

FIRST CAPITAL INC  
Form 10-Q  
May 14, 2008  
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**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, 2008

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 0-25023

**First Capital, Inc.**

(Exact name of registrant as specified in its charter)

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**Indiana**  
(State or other jurisdiction of  
incorporation or organization)

**35-2056949**  
(I.R.S. Employer  
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 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 "small reporting company" in Rule 12b-2 of the Exchange Act.

(Check one): Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Small 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: 2,807,741 shares of common stock were outstanding as of April 30, 2008.

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

	March 31, 2008	December 31, 2007
	<i>(In thousands)</i>	
<b>ASSETS</b>		
Cash and due from banks	\$ 9,539	\$ 10,010
Interest bearing deposits with banks	12,036	4,646
Federal funds sold	3,542	399
<b>Total cash and cash equivalents</b>	<b>25,117</b>	<b>15,055</b>
Securities available for sale, at fair value	71,725	72,991
Securities-held to maturity	905	1,050
Loans, net	326,932	334,463
Loans held for sale	1,778	258
Federal Home Loan Bank stock, at cost	3,551	3,551
Foreclosed real estate	1,125	833
Premises and equipment	10,796	10,612
Accrued interest receivable	2,207	2,549
Cash value of life insurance	5,180	5,124
Goodwill	5,386	5,386
Core deposit intangibles	299	317
Other assets	629	990
<b>Total Assets</b>	<b>\$ 455,630</b>	<b>\$ 453,179</b>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$ 37,391	\$ 35,292
Interest-bearing	294,650	292,859
<b>Total Deposits</b>	<b>332,041</b>	<b>328,151</b>
Retail repurchase agreements	17,245	15,562
Advances from Federal Home Loan Bank	56,644	60,694
Accrued interest payable	1,638	1,902
Accrued expenses and other liabilities	1,307	1,134
<b>Total Liabilities</b>	<b>408,875</b>	<b>407,443</b>
<b>STOCKHOLDERS EQUITY</b>		
Preferred stock of \$.01 par value per share		
Authorized 1,000,000 shares; none issued		
Common stock of \$.01 par value per share		
Authorized 5,000,000 shares; issued 3,125,563 shares	31	31
Additional paid-in capital	23,884	23,863
Retained earnings-substantially restricted	28,706	28,284

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Unearned ESOP shares	(91)	(121)
Accumulated other comprehensive income (loss)	507	(53)
Less treasury stock, at cost - 311,854 shares (310,924 shares in 2006)	(6,282)	(6,268)
<b>Total Stockholders' Equity</b>	<b>46,755</b>	<b>45,736</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 455,630</b>	<b>\$ 453,179</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)*

	Three Months Ended March 31,	
	2008	2007
	<i>(In thousands, except per share data)</i>	
<b>INTEREST INCOME</b>		
Loans, including fees	\$ 5,696	\$ 5,761
Securities:		
Taxable	564	584
Tax-exempt	224	190
Federal Home Loan Bank dividends	43	45
Federal funds sold and interest bearing deposits with banks	127	184
Total interest income	6,654	6,764
<b>INTEREST EXPENSE</b>		
Deposits	2,277	2,514
Retail repurchase agreements	123	221
Advances from Federal Home Loan Bank	717	710
Total interest expense	3,117	3,445
Net interest income	3,537	3,319
Provision for loan losses	225	225
Net interest income after provision for loan losses	3,312	3,094
<b>NONINTEREST INCOME</b>		
Service charges on deposit accounts	631	567
Commission income	35	48
Gain on sale of mortgage loans	121	147
Mortgage brokerage fees	10	16
Increase in cash surrender value of life insurance	56	11
Other income	25	25
Total noninterest income	878	814
<b>NONINTEREST EXPENSE</b>		
Compensation and benefits	1,657	1,636
Occupancy and equipment	301	252
Data processing	218	222
Professional fees	135	105
Advertising	46	75
Other operating expenses	525	512
Total noninterest expense	2,882	2,802

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Income before income taxes	1,308	1,106
Income tax expense	409	357
<b>Net Income</b>	<b>899</b>	<b>749</b>
<b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>		
Unrealized gain on securities:		
Unrealized holding gains arising during the period	560	87
Less: reclassification adjustment		
Other comprehensive income	560	87
<b>Comprehensive Income</b>	<b>\$ 1,459</b>	<b>\$ 836</b>
<b>Net income per common share, basic</b>	<b>\$ 0.32</b>	<b>\$ 0.27</b>
<b>Net income per common share, diluted</b>	<b>\$ 0.32</b>	<b>\$ 0.26</b>

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>2008</b>	<b>2007</b>
	<i>(In thousands)</i>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 899	\$ 749
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premiums and accretion of discounts	(2)	4
Depreciation and amortization expense	210	178
Deferred income taxes	(14)	(103)
ESOP and stock compensation expense	50	45
Increase in cash value of life insurance	(56)	(11)
Provision for loan losses	225	225
Proceeds from sales of mortgage loans	8,425	8,411
Mortgage loans originated for sale	(9,824)	(7,248)
Net gain on sale of mortgage loans	(121)	(147)
Decrease in accrued interest receivable	342	185
Decrease in accrued interest payable	(264)	(41)
Net change in other assets/liabilities	220	(35)
<b>Net Cash Provided By Operating Activities</b>	<b>90</b>	<b>2,212</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of securities available for sale	(6,288)	(8,152)
Proceeds from maturities of securities available for sale	6,916	4,008
Proceeds from maturities of securities held to maturity	143	8
Principal collected on mortgage-backed obligations	1,531	1,044
Net decrease in loans receivable	6,706	5,110
Proceeds from sale of foreclosed real estate	308	327
Purchase of premises and equipment	(376)	(235)
<b>Net Cash Provided By Investing Activities</b>	<b>8,940</b>	<b>2,110</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase (decrease) in deposits	3,890	(1,120)
Net decrease in advances from Federal Home Loan Bank	(4,050)	(3,025)
Net increase (decrease) in retail repurchase agreements	1,683	(2,891)
Exercise of stock options		18
Purchase of treasury stock	(14)	(96)
Dividends paid	(477)	(480)
<b>Net Cash Provided By (Used In) Financing Activities</b>	<b>1,032</b>	<b>(7,594)</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>10,062</b>	<b>(3,272)</b>
Cash and cash equivalents at beginning of period	15,055	24,468



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

\$ 25,117    \$ 21,196

See accompanying notes to consolidated financial statements.

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**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited)*

**1. Presentation of Interim Information**

First Capital, Inc. ( Company ) is the holding company for First Harrison Bank ( Bank ). The information presented in this report relates primarily to the Bank s operations. The Bank has three wholly-owned subsidiaries that manage a portion of its investment securities portfolio. First Harrison Investments, Inc. and First Harrison Holdings, Inc. are Nevada corporations that jointly own First Harrison, LLC, a Nevada limited liability corporation that holds and manages an investment portfolio.

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, 2008, and the results of operations and cash flows for the three months ended March 31, 2008 and 2007. 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 generally accepted accounting principles 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, 2007 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.

**2. Comprehensive Income**

Comprehensive income is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income for the Company includes net income and other comprehensive income representing the net unrealized gains and losses on securities available for sale. The following tables set forth the components of other comprehensive income and the allocated tax amounts for the three months ended March 31, 2008 and 2007:

<b>Three Months Ended</b>	
<b>March 31,</b>	
<b>2008</b>	<b>2007</b>