ultimately, the amount and profitability of our business. In an economic downturn characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment and lower consumer spending, the demand for our financial products could be adversely affected. Adverse changes in the economy could affect earnings negatively and could have a material adverse effect on our business, results of operations and financial condition. The current mortgage crisis and economic slowdown has also raised the possibility of future legislative and regulatory actions in addition to the recent enactment of EESA that could further impact our business. We cannot predict whether or when such actions may occur, or what impact, if any, such actions could have on our business, results of operations and financial condition.

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**There Can Be No Assurance That Actions Of The U.S. Government, Federal Reserve And Other Governmental And Regulatory Bodies For The Purpose Of Stabilizing The Financial Markets Will Achieve The Intended Effect.**

In response to the financial crises affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, on October 3, 2008, President Bush signed EESA into law. Pursuant to EESA, the Treasury has the authority to utilize up to \$700 billion to purchase distressed assets from financial institutions or infuse capital into financial institutions for the purpose of stabilizing the financial markets. The Treasury announced the Capital Purchase Program under EESA pursuant to which it has purchased and will continue to purchase senior preferred stock in participating financial institutions such as the Corporation. There can be no assurance, however, as to the actual impact that EESA, including the Capital Purchase Program and the Treasury's Troubled Asset Repurchase Program, will have on the financial markets or on us. The failure of these programs to help stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, access to credit or the trading price of our common stock.

The federal government, Federal Reserve and other governmental and regulatory bodies have taken or are considering taking other actions to address the financial crisis. There can be no assurance as to what impact such actions will have on the financial markets, including the extreme levels of volatility currently being experienced. Such continued volatility could materially and adversely affect our business, financial condition and results of operations, or the trading price of our common stock.

**We May Be Required To Pay Significantly Higher Federal Deposit Insurance Corporation (FDIC) Premiums In The Future.**

Recent insured institution failures, as well as deterioration in banking and economic conditions, have significantly increased FDIC loss provisions, resulting in a decline in the designated reserve ratio to historical lows. The FDIC expects a higher rate of insured institution failures in the next few years compared to recent years; thus, the reserve ratio may continue to decline. In addition, EESA temporarily increased the limit on FDIC coverage to \$250,000 through December 31, 2009. These developments will cause the premiums assessed to us by the FDIC to increase. On December 16, 2008, the FDIC Board of Directors determined deposit insurance assessment rates for the first quarter of 2009 at 12 to 14 basis points per \$100 of deposits. Beginning April 1, 2009, the rates will increase to 12 to 16 basis points per \$100 of deposits. Additionally, on February 27, 2009, the FDIC announced an interim rule imposing a 20 basis point special emergency assessment on June 30, 2009, payable September 30, 2009. The interim rule also allows the FDIC to impose a special emergency assessment after June 30, 2009, of up to 10 basis points if necessary to maintain public confidence in FDIC insurance. These higher FDIC assessment rates and special assessments could have an adverse impact on our results of operations.

**Future Growth Or Operating Results May Require The Corporation To Raise Additional Capital But That Capital May Not Be Available Or It May Be Dilutive.**

The Corporation is required by federal and state regulatory authorities to maintain adequate levels of capital to support its operations. To the extent the Corporation's future operating results erode capital or the Corporation elects to expand through loan growth or acquisition it may be required to raise capital. The Corporation's ability to raise capital will depend on conditions in the capital markets, which are outside of its control, and on the Corporation's financial performance. Accordingly, the Corporation cannot be assured of its ability to raise capital when needed or on favorable terms. If the Corporation cannot raise additional capital when needed, it will be subject to increased regulatory supervision and the imposition of restrictions on its growth and business. These could negatively impact the Corporation's ability to operate or further expand its operations through acquisitions or the establishment of additional branches and may result in increases in operating expenses and reductions in revenues that could have a material adverse effect on its financial condition and results of operations.

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**We May Not Be Able To Pay Dividends In The Future In Accordance With Past Practice.**

The Corporation has traditionally paid a semi-annual dividend to common stockholders. The payment of dividends is subject to legal and regulatory restrictions. Any payment of dividends in the future will depend, in large part, on the Corporation's earnings, capital requirements, financial condition and other factors considered relevant by the Corporation's Board of Directors.

**The Price Of The Corporation's Common Stock May Be Volatile, Which May Result In Losses For Investors.**

General market price declines or market volatility in the future could adversely affect the price of the Corporation's common stock. In addition, the following factors may cause the market price for shares of the Corporation's common stock to fluctuate:

- announcements of developments related to the Corporation's business;
- fluctuations in the Corporation's results of operations;
- sales or purchases of substantial amounts of the Corporation's securities in the marketplace;
- general conditions in the Corporation's banking niche or the worldwide economy;
- a shortfall or excess in revenues or earnings compared to securities analysts' expectations;
- changes in analysts' recommendations or projections; and
- the Corporation's announcement of new acquisitions or other projects.

**The Corporation Is Subject To Interest Rate Risk**

Interest and fees on loans and securities, net of interest paid on deposits and borrowings, are a large part of the Corporation's net income. Interest rates are key drivers of the Corporation's net interest margin and subject to many factors beyond the control of management. As interest rates change, net interest income is affected. Rapid increases in interest rates in the future could result in interest expense increasing faster than interest income because of mismatches in financial instrument maturities. Further, substantially higher interest rates generally reduce loan demand and may result in slower loan growth. Decreases or increases in interest rates could have a negative effect on the spreads between the interest rates earned on assets and the rates of interest paid on liabilities, and therefore decrease net interest income.

**The Corporation Is Subject To Lending Risk**

There are inherent risks associated with the Corporation's lending activities. These risks include, among other things, the impact of changes in interest rates and changes in the economic conditions in the markets where the Corporation operates as well as those across Indiana, Illinois and the United States. Increases in interest rates and/or weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans. The Corporation is also subject to various laws and regulations that affect its lending activities. Failure to comply with the applicable laws and regulations could subject the Corporation to regulatory enforcement action that could result in the assessment of significant civil money penalties against the Corporation.

**The Corporation's Allowance for Possible Loan Losses May Be Insufficient**

The Corporation maintains an allowance for possible loan losses, which is a reserve established through a provision for possible loan losses charged to expense, that represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The level of the allowance reflects management's continuing evaluation of industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic, political and regulatory conditions and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the allowance for possible loan losses inherently involves a high degree of subjectivity and requires the Corporation to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of the Corporation's control, may require an increase in the allowance for possible loan losses. In addition, bank regulatory agencies periodically review the Corporation's allowance for loan losses and may require an increase in the provision for possible loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. In addition, if charge-offs in future periods exceed the allowance for possible loan losses; the Corporation will need additional provisions to increase the allowance for possible loan losses. Any increase in the allowance for possible loan losses will result in a decrease in net income and, possibly, capital, and may have a

material adverse effect on the Corporation's financial condition and results of operations.



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**The Corporation Operates In a Highly Competitive Industry and Market Area**

The Corporation faces substantial competition in all areas of its operations from a variety of different competitors. Such competitors include banks and many other types of financial institutions, including, without limitation, savings and loans, credit unions, finance companies, brokerage firms, insurance companies, factoring companies and other financial intermediaries. The financial services industry could become even more competitive as a result of legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of the Corporation's competitors have fewer regulatory constraints and may have lower cost structures.

The Corporation's ability to compete successfully depends on a number of factors, including, among other things:

- The ability to develop, maintain and build upon long-term customer relationships based on top quality service, and safe, sound assets.

- The ability to expand the Corporation's market position.

- The scope, relevance and pricing of products and services offered to meet customer needs and demands.

- The rate at which the Corporation introduces new products and services relative to its competitors.

- Customer satisfaction with the Corporation's level of service.

- Industry and general economic trends.

Failure to perform in any of these areas could significantly weaken the Corporation's competitive position, which could adversely affect the Corporation's growth and profitability, which, in turn, could have a material adverse effect on the corporation's financial condition and results of operations.

**The Corporation Is Subject To Extensive Government Regulation and Supervision**

The Corporation, primarily through the Bank, is subject to extensive federal regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not shareholders. These regulations affect the Corporation's lending practices, capital structure, investment practices, and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect the Corporation in substantial and unpredictable ways. Such changes could subject the Corporation to additional costs, limit the types of financial services and products the Corporation may offer and/or increase the ability of non-banks to offer competing financial services and products among other things. Failure to comply with laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on the Corporation's business, financial condition and results of operations. While the Corporation has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur.

**Recent Negative Developments In The Financial Industry And The Credit Markets May Subject Us To Additional Regulation.**

As a result of the recent global financial crisis, the potential exists for new federal or state laws and regulations regarding lending and funding practices and liquidity standards to be promulgated, and bank regulatory agencies are expected to be active in responding to concerns and trends identified in examinations, including the expected issuance of many formal enforcement orders. Negative developments in the financial industry and the domestic and international credit markets, and the impact of new legislation in response to those developments, may negatively impact our operations by restricting our business operations, including our ability to originate or sell loans, and may adversely impact our financial performance.

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### **The Corporation's Controls and Procedures May Fail or Be Circumvented**

Management regularly reviews and updates the Corporation's internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Corporation's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Corporation's business, results of operations and financial condition.

### **The Corporation Is Dependent On Certain Key Management and Staff**

The Corporation relies on key personnel to manage and operate its business. The loss of key staff may adversely affect our ability to maintain and manage these portfolios effectively, which could negatively affect our revenues. In addition, loss of key personnel could result in increased recruiting and hiring expenses, which could cause a decrease in the Corporation's net income.

### **The Corporation's Information Systems May Experience an Interruption or Breach in Security**

The Corporation relies heavily on communications and information systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Corporation's customer relationship management, general ledger, deposit, loan and other systems. While the Corporation has policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of its information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of the Corporation's information systems could damage the Corporation's reputation, result in a loss of customer business, subject the Corporation to additional regulatory scrutiny, or expose the Corporation to civil litigation and possible financial liability, any of which could have a material adverse effect on the Corporation's financial condition and results of operations.

### **The Corporation Continually Encounters Technological Change**

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. The Corporation's future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Corporation's operations. Failure to successfully keep pace with the technological change affecting the financial services industry could have a material adverse impact on the Corporation's business and, in turn, the Corporation's financial condition and results of operations.

## **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

## **ITEM 2. PROPERTIES**

First Financial Corporation is located in a four-story office building in downtown Terre Haute, Indiana that was first occupied in June 1988. It is leased to First Financial Bank N.A., a wholly-owned subsidiary (the Bank). The Bank also owns three other facilities in downtown Terre Haute. One is leased, one is available for lease and the third is a 50,000-square-foot building housing operations and administrative staff and equipment. In addition, the Bank holds in fee five other branch buildings. One of the branch buildings is a single-story 36,000-square-foot building which is located in a Terre Haute suburban area. Six other branch bank buildings are leased by the Bank. The expiration dates on four of the leases are August 31, 2011, May 31, 2011, February 14, 2011, December 31, 2012. The fifth and sixth leases are on a month-to-month basis. The bank also owns land on which a branch is to be constructed in 2009.

Facilities of the Corporation's banking centers in Clay County include three offices in Brazil, Indiana and offices in Clay City and Poland, Indiana. All five buildings are held in fee.

Facilities of the Corporation's banking centers in Vermillion County include two offices in Clinton, Indiana and offices in Cayuga and Newport, Indiana. All four buildings are held in fee.

Facilities of the Corporation's banking centers in Sullivan County include offices in Sullivan, Carlisle, Dugger, Farmersburg and Hymera, Indiana. All five buildings are held in fee.



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Facilities of the Corporation's banking center in Greene County include an office in Worthington, Indiana. This building is held in fee.

Facilities of the Corporation's banking centers in Knox County include offices in Monroe City, Sandborn and Vincennes, Indiana. All three buildings are held in fee.

Facilities of the Corporation's banking centers in Parke County include two offices in Rockville, Indiana and offices in Marshall, Montezuma and Rosedale, Indiana. All five buildings are held in fee.

Facilities of the Corporation's banking center in Putnam County include an office in Greencastle, Indiana. This building is held in fee.

Facilities of the Corporation's banking centers in Crawford County include its main office and a drive-up facility in Robinson, Illinois and a branch facility in Oblong, Illinois. All three of the buildings are held in fee.

Facilities of the Corporation's banking centers in Lawrence County include offices in Sumner and Lawrenceville, Illinois. Both of the buildings are held in fee.

Facilities of the Corporation's banking center in Wayne County include an office in Fairfield, Illinois. This building is held in fee.

Facilities of the Corporation's banking center in Jasper County include an office in Newton, Illinois. This building is held in fee.

Facilities of the Corporation's banking center in Coles County include an office in Charleston, Illinois. This building is held in fee.

Facilities of the Corporation's banking center in Clark County include an office in Marshall, Illinois. This building is held in fee.

Facilities of the Corporation's banking center in Vermilion County include an office in Ridge Farm, Illinois. This building is held in fee.

Facilities of the Corporation's banking centers in Richland County include two offices in Olney, Illinois. One building is held in fee and the other building is leased. The expiration date on the lease is March 1, 2010.

The facility of the Corporation's subsidiary, The Morris Plan Company, includes an office facility in Terre Haute, Indiana. The building is leased by The Morris Plan Company. The expiration date on the lease is August 31, 2009.

Facilities of the Corporation's subsidiary, Forrest Sherer, Inc., include its main office and one satellite office in Terre Haute, Indiana. The buildings are held in fee by Forrest Sherer, Inc.

**ITEM 3 LEGAL PROCEEDINGS**

There are no material pending legal proceedings which involve the Corporation or its subsidiaries, other than ordinary routine litigation incidental to its business.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None

**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

See Market and Dividend Information on page 48 of the 2008 Annual Report. That portion of the Annual Report is incorporated by reference into this Form 10-K.

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)<br>Total Number<br>Of<br>Shares<br>Purchased | (b)<br>Average<br>Price<br>Paid Per<br>Share | (c)<br>Total Number Of<br>Shares Purchased<br>As Part<br>Of Publicly<br>Announced<br>Plans Or Programs<br>* | (d)<br>Maximum<br>Number Of<br>Shares That May<br>Yet Be<br>Purchased * |
|-----------------------|--|--|---|---|
| October 1 - 31, 2008  |  |  | N/A   | N/A   |
| November 1 - 30, 2008 |  |  | N/A   | N/A   |
| December 1 - 31, 2008 | 15,000   | 28.65  | N/A   | N/A   |
| Total                 | 15,000   | 28.65  | N/A   | N/A   |

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

The Corporation contributed 33,015 shares of treasury stock to the ESOP plan in November of 2008.

**ITEM 6. SELECTED FINANCIAL DATA**

See Five Year Comparison of Selected Financial Data on page 9 of the 2008 Annual Report to Shareholders. That portion of the Annual Report is incorporated by reference into this Form 10-K.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

See Management's Discussion and Analysis on pages 36 through 46 of the 2008 Annual Report to Shareholders. That portion of the Annual Report is incorporated by reference into this Form 10-K.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

See Interest Rate Sensitivity and Liquidity section of Management's Discussion and Analysis on pages 45 and 46 of the 2008 Annual Report to Shareholders. That portion of the Annual Report is incorporated by reference into this Form 10-K.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

See Consolidated Balance Sheets on page 10, Consolidated Statements of Income on page 11, Consolidated Statements of Changes in Shareholders Equity on page 12, Consolidated Statements of Cash Flows on page 13, and Notes to Consolidated Financial Statements on pages 14-34. Report of Independent Registered Public Accounting

Firm can be found on page 35 of the 2008 Annual Report to Shareholders. Those portions of the Annual Report are incorporated by reference into this Form 10-K. Statistical disclosure by the Corporation includes the following information in the 2008 Annual Report to Shareholders, which is incorporated by reference into this Form 10-K:

1. Volume/Rate Analysis, on page 38.
2. Securities, on page 40.
3. Loan Portfolio, on page 41.
4. Allowance for Loan Losses, on pages 42 and 43.
5. Nonperforming Loans, on pages 43.
6. Deposits, on page 44.
7. Consolidated Balance Sheet-Average Balances and Interest Rates, on page 47.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None

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**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this report, we carried out an evaluation (the Evaluation ), under the supervision and with the participation of our President and Chief Executive Officer ( CEO ), who serves as our principal executive officer, and Chief Financial Officer ( CFO ), who serves as our principal financial officer, of the effectiveness of our disclosure controls and procedures ( Disclosure Controls ). Based on the Evaluation, our CEO and CFO concluded that our Disclosure Controls are effective and designed to ensure that the information required to be included in our periodic SEC reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms.

**Changes in Internal Controls over Financial Reporting**

There was no change in the Corporation s internal control over financial reporting that occurred during the Corporation s fourth fiscal quarter of 2008 that has materially affected, or is reasonably likely to materially affect, the Corporation s internal control over financial reporting.

**Management s Report on Internal Control Over Financial Reporting and Attestation Report of the Registered Public Accounting Firm**

See Management s Report on Internal Control Over Financial Reporting on page 36 of the 2008 Annual Report to Shareholders and Report of Independent Registered Public Accounting Firm on page 35 of the 2008 Annual Report to Shareholders. That portion of the annual report is incorporated by reference in response to this Item 9A of the Form 10-K.

**ITEM 9B. OTHER INFORMATION**

The Company established the compensation to be paid to Directors for the year 2009 on December 16, 2008. These amounts are set forth on Exhibit 10.3 to this Form 10-K.

The Company established the compensation to be paid to Named Executive Officers for the year 2009 on December 16, 2008. These amounts are set forth on Exhibit 10.4 to this Form 10-K.

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**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

In accordance with the provisions of General Instruction G to Form 10-K, the information required for disclosure under Item 10 is not set forth herein because the Corporation intends to file with the Securities and Exchange Commission a definitive Proxy Statement pursuant to Regulation 14A not later than 120 days following the end of its 2008 fiscal year, which Proxy Statement will contain such information. The information required by Item 10 is incorporated by reference to such Proxy Statement.

**ITEM 11. EXECUTIVE COMPENSATION**

In accordance with the provisions of General Instruction G to Form 10-K, the information required for disclosure under Item 11 is not set forth herein because the Corporation intends to file with the Securities and Exchange Commission a definitive Proxy Statement pursuant to Regulation 14A not later than 120 days following the end of its 2008 fiscal year, which Proxy Statement will contain such information. The information required by Item 11 is incorporated by reference to such Proxy Statement.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS**

In accordance with the provisions of General Instruction G to Form 10-K, the information required for disclosure under Item 12 is not set forth herein because the Corporation intends to file with the Securities and Exchange Commission a definitive Proxy Statement pursuant to Regulation 14A not later than 120 days following the end of its 2008 fiscal year, which Proxy Statement will contain such information. The information required by Item 12 is incorporated by reference to such Proxy Statement.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

In accordance with the provisions of General Instruction G to Form 10-K, the information required for disclosure under Item 13 is not set forth herein because the Corporation intends to file with the Securities and Exchange Commission a definitive Proxy Statement pursuant to Regulation 14A not later than 120 days following the end of its 2008 fiscal year, which Proxy Statement will contain such information. The information required by Item 13 is incorporated by reference to such Proxy Statement.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

In accordance with the provisions of General Instruction G to Form 10-K, the information required for disclosure under Item 14 is not set forth herein because the Corporation intends to file with the Securities and Exchange Commission a definitive Proxy Statement pursuant to Regulation 14A not later than 120 days following the end of its 2008 fiscal year, which Proxy Statement will contain such information. The information required by Item 14 is incorporated by reference to such Proxy Statement.



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**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a) (1) The following consolidated financial statements of the Registrant and its subsidiaries are included in the 2008 Annual Report to Shareholders of First Financial Corporation attached:

Consolidated Balance Sheets -December 31, 2008 and 2007

Consolidated Statements of Income Years ended December 31, 2008, 2007, and 2006

Consolidated Statements of Changes in Shareholders Equity Years ended December 31, 2008, 2007, and 2006

Consolidated Statements of Cash Flows Years ended December 31, 2008, 2007, and 2006

Notes to Consolidated Financial Statements

(2) Schedules to the Consolidated Financial Statements required by Article 9 of Regulation S-X are not required, inapplicable, or the required information has been disclosed elsewhere.

(3) Listing of Exhibits:

| Exhibit<br>Number | Description  |
|-------------------|--|
| 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 April 14, 2008 and effective January 1, 2008, incorporated by reference to Exhibit 10.1 to the Corporation's Form 10-Q filed for the quarter ended March 31, 2008 |
| 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              | 2009 Schedule of Director Compensation   |
| 10.4              | 2009 Schedule of Named Executive Officer Compensation  |
| 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  |
| 10.6              | 2005 Executives Deferred Compensation Plan, incorporated by reference to Exhibit 10.5 of the Corporation's Form 8-K filed September 4, 2007  |
| 10.7              | 2005 Executives Supplemental Retirement Plan, incorporated by reference to Exhibit 10.6 of the Corporation's Form 8-K filed September 4, 2007  |
| 13                | Annual Report  |
| 21                | Subsidiaries   |
| 31.1              | Certification pursuant to Rule 13a-14(a) for Annual Report of Form 10-K by Principal Executive Officer   |
| 31.2              | Certification pursuant to Rule 13a-14(a) for Annual Report of Form 10-K by Principal Financial Officer   |
| 32.1              | Certification pursuant to 18 U.S.C. Section 1350 of Principal Executive Officer  |
| 32.2              | Certification pursuant to 18 U.S.C. Section 1350 of Principal Financial Officer  |

(b) Exhibits-Exhibits to (a) (3) listed above are attached to this report.

(c) Financial Statements Schedules-No schedules are required to be submitted. See response to ITEM 15(a) (2).



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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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

/s/ Michael A. Carty

Michael A. Carty, Secretary, Treasurer &  
CFO

(Principal Financial Officer and Principal  
Accounting Officer)

Date: March 12, 2009

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| <b>NAME</b>   | <b>DATE</b>    |
|---|----------------|
| /s/ Donald E. Smith   | March 12, 2009 |
| Donald E. Smith, President and Director   |                |
| /s/ Michael A. Carty  | March 12, 2009 |
| Michael A. Carty, Secretary, Treasurer & CFO<br>(Principal Financial Officer and Principal<br>Accounting Officer) |                |
| /s/ W. Curtis Brighton  | March 12, 2009 |
| W. Curtis Brighton, Director  |                |
| /s/ B. Guille Cox, Jr.  | March 12, 2009 |
| B. Guille Cox, Jr., Director  |                |
| /s/ Thomas T. Dinkel  | March 12, 2009 |
| Thomas T. Dinkel, Director  |                |
| /s/ Anton H. George   | March 12, 2009 |
| Anton H. George, Director   |                |
| /s/ Gregory L. Gibson   | March 12, 2009 |
| Gregory L. Gibson, Director   |                |
| /s/ Norman L. Lowery  | March 12, 2009 |
| Norman L. Lowery, Vice Chairman, CEO &<br>Director<br>(Principal Executive Officer)                               |                |
| /s/ Ronald K. Rich  | March 12, 2009 |
| Ronald K. Rich, Director  |                |
| /s/ Virginia L. Smith   | March 12, 2009 |
| Virginia L. Smith, Director   |                |

/s/ William J. Voges

March 12, 2009

William J. Voges, Director

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**EXHIBIT INDEX**

| Exhibit<br>Number | Description  |
|-------------------|--|
| 10.3              | 2009 Schedule of Director Compensation   |
| 10.4              | 2009 Schedule of Named Executive Officers Compensation   |
| 13                | Annual Report  |
| 21                | Subsidiaries   |
| 31.1              | Certification Pursuant to Rule 13a-14(a) for Annual Report of Form 10-K by Principal Executive Officer |
| 31.2              | Certification Pursuant to Rule 13a-14(a) for Annual Report of Form 10-K by Principal Financial Officer |
| 32.1              | Certification Pursuant to Rule 18 U.S.C. Section 1350 of Principal Executive Officer                   |
| 32.2              | Certification Pursuant to Rule 18 U.S.C. Section 1350 of Principal Financial Officer                   |