U NITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly period ended **June 30, 2006**

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: 0-17122

FIRST FINANCIAL HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware	57-0866076
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
34 Broad Street, Charleston, South Carolina	29401
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code	(843) 529-5933

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 _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_

APPLICABLE ONLY TO CORPORATE ISSUERS: Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class Common Stock	Outstanding Shares at July 31, 2006
$.01 Par Value	11,999,791

FIRST FINANCIAL HOLDINGS, INC.

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SCHEDULES OMITTED

All schedules other than those indicated above are omitted because of the absence of the conditions under which they are required or because the information is included in the Financial Statements and related notes.

PART I. CONSOLIDATED FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

FIRST FINANCIAL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(in thousands, except share data) (Unaudited)

	June 30, 2006	September 30, 2005
ASSETS		
Cash and cash equivalents	$ 129,722	$ 123,579
Investments available for sale, at fair value	28,534	28,023
Investment in capital stock of FHLB	28,313	25,165
Mortgage-backed securities available for sale, at fair value	298,022	341,533
Loans receivable, net of allowance of $14,461 and $14,155	2,037,695	1,878,730
Loans held for sale	10,271	9,659
Accrued interest receivable	9,700	8,804
Office properties and equipment, net	53,885	51,877
Real estate and other assets acquired in settlement of loans	1,725	1,755
Goodwill, net	21,439	21,229
Intangible assets, net	1,420	1,749
Other assets	30,968	30,302
Total assets	$ 2,651,694	$ 2,522,405
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposit accounts		
Noninterest-bearing	$ 222,085	$ 216,946
Interest -bearing	1,589,917	1,440,126
Total deposits	1,812,002	1,657,072
Advances from FHLB	517,000	452,000
Other short-term borrowings	27,637	129,663
Long-term debt	46,392	46,392
Advances by borrowers for taxes and insurance	4,143	5,813
Outstanding checks	22,114	16,000
Accounts payable and other liabilities	45,621	44,336
Total liabilities	2,474,909	2,351,276
Stockholders' equity:		
Serial preferred stock, authorized 3,000,000 shares--none issued		
Common stock, $.01 par value, authorized 24,000,000 shares, issued 16,392,486 and 16,264,774 shares at June 30, 2006 and September 30, 2005, respectively	164	163
Additional paid-in capital	51,293	48,298
Retained income, substantially restricted	216,652	204,600
Accumulated other comprehensive loss, net of income taxes	(5,228)	(3,232)
Treasury stock at cost, 4,392,911 and 4,149,079 shares at June 30, 2006 and September 30, 2005, respectively	(86,096)	(78,700)
Total stockholders' equity	176,785	171,129
Total liabilities and stockholders' equity	$ 2,651,694	$ 2,522,405

See accompanying notes to consolidated financial statements.

FIRST FINANCIAL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share data) (Unaudited)

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005
INTEREST INCOME		
Interest and fees on loans	$ 34,426	$ 28,922
Interest on mortgage-backed securities	3,333	3,447
Interest and dividends on investments	790	622
Other	103	60
Total interest income	38,652	33,051
INTEREST EXPENSE		
Interest on deposits	11,256	6,790
Interest on borrowed money	7,157	6,995
Total interest expense	18,413	13,785
NET INTEREST INCOME	20,239	19,266
Provision for loan losses	1,413	1,010
Net interest income after provision for loan losses	18,826	18,256
OTHER INCOME		
Net gain on sale of loans	437	816
Net (loss)gain on sale of investment and mortgage-backed securities	(9)	1
Brokerage fees	694	634
Commissions on insurance	4,986	4,578
Other agency income	313	361
Service charges and fees on deposit accounts	4,386	2,985
Loan servicing operations, net	850	(117)
Gains on disposition of assets	801	344
Other	1,675	1,297
Total other income	14,133	10,899
NON-INTEREST EXPENSE		
Salaries and employee benefits	13,549	12,201
Occupancy costs	1,603	1,351
Marketing	690	490
Depreciation, rental and maintenance of equipment	1,243	1,311
Amortization of intangibles	117	121
Other	4,629	4,185
Total non-interest expense	21,831	19,659
Income before income taxes	11,128	9,496
Income tax expense	3,949	3,338
NET INCOME	$ 7,179	$ 6,158
NET INCOME PER COMMON SHARE BASIC	$ 0.60	$ 0.50
NET INCOME PER COMMON SHARE DILUTED	$ 0.59	$ 0.49

See accompanying notes to consolidated financial statements.

FIRST FINANCIAL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share data) (Unaudited)

	Nine Months Ended June 30, 2006	Nine Months Ended June 30, 2005
INTEREST INCOME		
Interest and fees on loans	$ 97,909	$ 84,961
Interest on mortgage-backed securities	10,233	10,067
Interest and dividends on investments	2,241	1,765
Other	287	151
Total interest income	110,670	96,944
INTEREST EXPENSE		
Interest on deposits	29,846	18,785
Interest on borrowed money	21,747	20,815
Total interest expense	51,593	39,600
NET INTEREST INCOME	59,077	57,344
Provision for loan losses	3,622	3,610
Net interest income after provision for loan losses	55,455	53,734
OTHER INCOME		
Net gain on sale of loans	1,689	1,656
Net loss on sale of investment and mortgage-backed securities	(6)	(55)
Brokerage fees	2,113	1,938
Commissions on insurance	14,686	14,090
Other agency income	882	955
Service charges and fees on deposit accounts	13,367	8,674
Loan servicing operations, net	2,417	1,205
Gains on disposition of assets	915	1,946
Other	4,789	5,203
Total other income	40,852	35,612
NON-INTEREST EXPENSE		
Salaries and employee benefits	40,603	37,446
Occupancy costs	4,193	3,828
Marketing	1,777	1,459
Depreciation, rental and maintenance of equipment	3,659	3,707
Prepayment penalties on FHLB advances		964
Amortization of intangibles	352	363
Other	13,611	11,780
Total non-interest expense	64,195	59,547
Income before income taxes	32,112	29,799
Income tax expense	11,401	10,681
NET INCOME	$ 20,711	$ 19,118
NET INCOME PER COMMON SHARE BASIC	$ 1.72	$ 1.55
NET INCOME PER COMMON SHARE DILUTED	$ 1.70	$ 1.52

See accompanying notes to consolidated financial statements.

FIRST FINANCIAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(in thousands, except per share data) (Unaudited)

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Treasury Stock		
	Shares	Amount	Capital	Income	Loss	Shares	Amount	Total
Balance at September 30, 2004	16,091	$ 161	$ 44,812	$ 189,675	$ (1,458)	3,788	$ (68,003)	$ 165,187
Net income				19,118				19,118
Other comprehensive loss:								
Unrealized net loss on securities available for sale, net of tax of $144					(227)			(227)
Total comprehensive income								18,891
Common stock issued pursuant to stock option and employee benefit plans	136	1	2,481					2,482
Cash dividends ($.69 per share)				(8,488)				(8,488)
Treasury stock purchased						197	(5,681)	(5,681)
Balance at June 30, 2005	16,227	$ 162	$ 47,293	$ 200,305	$ (1,685)	3,985	$ (73,684)	$ 172,391

	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Treasury Stock		
	Shares	Amount	Capital	Income	Loss	Shares	Amount	Total
Balance at September 30, 2005	16,265	$ 163	$ 48,298	$ 204,600	$ (3,232)	4,149	$ (78,700)	$ 171,129
Net income				20,711				20,711
Other comprehensive loss:								-
Unrealized net loss on securities								-
available for sale,								-
net of tax of $1,271					(1,996)			(1,996)
Total comprehensive income								18,715
Common stock issued pursuant to stock option and employee benefit plans	127	1	2,894					2,895
Stock option tax benefit			101					101
Cash dividends ($.72 per share)				(8,659)				(8,659)
Treasury stock purchased						244	(7,396)	(7,396)
Balance at June 30, 2006	16,392	$ 164	$ 51,293	$ 216,652	$ (5,228)	4,393	$ (86,096)	$ 176,785

See accompanying notes to consolidated financial statements.

FIRST FINANCIAL HOLDINGS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands) (Unaudited)

	Nine Months Ended June 30, 2006	Nine Months Ended June 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 20,711	$ 19,118
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	3,640	3,518
Amortization of intangibles	352	363
Gain on sale of loans, net	(1,689)	(1,656)
Loss on sale of investments and mortgage-backed securities, net	6	55
Gain on sale of property and equipment, net	(915)	(1,946)
Gain on sale of real estate owned, net	(38)	(150)
Stock option compensation expense	557	
Amortization of unearned discounts/premiums on investments, net	1,001	1,602
Prepayment penalties on FHLB advances		964
Decrease in deferred loan fees and discounts	(195)	(216)
Increase in receivables and other assets	(767)	(2,159)
Provision for loan losses	3,622	3,610
Write down of real estate and other assets acquired in settlement of loans	56	49
Proceeds from sales of loans held for sale	134,309	146,410
Impairment recovery from write-down of mortgage servicing rights	(795)	(88)
Origination of loans held for sale	(133,232)	(153,362)
Increase in accounts payable and other liabilities	8,670	8,182
Net cash provided by operating activities	35,293	24,294
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from maturity of investments available for sale	3,000	
Proceeds from sales of investment securities available for sale	14,543	23,174
Net purchases of investment securities available for sale	(18,335)	(26,255)
(Purchase) redemption of FHLB stock	(3,148)	6,845
Increase in loans, net	(167,875)	(49,042)
Repayments on mortgage-backed securities available for sale	69,450	42,499
Proceeds from sales of mortgage-backed securities available for sale	3,314	52,273
Purchase of mortgage-backed securities available for sale	(31,025)	(105,840)
Proceeds from the sales of real estate owned	3,274	6,027
Acquisition of goodwill and intangibles, net	(233)	(1,005)
Investment in partnership		(1,919)
Net purchase of office properties and equipment	(4,733)	(2,993)
Net cash used in investing activities	(131,768)	(56,236)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in checking, passbook and money market fund accounts	77,849	77,389
Net increase in certificates of deposit	77,081	17,850
Net proceeds (repayments) of FHLB advances	65,000	(164,000)
Prepayment penalties on FHLB advances		(964)
Net (decrease) increase in securities sold under agreements to repurchase	(102,022)	139,438
Net decrease in other borrowings	(4)	(631)
Decrease in advances by borrowers for taxes and insurance	(1,670)	(1,061)
Proceeds from the exercise of stock options	2,338	2,482
Tax benefit resulting from stock options	101	
Dividends paid	(8,659)	(8,488)
Treasury stock purchased	(7,396)	(5,681)
Net cash provided by financing activities	102,618	56,334
Net increase in cash and cash equivalents	6,143	24,392
Cash and cash equivalents at beginning of period	123,579	102,310
Cash and cash equivalents at end of period	$ 129,722	$ 126,702
Supplemental disclosures:		
Cash paid during the period for:		
Interest	$ 48,306	$ 40,432
Income taxes	11,560	6,412
Loans foreclosed	4,146	4,733
Loans securitized	2,221	
Unrealized net loss on securities available for sale, net of income tax	(1,996)	(227)

See accompanying notes to consolidated financial statements

FIRST FINANCIAL HOLDINGS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2006
(Unaudited)

NOTE 1. Basis of Presentation and Accounting Policies

General

The significant accounting policies followed by First Financial for interim financial reporting are consistent with the accounting policies followed for annual financial reporting. The unaudited consolidated financial statements and notes thereto are presented in accordance with the instructions for Form 10-Q. In the opinion of management, all adjustments necessary to fairly present the consolidated financial position and consolidated results of operations have been made. All such adjustments are of a normal, recurring nature. The information contained in the footnotes included in the Company's Annual Report on Form 10-K should be referred to in connection with these unaudited interim consolidated financial statements. Certain fiscal 2005 amounts have been reclassified to conform to the statement presentations for fiscal 2006. The unaudited consolidated financial statements include the accounts of First Financial Holdings, Inc, ("First Financial", or the "Company"), its wholly-owned thrift subsidiary, First Federal Savings and Loan Association of Charleston ("First Federal" or the "Association"), First Southeast Insurance Services, Inc., Kimbrell Insurance Group, Inc. ("Kimbrell") and First Southeast Investor Services, Inc.

The Company's consolidated financial statements also include the assets and liabilities of service corporations and operating subsidiaries majority-owned by First Federal and variable interest entities (VIEs) where the company is the primary beneficiary. All significant intercompany items related to the consolidated subsidiaries have been eliminated.

The results of operations for the nine months ended June 30, 2006 are not necessarily indicative of the results of operations that may be expected in future periods.

Controlling Financial Interest

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity under accounting principles generally accepted in the United States of America. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable each entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. The Company consolidates voting interest entities in which it has all, or at least a majority of, the voting interest. As defined in applicable accounting standards, VIEs are entities that lack one or more of the characteristics of a voting interest entity described above. A controlling financial interest in an entity is present when an enterprise has a variable interest, or combination of variable interests, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. FFSL I LLC qualifies as a VIE of the Association as the Association is the primary beneficiary, therefore, FFSL I LLC is combined into the accounts of the Association. North Central Apartments, LP qualifies as a VIE of the Association as the Association is the primary beneficiary, therefore, North Central Apartments, LP is combined into the accounts of the Association. The Company's wholly-owned trust subsidiary, formed to issue trust securities, First Financial Capital Trust I, is a VIE for which the Company is not the primary beneficiary. Accordingly, the accounts of this entity are not included in the Company's consolidated financial statements.

Commission Revenue Recognition

First Southeast Insurance Services, Inc.'s commission revenues are recognized at the later of the billing or the effective date of the related insurance policies. Commission revenues related to installment premiums are recognized periodically as billed. Contingent commissions are recognized as revenue when received. A contingent commission is a commission paid by an insurance carrier that is based on the overall profit and/or volume of the business placed with that insurance carrier. Commission on premiums billed directly by insurance carriers relate to a large number of small premium transactions, whereby the billing and policy issuance process is controlled entirely by the insurance carrier. The income effects of subsequent premium adjustments are recorded when the adjustments become known. Producer commission revenues are deducted from gross revenues in the determination of Kimbrell's total revenues. Producer commission represents commissions paid to sub-brokers related to the placement of certain business by Kimbrell. This commission is recognized in the same manner as commission revenues.

Transfer of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over the transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. We review all sales of loans by evaluating specific terms in the sales documents. The Company believes that each of the criteria discussed above to qualify for sales treatment has been met as loans have been transferred for cash and the notes and mortgages for all loans in each sale are endorsed and assigned to the transferee. As stated in the commitment document, the Company has no recourse with these loans except in the case of fraud. In certain sales, the Company may retain the mortgage servicing rights and in other programs may retain potential loss exposure from the credit enhancement obligation, both of which are evaluated and appropriately measured at date of sale.

The Company may package mortgage loans as securities to investors in accordance with Statement of Financial Accounting Standards No. 140, *"Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities-a replacement of FASB Statement No. 125*," ("SFAS 140"). The Company receives 100% of the securities backed by the mortgage loans, which are federal agency guaranteed. The securitizations are not accounted for as sales transactions. The mortgage-backed securities are classified as available-for-sale on the Company's books and subsequently, if sold, the gain or loss on the sale of these securities is reported as a gain or loss on the sale of investments and mortgage-backed securities.

Share Based Payment Arrangements

Prior to fiscal 2006, the Company had adopted the provisions of Statement of Financial Accounting Standards No. 123, "*Accounting for Stock-Based Compensation,"* ("SFAS 123") which allowed a company to either adopt the fair value method of valuation or continue using the intrinsic valuation method presented under the Accounting Principles Bulletin ("APB") Opinion 25, "*Accounting for Stock Issued to Employees,"* to account for stock-based compensation. Effective October 1, 2005, the Company adopted the provisions of SFAS 123 Revised , "*Share-based Payment",(*"SFAS 123(R)") which requires the expensing of share-options as they are granted or exercised. See Footnote 4, Share-Based Payment Arrangements, for more details.

NOTE 2. Nature of Operations

First Financial is a thrift holding company headquartered in Charleston, South Carolina. First Financial conducts its operations principally in South Carolina and has one full-service office located in North Carolina. The thrift subsidiary, First Federal, provides a wide range of traditional banking services and also offers investment, trust and insurance services through subsidiaries or affiliated companies. The Association has a total of 52 offices in South Carolina located in the Charleston Metropolitan area and Horry, Georgetown, Florence and Beaufort counties, and Brunswick County, in coastal North Carolina.

NOTE 3. Accounting Estimates and Assumptions

Certain policies require management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ significantly from these estimates and assumptions. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses, income taxes, mortgage servicing rights and accounting for acquisitions.

NOTE 4. Share-Based Payment Arrangements

At June 30, 2006, the Company had several share-based payment plans for employees, which are described below. Prior to October 1, 2005, the Company had elected to continue using the fair value method of valuation as presented under Accounting Principles Bulletin ("APB") Opinion 25. Effective October 1, 2005, the Company adopted the provisions of SFAS 123 (R). The total compensation cost of share-based payment plans during the three and nine months ended June 30, 2006 was $195 thousand and $557 thousand, respectively. The amount of related income tax benefit recognized in income during the three and nine months ended June 30, 2006 was $29 thousand and $76 thousand, respectively, resulting in a $166 thousand and $481 thousand reduction in net income, respectively.

Employee Share Option Plans

The Company's 1990 Stock Option and Incentive Plan, 1997 Stock Option and Incentive Plan, 2001 Stock Option Plan and 2005 Stock Option Plan (collectively, the "Plans"), all of which were shareholder-approved, allow for the grant of tax-qualified incentive share options or non-qualified share options to its employees. Share option awards are granted with an exercise price equal to the market price of First Financial Holdings, Inc.'s shares at the date of grant; these share option awards generally vest based on five years or less continuous service or they have been awarded based on previous service to the Company. Share options may be granted with varying contractual terms but the maximum is a ten year term. Share options granted under the Plans that remain outstanding totaled 763,867 at June 30, 2006. The 1997 Plan, the 2001 Plan and the 2005 Plan have an aggregate of 612,593 shares available for grant at June 30, 2006. The Plans provide for accelerated vesting if there is a change in control (as defined in the Plans).

The 1994 Directors Stock Option-for-Fees Plan and the 2004 Directors Stock Option-for-Fees Plan (collectively, the "Director Plans"), which were shareholder approved, permit the grant of non-qualified share options to directors based on a calculated value of deferred directors' fees and the market price of the common stock of the Company on the first day of each fiscal year. These share options vest over the term of the service period related to the deferred director's fees, which generally is one year. The maximum term of the share options awarded is ten years under the Director Plans. Share options granted under the Director Plans that remain outstanding totaled 131,894 at June 30, 2006. The 2004 Stock Option-for-Fees Plan has 147,171 shares available for grant at June 30, 2006. The Director Plans provides for accelerated vesting if there is a change in control (as defined in the Director Plans).

Compensation cost is measured using the fair value method for employee awards. The fair value of each share option award is estimated on the date of grant using the Black-Scholes option pricing model based on assumptions noted in the following table. Expected volatilities are based on historical volatility of the Company's common shares. The expected term of stock options granted differs for certain groups of employees exhibiting different post-vesting behaviors. For share options under the Plans, the Company is basing its expected term on the simplified method which is the simple average between contractual term and vesting period. For share options under the Director Plans, the expected term is based on the term of each option which is also the date that the related deferred compensation is payable per election of individual directors. The risk-free rate is based on the expected term of share options and the applicable U.S. Treasury yield curve in effect at the time of grant.

A summary of the assumptions used to determine the fair value of options granted during the three and nine months ended June 30, 2006 is presented below:

	June 30, 2006
Expected volatility	29.4% - 37.5%
Weighted-average volatility	33.2%
Expected dividends	2.94%
Expected term (years)	1.1 - 7
Risk-free rate	3.9% - 4.9%

A summary of stock option activity under the Plans and Director Plans as of June 30, 2006 and changes during the three months then ended is presented below:

	Number of Shares	Weighted-Average Exercise Price ($)	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic value ($000)
Outstanding at April 1, 2006	881,359	24.73		
Granted	36,915	31.9		
Exercised	(19,473)	21.77		
Forfeited or expired	(3,040)	29.21		
Outstanding at June 30, 2006	895,761	25.08	4.34	5,484
Exercisable at June 30, 2006	722,852	24.00	4.75	5,064

A summary of stock option activity under the Plans and Director Plans as of June 30, 2006 and changes during the nine months then ended is presented below:

	Number of Shares	Weighted-Average Exercise Price ($)	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic value ($000)
Outstanding at October 1, 2005	938,442	23.72		
Granted	100,608	29.32		
Exercised	(120,886)	17.68		
Forfeited or expired	(22,403)	27.32		
Outstanding at June 30, 2006	895,761	25.08	4.34	5,484
Exercisable at June 30, 2006	722,852	24.00	4.75	5,064

The weighted-average grant-date fair value of share options granted during the three and nine months ended June 30, 2006 was $8.80 and $7.66, respectively. The total intrinsic value of share options exercised during the three and nine months ended June 30, 2006 was $194 thousand and $1.65 million, respectively.

As of June 30, 2006, there was $1.1 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements (share options) granted under the Plans. That cost is expected to be recognized over a weighted-average period of 3.7 years. The total original fair-value of shares vested during the nine months ended June 30, 2006 was $396 thousand. The total compensation costs recognized during the nine months ended June 30, 2006 was $557 thousand as the cost is recognized over the service period on a straight line basis.

The 2004 Employee Stock Purchase Plan, which was approved by shareholders, allows employees to purchase stock of the Company at a discounted price. Purchases are made subject to various guidelines which allow the plan to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code of 1986. Certain provisions of the 2004 Employee Stock Purchase Plan require it be compensatory under SFAS 123(R). A total of 3,014 shares were issued to employees at a discounted price during the quarter ended December 30, 2005. During the quarter ended December 30, 2005, the Board of Directors suspended this plan, effective January 1, 2006.

Cash received from share option exercises totaled $2.3 million during the nine months ended June 30, 2006. The actual tax benefit realized for the tax deductions from option exercises totaled $101 thousand for the nine months ended June 30, 2006. The Company issues shares upon exercise of share options from newly issued shares that have been reserved for the various plans.

Performance Equity Plan for Non-Employee Directors

On January 27, 2005, the shareholders approved the Performance Equity Plan for Non-Employee Directors (the "Plan"). The purpose of the Plan is to provide non-employee directors with an opportunity to increase their equity interest in the Company if the Company and the Association attain specific financial criteria. Performance targets for the 2005 year resulted in the awarding of 3,812 shares in the year 2006 to the directors serving the Company and the subsidiaries. A maximum of 60,000 shares are reserved for issuance under the Plan. As of June 30, 2006, 56,188 shares were available for future issuance.

Prior to the adoption of SFAS No. 123 (R) on October 1, 2005, which was the beginning of its fiscal period, the Company had used the intrinsic value method to account for employee share options under Accounting Principles Bulletin Opinion 25, *"Accounting for Stock Issued to Employees"*, as allowable under SFAS 123, *"Accounting for Stock-Based Compensation."* In its 2005 financial statements it had included the following information for the three months and nine months ended June 30, 2005*:*

Three Months Ended June 30, 2005		
Share-based payment compensation as reported	$	-
Pro-forma total share-based compensation as if SFAS No. 123R had been applied	$	248
Nine Months Ended June 30, 2005		
Share-based payment compensation as reported	$	-
Pro-forma total share-based compensation as if SFAS No. 123R had been applied	$	745

The weighted-average assumptions used for grants for the three and nine months ended June 30, 2005 were: dividend yield of 2.82%, expected volatility of 37%, average risk-free interest rate of 3.96%, expected lives of 5 to 6 years and vesting period ranging from one to five years.

The information for the three and nine months ended June 30, 2005 has been disclosed below, together with reported and pro-forma figures for net income and earnings per share, in accordance with SFAS 123 (as amended by SFAS 148).

Information as Reported in the Financial Statements for the Three Months Ended June 30, 2005:

Net Income	$	6,158
Basic earnings per share	$	0.50
Diluted earnings per share	$	0.49
Share-based employee compensation cost, net of related tax effects	$	-

Information as Reported in the Financial Statements for the Nine Months Ended June 30, 2005:

Net Income	$	19,118
Basic earnings per share	$	1.55
Diluted earnings per share	$	1.52
Share-based employee compensation cost, net of related tax effects	$	-

Information Calculated as if Fair Value Method Had Applied to All Awards for the Three Months Ended June 30, 2005:

Share-based employee compensation cost, net of related tax effects	$	248
Pro-forma net income	$	5,910
Pro-forma basic earnings per share	$	0.48
Pro-forma diluted earnings per share	$	0.47

Information Calculated as if Fair Value Method Had Applied to All Awards for the Nine Months Ended June 30, 2005:

Share-based employee compensation cost, net of related tax effects	$	745
Pro-forma net income	$	18,373
Pro-forma basic earnings per share	$	1.49
Pro-forma diluted earnings per share	$	1.46

NOTE 5. Other Comprehensive Income

SFAS No. 130, "*Reporting Comprehensive Income,*" establishes standards for the reporting and presentation of comprehensive income and its components in a full set of financial statements. Comprehensive income consists of net income and net unrealized gains (losses) on securities and is presented in the statements of stockholders' equity and comprehensive income. The statement requires only additional disclosures in the consolidated financial statements; it does not affect the Company's results of operations. Total comprehensive income is comprised of net income and other comprehensive income (loss) and for the nine months ended June 30, 2006 and 2005 amounted to $18.7 million and $18.9 million, respectively.

The Corporation's "other comprehensive income (loss)" for the three and nine months ended June 30, 2006 and 2005 and "accumulated other comprehensive income (loss)" as of June 30, 2006 and 2005 are comprised solely of unrealized gains and losses on certain investments in debt and equity securities.

Other comprehensive income (loss) for the three months ended June 30, 2006 and 2005 follows (in thousands):

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005
Unrealized holding (losses) gains arising during period, net of tax	$ (681)	$ 1,841
Less: reclassification adjustment for realized (losses) gains, net of tax	(6)	1
Unrealized (losses) gains on securities available for sale, net of applicable income taxes	$ (675)	$ 1,840

Other comprehensive income (loss) for the nine months ended June 30, 2006 and 2005 follows (in thousands):

	Nine Months Ended June 30, 2006	Nine Months Ended June 30, 2005
Unrealized holding losses arising during period, net of tax	$ (2,000)	$ (263)
Less: reclassification adjustment for realized losses, net of tax	(4)	(36)
Unrealized losses on securities available for sale, net of applicable income taxes	$ (1,996)	$ (227)

NOTE 6. Gross Unrealized Losses on Investment Securities

Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at June 30, 2006, were as follows:

	Less than 12 Months			12 Months or Longer			Total		
	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Securities available for sale									
June 30, 2006									
U.S. Treasury				2	$ 3,304	$ 31	2	$ 3,304	$ 31
U.S. Government agency mortgage-backed securities	11	$ 30,819	$ 614	13	94,303	3,205	24	125,122	3,819
Collateral mortgage obligations	1	13,760	166	6	57,265	1,527	7	71,025	1,693
Other mortgage-backed securities	4	32,791	553	12	65,818	2,404	16	98,609	2,957
Corporate securities	2	2,119	249	2	1,974	27	4	4,093	276
Total temporarily impaired	18	$ 79,489	$ 1,582	35	$ 222,664	$ 7,194	53	$ 302,153	$ 8,776

At June 30, 2006, the Company had 53 individual investments that were in an unrealized loss position. The unrealized losses on investments in U.S. Treasury, U.S. Government agencies, corporate securities, and mortgage-backed securities summarized above were attributable to increases in interest rates, rather than credit quality. The Company has the intent and the ability to hold these investments until a market price recovery or maturity, and therefore these investments are not considered impaired on an other-than-temporary basis.

The Company principally invests in corporate debt securities rated in one of the four highest categories by two nationally recognized investment rating services.

NOTE 7. Intangible Assets

Intangible assets, net of accumulated amortization, at June 30, 2006, September 30, 2005 and June 30, 2005 are summarized as follows (in thousands):

	June 30, 2006	September 30, 2005	June 30, 2005
Goodwill	$ 21,439	$ 21,229	$ 21,229
Customer list	3,602	3,579	3,574
Less accumulated amortization	(2,182)	(1,830)	(1,709)
	1,420	1,749	1,865
Total	$ 22,859	$ 22,978	$ 23,094

	First Southeast Insurance Services, Inc.	Kimbrell Insurance Group, Inc.	Total
Balance, September 30, 2005	$ 15,583	$ 5,646	$ 21,229
Goodwill acquired during the period	210		210
Balance, June 30, 2006	$ 15,793	$ 5,646	$ 21,439

On June 9, 2006, First Southeast Insurance Services, Inc. ("FSIns") purchased the assets of Employer Benefits Strategies, Inc. ("EBSI") based in Summerville, South Carolina. It is anticipated that the majority of the purchase price will be classified as goodwill with a percentage allocated to intangibles. At June 30, 2006, this allocation had not been determined.

Amortization of intangibles totaled $352 thousand, $484 thousand and $363 thousand for the nine months ended June 30, 2006, fiscal year ended September 30, 2005 and the nine months ended June 30, 2005, respectively.

The Company expects to record amortization expense related to intangibles of $473 thousand for fiscal year 2006, $424 thousand for fiscal 2007, $312 thousand for fiscal 2008, $153 thousand for fiscal 2009, $113 thousand for fiscal 2010 and an aggregate of $297 thousand for all years thereafter.

NOTE 8. Mortgage Servicing Rights

The following summarizes the changes in the carrying amount of capitalized mortgage servicing rights ("MSRs"), which are included in other assets, for the nine months ended June 30, 2006, the fiscal year ended September 30, 2005 and the nine months ended June 30, 2005 (in thousands):

	June 30, 2006	September 30, 2005	June 30, 2005
Balance at beginning of period	$ 12,209	$ 11,938	$ 11,938
Capitalized mortgage servicing rights	1,452	2,028	1,331
Amortization	(1,418)	(2,144)	(1,603)
Change in valuation allowance	795	387	88
Balance at end of period	$ 13,038	$ 12,209	$ 11,754

The aggregate fair value of capitalized mortgage servicing rights at June 30, 2006, September 30, 2005 and June 30, 2005 was $13.0 million, $12.2 million and $11.8 million, respectively. At June 30, 2006, September 30, 2005 and June 30, 2005, respectively, the valuation allowance for capitalized MSRs totaled $559 thousand, $1.353 million and $1.653 million, respectively. In the quarter ended June 30, 2006 the Company recorded an impairment recovery of approximately $200 thousand compared with an impairment loss of approximately $507 thousand for the three months ended June 2005. The impairment recovery for the nine months ended June 30, 2006 and 2005 was approximately $795 thousand and $88 thousand, respectively. At June 30, 2006, September 30, 2005 and June 30, 2005, the Company was servicing loans for others in the amount of $957.0 million, $950.6 million and $944.5 million, respectively.

The estimated amortization expense for mortgage servicing rights for future years ending September 30 is as follows: $1.9 million for 2006, $1.8 million for 2007, $1.7 million for 2008, $1.6 million for 2009, $1.5 million for 2010 and $6.5 million thereafter. The estimated amortization expense is based on current information regarding loan payments and prepayments. Amortization expense could change in future periods based on changes in the volume of prepayments and economic factors.

NOTE 9. Derivative Financial Instruments and Hedging

The Company uses derivatives as part of its interest rate management activities. Prior to the implementation of Staff Accounting Bulletin, ("SAB") 105, the Company recognized a servicing value at the time the commitment was made. After implementation, the Company recognizes the servicing value when the loan is sold. Statement of Financial Accounting Standards No. 133, "*Accounting for Derivative Instruments and Hedging Activities*," ("SFAS 133") as amended by SFAS 137, 138 and 149, establishes accounting and reporting standards for derivatives and hedging activities. SFAS 133 requires an entity to recognize all derivatives as either assets or liabilities in the balance sheet, and to measure those instruments at fair value. Changes in the fair value of those derivatives are reported in current earnings or other comprehensive income depending on the purpose for which the derivative is held and whether the derivative qualifies for hedge accounting. The Company does not currently engage in any activities that qualify for hedge accounting under SFAS 133. All changes in the fair value of derivative instruments are recorded as non-interest income in the consolidated statements of operations.

The Company has identified the following derivative instruments which were recorded on the Company's balance sheet at June 30, 2006: commitments to originate fixed-rate and certain other residential loans held for sale and forward sales commitments.

The Company originates certain fixed rate and adjustable-rate residential loans with the intention of selling these loans. Between the time that the Company enters into an interest rate lock or a commitment to originate a fixed rate residential loan with a potential borrower and the time the closed loan is sold, the Company is subject to variability in market prices related to these commitments. The Company believes that it is prudent to limit the variability of expected proceeds from the sales through forward sales of "to be issued" mortgage backed securities and loans ("forward sales commitments"). The commitments to originate fixed rate conforming loans totaled $25.6 million at June 30, 2006. It is anticipated 80% of these loans will close totaling $20.5 million. The fair value of the $20.5 million is a liability of $171 thousand at June 30, 2006. The fair value of forward sales commitments of $22 million of "to be issued" mortgage-backed securities was an asset of $137 thousand at June 30, 2006.

NOTE 10. Earnings Per Share

Basic and diluted earnings per share ("EPS") have been computed based upon net income as presented in the accompanying statements of income divided by the weighted average number of common shares outstanding or assumed to be outstanding as summarized below:

	Three Months Ended June 30,	
	2006	2005
Weighted average number of common shares used in basic EPS	12,013,349	12,302,836
Effect of dilutive stock options	150,065	208,151
Weighted average number of common shares and dilutive potential common shares used in diluted EPS	12,163,414	12,510,987

	Nine Months Ended June 30,	
	2006	2005
Weighted average number of common shares used in basic EPS	12,030,133	12,308,982
Effect of dilutive stock options	164,544	252,932
Weighted average number of common shares and dilutive potential common shares used in diluted EPS	12,194,677	12,561,914

For the three and nine months ended June 30, 2006 and June 30, 2005 there were 351,472 and 336,578 option shares, respectively, that were excluded from the calculation of diluted earnings per share at some time during the period because the exercise prices were greater than the average market price of the common shares.

NOTE 11. Business Segments

The Company has two principal operating segments, banking and insurance operations, which are evaluated regularly by Management and the Board of Directors in deciding how to allocate resources and assess performance. Both of these operating segments are reportable segments by virtue of exceeding certain quantitative thresholds.

First Federal, the Company's primary operating segment, engages in general banking business focusing on mortgage, consumer and commercial lending to small and middle market businesses and consumers in its markets. First Federal also provides demand transaction accounts and time deposit accounts to businesses and individuals. First Federal offers products and services primarily to customers in its market areas, consisting of counties in Coastal South Carolina and North Carolina from the Hilton Head area of Beaufort County to the Sunset Beach area of Brunswick County and Florence County. Revenues for First Federal are derived primarily from interest and fees on loans, interest on investment securities, service charges on deposits and other customer service fees.

First Southeast Insurance Services, Inc. operates as an independent insurance agency and brokerage through eleven offices, seven located throughout the coastal region of South Carolina, two offices in Florence County and one office each in Columbia and Lake Wylie, South Carolina, with revenues consisting principally of commissions paid by insurance companies. The Kimbrell Insurance Group, Inc. (acquired in January 2004) operates as a managing general agency and brokerage through its primary office, located in Horry County, South Carolina, with revenues consisting principally of commissions paid by insurance companies. Also part of The Kimbrell Insurance Group, Inc. is Atlantic Acceptance Corporation, Inc., which finances insurance premiums. No single customer accounts for a significant amount of the revenues of either reportable segment. The Company evaluates performance based on budget to actual comparisons and segment profits. The accounting policies of the reportable segments are the same as those described in Note 1 of the Company's latest annual report on Form 10-K.

Segment information is shown in the tables below. The "Other" column includes all other business activities that did not meet the quantitative thresholds and therefore are not shown as a reportable segment. Certain passive activities of First Financial are also included in the "Other" column as well as inter-company elimination entries required for consolidation (in thousands).

Three months ended June 30, 2006

	Banking	Insurance Activities	Other	Total
Interest income	$ 38,437	$ 148	$ 67	$ 38,652
Interest expense	17,627	52	734	18,413
Net interest income	20,810	96	(667)	20,239
Provision for loan losses	1,400	13		1,413
Other income	8,214	48	572	8,834
Commissions on insurance and other agency income	81	5,250	(32)	5,299
Non-interest expenses	16,329	3,941	1,444	21,714
Amortization of intangibles		117		117
Income tax expense	3,996	476	(523)	3,949
Net income	$ 7,380	$ 847	$ (1,048)	$ 7,179

Nine months ended June 30, 2006

	Banking	Insurance Activities	Other	Total
Interest income	$ 110,155	$ 345	$ 170	$ 110,670
Interest expense	49,232	124	2,237	51,593
Net interest income	60,923	221	(2,067)	59,077
Provision for loan losses	3,600	22		3,622
Other income	23,358	182	1,744	25,284
Commissions on insurance and other agency income	174	15,490	(96)	15,568
Non-interest expenses	48,875	11,190	3,778	63,843
Amortization of intangibles		352		352
Income tax expense	11,221	1,558	(1,378)	11,401
Net income	$ 20,759	$ 2,771	$ (2,819)	$ 20,711
June 30, 2006				
Total assets	$ 2,604,434	$ 41,466	$ 5,794	$ 2,651,694
Loans	$ 2,043,136	$ 4,830		$ 2,047,966
Deposits	$ 1,817,950		$ (5,948)	$ 1,812,002

Three months ended June 30, 2005

	Banking	Insurance Activities	Other	Total
Interest income	$ 32,915	$ 83	$ 53	$ 33,051
Interest expense	12,997	25	763	13,785
Net interest income	19,918	58	(710)	19,266
Provision for loan losses	1,010			1,010
Other income	5,369	30	561	5,960
Commissions on insurance and other agency income	157	4,812	(30)	4,939
Non-interest expenses	14,751	3,472	1,315	19,538
Amortization of intangibles		121		121
Income tax expense	3,404	470	(536)	3,338
Net income	$ 6,279	$ 837	$ (958)	$ 6,158

Nine months ended June 30, 2005

	Banking	Insurance Activities	Other	Total
Interest income	$ 96,517	$ 279	$ 148	$ 96,944
Interest expense	37,218	60	2,322	39,600
Net interest income	59,299	219	(2,174)	57,344
Provision for loan losses	3,610			3,610
Other income	18,740	97	1,730	20,567
Commissions on insurance and other agency income	277	14,860	(92)	15,045
Non-interest expenses	44,836	10,410	2,974	58,220
Amortization of intangibles		363		363
Prepayment penalties on FHLB advances	964			964
Income tax expense	10,334	1,585	(1,238)	10,681
Net income	$ 18,572	$ 2,818	$ (2,272)	$ 19,118
June 30, 2005				
Total assets	$ 2,478,532	$ 39,364	$ 8,644	$ 2,526,540
Loans	$ 1,864,424	$ 3,203		$ 1,867,627
Deposits	$ 1,621,001		$ (4,945)	$ 1,616,056

NOTE 12. Guarantees

Standby letters of credit represent an obligation of the Company to a third party contingent upon the failure of the Company's customer to perform under the terms of an underlying contract with the third party or obligate the Company to guarantee or stand as surety for the benefit of the third party. The underlying contract may entail either financial or nonfinancial obligations and may involve such things as the customer's delivery of merchandise, completion of a construction contract, release of a lien, or repayment of an obligation. Under the terms of a standby letter, drafts will generally be drawn only when the underlying event fails to occur as intended. The Company can seek recovery of the amounts paid from the borrower. In addition, some of these standby letters of credit are collateralized. Commitments under standby letters of credit are usually for one year or less. No liability was recorded relating to the Company's obligation to perform as a guarantor, since such amounts are not considered material. The maximum potential amount of undiscounted future payments related to standby letters of credit at June 30, 2006 was $2.0 million.

NOTE 13. Commitments and Contingencies

The Company is currently subject to various legal proceedings and claims that have arisen in the ordinary course of its business. In the opinion of management based on consultation with external legal counsel, any reasonably foreseeable outcome of such current litigation would not materially affect the Company's consolidated financial position or results of operations.

NOTE 14. Other Income

Included in Other Income for the nine months ended June 30, 2005 is the receipt of a judgment totaling $1.3 million.

NOTE 15. Loan Sales

During the nine months ended June 30, 2006 and June 30, 2005, the Association had loan sales of approximately $132.6 million and $144.8 million, respectively, of which $84.0 million and $78.6 million, respectively, were to the Federal Home Loan Bank of Atlanta ("FHLB").

The Association transfers closed mortgage loans to the FHLB for cash pursuant to a Participating Financial Institution Agreement (the "Agreement") between the FHLB and the Association which establishes the general terms and conditions for the origination and subsequent purchase, servicing and credit enhancement and loss treatment of receivables under the Program and pursuant to the Mortgage Partnership Finance Origination and Servicing Guides ("the

Guides”). The transfers are intended to be true sales and accordingly, the FHLB receives full ownership rights to the mortgages and is free to sell, assign or otherwise transfer the mortgage without constraint.

The credit risk is shared between the Association and the FHLB by structuring the potential loss exposure into several layers. The initial layer of losses (after any primary mortgage insurance coverage) on loans delivered under a Master Commitment is absorbed by a "first loss" account (“FLA”) established by the FHLB. Additional credit enhancement in the form of a supplemental mortgage insurance policy is obtained by the Association with the FHLB as loss payee to cover the second layer of losses which exceed the deductible of the supplemental mortgage insurance policy. Losses on the pool of loans in excess of the FLA and the supplemental mortgage insurance coverage would be paid from the Association’s credit enhancement obligation for the Master Commitment (generally 20 basis points). The FHLB will absorb all losses in excess of the Association’s credit enhancement obligation.

Upon completion of a transfer of loans to the FHLB, the Association recognizes the fair value of the future cash flows from credit enhancement fees, reduced by the costs of pool insurance. The Association recognizes at fair value its recourse obligation due to the credit enhancement obligation. When applying sales accounting treatment to the MPF sales, these respective fair values enter into the Association’s gain or loss on the sales under SFAS 140. Thereafter, the credit enhancement asset and the recourse obligation are reduced through normal amortization methods. As a practical matter and based upon the fact that the credit enhancement fees cannot be separated from the recourse obligation, a net asset has been established. To date, the Association has not incurred any actual losses associated with its credit enhancement obligation of 20 basis points as outlined above. Any losses to date have been immaterial and were out of the FLA.

Servicing of the loans sold to the FHLB is also retained by the Association and is appropriately accounted for under the provisions of SFAS 140, with a periodic impairment valuation conducted quarterly.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

WEBSITE AVAILABILITY OF REPORTS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION

All of the Company’s electronic filings with the Securities and Exchange Commission (“SEC”), including its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other documents filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are made available at no cost on the Company’s web site, www.firstfinancialholdings.com, using the First Financial SEC Reports link.

DISCUSSION OF FORWARD-LOOKING STATEMENTS

This report may contain certain “forward-looking statements” concerning the future operations of the Company. Management desires to take advantage of the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995 (the “Act”) and is including this statement for the express purpose of availing the Company of protections of such safe harbor with respect to all “forward-looking statements” contained in this Quarterly Report. These forward-looking statements include, among others, statements regarding management’s belief concerning the adequacy of the allowance for loan losses, the ability of the Company to meet its contractual commitments, management’s belief with respect to the economic and interest rate environments and their impact on the Company, management’s belief regarding the resolution of certain loan delinquencies and the inclusion of all material loans in which doubt exists as to collectibility in nonperforming assets and impaired loans and the expected impact on the Company of recent accounting pronouncements. In addition, certain statements in future filings by the Company with the Securities and Exchange Commission, in press releases, and in oral and written statements made by or with the approval of the Company which are not statements of historical fact constitute forward-looking statements within the meaning of the Act.

Investors and prospective investors are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those contemplated by such forward-looking statements. Management’s ability to predict results or the effect of future plans or strategies is inherently uncertain. A number of factors could cause actual results to differ materially from those contemplated by the forward-looking statements in this Quarterly Report. These factors include, but are not limited to: (i) changes in the levels of general interest rates, deposit interest rates, the net interest margin, and funding sources; (ii) the strength of the U.S. economy and the strength of the local economies in which the Company operates; (iii) the ability of the Company to control costs and expenses; (iv) the ability of the Company to efficiently incorporate acquisitions into its operations; (v) the ability of the Company to successfully complete consolidation and conversion activities; (vi) the ability of the Company to offer competitive products and pricing; (vii) the ability of the Company to resolve outstanding credit issues and manage loan delinquency rates; (viii) costs and effects of litigation; (ix) the effect of changes in federal and state laws and regulation; and (x) the effect of changes in accounting policies and practices, as may be adopted by the regulatory agencies, the Financial Accounting Standards Board, or other authoritative bodies. These factors should be considered in evaluating the "forward-looking statements," and undue reliance should not be placed on such statements. Such forward-looking statements speak only as of the date on which such statements are made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which such statement is made to reflect the occurrence of unanticipated events.

OVERVIEW

First Financial Holdings, Inc. ("First Financial" or the "Company") is a savings and loan holding company incorporated under the laws of Delaware in 1987. The Company is headquartered in Charleston, South Carolina and operates First Federal Savings and Loan Association of Charleston ("First Federal" or the "Association"). Insurance operations are conducted under other First Financial subsidiaries, First Southeast Insurance Services, Inc. ("FSIns.") and Kimbrell Insurance Group, Inc. ("Kimbrell"). The Company also owns First Southeast Investor Services, Inc. ("FSIS"), a South Carolina corporation organized in 1998 for the purpose of operating as a broker-dealer.

First Federal, chartered in 1934, is the largest financial institution headquartered in the Charleston, South Carolina metropolitan area and the third largest financial institution headquartered in South Carolina based on asset size. First Federal is a federally-chartered stock savings and loan association that conducts its business through operation centers located in Charleston and Conway along with 38 full service retail branch sales offices, 11 in-store (Wal-Mart Supercenters) retail branch sales offices, and three limited service branches located in the following counties: Charleston County (18), Berkeley County (3), Dorchester County (5), Hilton Head area of Beaufort County (3), Georgetown County (3), Horry County (14), Florence County (5) and the Sunset Beach area of Brunswick County North Carolina (1).

The business of the Company consists primarily of acting as a financial intermediary by attracting deposits from the general public and using such funds, together with borrowings and other funds, to originate first mortgage loans on residential properties located in its primary market areas. The Company also makes construction, consumer, non-residential mortgage and commercial business loans and invests in mortgage-backed securities, federal government and agency obligations, money market obligations and certain corporate obligations. Through direct subsidiaries or subsidiaries of the Association, the Company also engages in full-service brokerage activities, property, casualty, life and health insurance sales, third party administrative services, trust and fiduciary services, reinsurance of private mortgage insurance, premium finance activities and certain passive investment activities.

The Company continues to move forward with many strategic initiatives. The Company has opened three new in-store retail sales offices (in Georgetown and Charleston, South Carolina) in the nine months ended June 30, 2006. The Company has commitments to open two additional in-store offices in fiscal years 2007 and 2008.

THIRD QUARTER HIGHLIGHTS

Net income for the quarter ended June 30, 2006 increased 16.6% to $7.2 million from net income of $6.2 million in the comparable quarter in fiscal 2005. Diluted earnings per common share increased 20.4% to $.59 per common share for the quarter ended June 30, 2006 from diluted earnings per share of $.49 per common share for the quarter ended June 30, 2005.

The Company's net interest margin increased 3 basis points to 3.37% for the quarter ended June 30, 2006 from 3.34% for the comparable quarter ended June 30, 2005. Changes in the average balances of interest earning assets from the quarter ended June 30, 2005 to the current quarter ended June 30, 2006 included a $139.3 million increase in average loans while other average earning assets declined by $42.6 million.

Even though the Federal Reserve has increased short-term rates by 425 basis points since June 2004, the Company's net interest margin still increased this quarter by three basis points to 3.37% from 3.34% for the quarter ended June 30, 2005. The net interest margin for the quarter ended June 30, 2006 was 3.37% compared with 3.27% for the quarter ended March 31, 2006. The linked quarter's increase in net interest margin of 10 basis points is attributable to the growth in earning assets of $32.1 million during the quarter and a higher mix of loans relative to securities. Total non-interest income increased $3.2 million in the quarter ended June 30, 2006 to $14.1 million compared with the quarter ended June 30, 2005. Commissions on insurance increased by 8.9% to $5.0 million during the quarter ended June 30, 2006 compared to the quarter ended June 30, 2005. Due to an increase in brokerage activity, fee income increased $60 thousand, or 9.5%, to $694 thousand in the current quarter from $634 thousand in the comparable quarter in fiscal 2005.

Deposit account fees increased $1.4 million, or 46.9%, to $4.4 million in the current quarter from $3.0 million in the comparable quarter in fiscal 2005. The increase in deposit fees during the current quarter is primarily attributable to the successful introduction and implementation of a courtesy overdraft privilege program in July 2005. The Company incurred expenses related to deposit accounts and the introduction of the overdraft privilege program of $252 thousand and $170 thousand, respectively, during the three months ended June 30, 2006 and 2005. Thus, excluding expenses, the Company's net deposit revenues increased by $1.3 million, or 46.8% during the current quarter as compared to the comparable quarter in fiscal 2005. Income from loan servicing operations increased to $850 thousand during the current quarter from a negative $117 thousand for the comparable quarter ended June 30, 2005. The increase in loan servicing operations reflects a $507 thousand increase in the impairment reserve for the originated mortgage servicing values in the prior quarter while the current quarter's results include a $200 thousand recovery.

Total non-interest expenses increased by $2.2 million, or 11.0% to $21.8 million for the quarter ended June 30, 2006 compared with the quarter ended June 30, 2005. Salaries and employee benefits increased by $1.3 million, partially attributable to staffing for in-store branch expansion, higher health benefit costs and merit increases since June 2005. Occupancy costs and marketing costs increased 18.7% and 40.8%, respectively, due to the in-store branch expansion and various marketing campaigns. The other significant increases in expenses during the quarter ended June 30, 2006 included increased costs of $252 thousand related principally to the overdraft privilege program mentioned above and higher expenses related to overall growth in customer services and accounts supported.

CRITICAL ACCOUNTING POLICIES

The Company’s accounting policies are discussed in Item 8, Note 1 to the Consolidated Financial Statements of the 10-K for September 30, 2005. Of these significant accounting policies, the Company has determined that accounting for allowance for loan losses, income taxes, mortgage servicing rights and accounting for acquisitions are deemed critical because of the valuation techniques used, and the sensitivity of these financial statement amounts to the methods, assumptions and estimates underlying these balances. Accounting for these critical areas requires the most subjective and complex judgments that could be subject to revision as new information becomes available.

OFF-BALANCE SHEET ARRANGEMENTS

The Company’s off-balance sheet arrangements, which principally include lending commitments and derivatives, are described below.

Lending Commitments. Lending Commitments include loan commitments, standby letters of credit, unused business and consumer credit lines, and documentary letters of credit. These instruments are not recorded in the consolidated balance sheet until funds are advanced under the commitments. The Company provides these lending commitments to customers in the course of business. The Company applies essentially the same credit policies and standards as it does in the lending process when making these commitments.

For commercial customers, loan commitments generally take the form of revolving credit arrangements to finance customers’ working capital requirements. For retail customers, loan commitments are generally lines of credit secured by residential property. At June 30, 2006, commercial and retail loan commitments and the undisbursed portion of construction loans totaled $180.2 million. Unused business, personal and credit card lines, which totaled $335.5 million at June 30, 2006, are generally for short-term borrowings.

Derivatives. In accordance with SFAS No. 133, the Company records derivatives at fair value, as either assets or liabilities, on the consolidated balance sheets. Derivative transactions are measured in terms of the notional amount, but this amount is not recorded on the balance sheet and is not, when viewed in isolation, a meaningful measure of the risk profile of the instrument. The notional amount is not exchanged, but is used only as the basis upon which interest and other payments are calculated. See Note 9 in the Notes to Consolidated Financial Statements.

OTHER POSTRETIREMENT BENEFITS

The Company sponsors postretirement benefit plans that provide health care, life insurance and other postretirement benefits to retired employees. The health care plans generally include participant contributions, co-insurance provisions, limitations on the Company’s obligation and service-related eligibility requirements. The Company pays these benefits as they are incurred. Postretirement benefits for employees hired after January 1, 1989 and those electing early retirement or normal retirement after January 1, 1999, were substantially curtailed. The Company’s other postretirement benefits are discussed more fully in Item 8, Note 18 to the Consolidated Financial Statements of the 10-K for September 30, 2005.

On December 8, 2003, the President signed the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") into law. The Act introduces a voluntary prescription drug benefit under Medicare as well as a federal subsidy to sponsors of retiree health care plans that provide at least an actuarially equivalent benefit. The Financial Accounting Standards Board (FASB) issued a Staff Position, FAS 106-2, on May 9, 2004, which was effective for the first interim or annual reporting period beginning after June 15, 2004. The Company adopted FAS 106-2 effective July 1, 2004. The Company has determined that the drug benefit under its postretirement benefit plan is actuarially equivalent to Medicare part D and qualifies for the subsidy.

The components of net periodic benefit costs for the three months ended June 30, 2006 and 2005 are shown in the following statement (in thousands):

	Other Postretirement Benefits	
	Three months ended June 30,	
	2006	2005
Interest Cost	$ 22	$ 27
Amortization of transition obligation	21	24
	$ 43	$ 51

The components of net periodic benefit costs for the nine months ended June 30, 2006 and 2005 are shown in the following statement (in thousands):

	Other Postretirement Benefits	
	Nine months ended June 30,	
	2006	2005
Interest Cost	$ 66	$ 81
Amortization of transition obligation	63	72
	$ 129	$ 153

The Company previously disclosed in its financial statements for the year ended September 30, 2005, that it expected to contribute $111 thousand for postretirement benefit payments in fiscal year 2006. As of the three and nine months ended June 30, 2006, $47 thousand and $118 thousand, respectively, of contributions had been contributed.

BALANCE SHEET ANALYSIS

Total assets of First Financial increased $129.3 million, or 5.13%, during the nine months ended June 30, 2006. The following table shows the variances in dollars and percent change between the Consolidated Statements of Financial Condition for First Financial at June 30, 2006 and September 30, 2005:

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	June 30, 2006	September 30, 2005	Variance	% Change
	(Amounts in thousands) (Unaudited)			
ASSETS				
Cash and cash equivalents	$ 129,722	$ 123,579	$ 6,143	4.97 %
Investments available for sale, at fair value	28,534	28,023	511	1.82
Investment in capital stock of FHLB	28,313	25,165	3,148	12.51
Mortgage-backed securities available for sale, at fair value	298,022	341,533	(43,511)	(12.74)
Loans receivable, net of allowance of $14,461 and $14,155	2,037,695	1,878,730	158,965	8.46
Loans held for sale	10,271	9,659	612	6.34
Goodwill, net	21,439	21,229	210	0.99
Intangible assets, net	1,420	1,749	(329)	(18.81)
Other assets	96,278	92,738	3,540	3.82
Total assets	$ 2,651,694	$ 2,522,405	$ 129,289	5.13 %
LIABILITIES AND STOCKHOLDERS' EQUITY				
Liabilities:				
Deposit accounts				
Noninterest-bearing	$ 222,085	$ 216,946	$ 5,139	2.37 %
Interest-bearing	1,589,917	1,440,126	149,791	10.40
Total deposits	1,812,002	1,657,072	154,930	9.35
Advances from Federal Home Loan Bank	517,000	452,000	65,000	14.38
Other short-term borrowings	27,637	129,663	(102,026)	(78.69)
Long-term debt	46,392	46,392		
Other liabilities	71,878	66,149	5,729	8.66
Total liabilities	2,474,909	2,351,276	123,633	5.26 %
Stockholders' equity	176,785	171,129	5,656	3.31
Total liabilities and stockholders' equity	$ 2,651,694	$ 2,522,405	$ 129,289	5.13 %

Investment Securities and Mortgage-backed Securities

Investments available for sale, investment in capital stock of FHLB and mortgage-backed securities available for sale decreased $39.9 million in the current nine months ended June 30, 2006. Purchases of investments available for sale and mortgage-backed securities available for sale totaled $49.4 million during the nine months ended June 30, 2006. The Company sold $14.5 million of investments available for sale and $3.0 million of investments available for sale matured during the nine months ended June 30, 2006. During the nine months ended June 30, 2006, there were $3.3 million in sales of mortgage-backed securities available for sale and repayments totaled $69.5 million. Net purchases of FHLB stock amounted to $3.1 million during the nine months ended June 30, 2006. The Company expects to maintain investment securities available for sale and mortgage-backed securities available for sale at approximately 12 to 15% of assets in future periods.

Loans Receivable

The following table summarizes outstanding loans, including loans held for sale, by collateral type for real estate secured loans and by borrower type for all other loans. Collateral type represents the underlying assets securing the loan, rather than the purpose of the loans (in thousands):

	June 30, 2006	September 30, 2005	June 30, 2005
Real estate - residential mortgages (1-4 family)	$ 908,743	$ 928,505	$ 942,879
Real estate - residential construction	106,787	83,891	86,377
Commercial secured by real estate including multi-family	286,013	261,105	256,945
Commercial financial and agricultural	78,314	70,602	69,332
Land	195,950	127,314	122,449
Home equity loans	253,884	229,483	218,519
Mobile home loans	170,262	156,545	150,179
Credit cards	13,298	12,481	11,950
Other consumer loans	117,665	100,624	97,704
Total gross loans	2,130,916	1,970,550	1,956,334
Less:			
Allowance for loan losses	14,461	14,155	14,196
Loans in process	69,637	68,958	75,465
Deferred loan fees and discounts on loans	(1,148)	(952)	(954)
	82,950	82,161	88,707
Total	$ 2,047,966	$ 1,888,389	$ 1,867,627

Net loans increased $159.6 million during the nine months ended June 30, 2006. The above chart shows a decline in residential mortgages during the first three quarters of fiscal 2006. Gross residential mortgage loans (1-4 family) declined $34.1 million during the twelve months ended June 30, 2006. Most other categories of loans exhibited growth, particularly residential construction, commercial, land, home equity and mobile home loans during the twelve months ended June 30, 2006 and during the first nine months of fiscal 2006. The Company continues to place increased emphasis on the origination of commercial business and consumer loans.

The Company's mobile home loan portfolio was 8.3% of the net loan portfolio at June 30, 2006 compared to 8.0% of the net loan portfolio at June 30, 2005. During fiscal 2005 the Company expanded its mobile home lending program to parts of the state of Florida and beginning with fiscal 2006 began a pilot program with selected dealerships in the state of Alabama. Mobile home lending involves additional risks as result of higher loan-to-value ratios usually associated with these types of loans. Consequently, mobile home loans bear a higher rate of interest, have a higher probability of default and may involve higher delinquency rates. The average coupon on the mobile home loan portfolio at June 30, 2006 and June 30, 2005 was 9.58% and 9.73%, respectively.

Asset Quality

The following table summarizes the Company's problem assets for the periods indicated (amounts in thousands):

	June 30, 2006	September 30, 2005	June 30, 2005
Non-accrual loans	$ 5,020	$ 5,556	$ 6,715
Loans 90 days or more delinquent (1)	64	45	26
Real estate and other assets acquired in settlement of loans	1,725	1,755	2,291
Total	$ 6,809	$ 7,356	$ 9,032
As a percent of net loans and real estate owned	0.33%	0.39%	0.48%
As a percent of total assets	0.26%	0.29%	0.36%

(1) The Company continues to accrue interest on these loans.

Problem assets decreased $547 thousand during the nine months ended June 30, 2006 from September 30, 2005. The decrease from September 30, 2005 was in non-accrual loans and real estate and other assets acquired in settlement of loans while loans 90 days or more delinquent increased.

The Company's largest concentration of loans is in the Residential (1-4 family) market. There is no concentration of loans in any particular industry or group of industries. Most of the Company's residential and business loans are with customers located within the coastal counties of South Carolina, Florence County in South Carolina and Brunswick County in North Carolina.

Allowance for Loan Losses

The Company provides for loan losses on the allowance method. Accordingly, all loan losses are charged to the related allowance and all recoveries are credited to the allowance. Additions to the allowance for loan losses are provided by charges to operations based on various factors which, in management's judgment, deserve current recognition in estimating losses. Such factors considered by management include the fair value of the underlying collateral, growth and composition of the loan portfolios, loss experience, delinquency trends and economic conditions. Management evaluates the carrying value of loans periodically and the allowance is adjusted accordingly. While management uses the best information available to make evaluations, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluations. The allowance for loan losses is subject to periodic evaluation by various regulatory authorities and may be subject to adjustment upon their examination.

Following is a summary of the reserve for loan losses (in thousands):

	At and for the nine months ended June 30,	
	2006	2005
Balance at beginning of year	$ 14,155	$ 14,799
Provision charged to operations	3,622	3,610
Recoveries of loans previously charged-off	573	527
Loan losses charged to reserves	(3,889)	(4,740)
Balance at end of period	$ 14,461	$ 14,196

Net charge-offs totaled $3.3 million in the current nine months ended June 30, 2006 compared to $4.2 million in the comparable nine months in fiscal 2005. Consumer net charge-offs totaled $2.6 million in the current nine months compared to $3.2 million in the comparable nine months in fiscal 2005. Included in the consumer loan net charge-offs were $1.6 million and $2.0 million in net losses on the mobile home loan portfolio during the nine months ended June 30, 2006 and June 30, 2005, respectively. Real estate (residential and commercial) and commercial loan net charge-offs were $704 thousand in the current nine months, compared to $1.0 million in the nine months ended June 30, 2005. Annualized net charge-offs as a percentage of average net loans decreased eight basis points to .22% for the nine months ended June 30, 2006 as compared to .30% for the nine months ended June 30, 2005. The average net loss rate on the mobile home portfolio on an annualized basis was 1.34% for the nine months ended June 30, 2006, declining from 1.83% for the nine months ended June 30, 2005. Excluding the mobile home loan portfolio, the Company's annualized net charge-offs as a percentage of average net loans decreased from .17% for the nine months ended June 30, 2005 to .12% for the recent nine months ended June 30, 2006.

Over recent years the Company has been successful in increasing originations of consumer and commercial business loans which typically have higher rates of delinquency and greater risk of loss than do single-family real estate loans but are shorter in duration and have less interest rate risk.

The Company's impaired loans totaled $829 thousand at June 30, 2006, $1.5 million at September 30, 2005 and $1.9 million at June 30, 2005.

Deposits and Borrowings

First Financial's deposit composition at the indicated dates is as follows (amounts in thousands):

	June 30, 2006		September 30, 2005		June 30, 2005	
	Balance	% of Total	Balance	% of Total	Balance	% of Total
Noninterest-bearing checking accounts	$ 222,085	12.26 %	$ 216,946	13.09 %	$ 190,646	11.80 %
Interest-bearing checking accounts	277,799	15.33	303,286	18.30	316,736	19.60
Statement and other accounts	158,049	8.72	169,703	10.24	172,538	10.68
Money market accounts	365,337	20.16	255,486	15.42	246,683	15.26
Certificate accounts	788,732	43.53	711,651	42.95	689,453	42.66
Total deposits	$ 1,812,002	100.00 %	$ 1,657,072	100.00 %	$ 1,616,056	100.00 %

Deposits increased $154.9 million during the nine months ended June 30, 2006. Noninterest-bearing checking accounts, interest-bearing checking accounts and statement accounts declined by $32.0 million during the nine months ended June 30, 2006. Money market accounts increased $109.9 million during the nine months ended June 30, 2006 principally as a result of the introduction of a new money market product which generated approximately $177.4 million in balances through June 30, 2006. As a result of higher interest rates and product specials certificate accounts increased by $77.1 million during the nine months ended June 30, 2006.

As a result principally of higher deposit growth, the Company's borrowings decreased $37.0 million during the nine months ended June 30, 2006. FHLB advances increased $65.0 million and other short-term borrowings decreased $102.0 million during the nine months ended June 30, 2006.

In the first three months of fiscal 2005, the Company incurred a $964 thousand prepayment fee related to the prepayment of a $15 million Federal Home Loan Bank advance. The Company continues to evaluate the relative cost and benefit of incurring prepayment penalties from prepayment of FHLB advances.

Stockholders' Equity

The Company's capital ratio, total capital to total assets, was 6.66% at June 30, 2006, compared to 6.78% at September 30, 2005. During the nine months ended June 30, 2006, the Company increased its dividend to stockholders to $.72 compared with $.69 per share in the first nine months of fiscal 2005.

On April 29, 2005, the Company announced the approval of a new stock repurchase program to acquire up to 625 thousand shares of common stock. At June 30, 2006, the Company had purchased approximately 517 thousand shares at a cost of approximately $15.3 million. The program expired June 30, 2006.

Changes in stockholders' equity during the nine months ended June 30, 2006 were comprised principally of net income, the after tax effect of unrealized losses on securities available for sale, stock issued and expenses incurred pursuant to stock option and employee benefit plans, dividends paid and treasury stock repurchased.

Regulatory Capital

Under current Office of Thrift Supervision ("OTS") regulations, savings associations must satisfy three minimum capital requirements: core capital, tangible capital and risk-based capital. Savings associations must meet all of the standards in order to comply with the capital requirements. At June 30, 2006, the Association was categorized as "well capitalized" under the Prompt Corrective Action regulations adopted by the OTS pursuant to the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"). To remain in this status, the Association must maintain core and risk-based, Tier 1 risk-based, and Tier 1 core ("leverage") ratios as set forth in the table. There are no conditions or events since that date that management believes have changed the institution's category.

The following table summarizes the capital requirements for First Federal as well as its capital position at June 30, 2006 (amounts in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of June 30, 2006						
Tangible capital (to Total Assets)	$ 185,601	7.10 %	$ 39,066	1.50 %		
Core capital (to Total Assets)	185,601	7.10	104,519	4.00	$ 130,649	5.00 %
Tier I capital (to Risk-based Assets)	185,601	9.76			112,503	6.00
Risk-based capital (to Risk-based Assets)	197,466	10.53	150,004	8.00	187,505	10.00

For a complete discussion of capital issues, refer to "Capital Requirements" and "Limitations on Capital Distributions" in the Company's 10-K for the fiscal year ending September 30, 2005.

LIQUIDITY AND ASSET AND LIABILITY MANAGEMENT

Liquidity

The Association is subject to federal regulations requiring it to maintain adequate liquidity to assure safe and sound operations.

The Association's primary sources of funds consist of retail and commercial deposits, borrowings from the FHLB, principal repayments on loans and mortgage-backed securities, securities sold under agreements to repurchase and the sale of loans and securities. Each of the Association's sources of liquidity is subject to various uncertainties beyond the control of the Association. As a measure of protection, the Association has back-up sources of funds available, including excess borrowing capacity and excess liquidity in securities available for sale. The table below summarizes future contractual obligations as of June 30, 2006 (in thousands).

	At June 30, 2006					
	Payments Due by Period					
	Within One Year	Over One to Two Years	Over Two to Three Years	Over Three to Five Years	After Five Years	Total
Certificate accounts	$ 496,251	$ 182,801	$ 51,195	$ 56,597	$ 1,888	$ 788,732
Borrowings	218,824			125,000	247,205	591,029
Purchases	9,883					9,883
Operating leases	1,973	1,875	1,324	2,375	2,870	10,417
Total contractual obligations	$ 726,931	$ 184,676	$ 52,519	$ 183,972	$ 251,963	$ 1,400,061

The Association's use of FHLB advances is limited by the policies of the FHLB. Based on the current level of advances, asset size and available collateral under the FHLB programs, the Association at June 30, 2006 estimates that an additional $196.5 million of funding is available. At June 30, 2006, the Association has approximately $168.6 million of unpledged investments and mortgage-backed securities available for sale. At June 30, 2006, the Association maintained collateral at the Federal Reserve of Richmond, sufficient to ensure that approximately $20.5 million is available from the "Discount Window". All of the above liquidity sources except cash and cash equivalents give the Association approximately $385.6 million capacity to meet future funding demands. These sources are available should deposit cash flows and other funding be reduced in any given period. Should the Association so desire, it may request additional availability at the FHLB, subject to standard lending policies in effect at the FHLB. Certain of the advances are subject to calls at the option of the FHLB of Atlanta, as follows: $100 million callable in fiscal 2006, with a weighted average rate of 5.78%; $75 million callable in fiscal 2007, with a weighted average rate of 3.78%; $100 million callable in fiscal 2008, with a weighted average rate of 3.74%. Call provisions are more likely to be exercised by the FHLB when market interest rates rise.

During the current nine months the Company experienced a net cash outflow from investing activities of $131.8 million consisting principally of purchases of investments and mortgage-backed securities available for sale of $49.4 million, purchase of office properties and equipment of $4.7 million, net purchase of FHLB stock of $3.1 million and a net increase of $167.9 million in loans, offset by repayments of mortgage-backed securities of $69.5 million, proceeds from sales and maturities of investments available for sale of $17.5 million, proceeds from sales of mortgage-backed securities of $3.3 million and proceeds from sales of real estate owned of $3.3 million. The Company experienced cash inflows of $35.3 million and $102.6 million from operating activities and financing activities, respectively. Financing activities consisted principally of a net increase of $154.9 million in deposits, net proceeds from FHLB advances of $65 million and proceeds from exercise of stock options of $2.3 million offset by decreases of $102.0 million in securities sold under agreements to repurchase, decrease in advances by borrowers for taxes and insurance of $1.7 million, dividends paid of $8.7 million and purchase of treasury stock of $7.4 million during the first nine months of fiscal 2006.

Parent Company Liquidity

As a holding company, First Financial conducts its business through its subsidiaries. Unlike the Association, First Financial is not subject to any regulatory liquidity requirements. Potential sources for First Financial's payment of principal and interest on its borrowings and for its future funding needs include (i) dividends from First Federal and other subsidiaries; (ii) payments from existing cash reserves and sales of marketable securities; and (iii) interest on its investment securities.

First Federal's ability to pay dividends and make other capital contributions to First Financial is restricted by regulation and may require regulatory approval. First Federal's ability to make distributions may also depend on its ability to meet minimum regulatory capital requirements in effect during the period. For a complete discussion of capital distribution regulations, refer to "Limitations on Capital Distributions" in the Company's 10-K for the fiscal year ending September 30, 2005.

Asset/Liability Management

Market risk reflects the risk of economic loss resulting from adverse changes in market price and interest rates. This risk of loss can be reflected in diminished current market values and/or reduced potential net interest income in future periods.

The Corporation's market risk arises primarily from interest rate risk inherent in its lending, deposit-taking and other funding activities. The structure of the Corporation's loan, investment, deposit and borrowing portfolios is such that a significant increase in interest rates may adversely impact net market values and net interest income. The Corporation does not maintain a trading account nor is the Corporation subject to currency exchange risk or commodity price risk. Responsibility for monitoring interest rate risk rests with the Asset/Liability Management Committee ("ALCO"), which is comprised of senior management. ALCO regularly reviews the Corporation's interest rate risk position and adopts balance sheet strategies that are intended to optimize net interest income while maintaining market risk within a set of Board-approved guidelines.

As of June 30, 2006, Management believes that there have been no significant changes in market risk as disclosed in the Corporation's Annual Report on Form 10-K for the year ended September 30, 2005.

In addition to regulatory calculations, the Company performs additional analyses assuming that interest rates increase or decrease by specified amounts in equal increments over the next four quarters. The table below reflects the sensitivity of net interest income to changes in interest rates combined with internal assumptions of new business activity and assumptions of changes in product pricing relative to rate changes. Computation of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including relative levels of market interest rates, loan prepayments, and various cash flows and should not be relied upon as indicative of actual results. Further, the computations do not contemplate any actions the ALCO could undertake in response to sudden changes in interest rates. The table below shows the effect that the indicated changes in interest rates would have on net interest income over the next twelve months compared with the base case or flat interest rate. The base case scenario assumes interest rates stay at June 30, 2006 levels.

Rate Change		Estimated % Change in Net Interest Income Over 12 Months	
2.00	%	(7.17)	%
1.00		(3.51)	
Flat (Base Case)			
(1.00)		2.82	
(2.00)		2.83	

The Company's ALCO establishes policies and monitors results to control interest rate sensitivity. The Company utilizes measures such as static and dynamic gap, which are measurements of the differences between interest-sensitive assets and interest-sensitive liabilities repricing for a particular time period including modeling that includes and excludes loan prepayment assumptions. More important may be the process of evaluating how particular assets and liabilities are affected by changes in interest rates or selected indices as they reprice. Asset/liability modeling is performed by the Company to assess varying interest rate and balance mix assumptions.

The following table is a summary of the Company's one-year dynamic gap at June 30, 2006 (amounts in thousands):

	June 30, 2006
Interest-earning assets maturing or repricing within one year	$ 1,129,607
Interest-bearing liabilities maturing or repricing within one year	1,233,303
Cumulative gap	$ (103,696)
Gap as a percent of total assets	(3.91) %

Based on the Company's June 30, 2006 dynamic gap position, which considers expected prepayments of loans and mortgage-backed securities, in a one-year time period $1.1 billion in interest-earning assets will reprice and approximately $1.2 billion in interest-bearing liabilities will reprice. This current dynamic gap position results in a negative one-year gap position of $103.7 million, or 3.91% of assets. The Company's one year dynamic gap position at June 30, 2005 was a negative $99.3 million, or 3.93% of assets. At the end of fiscal year ended September 30, 2005, the dynamic gap was a positive $5.3 million or .21% of assets. The above table does not take into consideration the repricing dynamics in adjustable-rate loans, such as minimum and maximum annual and lifetime interest rate adjustments and also the index utilized and whether the index is a current or lagging index. Included in the above numbers are the Company's estimates of prepayments of fixed-rate loans and mortgage-backed securities in a one-year period and the Company's expectation that under current interest rates, certain advances of the FHLB will not be called. Changes between the periods were related to differing prepayment speeds expected, levels of loans held for sale, increased rate sensitive assets, and changing liability funding.

A positive gap indicates that cumulative interest-sensitive assets exceed cumulative interest-sensitive liabilities and suggests that net interest income would increase if market interest rates decreased. A negative gap would suggest the reverse. This relationship is not always ensured due to the repricing attributes of both interest-sensitive assets and interest-sensitive liabilities.

COMPARISON OF OPERATING RESULTS
QUARTERS ENDING JUNE 30, 2006 AND 2005

The following table shows the variances in dollars and percentages between the Consolidated Statements of Income for First Financial for the quarters ended June 30, 2006 and 2005:

CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005	Variance	% change
	(Amounts in thousands, except per share amounts) (Unaudited)			
INTEREST INCOME				
Interest and fees on loans	$ 34,426	$ 28,922	$ 5,504	19.03 %
Interest on mortgage-backed securities	3,333	3,447	(114)	(3.31)
Interest and dividends on investments	790	622	168	27.01
Other	103	60	43	71.67
Total interest income	38,652	33,051	5,601	16.95
INTEREST EXPENSE				
Interest on deposits	11,256	6,790	4,466	65.77
Interest on borrowed money	7,157	6,995	162	2.32
Total interest expense	18,413	13,785	4,628	33.57
NET INTEREST INCOME	20,239	19,266	973	5.05
Provision for loan losses	1,413	1,010	403	39.90
Net interest income after provision for loan losses	18,826	18,256	570	3.12
OTHER INCOME				
Net gain on sale of loans	437	816	(379)	(46.45)
Net (loss) gain on sale of investment and mortgage-backed securities	(9)	1	(10)	(1,000.00)
Brokerage fees	694	634	60	9.46
Commissions on insurance	4,986	4,578	408	8.91
Other agency income	313	361	(48)	(13.30)
Service charges and fees on deposit accounts	4,386	2,985	1,401	46.93
Loan servicing operations, net	850	(117)	967	(826.50)
Gain on disposition of assets	801	344	457	132.85
Other	1,675	1,297	378	29.14
Total other income	14,133	10,899	3,234	29.67
NON-INTEREST EXPENSE				
Salaries and employee benefits	13,549	12,201	1,348	11.05
Occupancy costs	1,603	1,351	252	18.65
Marketing	690	490	200	40.82
Depreciation, rental and maintenance of equipment	1,243	1,311	(68)	(5.19)
Amortization of intangibles	117	121	(4)	(3.31)
Other	4,629	4,185	444	10.61
Total non-interest expense	21,831	19,659	2,172	11.05
Income before income taxes	11,128	9,496	1,632	17.19
Income tax expense	3,949	3,338	611	18.30
NET INCOME	$ 7,179	$ 6,158	$ 1,021	16.58 %
NET INCOME PER COMMON SHARE BASIC	$ 0.60	$ 0.50	$ 0.10	20.00 %
NET INCOME PER COMMON SHARE DILUTED	$ 0.59	$ 0.49	$ 0.10	20.41 %

Net Interest Income

Net interest income was $20.2 million and $19.3 million during the quarters ended June 30, 2006 and 2005, respectively. The net interest margin for the quarter ended June 30, 2006 was 3.37% compared with 3.34% during the quarter ended June 30, 2005. Average earning assets increased 4.19% to $2.405 billion during the quarter ended June 30, 2006 compared to $2.309 billion in the June 2005 quarter. As a result of these variances, net interest income increased 5.05%, or $973 thousand, between the two quarters. The gross interest margin increased from 3.31% during the quarter ended June 30, 2005 to 3.32% during the quarter ended June 30, 2006.

The following table summarizes rates, yields and average earning asset and costing liability balances for the respective quarters (amounts in thousands):

	Three Months Ended June 30,			
	2006		2005	
	Average Balance	Average Yield/Rate	Average Balance	Average Yield/Rate
Loans	$2,023,916	6.80 %	$1,884,640	6.14 %
Mortgage-backed securities	320,147	4.17	356,112	3.87
Investments and other interest-earning assets	61,377	5.79	68,042	4.01
Total interest-earning assets	$2,405,440	6.43 %	$2,308,794	5.73 %
Deposits	$1,804,496	2.50 %	$1,591,739	1.71 %
Borrowings	574,901	4.99	692,666	4.05
Total interest-bearing liabilities	$2,379,397	3.11 %	$2,284,405	2.42 %
Gross interest margin		3.32 %		3.31 %
Net interest margin		3.37 %		3.34 %

Management expects continued pressure on its net interest margin as a result of the upward repricing of deposits combined with a flat yield curve. The Federal Reserve increased the federal funds target rate by 200 basis points in calendar year 2005 and an additional 100 basis points in the first two calendar quarters of 2006. However, the Treasury yield curve depicts an increase in short-term rates over this time period while long-term rates have declined or only increased marginally. A continuation of this trend for a longer period would be detrimental to the Company’s net interest margin.

The following rate/volume analysis depicts the increase (decrease) in net interest income attributable to interest rate and volume fluctuations compared to the prior period (in thousands):

	Three Months Ended June 30, 2006 versus 2005		
	Volume	Rate	Total
Interest income:			
Loans	$ 2,231	$ 3,273	$ 5,504
Mortgage-backed securities	(364)	250	(114)
Investments and other interest-earning assets	(53)	264	211
Total interest income	1,814	3,787	5,601
Interest expense:			
Deposits	1,001	3,465	4,466
Borrowings	(1,306)	1,468	162
Total interest expense	(305)	4,933	4,628
Net interest income	$ 2,119	$ (1,146)	$ 973

Provision for Loan Losses

The provision for loan losses is recorded in amounts sufficient to bring the allowance for loan losses to a level deemed appropriate by management. Management determines this amount based on many factors, including its assessment of loan portfolio quality, loan growth, change in loan portfolio composition, net loan charge-off levels, and expected economic conditions. The provision for loan losses was $1.4 million and $1.0 million for the quarters ended June 30, 2006 and 2005, respectively. On an annualized basis, loans receivable increased by 12.8% during the current quarter. Also affecting provision for loan losses in the current quarter was the lower net loan charge-offs of $1.1 million for the quarter ended June 30, 2006 as compared to $1.2 million for the quarter ended June 30, 2005. Problem loans were $6.8 million at June 30, 2006 compared to $9.0 million at June 30, 2005. Total loan loss reserves as of June 30, 2006 were $14.5 million, or .71% of the total net loan portfolio compared with $14.2 million or .76% of the total net loan portfolio at June 30, 2005.

Other Income/Non-Interest Expense

Non-interest income was $3.2 million higher in the current quarter as compared to the same quarter of fiscal 2005. Gains from loan sales in the current quarter of $437 thousand reflected a decrease from $816 thousand in the quarter ended June 30, 2005. Insurance revenues reflected an increase of $360 thousand during the current quarter compared to the same period in fiscal 2005. Deposit account fees increased $1.4 million, or 46.9%, to $4.4 million in the current quarter as compared to the comparable quarter in fiscal 2005. This increase was primarily attributable to the implementation of a courtesy overdraft privilege program in July 2005. The Company incurred expenses related to deposit accounts and the introduction of the overdraft privilege program of $252 thousand and $170 thousand, respectively, during the three months ended June 30, 2006 and 2005. Thus, including expenses, the Company's net deposit revenues increased by $1.3 million, or 46.8% during the current quarter as compared to the comparable quarter in fiscal 2005. The increase in loan servicing operations reflects a $507 thousand increase in the impairment reserve for the originated mortgage servicing values in the prior quarter while the current quarter's results include a $200 thousand recovery. Gain on disposition of assets in the current quarter increased $457 thousand as compared to the comparable quarter in fiscal 2005.

Total non-interest expense increased by $2.2 million, or 11.0%, during the quarter ended June 30, 2006 compared with the comparable quarter ended June 30, 2005. Salaries and employee benefit costs were higher in the current quarter, increasing by $1.3 million, or 11.0%. The increase was partially attributable to the staffing of several new in-store locations, higher health benefit costs and merit increases since the June 2005 quarter. The increase in the current quarter includes $195 thousand in compensation costs for share-based programs related to the adoption of SFAS 123(R) on October 1, 2005. Marketing costs were 40.8% higher in the current quarter as compared to the comparable quarter in fiscal 2005 due to additional marketing campaigns and higher customer new account incentives paid. Occupancy costs were 18.7% higher in the current quarter as compared to the comparable quarter in fiscal 2005 due to an increase in in-store offices. Included in other expenses for the quarters ended June 30, 2006 and 2005 were approximately $252 thousand and $170 thousand, respectively, directly related to the overdraft privilege program mentioned above. The total of all of the remaining expense categories increased by $290 thousand, or 5.3%, between the two quarters.

Income Tax Expense

During the third quarter of fiscal 2006 the Company's effective tax rate approximated 35.5% as compared to 35.2% during the third quarter of fiscal 2005.

COMPARISON OF OPERATING RESULTS
NINE MONTHS ENDING JUNE 30, 2006 AND 2005

The following table shows the variances in dollars and percentages between the Consolidated Statements of Income for First Financial for the nine months ended June 30, 2006 and 2005:

CONSOLIDATED STATEMENTS OF INCOME

	Nine Months Ended June 30, 2006	Nine Months Ended June 30, 2005	Variance	% change
	(Amounts in thousands, except per share amounts) (Unaudited)			
INTEREST INCOME				
Interest and fees on loans	$ 97,909	$ 84,961	$ 12,948	15.24 %
Interest on mortgage-backed securities	10,233	10,067	166	1.65
Interest and dividends on investments	2,241	1,765	476	26.97
Other	287	151	136	90.07
Total interest income	110,670	96,944	13,726	14.16
INTEREST EXPENSE				
Interest on deposits	29,846	18,785	11,061	58.88
Interest on borrowed money	21,747	20,815	932	4.48
Total interest expense	51,593	39,600	11,993	30.29
NET INTEREST INCOME	59,077	57,344	1,733	3.02
Provision for loan losses	3,622	3,610	12	0.33
Net interest income after provision for loan losses	55,455	53,734	1,721	3.20
OTHER INCOME				
Net gain on sale of loans	1,689	1,656	33	1.99
Net loss on sale of investment and mortgage-backed securities	(6)	(55)	49	(89.09)
Brokerage fees	2,113	1,938	175	9.03
Commissions on insurance	14,686	14,090	596	4.23
Other agency income	882	955	(73)	(7.64)
Service charges and fees on deposit accounts	13,367	8,674	4,693	54.10
Loan servicing operations, net	2,417	1,205	1,212	100.58
Gain on disposition of assets	915	1,946	(1,031)	(52.98)
Other	4,789	5,203	(414)	(7.96)
Total other income	40,852	35,612	5,240	14.71
NON-INTEREST EXPENSE				
Salaries and employee benefits	40,603	37,446	3,157	8.43
Occupancy costs	4,193	3,828	365	9.54
Marketing	1,777	1,459	318	21.80
Depreciation, rental and maintenance of equipment	3,659	3,707	(48)	(1.29)
Prepayment penalties on FHLB advances	-	964	(964)	(100.00)
Amortization of intangibles	352	363	(11)	(3.03)
Other	13,611	11,780	1,831	15.54
Total non-interest expense	64,195	59,547	4,648	7.81
Income before income taxes	32,112	29,799	2,313	7.76
Income tax expense	11,401	10,681	720	6.74
NET INCOME	$ 20,711	$ 19,118	$ 1,593	8.33 %
NET INCOME PER COMMON SHARE BASIC	$ 1.72	$ 1.55	$ 0.17	10.97 %
NET INCOME PER COMMON SHARE DILUTED	$ 1.70	$ 1.52	$ 0.18	11.84 %

Net Interest Income

Net interest income was $59.1 million and $57.3 million during the nine months ended June 30, 2006 and June 30, 2005, respectively. The net interest margin for the nine months ended June 30, 2006 was 3.33% compared with 3.35% during the nine months ended June 30, 2005. Average earning assets increased 3.56% to $2.366 billion during the nine months ended June 30, 2006 compared to $2.284 billion in the June 2005 quarter. As a result of these variances, net interest income increased 3.1%, or $1.8 thousand, between the two periods.

The following table summarizes rates, yields and average earning asset and costing liability balances for the respective quarters (amounts in thousands):

	Nine Months Ended June 30,			
	2006		2005	
	Average Balance	Average Yield/Rate	Average Balance	Average Yield/Rate
Loans	$1,969,977	6.64 %	$1,865,551	6.08 %
Mortgage-backed securities	334,901	4.07	351,433	3.82
Investments and other interest-earning assets	60,696	5.50	67,359	3.78
Total interest-earning assets	$2,365,574	6.24 %	$2,284,343	5.66 %
Deposits	$1,736,677	2.30 %	$1,547,745	1.62 %
Borrowings	601,102	4.84	706,870	3.93
Total interest-bearing liabilities	$2,337,779	2.95 %	$2,254,615	2.35 %
Gross interest margin		3.29 %		3.31 %
Net interest margin		3.33 %		3.35 %

The following rate/volume analysis depicts the increase (decrease) in net interest income attributable to interest rate and volume fluctuations compared to the prior period (in thousands):

	Nine Months Ended June 30, 2006 versus 2005		
	Volume	Rate	Total
Interest income:			
Loans	$ 4,915	$ 8,033	$ 12,948
Mortgage-backed securities	(485)	651	166
Investments and other interest-earning assets	(193)	805	612
Total interest income	4,237	9,489	13,726
Interest expense:			
Deposits	2,509	8,552	11,061
Borrowings	(3,399)	4,331	932
Total interest expense	(890)	12,883	11,993
Net interest income	$ 5,127	$ (3,394)	$ 1,733

Provision for Loan Losses

The provision for loan losses was $3.6 million for the nine months ended June 30, 2006 and June 30, 2005. Net loan charge-offs totaled $3.3 million and $4.2 million for the nine months ended June 30, 2006 and 2005, respectively.

Other Income/Non-Interest Expenses

Total other income increased 14.7%, or $5.2 million, during the nine months ended June 30, 2006 compared with the nine months ended June 30, 2005. Gains from sales of loans increased $33 thousand during the nine months ended June 30, 2006 as compared to the nine months ended June 30, 2005. The Company recorded gains from property sales of $915 thousand for the current quarter compared to gains of $1.9 million for the nine months ended June 30, 2005. Included in insurance revenues was the receipt of contingent commissions, which increased approximately $470 thousand, or 18.7%, during the nine months ended June 30, 2006 compared with the nine months ended June 30, 2005. Total contingent-based commissions were $3.0 million for the nine months ended June 30, 2006 compared with $2.5 million for the nine months ended June 30, 2005. Also included in other income for the nine months ended June 30, 2005 was a receipt of a judgment settlement of $1.3 million. Deposit account fees increased $4.7 million, or 54.1%, to $13.4 million in the current nine months from $8.7 million in the comparable quarter in fiscal 2005. The increase in deposit fees during the current nine months is primarily attributable to the successful introduction and implementation of a courtesy overdraft privilege program in July 2005, as well as overall growth of deposits. The Company incurred expenses related to deposit accounts and the introduction of the overdraft privilege program of $1.3 million and $510 thousand during the nine months ended June 30, 2006 and 2005, respectively. Thus, including expenses, the Company's net deposit revenues increased by $3.9 million, or 48.2% during the current nine months as compared to the comparable quarter in fiscal 2005. Loan servicing operations, net, improved by $1.2 million during the nine months ended June 30, 2006 as compared to the nine months ended June 30, 2005. During the nine months ended June 30, 2006 and 2005, the Company recorded a $795 thousand and $88 thousand recovery in the impairment reserve for originated mortgage servicing values, respectively.

Total non-interest expenses increased by $4.6 million during the nine months ended June 30, 2006, compared with the comparable nine months ended June 30, 2005. Salaries and employee benefit costs were higher in the current nine months, increasing by $3.2 million, due partially to the staffing of additional in-store sales offices opened over the past year, increased health and benefit costs, merit increase and incentive compensation since June 2005. The increase in the current quarter includes $557 thousand in compensation costs for share-based programs related to the adoption of SFAS 123(R) on October 1, 2005.Occupancy costs also increased $365 thousand, or 9.5% during the nine months ended June 30, 2006 as compared to the comparable nine months in fiscal 2005. Marketing costs were 21.8% higher during the nine months ended June 30, 2006 due to additional marketing campaigns and higher customer new account incentives paid. In the nine months ended June 30, 2005, the Company incurred a $964 thousand prepayment fee related to the early prepayment of a $15 million Federal Home Loan Bank advance. Excluding salaries and employee compensation, occupancy costs, marketing costs, deposit related expenses mentioned above and prepayment penalties, non-interest expense increased $1.0 million, or 6.6% from the nine month period ending June 30, 2005.

Income Tax Expense

During the nine months ended June 30, 2006 and 2005 the Company's effective tax rate approximated 35.5% and 35.8%, respectively. The effective rate change was principally related to the Company's investment in low-income housing tax credits.

RECENTLY ADOPTED ACCOUNTING PRONOUCEMENTS

Accounting for Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (revised 2004), "*Share-Based Payment*" ("SFAS 123(R)"). SFAS 123(R) is a revision of FASB Statement No. 123 ("SFAS 123"), "*Accounting for Stock-Based Compensation*". This Statement supersedes APB Opinion No. 25, "*Accounting for Stock Issued to Employees*", and its related implementation guidance. SFAS 123(R) establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods and services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based transactions. SFAS 123(R) does not change the accounting guidance for share-based payment transactions with parties other than employees provided in SFAS 123 as originally issued and EITF Issue No. 96-18, *"Accounting for Equity Instruments That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services."* This statement does not address the accounting for employee share ownership plans, which are subject to AICPA Statement of Position 93-6," *Employers' Accounting for Employee Stock Ownership Plans"*.

The Company adopted SFAS 123(R) effective October 1, 2005. The adoption of this statement did not have a material impact on the Company's financial position or results of operations. See Note 4, Share-Based Payment Arrangements, for a discussion of the Company's current method of accounting for stock-based compensation and its previous method of accounting for stock-based compensation. As a result of the adoption of SFAS 123 (R) the Company recorded compensation costs of $557 thousand relative to the fair value of stock options for the portion of the service period occurring in 2006 during the nine months ended June 30, 2006. The after tax effect reduced net income by $481 thousand.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

Accounting for Conditional Asset Retirement Obligations

In March 2005, the FASB issued FASB Interpretation No. 47, " *Accounting for Conditional Asset Retirement Obligations* " ("FIN 47"). This Interpretation clarifies that the term "conditional asset retirement obligation" as used in SFAS No. 143, " *Accounting for Asset Retirement Obligations,* " refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. According to FIN 47, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability's fair value can be reasonably estimated. The provisions of FIN 47 are effective for fiscal years ending after December 15, 2005. Management currently does not anticipate that the implementation of FIN 47 will materially affect the Company's consolidated financial position, results of operations or cash flows.

Accounting Changes and Error Corrections

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, *"Accounting Changes and Error Corrections – a replacement of APB Opinion No. 20 and FASB Statement No. 3,"* ("SFAS 154") which eliminates the requirement to reflect changes in accounting principles as cumulative adjustments to net income in the period of the change and requires retrospective application to prior periods' financial statements for voluntary changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. If it is impracticable to determine the cumulative effect of the change to all prior periods, SFAS 154 requires that the new accounting principle be adopted prospectively. For new accounting pronouncements, the transition guidance in the pronouncement should be followed. Retrospective application refers to the application of a different accounting principle to previously issued financial statements as if the principle had always been used.

SFAS 154 did not change the guidance for reporting corrections of errors, changes in estimates or for justification of a change in accounting principle on the basis of preferability. SFAS 154 is effective for accounting changes made in fiscal years beginning after December 15, 2005. The Company does not believe that the adoption of this pronouncement will have a material effect on our consolidated financial position, results of operations or cash flows.

Accounting for Certain Hybrid Financial Instruments

In February of 2006, the FASB issued SFAS No. 155, "*Accounting for Certain Hybrid Financial Instruments – an amendment of FASB Statements No. 133 and 140*" ("SFAS 155"). This Statement amends FASB Statements No. 133, "*Accounting for Derivative Instruments and Hedging Activities*" ("SFAS 133"), and No. 140, "*Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities"* ("SFAS 140"). This Statement resolves issues addressed in SFAS 133 Implementation Issue No. D1, "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets." SFAS 155 includes the following: (1) Permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation, (2) Clarifies which interest-only strips ad principal-only strips are not subject to the requirements of SFAS 133, (3) Establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation, (4) Clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives, and (5) Amends Statement 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument.

This Statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company does not expect the adoption of this Statement to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

Accounting for Servicing of Financial Assets

In March of 2006, the FASB issued SFAS No. 156, "*Accounting for Servicing of Financial Assets – an amendment of FASB Statement No. 140*" ("SFAS 156") to establish, among other things, the accounting for all separately recognized servicing assets and servicing liabilities. SFAS 156 includes the following: (1) requires the recognition of a servicing asset or servicing liability under specified circumstances, (2) requires that, if practicable, all separately recognized servicing assets and liabilities be initially measured at fair value, (3) creates a choice for subsequent measurement of each class of servicing assets or liabilities by applying either the amortization method or the fair value method, and (4) permits the one-time reclassification of securities identified as offsetting exposure to changes in fair value of servicing assets or liabilities from available-for-sale securities to trading securities under SFAS No. 115, "*Accounting for Certain Investments in Debt and Equity Securities*". In addition, SFAS 156 amends SFAS 140 to require significantly greater disclosure concerning recognized servicing assets and liabilities. The Company will be required to adopt SFAS 156 effective October 1, 2006. The Company is in the process of analyzing the provisions of SFAS 156 and the impact that SFAS 156 will have on its results of operations, including the effects of various transition rules.

Accounting for Uncertainty in Income Taxes

In June 2006, the FASB issued FASB Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes*" ("FIN 48"). This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, "*Accounting for Income Taxes*". This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of FIN 48 are effective for fiscal years ending after December 15, 2006. Management is in the process of analyzing the provisions of FIN 48 and the impact that it will have on its consolidated financial position and results of operations.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Asset/Liability Management" in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations for quantitative and qualitative disclosures about market risk, which information is incorporated herein by reference.

ITEM 4. CONTROLS AND PROCEDURES

An evaluation was carried out under the supervision and with the participation of the Company's management, including chief executive officer ("CEO") and chief financial officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures as of June 30, 2006. Based on that evaluation, the Company's management, including the CEO and CFO, has concluded that the Company's disclosure controls and procedures are effective. During the third quarter of fiscal 2006, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

FIRST FINANCIAL HOLDINGS, INC.
PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

The Company is subject to various legal proceedings and claims arising in the ordinary course of its business. Any litigation is vigorously defended by the Company, and, in the opinion of management based on consultation with external legal counsel, any outcome of such litigation would not materially affect the Company's consolidated financial position or results of operations.

Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds.

The following table summarizes the total number of shares repurchased by the Company as part of a publicly announced plan or as part of exercising outstanding stock options:

	For the Nine Months Ended June 30, 2006			
	Total Number of Shares Purchased	Average Price paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares that May Yet Be Purchased Under the Announced Plan
10/1/2005 thru 10/31/2005	28,400	$ 29.25	28,400	292,148
11/1/2005 thru 11/30/2005	86,582	29.62	84,000	208,148
12/1/2005 thru 12/31/2005	14,520	30.72	12,800	195,348
01/01/2006 thru 1/31/2006	468	32.43		195,348
02/01/2006 thru 2/28/2006	39,499	30.64	37,300	158,048
03/01/2006 thru 3/31/2006	29,766	31.73	10,100	147,948
04/01/2006 thru 4/30/2006				147,948
05/01/2006 thru 5/31/2006	30,439	30.90	30,210	117,738
06/01/2006 thru 6/30/2006	14,158	31.42	9,900	107,838
				Plan expired 6/30/2006
	243,832	30.33	212,710	

On April 29, 2005, the Company announced the approval of a stock repurchase program to acquire up to 625 thousand shares of common stock. During the nine months ended June 30, 2006 the Company purchased approximately 213 thousand shares at a cost of $6.5 million. The program expired June 30, 2006.

In addition to the repurchase program described above, the Company's employee and outside directors stock options plans contain provisions allowing the repurchase of shares as part or the full payment for exercising outstanding options. For the nine months ended June 30, 2006, 31,122 shares were repurchased under these provisions for approximately $990 thousand.

Item 5 – Other Information

There was no information required to be disclosed by the Company in a report on Form 8-K during the third quarter of fiscal 2006 that was not so disclosed.

Item 6 – Listing of Exhibits.

Exhibit No.	Description of Exhibit	Location
3.1	Certificate of Incorporation, as amended, of Registrant	Incorporated by reference to Exhibit 3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 30, 1993.
3.2	Bylaws, as amended, of Registrant	Incorporated by reference to Exhibit 3 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1995.
3.4	Amendment to Registrant's Certificate of Incorporation	Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 30, 1997.
3.7	Amendment to Registrant's Bylaws	Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 30, 2003.
3.8	Amendment to Registrant's Bylaws	Incorporated by reference to the Registrant's Quarterly Report on Form 10-Q for the quarter ended December 30, 1997.
3.9	Amendment to Registrant's Bylaws	Incorporated by reference to the Registrant's Form 8-K filed October 29, 2004
3.10	Amendment to Registrant's Bylaws	Incorporated by reference to the Registrant's Form 8-K filed December 1, 2004
3.11	Amendment to Registrant's Bylaws	Incorporated by reference to the Registrant's Form 8-K filed December 1, 2004
4	The Registrant hereby agrees to furnish to the Commission, upon request, the instruments defining the rights of the holders of each issue of long-term debt of the Registrant and its consolidated subsidiaries	N/A
10.3	Employment Agreement with A. Thomas Hood, as amended	Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended September 30, 1996.
10.4	Employment Agreement with Charles F. Baarcke, Jr.	Incorporated by reference to the Registrant's Annual Report on Form 10-K for the year ended September 30, 1995.

Exhibit No.	Description of Exhibit	Location
10.5	Employment Agreement with John L. Ott, Jr.	Incorporated by reference to the Registrant’s Annual Report on Form 10-K for the year ended September 30, 1995.
10.6	1990 Stock Option and Incentive Plan	Incorporated by reference to the Registrant’s Registration Statement on Form S-8 File No. 33-57855.
10.9	1996 Performance Equity Plan for Non-Employee Directors	Incorporated by reference to the Registrant’s Proxy Statement for the Annual Meeting of Stockholders held on January 22, 1997.
10.10	Employment Agreement with Susan E. Baham	Incorporated by reference to the Registrant’s Annual Report on Form 10-K for the year ended September 30, 1996.
10.11	1997 Stock Option and Incentive Plan	Incorporated by reference to the Registrant’s Preliminary Proxy Statement for the Annual Meeting of Stockholders held on January 28, 1998.
10.16	2001 Stock Option Plan	Incorporated by reference to the Registrant’s Proxy Statement for the Annual Meeting of Stockholders held on January 30, 2001.
10.17	2004 Outside Directors Stock Options-For-Fees Plan	Incorporated by reference to the Registrant’s Proxy Statement for the Annual Meeting of Stockholders held on January 29, 2004.
10.18	2004 Employee Stock Purchase Plan	Incorporated by reference to the Registrant’s Proxy Statement for the Annual Meeting of Stockholders held on January 29, 2004.
10.19	2005 Stock Option Plan	Incorporated by reference to the Registrant’s Proxy Statement for the Annual Meeting of Stockholders held on January 27, 2005.
10.20	2005 Performance Equity Plan for Non-Employee Directors	Incorporated by reference to the Registrant’s Proxy Statement for the Annual Meeting of Stockholders held on January 27, 2005.
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer	Filed herewith

Exhibit No.	Description of Exhibit	Location
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by the Chief Financial Officer	Filed herewith
32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Chief Executive Officer and Chief Financial Officer	Filed herewith

FIRST FINANCIAL HOLDINGS, INC.

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 Holdings, Inc.

Date:August 8, 2006

By: /s/ Susan E. Baham

Susan E. Baham
Executive Vice President
Chief Financial Officer and Principal Accounting Officer

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
Rules 13a-15e and 15d-15e under the
Securities Exchange Act of 1934

I, A. Thomas Hood, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First Financial Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a – 15(f) and 15d – 15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2006

/s/ A. Thomas Hood
A. Thomas Hood
Chief Executive Officer
First Financial Holdings, Inc.

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
Rules 13a-15e and 15d-15e under the
Securities Exchange Act of 1934

I, Susan E. Baham, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of First Financial Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a – 15(f) and 15d – 15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2006

/s/ Susan E. Baham
Susan E. Baham
Chief Financial Officer
(principal financial officer)
First Financial Holdings, Inc.

Exhibit 32

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
OF FIRST FINANCIAL HOLDINGS, INC.
PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Quarterly report on Form 10-Q of First Financial Holdings, Inc. (the "Corporation") for the quarter ended June 30, 2006 (the "Report"). A. Thomas Hood, President and Chief Executive Officer of the Corporation and Susan E. Baham, Chief Financial Officer, hereby certify pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- the Report fully complies with the requirements of Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, and

- the information contained in the report fairly presents, in all material respects, the Corporation's financial condition and results of operations as of the dates and for the periods presented in the financial statements included in the Report.

By:	/s/ A. Thomas Hood	By:	/s/ Susan E. Baham
	A. Thomas Hood		Susan E. Baham
	Chief Executive Officer		Chief Financial Officer
Dated:	August 8, 2006	Dated:	August 8, 2006