

FIRST CAPITAL INC  
Form 10-Q  
May 10, 2012  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2012

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 No. 0-25023

**First Capital, Inc.**

(Exact name of registrant as specified in its charter)

Edgar Filing: FIRST CAPITAL INC - Form 10-Q

**Indiana**  
(State or other jurisdiction of

**35-2056949**  
(I.R.S. Employer

incorporation or organization)

Identification Number)

**220 Federal Drive NW, Corydon, Indiana 47112**

(Address of principal executive offices) (Zip Code)

Registrant's telephone number including area code 1-812-738-2198

**Not applicable**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

(Check one):

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 2,785,693 shares of common stock were outstanding as of April 30, 2012.

**Table of Contents**

**FIRST CAPITAL, INC.**

**INDEX**

	<b>Page</b>
<b>Part I</b>	
<b><u>Financial Information</u></b>	
<b>Item 1. Consolidated Financial Statements</b>	
<u>Consolidated Balance Sheets as of March 31, 2012 and December 31, 2011 (unaudited)</u>	3
<u>Consolidated Statements of Income for the three months ended March 31, 2012 and 2011 (unaudited)</u>	4
<u>Consolidated Statements of Comprehensive Income for the three months ended March 31, 2012 and 2011 (unaudited)</u>	5
<u>Consolidated Statements of Changes in Stockholders' Equity for the three months ended March 31, 2012 and 2011 (unaudited)</u>	6
<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and 2011 (unaudited)</u>	7
<u>Notes to Consolidated Financial Statements (unaudited)</u>	8-32
<b>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</b>	33-36
<b>Item 3. Quantitative and Qualitative Disclosures About Market Risk</b>	38
<b>Item 4. Controls and Procedures</b>	38
<b>Part II</b>	
<b><u>Other Information</u></b>	
<b>Item 1. Legal Proceedings</b>	39
<b>Item 1A. Risk Factors</b>	39
<b>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</b>	39
<b>Item 3. Defaults Upon Senior Securities</b>	40
<b>Item 4. Mine Safety Disclosures</b>	40
<b>Item 5. Other Information</b>	40
<b>Item 6. Exhibits</b>	40
Signatures	41

**Table of Contents**

**PART I - FINANCIAL INFORMATION**  
**FIRST CAPITAL, INC. AND SUBSIDIARY**  
**CONSOLIDATED BALANCE SHEETS**

*(Unaudited)*

	March 31, 2012	December 31, 2011
	<i>(In thousands)</i>	
<b>ASSETS</b>		
Cash and due from banks	\$ 7,014	\$ 10,794
Interest bearing deposits with banks	933	525
Federal funds sold	22,219	7,604
<b>Total cash and cash equivalents</b>	<b>30,166</b>	<b>18,923</b>
Securities available for sale, at fair value	108,633	111,440
Securities-held to maturity	15	16
Loans, net	271,939	276,047
Loans held for sale	1,693	2,909
Federal Home Loan Bank stock, at cost	2,820	2,820
Foreclosed real estate	541	661
Premises and equipment	10,618	10,721
Accrued interest receivable	1,727	1,801
Cash value of life insurance	6,039	5,991
Goodwill	5,386	5,386
Core deposit intangibles	17	32
Other assets	1,779	2,139
<b>Total Assets</b>	<b>\$ 441,373</b>	<b>\$ 438,886</b>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$ 54,731	\$ 47,313
Interest-bearing	313,713	317,061
<b>Total deposits</b>	<b>368,444</b>	<b>364,374</b>
Retail repurchase agreements	9,095	9,125
Advances from Federal Home Loan Bank	10,925	12,350
Accrued interest payable	419	413
Accrued expenses and other liabilities	1,385	1,571
<b>Total liabilities</b>	<b>390,268</b>	<b>387,833</b>
<b>EQUITY</b>		
First Capital, Inc. stockholders' equity:		
Preferred stock of \$.01 par value per share Authorized 1,000,000 shares; none issued	0	0
Common stock of \$.01 par value per share Authorized 5,000,000 shares; issued 3,164,420 shares	32	32
Additional paid-in capital	24,313	24,313
Retained earnings-substantially restricted	32,686	32,297
Accumulated other comprehensive income	1,272	1,612

## Edgar Filing: FIRST CAPITAL INC - Form 10-Q

Less treasury stock, at cost - 378,727 shares	(7,312)	(7,312)
<b>Total First Capital, Inc. stockholders equity</b>	<b>50,991</b>	<b>50,942</b>
Noncontrolling interest in subsidiary	114	111
<b>Total equity</b>	<b>51,105</b>	<b>51,053</b>
<b>Total Liabilities and Equity</b>	<b>\$ 441,373</b>	<b>\$ 438,886</b>

See accompanying notes to consolidated financial statements.

**Table of Contents****PART I - FINANCIAL INFORMATION****FIRST CAPITAL, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF INCOME***(Unaudited)*

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
	<i>(In thousands, except per share data)</i>	
<b>INTEREST INCOME</b>		
Loans, including fees	\$ 4,023	\$ 4,339
Securities:		
Taxable	434	453
Tax-exempt	233	271
Federal Home Loan Bank dividends	23	27
Federal funds sold and interest bearing deposits with banks	8	9
 Total interest income	 4,721	 5,099
<b>INTEREST EXPENSE</b>		
Deposits	586	878
Retail repurchase agreements	12	16
Advances from Federal Home Loan Bank	105	158
 Total interest expense	 703	 1,052
 Net interest income	 4,018	 4,047
Provision for loan losses	475	500
 Net interest income after provision for loan losses	 3,543	 3,547
<b>NONINTEREST INCOME</b>		
Service charges on deposit accounts	687	674
Commission income	44	30
Gain on sale of loans	258	125
Mortgage brokerage fees	13	14
Increase in cash value of life insurance	48	53
Other income	25	27
 Total noninterest income	 1,075	 923
<b>NONINTEREST EXPENSE</b>		
Compensation and benefits	1,886	1,830
Occupancy and equipment	306	329
Data processing	324	290
Professional fees	153	149
Advertising	47	30
Other expenses	617	624
 Total noninterest expense	 3,333	 3,252

Edgar Filing: FIRST CAPITAL INC - Form 10-Q

Income before income taxes	1,285	1,218
Income tax expense	363	319
<b>Net Income</b>	<b>922</b>	<b>899</b>
Less: net income attributable to the noncontrolling interest in subsidiary	3	3
<b>Net Income Attributable to First Capital, Inc.</b>	<b>\$ 919</b>	<b>\$ 896</b>
Earnings per common share attributable to First Capital, Inc.:		
Basic	\$ 0.33	\$ 0.32
Diluted	\$ 0.33	\$ 0.32
Dividends per share on common shares	\$ 0.19	\$ 0.19

See accompanying notes to consolidated financial statements.

**Table of Contents**

**PART I - FINANCIAL INFORMATION**

**FIRST CAPITAL, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

*(Unaudited)*

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
	<i>(In thousands)</i>	
<b>Net Income</b>	\$ 922	\$ 899
<b>OTHER COMPREHENSIVE LOSS</b>		
Unrealized losses on securities available for sale:		
Unrealized holding losses arising during the period	(564)	(34)
Income tax benefit	224	13
Net of tax amount	(340)	(21)
<b>Other Comprehensive Loss, net of tax</b>	(340)	(21)
<b>Comprehensive Income</b>	\$ 582	\$ 878

See accompanying notes to consolidated financial statements.



**Table of Contents****PART I - FINANCIAL INFORMATION****FIRST CAPITAL, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY***(Unaudited)*

<i>(In thousands, except share and per share data)</i>	<b>Common Stock</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Treasury Stock</b>	<b>Noncontrolling Interest</b>	<b>Total</b>
Balances at January 1, 2011	\$ 32	\$ 24,313	\$ 30,442	\$ 391	\$ (7,285)	\$ 111	\$ 48,004
Net income	0	0	896	0	0	3	899
Change in unrealized gain on securities available for sale, net of reclassification adjustments and tax effect	0	0	0	(21)	0	0	(21)
Cash dividends	0	0	(529)	0	0	0	(529)
Balances at March 31, 2011	\$ 32	\$ 24,313	\$ 30,809	\$ 370	\$ (7,285)	\$ 114	\$ 48,353
Balances at January 1, 2012	\$ 32	\$ 24,313	\$ 32,297	\$ 1,612	\$ (7,312)	\$ 111	51,053
Net income	0	0	919	0	0	3	922
Change in unrealized gain on securities available for sale, net of reclassification adjustments and tax effect	0	0	0	(340)	0	0	(340)
Cash dividends	0	0	(530)	0	0	0	(530)
Balances at March 31, 2012	\$ 32	\$ 24,313	\$ 32,686	\$ 1,272	\$ (7,312)	\$ 114	\$ 51,105

See accompanying notes to consolidated financial statements.

**Table of Contents****PART I - FINANCIAL INFORMATION****FIRST CAPITAL, INC. AND SUBSIDIARY****CONSOLIDATED STATEMENTS OF CASH FLOWS***(Unaudited)*

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
	<i>(In thousands)</i>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 922	\$ 899
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Amortization of premiums and accretion of discounts on securities, net	239	242
Depreciation and amortization expense	208	211
Deferred income taxes	48	7
Increase in cash value of life insurance	(48)	(53)
Provision for loan losses	475	500
Proceeds from sales of loans	10,125	6,927
Loans originated for sale	(8,651)	(3,159)
Gain on sale of loans	(258)	(125)
(Increase) decrease in accrued interest receivable	74	(7)
Increase (decrease) in accrued interest payable	6	(100)
Net change in other assets/liabilities	323	212
<b>Net Cash Provided By Operating Activities</b>	<b>3,463</b>	<b>5,554</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of securities available for sale	(16,516)	(5,838)
Proceeds from maturities of securities available for sale	13,547	1,075
Proceeds from maturities of securities held to maturity	0	14
Proceeds from sales of securities available for sale	1,004	0
Principal collected on mortgage-backed obligations	3,997	3,039
Net decrease in loans receivable	3,358	6,691
Proceeds from sale of foreclosed real estate	395	55
Purchase of premises and equipment	(90)	(68)
<b>Net Cash Provided By Investing Activities</b>	<b>5,695</b>	<b>4,968</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase (decrease) in deposits	4,070	(3,370)
Net decrease in advances from Federal Home Loan Bank	(1,425)	(200)
Net increase (decrease) in retail repurchase agreements	(30)	29
Dividends paid	(530)	(529)
<b>Net Cash Provided By (Used In) Financing Activities</b>	<b>2,085</b>	<b>(4,070)</b>
<b>Net Increase in Cash and Cash Equivalents</b>	<b>11,243</b>	<b>6,452</b>
Cash and cash equivalents at beginning of period	18,923	21,575

**Cash and Cash Equivalents at End of Period**

\$ 30,166    \$ 28,027

See accompanying notes to consolidated financial statements.

**Table of Contents**

**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited)*

**1. Presentation of Interim Information**

First Capital, Inc. ( Company ) is the savings and loan holding company for First Harrison Bank ( Bank ). The information presented in this report relates primarily to the Bank's operations. First Harrison Investments, Inc. and First Harrison Holdings, Inc. are wholly-owned Nevada corporate subsidiaries of the Bank that jointly own First Harrison, LLC, a Nevada limited liability corporation that holds and manages an investment portfolio. First Harrison REIT, Inc. ( REIT ) was incorporated as a wholly-owned subsidiary of First Harrison Holdings, Inc. to hold a portion of the Bank's real estate mortgage loan portfolio. On January 21, 2009, the REIT issued 105 shares of 12.5% redeemable cumulative preferred stock with an aggregate liquidation value of \$105,000 in a private placement offering in order to satisfy certain ownership requirements to qualify as a real estate investment trust. At March 31, 2012, this noncontrolling interest represented 0.2% ownership of the REIT.

In the opinion of management, the unaudited consolidated financial statements include all normal adjustments considered necessary to present fairly the financial position as of March 31, 2012, and the results of operations and cash flows for the three months ended March 31, 2012 and 2011. All of these adjustments are of a normal, recurring nature. Such adjustments are the only adjustments included in the unaudited consolidated financial statements. Interim results are not necessarily indicative of results for a full year.

The accompanying unaudited consolidated financial statements and notes have been prepared in accordance with U.S. generally accepted accounting principles ( GAAP ) for interim financial statements and are presented as permitted by the instructions to Form 10-Q. Accordingly, they do not contain certain information included in the Company's annual audited consolidated financial statements and related footnotes for the year ended December 31, 2011 included in the Form 10-K.

The unaudited consolidated financial statements include the accounts of the Company and its subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

**Table of Contents****FIRST CAPITAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)***2. Investment Securities**

Debt and equity securities have been classified in the consolidated balance sheets according to management's intent. Investment securities at March 31, 2012 and December 31, 2011 are summarized as follows:

<i>(In thousands)</i>	<b>Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b><u>March 31, 2012</u></b>				
Securities available for sale:				
Agency mortgage-backed securities	\$ 12,754	\$ 520	\$ 19	\$ 13,255
Agency CMO	23,449	179	33	23,595
Privately-issued CMO	816	19	50	785
Other debt securities:				
Agency notes and bonds	42,006	231	148	42,089
Municipal obligations	24,771	1,262	2	26,031
Subtotal - debt securities	103,796	2,211	252	105,755
Mutual Funds	2,854	47	23	2,878
Total Securities available for sale	\$ 106,650	\$ 2,258	\$ 275	\$ 108,633
Securities held to maturity:				
Agency mortgage-backed securities	\$ 15	\$ 0	\$ 0	\$ 15
Municipal obligations	0	0	0	0
Total securities held to maturity	\$ 15	\$ 0	\$ 0	\$ 15
<b><u>December 31, 2011</u></b>				
Securities available for sale:				
Agency mortgage-backed securities	\$ 11,689	\$ 542	\$ 11	\$ 12,220
Agency CMO	23,196	152	60	23,288
Privately-issued CMO	896	16	32	880
Other debt securities:				
Agency notes and bonds	41,971	395	3	42,363
Municipal obligations	25,800	1,501	0	27,301
Subtotal - debt securities	103,552	2,606	106	106,052
Mutual Funds	5,369	52	33	5,388

Edgar Filing: FIRST CAPITAL INC - Form 10-Q

Total Securities available for sale	\$ 108,921	\$ 2,658	\$ 139	\$ 111,440
<b>Securities held to maturity:</b>				
Agency mortgage-backed securities	\$ 16	\$ 0	\$ 0	\$ 16
<b>Total securities held to maturity</b>	<b>\$ 16</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 16</b>

-9-

**Table of Contents****FIRST CAPITAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)*

(2 continued)

Agency notes and bonds, agency mortgage-backed securities and agency collateralized mortgage obligations (CMO) include securities issued by the Government National Mortgage Association (GNMA), a U.S. government agency, and the Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal Home Loan Bank (FHLB), which are government-sponsored enterprises. Privately-issued CMOs are issued by special-purpose entities that are generally collateralized by first position residential mortgage loans and first position residential home equity loans.

The amortized cost and fair value of debt securities as of March 31, 2012, by contractual maturity, are shown below. Expected maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the obligations may be prepaid without penalty.

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<i>(In thousands)</i>				
Due in one year or less	\$ 641	\$ 647	\$ 0	\$ 0
Due after one year through five years	8,497	8,575	0	0
Due after five years through ten years	15,599	15,966		
Due after ten years	42,040	42,932	0	0
	66,777	68,120	0	0
Mortgage-backed securities and CMO	37,019	37,635	15	15
	\$ 103,796	\$ 105,755	\$ 15	\$ 15

Information pertaining to investment securities available for sale with gross unrealized losses at March 31, 2012, aggregated by investment category and the length of time that individual investment securities have been in a continuous position, follows:

	Number of Investment Positions	Fair Value	Gross Unrealized Losses
<i>(Dollars in thousands)</i>			
Continuous loss position less than twelve months:			
Agency notes and bonds	12	\$ 13,428	\$ 147
Agency CMO	9	8,613	33
Agency mortgage-backed securities	3	3,044	19

Edgar Filing: FIRST CAPITAL INC - Form 10-Q

Municipal obligations	1	327	2
Total less than twelve months	25	25,412	201
Continuous loss position more than twelve months:			
Privately-issued CMO	1	208	50
Agency notes and bonds	1	1,054	1
Mutual fund	1	361	23
Total more than twelve months	3	1,623	74
Total securities available for sale	28	\$ 27,035	\$ 275

-10-



---

**Table of Contents**

**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited)*

(2 continued)

Management evaluates securities for other-than-temporary impairment at least quarterly, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recover in fair value.

At March 31, 2012, the 26 U.S. government agency debt securities, including agency notes and bonds, mortgage-backed securities and CMO, and municipal obligations in a loss position had depreciated approximately 0.8% from the amortized cost basis. All of the U.S. government agency securities and municipal obligations are issued by U.S. government agencies, government-sponsored enterprises and municipal governments, or are secured by first mortgage loans and municipal project revenues. These unrealized losses related principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government, its agencies or other governments, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As the Company has the ability to hold the debt securities until maturity, or the foreseeable future if classified as available for sale, no declines are deemed to be other-than-temporary.

At March 31, 2012, the privately-issued CMO in a loss position had depreciated approximately 19.2% from the amortized cost basis. The Company evaluates the existence of a potential credit loss component related to the decline in fair values of the privately-issued CMO portfolio each quarter using an independent third party analysis. At March 31, 2012, the privately-issued CMO in a loss position had an amortized cost of \$258,000 and a fair value of \$208,000, and had been downgraded to a substandard regulatory classification in 2009 due to a downgrade of the security's credit quality by various rating agencies. Based on the independent third party analysis performed in March 2012, the Company did not recognize an other-than-temporary impairment loss during the quarter ended March 31, 2012. While management did not anticipate a credit-related impairment loss at March 31, 2012, any future deterioration in market and economic conditions may have an adverse impact on the credit quality in future periods.

**3. Loans and Allowance for Loan Losses**

The Company's loan and allowance for loan loss policies are as follows:

Loans are stated at unpaid principal balances, less net deferred loan fees and the allowance for loan losses. The Company grants real estate mortgage, commercial business and consumer loans. A substantial portion of the loan portfolio is represented by mortgage loans to customers in southern Indiana. The ability of the Company's customers to honor their loan agreements is dependent upon the real estate and general economic conditions in this area.

Loan origination and commitment fees, as well as certain direct costs of underwriting and closing loans, are deferred and amortized as a yield adjustment to interest income over the lives of the related loans using the interest method. Amortization of net deferred loan fees is discontinued when a loan is placed on nonaccrual status.

---

**Table of Contents**

**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited)*

(3 continued)

The recognition of income on a loan is discontinued and previously accrued interest is reversed, when interest or principal payments become ninety (90) days past due unless, in the opinion of management, the outstanding interest remains collectible. Past due status is determined based on contractual terms. Generally, by applying the cash receipts method, interest income is subsequently recognized only as received until the loan is returned to accrual status. The cash receipts method is used when the likelihood of further loss on the loan is remote. Otherwise, the Company applies the cost recovery method and applies all payments as a reduction of the unpaid principal balance until the loan qualifies for return to accrual status. Interest income on impaired loans is recognized using the cost recovery method, unless the likelihood of further loss on the loan is remote.

A loan is restored to accrual status when all principal and interest payments are brought current and the borrower has demonstrated the ability to make future payments of principal and interest as scheduled, which generally requires that the borrower demonstrate a period of performance of at least six consecutive months.

The Company's practice is to charge-off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, the depreciation of the underlying collateral, the loan's classification as a loss by regulatory examiners, or for other reasons. A partial charge-off is recorded on a loan when the uncollectibility of a portion of the loan has been confirmed, such as when a loan is discharged in bankruptcy, the collateral is liquidated, a loan is restructured at a reduced principal balance, or other identifiable events that lead management to determine the full principal balance of the loan will not be repaid. A specific reserve is recognized as a component of the allowance for estimated losses on loans individually evaluated for impairment. Partial charge-offs on nonperforming and impaired loans are included in the Company's historical loss experience used to estimate the general component of the allowance for loan losses as discussed below. Specific reserves are not considered charge-offs in management's analysis of the allowance for loan losses because they are estimates and the outcome of the loan relationship is undetermined. At March 31, 2012, the Company had nine loans on which partial charge-offs of \$543,000 had been recorded.

Installment loans are typically charged off at 90 days past due, or earlier if deemed uncollectible, unless the loans are in the process of collection. Overdrafts are charged off after 45 days past due. Charge-offs are typically recorded on loans secured by real estate when the property is foreclosed upon.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

**Table of Contents**

**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited)*

(3 continued)

The allowance consists of specific and general components. The specific component relates to loans that are classified as doubtful, substandard, or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors, as discussed below.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Values for collateral dependent loans are generally based on appraisals obtained from independent licensed real estate appraisers, with adjustments applied for estimated costs to sell the property, costs to complete unfinished or repair damaged property and other known defects. New appraisals are generally obtained for all significant properties when a loan is identified as impaired. Generally, a property is considered significant if the value of the property is estimated to exceed \$200,000. Subsequent appraisals are obtained as needed or if management believes there has been a significant change in the market value of the property. In instances where it is not deemed necessary to obtain a new appraisal, management would base its impairment and allowance for loan loss analysis on the original appraisal with adjustments for current conditions based on management's assessment of market factors and management's inspection of the property.

**Table of Contents****FIRST CAPITAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)*

(3 continued)

The following table provides the components of the Company's recorded investment in loans for each portfolio segment at March 31, 2012:

	<b>Residential</b>			<b>Commercial Commercial Home Equity &amp; Other</b>				
	<b>Real Estate</b>	<b>Land</b>	<b>Construction</b>	<b>Real Estate</b>	<b>Business</b>	<b>2nd Mtg</b>	<b>Consumer</b>	<b>Total</b>
	<i>(In thousands)</i>							
<b><u>Recorded Investment in Loans:</u></b>								
Principal loan balance	\$ 113,427	\$ 9,987	\$ 6,315	\$ 58,143	\$ 20,795	\$ 37,831	\$ 29,539	\$ 276,037
Accrued interest receivable	418	46	14	154	65	143	144	984
Net deferred loan origination fees and costs	71	1	(1)	(6)	(10)	75	0	130
<b>Recorded investment in loans</b>	<b>\$ 113,916</b>	<b>\$ 10,034</b>	<b>\$ 6,328</b>	<b>\$ 58,291</b>	<b>\$ 20,850</b>	<b>\$ 38,049</b>	<b>\$ 29,683</b>	<b>\$ 277,151</b>
<b><u>Recorded Investment in Loans as Evaluated for Impairment:</u></b>								
Individually evaluated for impairment	\$ 2,068	\$ 41	\$ 266	\$ 2,761	\$ 1,927	\$ 273	\$ 0	\$ 7,336
Collectively evaluated for impairment	111,848	9,993	6,062	55,530	18,923	37,776	29,683	269,815
Acquired with deteriorated credit quality	0	0	0	0	0	0	0	0
<b>Ending balance</b>	<b>\$ 113,916</b>	<b>\$ 10,034</b>	<b>\$ 6,328</b>	<b>\$ 58,291</b>	<b>\$ 20,850</b>	<b>\$ 38,049</b>	<b>\$ 29,683</b>	<b>\$ 277,151</b>

**Table of Contents****FIRST CAPITAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)*

(3 continued)

The following table provides the components of the Company's recorded investment in loans for each portfolio segment at December 31, 2011:

	<b>Residential Real Estate</b>	<b>Land</b>	<b>Construction</b>	<b>Commercial Real Estate</b>	<b>Commercial Business</b>	<b>Home Equity &amp; 2nd Mtg</b>	<b>Other Consumer</b>	<b>Total</b>
<i>(In thousands)</i>								
<b>Recorded Investment in Loans:</b>								
Principal loan balance	\$ 116,338	\$ 9,910	\$ 6,963	\$ 57,680	\$ 20,722	\$ 38,641	\$ 29,832	\$ 280,086
Accrued interest receivable	463	60	16	160	64	162	202	1,127
Net deferred loan origination fees and costs	67	2	0	0	(10)	84	0	143
<b>Recorded investment in loans</b>	<b>\$ 116,868</b>	<b>\$ 9,972</b>	<b>\$ 6,979</b>	<b>\$ 57,840</b>	<b>\$ 20,776</b>	<b>\$ 38,887</b>	<b>\$ 30,034</b>	<b>\$ 281,356</b>
<b>Recorded Investment in Loans as Evaluated for Impairment:</b>								
Individually evaluated for impairment	\$ 2,281	\$ 5	\$ 247	\$ 2,853	\$ 1,928	\$ 87	\$ 0	\$ 7,401
Collectively evaluated for impairment	114,587	9,967	6,732	54,987	18,848	38,800	30,034	273,955
Acquired with deteriorated credit quality	0	0	0	0	0	0	0	0
<b>Ending balance</b>	<b>\$ 116,868</b>	<b>\$ 9,972</b>	<b>\$ 6,979</b>	<b>\$ 57,840</b>	<b>\$ 20,776</b>	<b>\$ 38,887</b>	<b>\$ 30,034</b>	<b>\$ 281,356</b>

**Table of Contents****FIRST CAPITAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)*

(3 continued)

An analysis of the allowance for loan losses as of March 31, 2012 is as follows:

	Residential		Commercial		Commercial	Home Equity & Other		
	Real Estate	Land	Construction	Real Estate	Business	2nd Mtg	Consumer	Total
	<i>(In thousands)</i>							
<b>Ending allowance balance attributable to loans:</b>								
Individually evaluated for impairment	\$ 140	\$ 0	\$ 0	\$ 422	\$ 936	\$ 168	\$ 0	\$ 1,666
Collectively evaluated for impairment	920	99	35	502	239	483	284	2,562
Acquired with deteriorated credit quality	0	0	0	0	0	0	0	0
Ending balance	\$ 1,060	\$ 99	\$ 35	\$ 924	\$ 1,175	\$ 651	\$ 284	\$ 4,228

An analysis of the allowance for loan losses as of December 31, 2011 is as follows:

	Residential		Commercial		Commercial	Home Equity & Other		
	Real Estate	Land	Construction	Real Estate	Business	2nd Mtg	Consumer	Total
	<i>(In thousands)</i>							
<b>Ending allowance balance attributable to loans:</b>								
Individually evaluated for impairment	\$ 183	\$ 0	\$ 0	\$ 539	\$ 936	\$ 0	\$ 0	\$ 1,658
Collectively evaluated for impairment	645	93	33	730	224	400	399	2,524
Acquired with deteriorated credit quality	0	0	0	0	0	0	0	0
Ending balance	\$ 828	\$ 93	\$ 33	\$ 1,269	\$ 1,160	\$ 400	\$ 399	\$ 4,182

**Table of Contents****FIRST CAPITAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)*

(3 continued)

An analysis of the changes in the allowance for loan losses for the three months ended March 31, 2012 is as follows:

	<b>Residential Real Estate</b>	<b>Land</b>	<b>Construction</b>	<b>Commercial Real Estate</b>	<b>Commercial Business</b>	<b>Home Equity &amp; 2nd Mtg</b>	<b>Other Consumer</b>	<b>Total</b>
<b>Allowance for loan losses:</b>								
Beginning balance	\$ 828	\$ 93	\$ 33	\$ 1,269	\$ 1,160	\$ 400	\$ 399	\$ 4,182
Provisions for loan losses	498	10	2	(345)	12	361	(63)	475
Charge-offs	(276)	(4)	0	0	0	(114)	(91)	(485)
Recoveries	10	0	0	0	3	4	39	56
Ending balance	\$ 1,060	\$ 99	\$ 35	\$ 924	\$ 1,175	\$ 651	\$ 284	\$ 4,228

An analysis of the changes in the allowance for loan losses for the three months ended March 31, 2011 is as follows:

	<b>Residential Real Estate</b>	<b>Land</b>	<b>Construction</b>	<b>Commercial Real Estate</b>	<b>Commercial Business</b>	<b>Home Equity &amp; 2nd Mtg</b>	<b>Other Consumer</b>	<b>Total</b>
<b>Allowance for loan losses:</b>								
Beginning balance	\$ 1,024	\$ 55	\$ 21	\$ 1,051	\$ 1,251	\$ 606	\$ 465	\$ 4,473
Provisions for loan losses	232	24	18	197	(42)	87	(16)	500
Charge-offs	(265)	0	0	0	0	(157)	(64)	(486)
Recoveries	1	0	0	0	2	26	61	90
Ending balance	\$ 992	\$ 79	\$ 39	\$ 1,248	\$ 1,211	\$ 562	\$ 446	\$ 4,577

**Table of Contents**

**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited)*

(3 continued)

At March 31, 2012 and December 31, 2011, for each loan portfolio segment management applied an overall qualitative factor of 1.15 to the Company's historical loss factors based on the most recent calendar quarters. The overall qualitative factor is derived from management's analysis of changes and trends in the following qualitative factors:

**Underwriting Standards** Management reviews the findings of periodic internal audit loan reviews, independent outsourced loan reviews and loan reviews performed by the banking regulators to evaluate the risk associated with changes in underwriting standards. At March 31, 2012 and December 31, 2011, management assessed the risk associated with this component as neutral, requiring no adjustment to the historical loss factors.

**Economic Conditions** Management analyzes trends in housing and unemployment data in the Harrison, Floyd and Clark counties of Indiana, the Company's primary market area, to evaluate the risk associated with economic conditions. Due to a decrease in new home construction and an increase in unemployment in the Company's primary market area, management assigned a risk factor of 1.20 for this component at March 31, 2012 and December 31, 2011.

**Past Due Loans** Management analyzes trends in past due loans for the Company to evaluate the risk associated with delinquent loans. In general, past due loan ratios have remained at elevated levels compared to historical amounts since 2007, and management assigned a risk factor of 1.20 for this component at March 31, 2012 and December 31, 2011.

**Other Internal and External Factors** This component includes management's consideration of other qualitative factors such as loan portfolio composition. The Company has focused on the origination of commercial business and real estate loans in an effort to convert the Company's balance sheet from that of a traditional thrift institution to a commercial bank. In addition, the Company has increased its investment in mortgage loans in which it does not hold a first lien position. Commercial loans and second mortgage loans generally entail greater credit risk than residential mortgage loans secured by a first lien. As a result of changes in the loan portfolio composition, management assigned a risk factor of 1.20 for this component at March 31, 2012 and December 31, 2011.

Each of the four factors above was assigned an equal weight to arrive at an average for the overall qualitative factor of 1.15 at March 31, 2012 and December 31, 2011. The effect of the overall qualitative factor was to increase the estimated allowance for loan losses by \$322,000 and \$317,000 at March 31, 2012 and December 31, 2011, respectively.



**Table of Contents****FIRST CAPITAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)*

(3 continued)

The following table summarizes the Company's impaired loans by class of loans as of March 31, 2012 and for the three months ended March 31, 2012 and 2011:

	At March 31, 2012			Three Months Ended March 31, 2012			Three Months Ended March 31, 2011		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Recognized - Cash Method	Average Recorded Investment	Interest Income Recognized	Interest Recognized - Cash Method
<b>Loans with no related allowance recorded:</b>									
Residential	\$ 1,359	\$ 1,792	\$ 0	\$ 1,254	\$ 1	\$ 1	\$ 1,173	\$ 4	\$ 2
Land	41	41	0	23	0	0	3	0	0
Construction	266	270	0	257	0	0	155	0	0
Commercial real estate	1,251	1,530	0	1,233	0	0	436	0	0
Commercial business	0	0	0	0	0	0	15	0	0
Home Equity/2nd mortgage	85	91	0	86	1	0	30	0	0
Other consumer	0	0	0	0	0	0	17	0	0
	3,002	3,724	0	2,853	2	1	1,829	4	2
<b>Loans with an allowance recorded:</b>									
Residential	709	782	140	921	0	0	2,040	0	0
Land	0	0	0	0	0	0	0	0	0
Construction	0	0	0	0	0	0	140	0	0
Commercial real estate	1,510	1,595	422	1,574	0	0	1,198	0	0
Commercial business	1,927	2,023	936	1,928	0	0	2,146	0	0
Home Equity/2nd mortgage	188	188	168	94	0	1	439	0	0
Other consumer	0	0	0	0	0	0	12	0	0
	4,334	4,588	1,666	4,517	0	1	5,975	0	0
<b>Total:</b>									
Residential	2,068	2,574	140	2,175	1	1	3,213	4	2
Land	41	41	0	23	0	0	3	0	0
Construction	266	270	0	257	0	0	295	0	0
Commercial real estate	2,761	3,125	422	2,807	0	0	1,634	0	0
Commercial business	1,927	2,023	936	1,928	0	0	2,161	0	0
Home Equity/2nd mortgage	273	279	168	180	1	1	469	0	0
Other consumer	0	0	0	0	0	0	29	0	0

Edgar Filing: FIRST CAPITAL INC - Form 10-Q

\$ 7,336    \$ 8,312    \$ 1,666    \$ 7,370    \$ 2    \$ 2    \$ 7,804    \$ 4    \$ 2

-19-

**Table of Contents****FIRST CAPITAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)*

(3 continued)

The following table summarizes the Company's impaired loans by class of loans as of December 31, 2011:

	Recorded Investment	Unpaid Principal Balance <i>(In thousands)</i>	Related Allowance
<b><u>Loans with no related allowance recorded:</u></b>			
Residential	\$ 1,149	\$ 1,507	\$ 0
Land	5	6	0
Construction	247	249	0
Commercial real estate	1,215	1,280	0
Commercial business	0	0	0
HE/2nd mortgage	87	94	0
Other consumer	0	0	0
	2,703	3,136	0
<b><u>Loans with an allowance recorded:</u></b>			
Residential	1,132	1,233	183
Land	0	0	0
Construction	0	0	0
Commercial real estate	1,638	1,933	539
Commercial business	1,928	2,023	936
HE/2nd mortgage	0	0	0
Other consumer	0	0	0
	4,698	5,189	1,658
<b><u>Total:</u></b>			
Residential	2,281	2,740	183
Land	5	6	0
Construction	247	249	0
Commercial real estate	2,853	3,213	539
Commercial business	1,928	2,023	936
Home Equity/2nd mortgage	87	94	0
Other consumer	0	0	0
	\$ 7,401	\$ 8,325	\$ 1,658



**Table of Contents****FIRST CAPITAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)*

(3 continued)

Nonperforming loans consists of nonaccrual loans and loans over 90 days past due and still accruing interest. The following table presents the recorded investment in nonperforming loans by class of loans at March 31, 2012 and December 31, 2011:

	March 31, 2012			December 31, 2011		
	Nonaccrual Loans	Loans 90+ Days Past Due Still Accruing	Total Nonperforming Loans	Nonaccrual Loans	Loans 90+ Days Past Due Still Accruing	Total Nonperforming Loans
	<i>(In thousands)</i>					
Residential	\$ 2,068	\$ 66	\$ 2,134	\$ 2,281	\$ 143	\$ 2,424
Land	41	0	41	5	38	43
Construction	266	0	266	247	0	247
Commercial real estate	2,761	3	2,764	2,853	0	2,853
Commercial business	1,927	0	1,927	1,928	0	1,928
Home Equity/2nd mortgage	273	42	315	87	159	246
Other consumer	0	12	12	0	23	23
Total	\$ 7,336	\$ 123	\$ 7,459	\$ 7,401	\$ 363	\$ 7,764

The following table presents the aging of the recorded investment loans by class of loans at March 31, 2012:

	30-59 Days				Total Past Due	Current	Total Loans
	Past Due	60-89 Days Past Due	Over 90 Days Past Due	Total Past Due			
	<i>(In thousands)</i>						
Residential	\$ 3,956	\$ 1,215	\$ 865	\$ 6,036	\$ 107,880	\$ 113,916	
Land	102	42	41	185	9,849	10,034	
Construction	0	0	266	266	6,062	6,328	
Commercial real estate	585	175	1,254	2,014	56,277	58,291	
Commercial business	58	10	0	68	20,782	20,850	
Home Equity/2nd mortgage	353	141	167	661	37,388	38,049	
Other consumer	179	10	12	201	29,482	29,683	
Total	\$ 5,233	\$ 1,593	\$ 2,605	\$ 9,431	\$ 267,720	\$ 277,151	

**Table of Contents****FIRST CAPITAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)*

(3 continued)

The following table presents the aging of the recorded investment in loans by class of loans at December 31, 2011:

	<b>30-59 Days Past Due</b>	<b>60-89 Days Past Due</b>	<b>Over 90 Days Past Due</b>	<b>Total Past Due</b>	<b>Current</b>	<b>Total Loans</b>
	<i>(In thousands)</i>					
Residential	\$ 5,205	\$ 1,068	\$ 1,035	\$ 7,308	\$ 109,560	\$ 116,868
Land	442	43	43	528	9,444	9,972
Construction	0	0	247	247	6,732	6,979
Commercial real estate	676	0	1,258	1,934	55,906	57,840
Commercial business	256	0	0	256	20,520	20,776
Home Equity/2nd mortgage	558	72	246	876	38,011	38,887
Other consumer	306	37	23	366	29,668	30,034
<b>Total</b>	<b>\$ 7,443</b>	<b>\$ 1,220</b>	<b>\$ 2,852</b>	<b>\$ 11,515</b>	<b>\$ 269,841</b>	<b>\$ 281,356</b>

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, public information, historical payment experience, credit documentation, and current economic trends, among other factors. The Company classifies loans based on credit risk at least quarterly. The Company uses the following regulatory definitions for risk ratings:

*Special Mention:* Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

*Substandard:* Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

*Doubtful:* Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

*Loss:* Loans classified as loss are considered uncollectible and of such little value that their continuance on the institution's books as an asset, without establishment of a specific valuation allowance or charge-off, is not warranted.

Loans not meeting the criteria above that are analyzed individually as part of the described process are considered to be pass rated loans.



**Table of Contents****FIRST CAPITAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)*

(3 continued)

The following table presents the recorded investment in loans by risk category and class of loans as of the date indicated:

	<b>Residential Real Estate</b>	<b>Land</b>	<b>Construction</b>	<b>Commercial Real Estate</b>	<b>Commercial Business</b>	<b>Home Equity &amp; 2nd Mtg</b>	<b>Other Consumer</b>	<b>Total</b>
<i>(In thousands)</i>								
<b><u>March 31, 2012</u></b>								
Pass	\$ 109,374	\$ 7,578	\$ 5,552	\$ 47,532	\$ 16,913	\$ 37,457	\$ 29,588	\$ 253,994
Special Mention	859	253	257	5,368	1,622	30	37	8,426
Substandard	1,615	2,162	253	2,630	388	289	58	7,395
Doubtful	2,068	41	266	2,761	1,927	273	0	7,336
Loss	0	0	0	0	0	0	0	0
Ending balance	\$ 113,916	\$ 10,034	\$ 6,328	\$ 58,291	\$ 20,850	\$ 38,049	\$ 29,683	\$ 277,151
<b><u>December 31, 2011</u></b>								
Pass	\$ 113,037	\$ 7,578	\$ 6,217	\$ 46,544	\$ 16,961	\$ 38,513	\$ 29,976	\$ 258,826
Special Mention	862	255	307	5,392	1,462	63	44	8,385
Substandard	688	2,134	208	3,051	425	224	14	6,744
Doubtful	2,281	5	247	2,853	1,928	87	0	7,401
Loss	0	0	0	0	0	0	0	0
Ending balance	\$ 116,868	\$ 9,972	\$ 6,979	\$ 57,840	\$ 20,776	\$ 38,887	\$ 30,034	\$ 281,356



**Table of Contents****FIRST CAPITAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)*

(3 continued)

The following table summarizes the Company's troubled debt restructurings (TDRs) by class of loan and accrual status as of March 31, 2012 and December 31, 2011:

	March 31, 2012			December 31, 2011			Related Allowance for Loan Losses	Related Allowance for Loan Losses
	Accruing	Nonaccrual	Total	Accruing	Nonaccrual	Total		
<b>Troubled debt restructurings:</b>								
Residential real estate	\$ 319	\$ 344	\$ 663	\$ 5	\$ 112	\$ 516	\$ 628	\$ 11
Land	136	0	136	0	135	0	135	0
Construction	252	266	518	0	207	247	454	0
Commercial real estate	0	1,593	1,593	107	0	1,603	1,603	211
Commercial business	0	1,843	1,843	914	0	1,843	1,843	914
Home equity and 2nd mortgage	8	25	33	25	8	0	8	0
Consumer	0	0	0	0	0	0	0	0
<b>Total</b>	<b>\$ 715</b>	<b>\$ 4,071</b>	<b>\$ 4,786</b>	<b>\$ 1,051</b>	<b>\$ 462</b>	<b>\$ 4,209</b>	<b>\$ 4,671</b>	<b>\$ 1,136</b>

At March 31, 2012 and December 31, 2011, commitments to lend additional funds to debtors whose loan terms have been modified in a TDR (both accruing and nonaccruing) totaled \$145,000 and \$192,000, respectively. These commitments represent the undisbursed portion of construction loans to borrowers that have outstanding loans classified as TDRs.

**Table of Contents****FIRST CAPITAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)*

(3 continued)

The following table summarizes information in regard to TDRs that were restructured during the three months ended March 31, 2012:

	Number of Contracts	Pre-Modification Outstanding Balance <i>(Dollars in thousands)</i>	Post-Modification Outstanding Balance
<b>Troubled debt restructurings:</b>			
Residential real estate	1	\$ 88	\$ 88
Home equity & 2nd mortgage	1	25	25
Construction	0	0	0
Commercial real estate	0	0	0
Commercial business	0	0	0
Construction	0	0	0
Consumer	0	0	0
<b>Total</b>	<b>2</b>	<b>\$ 113</b>	<b>\$ 113</b>

For the TDRs listed above, the terms of modification included temporary interest-only payment periods, reduction of the stated interest rate and the deferral of past due principal and interest until maturity, or the consolidation of outstanding loans at a reduced interest rate. There were no principal charge-offs recorded as a result of TDRs during the three months ended March 31, 2012.

There were no TDRS modified within the previous 12 months for which there was a subsequent payment default (defined as the loan becoming more than 90 days past due, being moved to nonaccrual status, or the collateral being foreclosed upon) during the three months ended March 31, 2012. In the event that a TDR subsequently defaults, the Company evaluates the restructuring for possible impairment. As a result, the related allowance for loan losses may be increased or charge-offs may be taken to reduce the carrying amount of the loan.

Table of Contents**FIRST CAPITAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)***4. Supplemental Disclosure for Earnings Per Share**

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
<i>(Dollars in thousands, except per share data)</i>		
<b><u>Basic</u></b>		
Earnings:		
Net income attributable to First Capital, Inc.	\$ 919	\$ 896
Shares:		
Weighted average common shares outstanding	2,785,693	2,787,272
Net income attributable to First Capital, Inc. per common share, basic	\$ 0.33	\$ 0.32
<b><u>Diluted</u></b>		
Earnings:		
Net income attributable to First Capital, Inc.	\$ 919	\$ 896
Shares:		
Weighted average common shares outstanding	2,785,693	2,787,272
Add: Dilutive effect of outstanding options	0	0
Add: Dilutive effect of restricted stock	0	0
Weighted average common shares outstanding, as adjusted	2,785,693	2,787,272
Net income attributable to First Capital, Inc. per common share, diluted	\$ 0.33	\$ 0.32

**5. Stock Option Plan**

For the three month periods ended March 31, 2012 and 2011, the Company did not recognize any compensation expense related to its stock option plans. Expense is recognized ratably over the five-year vesting period of the options. At March 31, 2012, there was no unrecognized compensation expense related to nonvested stock options to be recognized over the remaining vesting period. The Black-Scholes option pricing model was used to determine the fair value of the options granted in prior periods.

**6. Supplemental Disclosures of Cash Flow Information**

Edgar Filing: FIRST CAPITAL INC - Form 10-Q

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2012</b>	<b>2011</b>
	<i>(In thousands)</i>	
<b>Cash payments for:</b>		
Interest	\$ 696	\$ 1,152
Taxes	0	0
<b>Noncash investing activities:</b>		
Transfers from loans to real estate acquired through foreclosure	358	315

**Table of Contents**

**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited)*

**7. Fair Value Measurements**

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC Topic 820 are described as follows.

- Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted market price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.
- Level 2: Inputs to the valuation methodology include quoted market prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted market prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that are derived principally from or can be corroborated by observable market data by correlation or other means.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

**Table of Contents****FIRST CAPITAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)*

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's financial and nonfinancial assets carried at fair value or the lower of cost or fair value. The table below presents the balances of assets measured at fair value on a recurring and nonrecurring basis as of March 31, 2012 and December 31, 2011. The Company had no liabilities measured at fair value as of March 31, 2012 or December 31, 2011.

	Level 1	Carrying Value		Total
		Level 2	Level 3	
		<i>(In thousands)</i>		
<b>March 31, 2012</b>				
<b>Assets Measured on a Recurring Basis</b>				
Securities available for sale:				
Agency mortgage-backed securities	\$ 0	\$ 13,255	\$ 0	\$ 13,255
Agency CMO	0	23,595	0	23,595
Privately-issued CMO	0	785	0	785
Agency notes and bonds	0	42,089	0	42,089
Municipal obligations	0	26,031	0	26,031
Mutual funds	2,878	0	0	2,878
Total securities available for sale	\$ 2,878	\$ 105,755	\$ 0	\$ 108,633
<b>Assets Measured on a Nonrecurring Basis</b>				
Impaired loans	\$ 0	\$ 0	\$ 5,793	\$ 5,793
Loans held for sale	0	1,693	0	1,693
Foreclosed real estate	0	0	541	541
<b>December 31, 2011</b>				
<b>Assets Measured on a Recurring Basis</b>				
Securities available for sale:				
Agency mortgage-backed securities	\$ 0	\$ 12,220	\$ 0	\$ 12,220
Agency CMO	0	23,288	0	23,288
Privately-issued CMO	0	880	0	880
Agency notes and bonds	0	42,363	0	42,363
Municipal obligations	0	27,301	0	27,301
Mutual funds	5,388	0	0	5,388
Total securities available for sale	\$ 5,388	\$ 106,052	\$ 0	\$ 111,440
<b>Assets Measured on a Nonrecurring Basis</b>				
Impaired loans	\$ 0	\$ 0	\$ 6,107	\$ 6,107
Loans held for sale	0	2,909	0	2,909
Foreclosed real estate	0	0	661	661

---

**Table of Contents**

**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited)*

Fair value is based upon quoted market prices, where available. If quoted market prices are not available, fair value is based on internally developed models or obtained from third parties that primarily use, as inputs, observable market-based parameters or a matrix pricing model that employs the Bond Market Association's standard calculations for cash flow and price/yield analysis and observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value, or the lower of cost or fair value. These adjustments may include unobservable parameters. Any such valuation adjustments have been applied consistently over time. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

**Securities Available for Sale.** Securities classified as available for sale are reported at fair value on a recurring basis. These securities are classified as Level 1 of the valuation hierarchy where quoted market prices from reputable third-party brokers are available in an active market. If quoted market prices are not available, the Company obtains fair value measurements from an independent pricing service. These securities are reported using Level 2 inputs and the fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, U.S. government and agency yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security's terms and conditions, among other factors. Changes in fair value of securities available for sale are recorded in other comprehensive income, net of income tax effect.

**Impaired Loans.** Impaired loans are carried at the present value of estimated future cash flows using the loan's existing rate or the fair value of collateral if the loan is collateral dependent. Impaired loans are evaluated and valued at the time the loan is identified as impaired at the lower of cost or market value. For collateral dependent impaired loans, market value is measured based on the value of the collateral securing these loans. Collateral may be real estate and/or business assets, including equipment, inventory and/or accounts receivable, and its fair value is generally determined based on real estate appraisals or other independent evaluations by qualified professionals. The appraisals are then discounted to reflect management's estimate of the fair value of the collateral given the current market conditions and the condition of the collateral. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above. Fair value of impaired loans is classified as Level 3 in the fair value hierarchy.

**Loans Held for Sale.** Loans held for sale are carried at the lower of cost or market value. The portfolio is comprised of residential real estate loans and fair value is based on specific prices of underlying contracts for sales to investors. These measurements are classified as Level 2.

**Foreclosed Real Estate.** Foreclosed real estate held for sale is reported at fair value less estimated costs to dispose of the property. The fair values are determined by real estate appraisals which are then discounted to reflect management's estimate of the fair value of the property given current market conditions. Fair value of foreclosed real estate held for sale is classified as Level 3 in the fair value hierarchy.

There were no transfers into or out of the Company's Level 3 financial assets for the three months ended March 31, 2012. In addition, there were no transfers into or out of Levels 1 and 2 of the fair value hierarchy during the three months ended March 31, 2012.

**Table of Contents****FIRST CAPITAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)*

GAAP requires disclosure of the fair value of financial assets and financial liabilities, whether or not recognized in the balance sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company. The estimated fair values of the Company's financial instruments are as follows:

	March 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	<i>(In thousands)</i>			
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 30,166	\$ 30,166	\$ 18,923	\$ 18,923
Securities available for sale	108,633	108,633	111,440	111,440
Securities held to maturity	15	15	16	16
Loans held for sale	1,693	1,729	2,906	2,966
Loans, net	271,939	283,344	276,047	287,624
Federal Home Loan Bank stock	2,820	2,820	2,820	2,820
Accrued interest receivable	1,727	1,727	1,801	1,801
<b>Financial liabilities:</b>				
Deposits	368,444	371,462	364,374	367,359
Retail repurchase agreements	9,095	9,095	9,125	9,125
Advances from Federal Home Loan Bank	10,925	11,358	12,350	12,840
Accrued interest payable	419	419	413	413
<b>Off-balance-sheet financial instruments:</b>				
Asset related to commitments to extend credit	0	20	0	48

The carrying amounts in the preceding table are included in the consolidated balances sheets under the applicable captions. The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

**Cash and Cash Equivalents**

For cash and cash equivalents, including cash and due from banks, interest-bearing deposits with banks, and federal funds sold, the carrying amount is a reasonable estimate of fair value.



**Table of Contents**

**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited)*

**Debt and Equity Securities**

For marketable equity securities, the fair values are based on quoted market prices. For debt securities, the Company obtains fair value measurements from an independent pricing service and the fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, U.S. government and agency yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security's terms and conditions, among other factors. For Federal Home Loan Bank stock, a restricted equity security, the carrying amount is a reasonable estimate of fair value because it is not marketable.

**Loans**

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The carrying amount of accrued interest receivable approximates its fair value.

**Deposits**

The fair value of demand deposits, savings accounts, money market deposit accounts and other transaction accounts is the amount payable on demand at the balance sheet date. The fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities. The carrying amount of accrued interest payable approximates its fair value.

**Borrowed Funds**

The carrying amounts of retail repurchase agreements approximate their fair value. The fair value of advances from Federal Home Loan Bank is estimated by discounting the future cash flows using the current rates at which similar loans with the same remaining maturities could be obtained.

**Commitments to Extend Credit**

The majority of commitments to extend credit would result in loans with a market rate of interest if funded. The fair value of these commitments are the fees that would be charged to customers to enter into similar agreements. For fixed rate loan commitments, the fair value also considers the difference between current levels of interest rates and the committed rates.

---

**Table of Contents**

**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited)*

**8. Recent Accounting Pronouncements**

The following are summaries of recently issued accounting pronouncements that impact the accounting and reporting practices of the Company:

In May 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements by U.S. GAAP and IFRSs*. The amendments in this ASU generally represent clarifications of FASB ASC Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This ASU results in common principles and requirements for measuring fair value and for disclosing information about fair value measurements in accordance with U.S. GAAP and IFRSs. The amendments in this ASU are to be applied prospectively. For public entities, the amendments are effective for interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The adoption of this ASU did not have any impact on the Company's consolidated financial position or results of operations.

In June 2011, the FASB issued ASU No. 2011-05, *Amendments to Topic 220, Comprehensive Income*. Under the amendments in this ASU, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This ASU eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this ASU do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments in this ASU should be applied retrospectively. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted, because compliance with the amendments is already permitted. The amendments do not require any transition disclosures. The adoption of this ASU did not have a material impact on the Company's consolidated financial position or results of operations. ASU No. 2011-12 issued in December 2011 deferred the effective date of ASU No. 2011-05 related to the presentation of reclassifications of items out of accumulated other comprehensive income. All other requirements of ASU No. 2011-05 were not affected by ASU No. 2011-12.

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210)*. The update requires an entity to disclose information about offsetting and related arrangements to enable users of the financial statements to understand the effect of netting arrangements on the entity's financial position. The scope includes derivatives, sale and repurchase agreements and reverse sale and repurchase agreements, and securities borrowing and securities lending arrangements. The amendments in the update are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods, with disclosures required by the amendments provided retrospectively for all comparative periods presented. The adoption of this update is not expected to have any impact on the Company's consolidated financial position or results of operations.

**Table of Contents**

**PART I - ITEM 2**  
**MANAGEMENT'S DISCUSSION AND**  
**ANALYSIS OF FINANCIAL CONDITION AND**  
**RESULTS OF OPERATIONS**  
**FIRST CAPITAL, INC.**

**Safe Harbor Statement for Forward-Looking Statements**

This report may contain forward-looking statements within the meaning of the federal securities laws. These statements are not historical facts; rather they are statements based on the Company's current expectations regarding its business strategies and their intended results and its future performance. Forward-looking statements are preceded by terms such as "expects," "believes," "anticipates," "intends" and similar expressions.

Forward-looking statements are not guarantees of future performance. Numerous risks and uncertainties could cause or contribute to the Company's actual results, performance and achievements being materially different from those expressed or implied by the forward-looking statements. Factors that may cause or contribute to these differences include, without limitation, general economic conditions, including changes in market interest rates and changes in monetary and fiscal policies of the federal government; legislative and regulatory changes; the quality and composition of the loan and investment securities portfolio; loan demand; deposit flows; competition; and changes in accounting principles and guidelines. Additional factors that may affect our results are discussed in Part II of the Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2011 under "Item 1A. Risk Factors." These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company assumes no obligation and disclaims any obligation to update any forward-looking statements.

**Critical Accounting Policies**

During the three months ended March 31, 2012, there was no significant change in the Company's critical accounting policies or the application of critical accounting policies as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

**Financial Condition**

Total assets increased from \$438.9 million at December 31, 2011 to \$441.4 million at March 31, 2012, an increase of 0.6%.

Net loans receivable (excluding loans held for sale) decreased \$4.1 million from \$276.0 million at December 31, 2011 to \$271.9 million at March 31, 2012. Residential mortgage loans decreased \$3.0 million during the three months ended March 31, 2012 primarily due to loan payoffs that have not been replaced by new originations for the Bank's portfolio as the Bank has continued to sell fixed rate residential mortgage loans in the secondary market. Home equity loans and second mortgages also declined by \$838,000 during the three months ended March 31, 2012.

Securities available for sale decreased \$2.8 million from \$111.4 million at December 31, 2011 to \$108.6 million at March 31, 2012. Purchases of \$16.5 million of securities classified as available for sale were made during the three months ended March 31, 2012 and consisted primarily of U.S. government agency notes and bonds and CMOs. Maturities, principal repayments and sales of available for sale securities totaled \$13.5 million, \$4.0 million and \$1.0 million, respectively, during the three months ended March 31, 2012.

**Table of Contents**

**PART I - ITEM 2**

**MANAGEMENT'S DISCUSSION AND  
ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS  
FIRST CAPITAL, INC.**

Cash and cash equivalents increased from \$18.9 million at December 31, 2011 to \$30.2 million at March 31, 2012, primarily due to an increase of \$14.6 million in federal funds sold.

Total deposits increased 1.1% from \$364.4 million at December 31, 2011 to \$368.4 million at March 31, 2012. Time accounts decreased \$2.4 million during the three months ended March 31, 2012, primarily due to customers not wanting to lock in to longer terms in the current low-rate environment. Noninterest-bearing checking accounts increased by \$7.4 million during the period due to a combination of growth in existing accounts and new accounts.

Federal Home Loan Bank borrowings decreased from \$12.4 million at December 31, 2011 to \$10.9 million at March 31, 2012 due to repayments of \$1.4 million during the quarter.

Retail repurchase agreements, which represent overnight borrowings from deposit customers, including businesses and local municipalities, totaled \$9.1 million at both December 31, 2011 and March 31, 2012.

Total stockholders' equity attributable to the Company increased from \$50.9 million at December 31, 2011 to \$51.0 million at March 31, 2012 primarily due to retained net income of \$389,000, offset by a decrease of \$340,000 in the net unrealized gain on securities available for sale.

**Results of Operations**

**Net Income for the three-month periods ended March 31, 2012 and 2011.** Net income attributable to the Company was \$919,000 (\$0.33 per share diluted) for the three months ended March 31, 2012 compared to \$896,000 (\$0.32 per share diluted) for the same period in 2011. The increase is primarily due to an increase in noninterest income, partially offset by an increase in noninterest expenses.

**Net interest income for the three-month periods ended March 31, 2012 and 2011.** Net interest income decreased \$29,000 for the three months ended March 31, 2012 compared to the same period in 2011 primarily due to a decrease in the average balance of interest-earning assets.

Total interest income decreased \$378,000 for the three months ended March 31, 2012 compared to the same period in 2011. For the quarter ended March 31, 2012, the average balance of interest-earning assets and their tax-equivalent yield were \$400.0 million and 4.85%, respectively. During the same period in 2011, the average balance of those assets was \$410.2 million and the tax-equivalent yield was 5.11%. The decrease in the tax-equivalent yield was due to a decrease in yields across all asset types because the Federal Open Market Committee (FOMC) has kept interest rates near historic low levels. The change in asset mix also contributed to the lower yields as the average balance of loans receivable, which generally have higher yields than investment securities, decreased from \$296.7 million for the quarter ended March 31, 2011 to \$277.6 million for the same period in 2012, while the average balance of investment securities increased from \$103.7 million for 2011 to \$108.6 million for 2012.

**Table of Contents**

**PART I - ITEM 2**

**MANAGEMENT'S DISCUSSION AND  
ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS**

**FIRST CAPITAL, INC.**

Total interest expense decreased \$349,000 for the three months ended March 31, 2012 compared to the same period in 2011. The average balance of interest-bearing liabilities decreased from \$349.2 million for 2011 to \$333.1 million for 2012. The average rate paid on those liabilities decreased from 1.20% for the quarter ended March 31, 2011 to 0.84% for the same period in 2012 primarily as a result of the FOMC maintaining the low rate environment previously discussed. As a result, the tax-equivalent interest rate spread increased from 3.91% for the three-month period ended March 31, 2011 to 4.01% for the same period in 2012.

**Provision for loan losses.** The provision for loan losses decreased from \$500,000 for the three-month period ended March 31, 2011 to \$475,000 for the same period in 2012. Net charge offs amounted to \$429,000 and \$396,000 for the three-month periods ended March 31, 2012 and 2011, respectively. During the three-month period ended March 31, 2012, gross loans receivable decreased \$4.1 million. As stated earlier in this report, residential mortgage loans and home equity loans and second mortgages decreased \$3.0 million and \$838,000, respectively, during the three months ended March 31, 2012. The decrease in the provision reflects the decrease in overall loan balances partially offset by continued efforts to offset current period charge-offs and to provide for inherent loss exposure due to weakened general economic conditions such as depreciating collateral values, job losses and continued pressures on household budgets in the Bank's market area.

Provisions for loan losses are charges to earnings to maintain the total allowance for loan losses at a level considered adequate by management to provide for probable known and inherent loan losses based on management's evaluation of the collectibility of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specified impaired loans and economic conditions. Although management uses the best information available, future adjustments to the allowance may be necessary due to changes in economic, operating, regulatory and other conditions that may be beyond the Bank's control. While the Bank maintains the allowance for loan losses at a level that it considers adequate to provide for estimated losses, there can be no assurance that further additions will not be made to the allowance for loan losses and that actual losses will not exceed the estimated amounts.

The methodology used in determining the allowance for loan losses includes segmenting the loan portfolio by identifying risk characteristics common to groups of loans, determining and measuring impairment of individual loans based on the present value of expected future cash flows or the fair value of collateral, and determining and measuring impairment for groups of loans with similar characteristics by applying loss factors that consider the qualitative factors which may affect the loss rates.

The allowance for loan losses was \$4.2 million at both March 31, 2012 and December 31, 2011. Management has deemed this amount as adequate on both dates based on its best estimate of probable known and inherent loan losses at each date. At March 31, 2012, nonperforming loans amounted to \$7.5 million compared to \$7.8 million at December 31, 2011. Included in nonperforming loans are loans over 90 days past due and still accruing interest which are secured by residential mortgages of \$66,000, home equity loans and second mortgages of \$42,000, consumer loans of \$12,000 and commercial real estate loans of \$3,000. These loans are accruing interest because the estimated value of the collateral and collection efforts are deemed sufficient to ensure full recovery. At March 31, 2012 and December 31, 2011, nonaccrual loans amounted to \$7.3 million and \$7.4 million, respectively.

**Table of Contents**

**PART I - ITEM 2**

**MANAGEMENT'S DISCUSSION AND  
ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS  
FIRST CAPITAL, INC.**

**Noninterest income for the three-month periods ended March 31, 2012 and 2011.** Noninterest income for the quarter ended March 31, 2012 increased to \$1.1 million compared to \$923,000 for the quarter ended March 31, 2011. Gains on the sale of loans, including residential mortgage and Small Business Administration (SBA) loans, increased \$133,000 when comparing the two periods.

**Noninterest expense for the three-month periods ended March 31, 2012 and 2011.** Noninterest expense for the quarter ended March 31, 2012 increased \$81,000 compared to the quarter ended March 31, 2011. This increase was primarily due to a \$56,000 increase in compensation and benefit expense and a \$34,000 increase in data processing expenses. The compensation and benefit expense increase was primarily due to normal salary increases and an increase in the cost of health insurance. An increase in the number of customers using alternative delivery channels and an increase in ATM processing fees caused the increase in data processing expenses.

**Income tax expense.** Income tax expense for the three-month period ended March 31, 2012 was \$363,000, compared to \$319,000 for the same period in 2011. The effective tax rate increased from 26.2% in 2011 to 28.2% in 2012. The increase in the effective tax rate for 2012 compared to 2011 was primarily the result of a decrease in tax-exempt income as a percent of income before income taxes for 2012.

**Liquidity and Capital Resources**

The Bank's primary sources of funds are customer deposits, proceeds from loan repayments, maturing securities and FHLB advances. While loan repayments and maturities are a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by market interest rates, general economic conditions and competition. At March 31, 2012, the Bank had cash and cash equivalents of \$30.2 million and securities available-for-sale with a fair value of \$108.6 million. If the Bank requires funds beyond its ability to generate them internally, it has additional borrowing capacity with the FHLB of Indianapolis and additional collateral eligible for repurchase agreements.

The Bank's primary investing activity is the origination of one-to-four family mortgage loans and, to a lesser extent, consumer, multi-family, commercial real estate and residential construction loans. The Bank also invests in U.S. Government and agency securities and mortgage-backed securities issued by U.S. Government agencies.

The Bank must maintain an adequate level of liquidity to ensure the availability of sufficient funds to support loan growth and deposit withdrawals, to satisfy financial commitments and to take advantage of investment opportunities. Historically, the Bank has been able to retain a significant amount of its deposits as they mature.

**Table of Contents**

**PART I - ITEM 2**

**MANAGEMENT'S DISCUSSION AND  
ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS**

**FIRST CAPITAL, INC.**

The Bank is required to maintain specific amounts of capital pursuant to regulatory requirements. As of March 31, 2012, the Bank was in compliance with all regulatory capital requirements that were effective as of such date with tangible, core and risk-based capital ratios of 10.1%, 10.1% and 15.9%, respectively. The regulatory requirements at that date were 1.5%, 3.0% and 8.0%, respectively. At March 31, 2012, the Bank was considered well-capitalized under applicable regulatory guidelines.

The Company is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, the Company, on a stand-alone basis, is responsible for paying any dividends declared to its shareholders. The Company also has repurchased shares of its common stock. The Company's primary source of income is dividends received from the Bank. The amount of dividends that the Bank may declare and pay to the Company in any calendar year, without the receipt of prior approval from the Office of the Comptroller of the Currency (OCC) but with prior notice to the OCC, cannot exceed net income for that year to date plus retained net income (as defined) for the preceding two calendar years. On a stand-alone basis, the Company had liquid assets of \$239,000 at March 31, 2012.

**Off-Balance Sheet Arrangements**

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with GAAP, are not recorded on the Company's financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are primarily used to manage customers' requests for funding and take the form of loan commitments and letters of credit. A further presentation of the Company's off-balance sheet arrangements is presented in the Company's 2011 Annual Report on Form 10-K for the year ended December 31, 2011.

For the three months ended March 31, 2012, the Company did not engage in any off-balance sheet transactions reasonably likely to have a material effect on the Company's financial condition, results of operations or cash flows.

**Table of Contents**

**PART I - ITEM 3**

**QUANTITATIVE AND QUALITATIVE DISCLOSURES**

**ABOUT MARKET RISK**

**FIRST CAPITAL, INC.**

For a discussion of the Company's asset and liability management policies, as well as the potential impact of interest rate changes upon the market value of the Company's portfolio equity, see Management's Discussion and Analysis of Financial Condition and Results of Operations -Market Risk Analysis in the Company's 2011 Annual Report Form 10-K for the year ended December 31, 2011. Management periodically reviews the impact of interest rate changes upon net interest income and the market value of the Company's portfolio equity. Based on such reviews, management believes that there have been no material changes in the market risk of the Company's asset and liability position since December 31, 2011.

**PART I - ITEM 4**

**CONTROLS AND PROCEDURES**

**FIRST CAPITAL, INC.**

**Controls and Procedures**

The Company's management, including the Company's principal executive officer and principal financial officer, have evaluated the effectiveness of the Company's disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the Exchange Act). Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the SEC (1) is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

There have been no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



**Table of Contents****PART II****OTHER INFORMATION****FIRST CAPITAL, INC.****Item 1. Legal Proceedings**

The Company is not a party to any legal proceedings. Periodically, there have been various claims and lawsuits involving the Bank, mainly as a plaintiff, such as claims to enforce liens, condemnation proceedings on properties in which the Bank holds security interests, claims involving the making and servicing of real property loans and other issues incident to the Bank's business. The Bank is not a party to any pending legal proceedings that it believes would have a material adverse affect on its financial condition or operations.

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011, which could materially affect our business, financial condition or future results. There have been no material changes to the risk factors described in our Annual Report on Form 10-K, however these are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds  
Issuer Purchases of Equity Securities**

<b>Period</b>	<b>(a) Total Number of Shares Purchased</b>	<b>(b) Average Price Paid Per Share</b>	<b>(c) Total Number of Shares as Part of Publicly Announced Plans or Programs</b>	<b>(d) Maximum Number of Shares Yet Be Purchased Under the Plans or Programs</b>
January 1 through January 31, 2012	0	N/A	0	190,274
February 1 through February 28, 2012	0	N/A	0	190,274
March 1 through March 31, 2012	0	N/A	0	190,274
Total	0	N/A	0	

On August 19, 2008, the board of directors authorized the repurchase of up to 240,467 shares of the Company's outstanding common stock. The stock repurchase program will expire upon the purchase of the maximum number of shares authorized under the program, unless the board of directors terminates the program earlier.



**Table of Contents**

**PART II**

**OTHER INFORMATION**

**FIRST CAPITAL, INC.**

**Item 3. Defaults upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

- 3.1 Articles of Incorporation of First Capital, Inc. (1)
- 3.2 Fourth Amended and Restated Bylaws of First Capital, Inc. (2)
- 10.1 \*Employment Agreement with Samuel E. Uhl (4)
- 10.2 \*Employment Agreement with M. Chris Frederick (4)
- 10.3 \*Employee Severance Compensation Plan (3)
- 10.4 \*Employment Agreement with William W. Harrod (4)
- 10.5 \* First Capital, Inc. 2009 Equity Incentive Plan (5)
- 10.6 Statement Re: Computation of Per Share Earnings (incorporated by reference to Note 3 of the Unaudited Consolidated Financial Statements contained herein)
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
- 32.1 Section 1350 Certification of Chief Executive Officer
- 32.2 Section 1350 Certification of Chief Financial Officer
- 101.0\*\* The following materials from the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Cash Flows and (iv) the Notes to the Consolidated Financial Statements, tagged as blocks of text.

\* Management contract or compensatory plan, contract or arrangement.

\*\* Furnished, not filed.

## Edgar Filing: FIRST CAPITAL INC - Form 10-Q

- (1) Incorporated by reference from the Exhibits filed with the Registration Statement on Form SB-2, and any amendments thereto, Registration No. 333-63515.
- (2) Incorporated by reference to the Current Report on Form 8-K filed with the Securities and Exchange Commission on August 22, 2007.
- (3) Incorporated by reference to the Quarterly Report on Form 10-QSB for the quarter ended December 31, 1998.
- (4) Incorporated by reference to the Annual Report on Form 10-KSB for the year ended December 31, 1999.
- (5) Incorporated by reference to the appendix to the Company's definitive proxy materials on Schedule 14A filed with the Securities and Exchange Commission on April 9, 2009.

-4-

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST CAPITAL, INC.  
(Registrant)

**Dated** May 10, 2012

**BY:** /s/ William W. Harrod  
William W. Harrod  
President and CEO

**Dated** May 10, 2012

**BY:** /s/ Michael C. Frederick  
Michael C. Frederick  
Senior Vice President, CFO  
and Treasurer