

FIRST FINANCIAL CORP /IN/

Form 10-Q

August 07, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For The Quarterly Period Ended June 30, 2014

Commission File Number 0-16759

FIRST FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

INDIANA

(State or other jurisdiction
incorporation or organization)

35-1546989

(I.R.S. Employer
Identification No.)

One First Financial Plaza, Terre Haute, IN

(Address of principal executive office)

47807

(Zip Code)

(812)238-6000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐.

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

Large accelerated filer ☐

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

Accelerated filer ☒

Smaller reporting company ☐

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

Yes ☐ No ☒.

As of August 5, 2014, the registrant had outstanding 13,355,272 shares of common stock, without par value.

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Part I – Financial Information

Item 1. Financial Statements

FIRST FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

(Dollar amounts in thousands, except per share data)

	June 30, 2014 (unaudited)	December 31, 2013
ASSETS		
Cash and due from banks	\$84,774	\$71,033
Federal funds sold	9,370	4,276
Securities available-for-sale	912,495	914,560
Loans:		
Commercial	1,046,883	1,042,138
Residential	477,265	482,377
Consumer	268,403	268,033
	1,792,551	1,792,548
Less:		
Unearned Income	111	(1,120)
Allowance for loan losses	(18,255)	(20,068)
	1,774,407	1,771,360
Restricted Stock	21,064	21,057
Accrued interest receivable	10,950	11,554
Premises and equipment, net	51,754	51,449
Bank-owned life insurance	79,863	79,035
Goodwill	39,489	39,489
Other intangible assets	4,388	4,935
Other real estate owned	5,190	5,291
FDIC Indemnification Asset	420	1,055
Other assets	39,759	43,624
TOTAL ASSETS	\$3,033,923	\$3,018,718
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits:		
Non-interest-bearing	\$505,846	\$506,815
Interest-bearing:		
Certificates of deposit of \$100 or more	168,799	179,177
Other interest-bearing deposits	1,758,438	1,772,799
	2,433,083	2,458,791
Short-term borrowings	73,420	59,592
Other borrowings	63,140	58,288
Other liabilities	58,534	55,852
TOTAL LIABILITIES	2,628,177	2,632,523
Shareholders' equity		
Common stock, \$.125 stated value per share;		
Authorized shares-40,000,000		
Issued shares-14,538,132 in 2014 and 14,516,113 in 2013		
Outstanding shares-13,355,272 in 2014 and 13,343,029 in 2013	1,812	1,811

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Additional paid-in capital	71,557	71,074	
Retained earnings	366,858	357,083	
Accumulated other comprehensive loss	(4,320)	) (13,969)
Less: Treasury shares at cost-1,182,860 in 2014 and 1,173,084 in 2013	(30,161	) (29,804)
TOTAL SHAREHOLDERS' EQUITY	405,746	386,195	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$3,033,923	\$3,018,718	
See accompanying notes.			

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FIRST FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (LOSS)

(Dollar amounts in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
INTEREST INCOME:				
Loans, including related fees	\$21,625	\$22,576	\$43,843	\$46,030
Securities:				
Taxable	4,298	3,479	8,742	6,694
Tax-exempt	1,766	1,761	3,512	3,531
Other	426	489	842	992
TOTAL INTEREST INCOME	28,115	28,305	56,939	57,247
INTEREST EXPENSE:				
Deposits	1,233	1,534	2,523	3,276
Short-term borrowings	22	19	36	39
Other borrowings	254	1,014	632	2,021
TOTAL INTEREST EXPENSE	1,509	2,567	3,191	5,336
NET INTEREST INCOME	26,606	25,738	53,748	51,911
Provision for loan losses	(356)	) 2,960	1,604	5,981
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	26,962	22,778	52,144	45,930
NON-INTEREST INCOME:				
Trust and financial services	1,414	1,403	2,903	2,929
Service charges and fees on deposit accounts	2,761	2,394	5,245	4,648
Other service charges and fees	2,989	2,726	5,828	5,226
Securities gains/(losses), net	(1)	) 3	(1)	) 7
Insurance commissions	1,852	1,941	3,765	3,904
Gain on sales of mortgage loans	457	943	833	1,906
Other	93	253	1,103	920
TOTAL NON-INTEREST INCOME	9,565	9,663	19,676	19,540
NON-INTEREST EXPENSE:				
Salaries and employee benefits	13,887	13,713	27,983	27,309
Occupancy expense	1,789	1,576	3,714	3,098
Equipment expense	1,904	1,537	3,562	3,038
FDIC Expense	473	502	960	1,059
Other	5,996	6,055	11,535	11,078
TOTAL NON-INTEREST EXPENSE	24,049	23,383	47,754	45,582
INCOME BEFORE INCOME TAXES	12,478	9,058	24,066	19,888
Provision for income taxes	3,990	2,612	7,747	5,749
NET INCOME	8,488	6,446	16,319	14,139
OTHER COMPREHENSIVE INCOME				
Change in unrealized gains/losses on securities, net of reclassifications and taxes	4,116	(10,559)	) 9,419	(12,226)
Change in funded status of post retirement benefits, net of taxes	115	338	230	552
COMPREHENSIVE INCOME	\$12,719	\$(3,775)) \$25,968	\$2,465
PER SHARE DATA				

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Basic and Diluted Earnings per Share	\$0.63	\$0.48	\$1.22	\$1.06
Dividends per Share	\$0.49	\$0.48	\$0.49	\$0.48
Weighted average number of shares outstanding (in thousands)	13,355	13,307	13,352	13,304
See accompanying notes.				

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FIRST FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Three Months Ended

June 30, 2014, and 2013

(Dollar amounts in thousands, except per share data)

(Unaudited)

	Common Stock	Additional Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
Balance, April 1, 2013	\$1,809	\$70,171	\$346,035	\$(8,925)	\$(30,707)	\$378,383
Net income	—	—	6,446	—	—	6,446
Other comprehensive income	—	—	—	(10,221)	—	(10,221)
Omnibus Equity Incentive Plan	—	183	—	—	—	183
Cash Dividends, \$.48 per share	—	—	(6,389)	—	—	(6,389)
Balance, June 30, 2013	\$1,809	\$70,354	\$346,092	\$(19,146)	\$(30,707)	\$368,402
Balance, April 1, 2014	\$1,812	\$71,315	\$364,914	\$(8,551)	\$(30,161)	\$399,329
Net income	—	—	8,488	—	—	8,488
Other comprehensive income	—	—	—	4,231	—	4,231
Omnibus Equity Incentive Plan	—	242	—	—	—	242
Cash Dividends, \$.49 per share	—	—	(6,544)	—	—	(6,544)
Balance, June 30, 2014	\$1,812	\$71,557	\$366,858	\$(4,320)	\$(30,161)	\$405,746
See accompanying notes.						

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FIRST FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
Six Months Ended
June 30, 2014, and 2013
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Common Stock	Additional Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
Balance January 1, 2013	\$ 1,808	\$ 69,989	\$ 338,342	\$(7,472)	\$(30,545)	\$ 372,122
Net income	—	—	14,139	—	—	14,139
Other comprehensive income	—	—	—	(11,674)	—	(11,674)
Treasury stock purchase (5,354 shares)	—	—	—	—	(162)	(162)
Omnibus Equity Incentive Plan	1	365	—	—	—	366
Cash Dividends, \$.48 per share	—	—	(6,389)	—	—	(6,389)
Balance, June 30, 2013	\$ 1,809	\$ 70,354	\$ 346,092	\$(19,146)	\$(30,707)	\$ 368,402
Balance, January 1, 2014	\$ 1,811	\$ 71,074	\$ 357,083	\$(13,969)	\$(29,804)	\$ 386,195
Net income	—	—	16,319	—	—	16,319
Other comprehensive income (loss)	—	—	—	9,649	—	9,649
Treasury stock purchase (9,776 shares)	—	—	—	—	(357)	(357)
Omnibus Equity Incentive Plan	1	483	—	—	—	484
Cash Dividends, \$.49 per share	—	—	(6,544)	—	—	(6,544)
Balance, June 30, 2014	\$ 1,812	\$ 71,557	\$ 366,858	\$(4,320)	\$(30,161)	\$ 405,746
See accompanying notes.						

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

	Six Months Ended June 30,	
	2014	2013
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$16,319	\$14,139
Adjustments to reconcile net income to net cash provided by operating activities:		
Net amortization (accretion) of premiums and discounts on investments	1,318	1,465
Provision for loan losses	1,604	5,981
Securities (gains) losses	1	(7)
(Gain) loss on sale of other real estate	62	51
Restricted stock compensation	484	366
Depreciation and amortization	2,943	2,705
Other, net	1,394	329
NET CASH FROM OPERATING ACTIVITIES	24,125	25,029
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of securities available-for-sale	355	5,023
Redemption of restricted stock	—	250
Purchases of restricted stock	(7)	(8)
Calls, maturities and principal reductions on securities available-for-sale	65,595	86,246
Purchases of securities available-for-sale	(50,051)	(259,646)
Loans made to customers, net of repayment	(5,384)	44,345
Proceeds from sales of other real estate owned	841	966
Net change in federal funds sold	(5,094)	10,585
Additions to premises and equipment	(2,701)	(1,280)
NET CASH FROM INVESTING ACTIVITIES	3,554	(113,519)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in deposits	(26,004)	2,877
Net change in short-term borrowings	13,828	(11,357)
Proceeds from other borrowings	100,000	95,000
Maturities of other borrowings	(95,000)	(5,000)
Purchase of treasury stock	(357)	(162)
Dividends paid	(6,405)	(6,378)
NET CASH FROM FINANCING ACTIVITIES	(13,938)	74,980
NET CHANGE IN CASH AND CASH EQUIVALENTS	13,741	(13,510)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	71,033	87,230
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$84,774	\$73,720
See accompanying notes.		

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The accompanying June 30, 2014 and 2013 consolidated financial statements are unaudited. The December 31, 2013 consolidated financial statements are as reported in the First Financial Corporation (the "Corporation") 2013 annual report. The information presented does not include all information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. The following notes should be read together with notes to the consolidated financial statements included in the 10-K filed with the Securities and Exchange Commission for the fiscal year ended December 31, 2013.

1. Significant Accounting Policies

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

The Omnibus Equity Incentive Plan is a long-term incentive plan that was designed to align the interests of participants with the interests of shareholders. Under the plan, awards may be made based on certain performance measures. The grants are made in restricted stock units that are subject to a vesting schedule. These shares vest over 3 years in increments of 33%, 33%, and 34% respectively. In 2014 and 2013, 22,019 and 30,219 shares were awarded, respectively. These shares had a grant date value of \$708 thousand and \$923 thousand for 2014 and 2013, vest over three years and their grant is not subject to future performance measures. Outstanding shares are increased at the award date for the total shares awarded.

2. Allowance for Loan Losses

The following table presents the activity of the allowance for loan losses by portfolio segment for the three months ended June 30.

Allowance for Loan Losses:	June 30, 2014				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	\$12,453	\$1,581	\$3,864	\$2,510	\$20,408
Provision for loan losses*	(1,051)	(54)	533	(248)	(820)
Loans charged -off	(710)	(633)	(982)	—	(2,325)
Recoveries	158	480	354	—	992
Ending Balance	\$10,850	\$1,374	\$3,769	\$2,262	\$18,255

* Provision before increase of \$464 thousand in 2014 for decrease in FDIC indemnification asset

Allowance for Loan Losses:	June 30, 2013				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	\$14,144	\$5,400	\$3,481	\$2,247	\$25,272
Provision for loan losses*	1,660	303	611	126	2,700
Loans charged -off	(1,435)	(4,127)	(811)	—	(6,373)
Recoveries	162	16	356	—	534
Ending Balance	\$14,531	\$1,592	\$3,637	\$2,373	\$22,133

* Provision before increase of \$260 thousand in 2013 for decrease in FDIC indemnification asset

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The following table presents the activity of the allowance for loan losses by portfolio segment for the six months ended June 30.

Allowance for Loan Losses:	June 30, 2014				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	\$12,450	\$1,585	\$3,650	\$2,383	\$20,068
Provision for loan losses*	(319)	) 12	1,333	(121)	) 905
Loans charged -off	(1,646)	) (805)	) (2,035)	)	(4,486)
Recoveries	365	582	821		1,768
Ending Balance	\$10,850	\$1,374	\$3,769	\$2,262	\$18,255

* Provision before increase of \$699 thousand in 2014 for decrease in FDIC indemnification asset

Allowance for Loan Losses:	June 30, 2013				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Beginning balance	\$10,987	\$5,426	\$3,879	\$1,666	\$21,958
Provision for loan losses*	2,924	500	844	707	4,975
Loans charged -off	(1,885)	) (4,399)	) (1,837)	)	(8,121)
Recoveries	2,505	65	751		3,321
Ending Balance	\$14,531	\$1,592	\$3,637	\$2,373	\$22,133

* Provision before increase of \$1.01 million in 2013 for decrease in FDIC indemnification asset

The following table presents the allocation of the allowance for loan losses and the recorded investment in loans by portfolio segment and based on the impairment method at June 30, 2014 and December 31, 2013.

Allowance for Loan Losses	June 30, 2014				
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Individually evaluated for impairment	\$2,590	\$—	\$—	\$—	\$2,590
Collectively evaluated for impairment	7,467	1,295	3,769	2,262	14,793
Acquired with deteriorated credit quality	793	79	—	—	872
Ending Balance	\$10,850	\$1,374	\$3,769	\$2,262	\$18,255

Loans:	June 30, 2014				Total
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Individually evaluated for impairment	\$15,548	\$35	\$—		\$15,583
Collectively evaluated for impairment	1,028,728	476,753	269,610		1,775,091
Acquired with deteriorated credit quality	7,665	1,872	—		9,537
Ending Balance	\$1,051,941	\$478,660	\$269,610		\$1,800,211
Allowance for Loan Losses:	December 31, 2013				Total
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Unallocated	Total
Individually evaluated for impairment	3,158	—	—	—	3,158
Collectively evaluated for impairment	8,421	1,408	3,650	2,383	15,862
Acquired with deteriorated credit quality	871	177	—	—	1,048
Ending Balance	\$12,450	\$1,585	\$3,650	\$2,383	\$20,068

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Loans	December 31, 2013			
(Dollar amounts in thousands)	Commercial	Residential	Consumer	Total
Individually evaluated for impairment	18,825	37	—	18,862
Collectively evaluated for impairment	1,020,771	481,439	269,352	1,771,562
Acquired with deteriorated credit quality	8,001	2,397	—	10,398
Ending Balance	\$1,047,597	\$483,873	\$269,352	\$1,800,822

The following tables present loans individually evaluated for impairment by class of loans.

	June 30, 2014					
	Unpaid Principal	Recorded	Allowance for Loan Losses	Average Recorded	Interest Income	Cash Basis Interest
(Dollar amounts in thousands)	Balance	Investment	Allocated	Investment	Recognized	Recognized
With no related allowance recorded:						
Commercial						
Commercial & Industrial	\$265	\$265	\$—	\$1,359	\$—	\$—
Farmland	—	—	—	—	—	—
Non Farm, Non Residential	250	84	—	97	—	—
Agriculture	—	—	—	—	—	—
All Other Commercial	—	—	—	—	—	—