FIRST CAPITAL INC
Form 10-Q
May 13, 2011
**Table of Contents**

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, DC 20549**

# FORM 10-Q

**(Mark One)**

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

**For the quarterly period ended March 31, 2011**

**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)**

| | |
|---|---|
| **Indiana** | **35-2056949** |
| **(State or other jurisdiction of incorporation or organization)** | **(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 x 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 | x |

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 2,787,271 shares of common stock were outstanding as of April 29, 2011.

Table of Contents

**FIRST CAPITAL, INC.**

**INDEX**


| | | Page |
|---|---|---|
| **Part I** | **Financial Information** | |
| | **Item 1. Consolidated Financial Statements** | |
| | Consolidated Balance Sheets as of March 31, 2011 and December 31, 2010 (unaudited) | 3 |
| | Consolidated Statements of Income for the three months ended March 31, 2011 and 2010 (unaudited) | 4 |
| | Consolidated Statements of Cash Flows for the three months ended March 31, 2011 and 2010 (unaudited) | 5 |
| | Notes to Consolidated Financial Statements (unaudited) | 6-26 |
| | **Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations** | 27-31 |
| | **Item 3. Quantitative and Qualitative Disclosures About Market Risk** | 32-33 |
| | **Item 4. Controls and Procedures** | 34 |
| **Part II** | **Other Information** | |
| | **Item 1. Legal Proceedings** | 35 |
| | **Item 1A. Risk Factors** | 35 |
| | **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds** | 35 |
| | **Item 3. Defaults Upon Senior Securities** | 36 |
| | **Item 4. (Removed and Reserved)** | 36 |
| | **Item 5. Other Information** | 36 |
| | **Item 6. Exhibits** | 36 |
| **Signatures** | | 37 |

**Table of Contents**

**PART I - FINANCIAL INFORMATION**

**FIRST CAPITAL, INC. AND SUBSIDIARY**

**CONSOLIDATED BALANCE SHEETS**

*(Unaudited)*

| | March 31, 2011 | December 31, 2010 |
|---|---|---|
| | *(In thousands)* | |
| **ASSETS** | | |
| Cash and due from banks | $ 12,805 | $ 10,463 |
| Interest bearing deposits with banks | 1,410 | 2,496 |
| Federal funds sold | 13,812 | 8,616 |
| Total cash and cash equivalents | 28,027 | 21,575 |
| Securities available for sale, at fair value | 102,294 | 100,851 |
| Securities-held to maturity | 18 | 32 |
| Loans, net | 287,092 | 294,550 |
| Loans held for sale | 732 | 4,375 |
| Federal Home Loan Bank stock, at cost | 3,194 | 3,194 |
| Foreclosed real estate | 803 | 591 |
| Premises and equipment | 10,867 | 10,992 |
| Accrued interest receivable | 1,901 | 1,894 |
| Cash value of life insurance | 5,842 | 5,789 |
| Goodwill | 5,386 | 5,386 |
| Core deposit intangibles | 80 | 98 |
| Other assets | 2,992 | 3,051 |
| **Total Assets** | $ 449,228 | $ 452,378 |
| **LIABILITIES** | | |
| Deposits: | | |
| Noninterest-bearing | $ 48,140 | $ 40,774 |
| Interest-bearing | 326,493 | 337,229 |
| Total deposits | 374,633 | 378,003 |
| Retail repurchase agreements | 8,698 | 8,669 |
| Advances from Federal Home Loan Bank | 15,529 | 15,729 |
| Accrued interest payable | 549 | 649 |
| Accrued expenses and other liabilities | 1,465 | 1,324 |
| Total liabilities | 400,874 | 404,374 |
| **EQUITY** | | |
| First Capital, Inc. stockholders equity: | | |
| 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 3,164,420 shares | 32 | 32 |

| | | |
|---|---|---|
| Additional paid-in capital | 24,313 | 24,313 |
| Retained earnings-substantially restricted | 30,809 | 30,442 |
| Accumulated other comprehensive income | 370 | 391 |
| Less treasury stock, at cost - 377,149 shares (377,119 shares in 2010) | (7,285) | (7,285) |
| Total First Capital, Inc. stockholders equity | 48,239 | 47,893 |
| Noncontrolling interest in subsidiary | 115 | 111 |
| Total equity | 48,354 | 48,004 |
| **Total Liabilities and Equity** | $ 449,228 | $ 452,378 |

See accompanying notes to consolidated financial statements.

-3-

**Table of Contents**

**PART I - FINANCIAL INFORMATION**

**FIRST CAPITAL, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF INCOME**

*(Unaudited)*

| | Three Months Ended March 31, | |
|---|---|---|
| | **2011** | **2010** |
| | *(In thousands, except per share data)* | |
| **INTEREST INCOME** | | |
| Loans, including fees | $ 4,339 | $ 4,646 |
| Securities: | | |
| Taxable | 453 | 551 |
| Tax-exempt | 271 | 260 |
| Federal Home Loan Bank dividends | 27 | 18 |
| Federal funds sold and interest bearing deposits with banks | 9 | 4 |
| Total interest income | 5,099 | 5,479 |
| **INTEREST EXPENSE** | | |
| Deposits | 878 | 1,231 |
| Retail repurchase agreements | 16 | 17 |
| Advances from Federal Home Loan Bank | 158 | 261 |
| Total interest expense | 1,052 | 1,509 |
| Net interest income | 4,047 | 3,970 |
| Provision for loan losses | 500 | 460 |
| Net interest income after provision for loan losses | 3,547 | 3,510 |
| **NONINTEREST INCOME** | | |
| Service charges on deposit accounts | 674 | 588 |
| Commission income | 30 | 38 |
| Gain on sale of mortgage loans | 125 | 117 |
| Mortgage brokerage fees | 14 | |
| Increase in cash surrender value of life insurance | 53 | 56 |
| Other income | 27 | 24 |
| Total noninterest income | 923 | 823 |
| **NONINTEREST EXPENSE** | | |
| Compensation and benefits | 1,830 | 1,766 |
| Occupancy and equipment | 329 | 338 |
| Professional fees | 149 | 206 |
| Advertising | 30 | 39 |
| Other expenses | 914 | 541 |
| Total noninterest expense | 3,252 | 2,890 |

| | | | | |
|---|---|---|---|---|
| Income before income taxes | | 1,218 | | 1,443 |
| Income tax expense | | 319 | | 439 |
| **Net Income** | | 899 | | 1,004 |
| Less: net income attributable to the noncontrolling interest in subsidiary | | 3 | | 3 |
| **Net Income Attributable to First Capital, Inc.** | $ | 896 | $ | 1,001 |
| Other comprehensive income (loss), net of tax: | | | | |
| Unrealized gain (loss) on securities: | | | | |
| Unrealized holding gains (losses) arising during the period | | (21) | | 281 |
| Less: reclassification adjustment | | | | |
| Other comprehensive income (loss) | | (21) | | 281 |
| **Comprehensive Income** | $ | 875 | $ | 1,282 |
| Earnings per common share attributable to First Capital, Inc.: | | | | |
| Basic | $ | 0.32 | $ | 0.36 |
| Diluted | $ | 0.32 | $ | 0.36 |
| Dividends per share on common shares | $ | 0.19 | $ | 0.18 |

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)*

| | Three Months Ended March 31, 2011 | Three Months Ended March 31, 2010 |
|---|---|---|
| | *(In thousands)* | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income | $ 899 | $ 1,004 |
| 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 | 242 | 203 |
| Depreciation and amortization expense | 211 | 241 |
| Deferred income taxes | 7 | (163) |
| Increase in cash value of life insurance | (53) | (56) |
| Provision for loan losses | 500 | 460 |
| Proceeds from sales of mortgage loans | 6,927 | 7,567 |
| Mortgage loans originated for sale | (3,159) | (6,894) |
| Net gain on sale of mortgage loans | (125) | (117) |
| (Increase) decrease in accrued interest receivable | (7) | 124 |
| Decrease in accrued interest payable | (100) | (195) |
| Net change in other assets/liabilities | 213 | 768 |
| **Net Cash Provided By Operating Activities** | 5,555 | 2,942 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of securities available for sale | (5,838) | (15,349) |
| Proceeds from maturities of securities available for sale | 1,075 | 4,486 |
| Proceeds from maturities of securities held to maturity | 14 | 10 |
| Principal collected on mortgage-backed obligations | 3,039 | 3,208 |
| Net decrease in loans receivable | 6,691 | 3,164 |
| Proceeds from sale of foreclosed real estate | 55 | 277 |
| Purchase of premises and equipment | (68) | (17) |
| **Net Cash Provided By (Used In) Investing Activities** | 4,968 | (4,221) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Net increase (decrease) in deposits | (3,370) | 8,240 |
| Net decrease in advances from Federal Home Loan Bank | (200) | (1,050) |
| Net increase (decrease) in retail repurchase agreements | 29 | (975) |
| Exercise of stock options | | 282 |
| Purchase of treasury stock | | (25) |
| Dividends paid | (530) | (502) |
| **Net Cash Provided By (Used In) Financing Activities** | (4,071) | 5,970 |
| **Net Increase in Cash and Cash Equivalents** | 6,452 | 4,691 |
| Cash and cash equivalents at beginning of period | 21,575 | 15,857 |

| | | |
|---|---|---|
| **Cash and Cash Equivalents at End of Period** | $ 28,027 | $ 20,548 |

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 thrift 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, 2011, 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, 2011, and the results of operations and cash flows for the three months ended March 31, 2011 and 2010. 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 ( 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, 2010 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. 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 attributable to the Company and other comprehensive income representing the net unrealized gains and losses on securities available for sale. The following table sets forth the components of other comprehensive income and the allocated tax amounts for the three months ended March 31, 2011 and 2010:

| | Three Months Ended March 31, | |
|---|---|---|
| | **2011** | **2010** |
| | (In thousands) | |
| Unrealized gains (losses) on securities: | | |
| Unrealized holding gains (losses) arising during the period | $ (34) | $ 464 |
| Income tax (expense) benefit | 13 | (183) |
| Net of tax amount | (21) | 281 |
| Less: reclassification adjustment for gains included in net income | | |
| Income tax expense | | |
| Net of tax amount | | |
| Other comprehensive income (loss) | $ (21) | $ 281 |

-7-

Table of Contents

**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited)*

**3. Investment Securities**

Debt and equity securities have been classified in the consolidated balance sheets according to management s intent. Investment securities at March 31, 2011 and December 31, 2010 are summarized as follows:

| *(In thousands)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **March 31, 2011** | | | | |
| Securities available for sale: | | | | |
| Agency mortgage-backed securities | $ 10,731 | $ 541 | $ | $ 11,272 |
| Agency CMO | 12,216 | 37 | 76 | 12,177 |
| Privately-issued CMO | 1,346 | 24 | 26 | 1,344 |
| Other debt securities: | | | | |
| Agency notes and bonds | 44,280 | 269 | 392 | 44,157 |
| Municipal obligations | 29,272 | 427 | 247 | 29,452 |
| Subtotal - debt securities | 97,845 | 1,298 | 741 | 98,402 |
| Mutual funds | 3,885 | 27 | 20 | 3,892 |
| Total securities available for sale | $ 101,730 | $ 1,325 | $ 761 | $ 102,294 |
| Securities held to maturity: | | | | |
| Agency mortgage-backed securities | $ 18 | $ | $ | $ 18 |
| Municipal obligations | | | | |
| Total securities held to maturity | $ 18 | $ | $ | $ 18 |
| **December 31, 2010** | | | | |
| Securities available for sale: | | | | |
| Agency mortgage-backed securities | $ 12,101 | $ 580 | $ | $ 12,681 |
| Agency CMO | 11,987 | 46 | 65 | 11,968 |
| Privately-issued CMO | 1,688 | 10 | 46 | 1,652 |
| Other debt securities: | | | | |
| Agency notes and bonds | 42,400 | 297 | 317 | 42,380 |
| Municipal obligations | 29,366 | 371 | 281 | 29,456 |
| Subtotal - debt securities | 97,542 | 1,304 | 709 | 98,137 |
| Mutual funds | 2,705 | 36 | 27 | 2,714 |

| | | | | |
|---|---|---|---|---|
| Total securities available for sale | $ 100,247 | $ 1,340 | $ 736 | $ 100,851 |
| | | | | |
| Securities held to maturity: | | | | |
| Agency mortgage-backed securities | $ 18 | $ | $ | $ 18 |
| Municipal obligations | 14 | | | 14 |
| | | | | |
| Total securities held to maturity | $ 32 | $ | $ | $ 32 |

Table of Contents

**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited)*

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 CMO are complex securities 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, 2011, 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 | |
|---|---|---|---|---|
| *(In thousands)* | Amortized Cost | Fair Value | Amortized Cost | Fair Value |
| Due in one year or less | $ 3,159 | $ 3,207 | $ | $ |
| Due after one year through five years | 14,182 | 14,305 | | |
| Due after five years through ten years | 13,038 | 13,133 | | |
| Due after ten years | 43,173 | 42,964 | | |
| | 73,552 | 73,609 | | |
| Mortgage-backed securities and CMO | 24,293 | 24,793 | 18 | 18 |
| | $ 97,845 | $ 98,402 | $ 18 | $ 18 |

Information pertaining to investment securities available for sale with gross unrealized losses at March 31, 2011, aggregated by investment category and the length of time that individual investment securities have been in a continuous position, follows:

| *(Dollars in thousands)* | Number of Investment Positions | Fair Value | Gross Unrealized Losses |
|---|---|---|---|
| Continuous loss position less than twelve months: | | | |
| Agency CMO | 8 | $ 8,134 | $ 76 |
| Agency notes and bonds | 17 | 17,430 | 392 |
| Municipal obligations | 25 | 9,867 | 202 |
| Total less than twelve months | 50 | 35,431 | 670 |

| | | | |
|---|---|---|---|
| Continuous loss position more than twelve months: | | | |
| Privately-issued CMO | 2 | 552 | 26 |
| Municipal obligations | 1 | 390 | 45 |
| Mutual fund | 1 | 348 | 20 |
| Total more than twelve months | 4 | 1,290 | 91 |
| Total securities available for sale | 54 | $ 36,721 | $ 761 |

-9-

**Table of Contents**

**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited)*

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, 2011, the 51 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 2.0% 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, 2011, the two privately-issued CMO in a loss position had depreciated approximately 4.7% 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, 2011, the Company holds one privately-issued CMO with an amortized cost of $495,000 and a fair value of $471,000 that was 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 2011, the Company expects to collect the contractual principal and interest cash flows for this security, and, as a result, no other-than-temporary impairment has been recognized. While management does not anticipate a credit-related impairment loss at March 31, 2011, additional deterioration in market and economic conditions may have an adverse impact on the credit quality in the future.

Table of Contents

**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited)*

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

The following table provides the components of the Company s recorded investment in loans for each portfolio segment at March 31, 2011 and December 31, 2010:

| | Residential Real Estate | Land | Construction | Commercial Real Estate | Commercial Business | Home Equity & 2nd Mtg | Other Consumer | Total |
|---|---|---|---|---|---|---|---|---|
| | | | | *(In thousands)* | | | | |
| **March 31, 2011** | | | | | | | | |
| Principal loan balance | $ 126,127 | $ 9,378 | $ 4,691 | $ 59,068 | $ 22,241 | $ 41,019 | $ 28,950 | $ 291,474 |
| Accrued interest receivable | 449 | 34 | 11 | 160 | 65 | 152 | 150 | 1,021 |
| Net deferred loan origination fees | 83 | 1 | | 1 | 1 | 109 | | 195 |
| Recorded investment in loans | $ 126,659 | $ 9,413 | $ 4,702 | $ 59,229 | $ 22,307 | $ 41,280 | $ 29,100 | $ 292,690 |
| **December 31, 2010** | | | | | | | | |
| Principal loan balance | $ 130,143 | $ 9,534 | $ 5,032 | $ 59,901 | $ 21,911 | $ 43,046 | $ 29,234 | $ 298,801 |
| Accrued interest receivable | 480 | 54 | 16 | 174 | 68 | 171 | 199 | 1,162 |
| Net deferred loan origination fees | 91 | 1 | | 10 | | 120 | | 222 |
| Recorded investment in loans | $ 130,714 | $ 9,589 | $ 5,048 | $ 60,085 | $ 21,979 | $ 43,337 | $ 29,433 | $ 300,185 |

During the three-month period ended March 31, 2011, there was no significant change in the Company s lending activities or methodology used to estimate the allowance for loan losses as disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

Table of Contents

**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited)*

(4 continued)

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

| | Residential Real Estate | Land | Construction | Commercial Real Estate | Commercial Business | Home Equity & 2nd Mtg | Other Consumer | Total |
|---|---|---|---|---|---|---|---|---|
| | | | | *(In thousands)* | | | | |
| **Allowance for loan losses:** | | | | | | | | |
| 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) | | | | | (157) | (64) | (486) |
| Recoveries | 1 | | | | 2 | 26 | 61 | 90 |
| Ending balance | $ 992 | $ 79 | $ 39 | $ 1,248 | $ 1,211 | $ 562 | $ 446 | $ 4,577 |
| Ending allowance balance attributable to loans: | | | | | | | | |
| Individually evaluated for impairment | $ 354 | $ | $ | $ 602 | $ 1,084 | $ 302 | $ 6 | $ 2,348 |
| Collectively evaluated for impairment | 638 | 79 | 39 | 646 | 127 | 260 | 440 | 2,229 |
| Acquired with deteriorated credit quality | | | | | | | | |
| Ending balance | $ 992 | $ 79 | $ 39 | $ 1,248 | $ 1,211 | $ 562 | $ 446 | $ 4,577 |
| **Recorded investment in loans:** | | | | | | | | |
| Individually evaluated for impairment | $ 3,140 | $ 6 | $ 309 | $ 1,488 | $ 2,153 | $ 540 | $ 40 | $ 7,676 |
| Collectively evaluated for impairment | 123,519 | 9,407 | 4,393 | 57,741 | 20,154 | 40,740 | 29,060 | 285,014 |
| Acquired with deteriorated credit quality | | | | | | | | |
| Ending balance | $ 126,659 | $ 9,413 | $ 4,702 | $ 59,229 | $ 22,307 | $ 41,280 | $ 29,100 | $ 292,690 |

Table of Contents

**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited)*

(4 continued)

The Company s allowance for loan losses and recorded investment in loans as of December 31, 2010 is as follows:

| | Residential Real Estate | Land | Construction | Commercial Real Estate | Commercial Business | Home Equity & 2nd Mtg | Other Consumer | Total |
|---|---|---|---|---|---|---|---|---|
| | | | | (In thousands) | | | | |
| **Allowance for loan losses:** | | | | | | | | |
| Individually evaluated for impairment | $ 458 | $ | $ | $ 607 | $ 1,089 | $ 338 | $ | $ 2,492 |
| Collectively evaluated for impairment | 566 | 55 | 21 | 444 | 162 | 268 | 465 | 1,981 |
| Acquired with deteriorated credit quality | | | | | | | | |
| Ending balance | $ 1,024 | $ 55 | $ 21 | $ 1,051 | $ 1,251 | $ 606 | $ 465 | $ 4,473 |
| **Recorded investment in loans:** | | | | | | | | |
| Individually evaluated for impairment | $ 3,285 | $ | $ 279 | $ 1,780 | $ 2,168 | $ 398 | $ 17 | $ 7,927 |
| Collectively evaluated for impairment | 127,429 | 9,589 | 4,769 | 58,305 | 19,811 | 42,939 | 29,416 | 292,258 |
| Acquired with deteriorated credit quality | | | | | | | | |
| Ending balance | $ 130,714 | $ 9,589 | $ 5,048 | $ 60,085 | $ 21,979 | $ 43,337 | $ 29,433 | $ 300,185 |

Table of Contents

**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited)*

(4 continued)

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

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized | Interest Recognized - Cash Method |
|---|---|---|---|---|---|---|
| | | | *(In thousands)* | | | |
| **Loans with no related allowance recorded:** | | | | | | |
| Residential | $ 1,309 | $ 1,301 | $ | $ 1,173 | $ 4 | $ 2 |
| Land | 6 | 6 | | 3 | | |
| Construction | 309 | 309 | | 155 | | |
| Commercial real estate | 474 | 474 | | 436 | | |
| Commercial business | 10 | 10 | | 15 | | |
| HE/2nd mortgage | 35 | 34 | | 30 | | |
| Other consumer | 16 | 16 | | 17 | | |
| | 2,159 | 2,150 | | 1,829 | 4 | 2 |
| **Loans with an allowance recorded:** | | | | | | |
| Residential | $ 1,831 | $ 1,828 | $ 354 | $ 2,040 | $ | $ |
| Land | | | | | | |
| Construction | | | | 140 | | |
| Commercial real estate | 1,014 | 1,013 | 602 | 1,198 | | |
| Commercial business | 2,143 | 2,143 | 1,084 | 2,146 | | |
| HE/2nd mortgage | 505 | 505 | 302 | 439 | | |
| Other consumer | 24 | 24 | 6 | 12 | | |
| | 5,517 | 5,513 | 2,348 | 5,975 | | |
| **Total:** | | | | | | |
| Residential | 3,140 | 3,129 | 354 | 3,213 | 4 | 2 |
| Land | 6 | 6 | | 3 | | |
| Construction | 309 | 309 | | 295 | | |
| Commercial real estate | 1,488 | 1,487 | 602 | 1,634 | | |
| Commercial business | 2,153 | 2,153 | 1,084 | 2,161 | | |
| HE/2nd mortgage | 540 | 539 | 302 | 469 | | |
| Other consumer | 40 | 40 | 6 | 29 | | |
| | $ 7,676 | $ 7,663 | $ 2,348 | $ 7,804 | $ 4 | $ 2 |

Table of Contents

**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited)*

(4 continued)

The following table summarizes the Company s impaired loans by class of loans as of December 31, 2010:

| | Recorded Investment | Unpaid Principal Balance | Related Allowance |
|---|---|---|---|
| | | *(In thousands)* | |
| **Loans with no related allowance recorded:** | | | |
| Residential | $ 1,037 | $ 1,026 | $ |
| Land | | | |
| Construction | | | |
| Commercial real estate | 398 | 398 | |
| Commercial business | 20 | 20 | |
| HE/2nd mortgage | 25 | 25 | |
| Other consumer | 17 | 17 | |
| | 1,497 | 1,486 | |
| **Loans with an allowance recorded:** | | | |
| Residential | $ 2,248 | $ 2,244 | $ 458 |
| Land | | | |
| Construction | 279 | 279 | |
| Commercial real estate | 1,382 | 1,382 | 607 |
| Commercial business | 2,148 | 2,148 | 1,089 |
| HE/2nd mortgage | 373 | 373 | 338 |
| Other consumer | | | |
| | 6,430 | 6,426 | 2,492 |
| **Total:** | | | |
| Residential | 3,285 | 3,270 | 458 |
| Land | | | |
| Construction | 279 | 279 | |
| Commercial real estate | 1,780 | 1,780 | 607 |
| Commercial business | 2,168 | 2,168 | 1,089 |
| HE/2nd mortgage | 398 | 398 | 338 |
| Other consumer | 17 | 17 | |
| | $ 7,927 | $ 7,912 | $ 2,492 |

-15-

Table of Contents

**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited)*

(4 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, 2011 and December 31, 2010:

| | March 31, 2011 | | | December 31, 2010 | | |
|---|---|---|---|---|---|---|
| | | Loans 90+ Days Past Due | | | Loans 90+ Days Past Due | |
| | Nonaccrual Loans | Still Accruing | Total Nonperforming Loans | Nonaccrual Loans | Still Accruing | Total Nonperforming Loans |
| | *(In thousands)* | | | | | |
| Residential | $ 2,897 | $ 243 | $ 3,140 | $ 2,951 | $ 334 | $ 3,285 |
| Land | 6 | | 6 | | | |
| Construction | 309 | | 309 | 279 | | 279 |
| Commercial real estate | 1,488 | | 1,488 | 1,780 | | 1,780 |
| Commercial business | 2,143 | 10 | 2,153 | 2,148 | 20 | 2,168 |
| HE/2nd mortgage | 521 | 19 | 540 | 390 | 8 | 398 |
| Other consumer | 24 | 16 | 40 | | 17 | 17 |
| Total | $ 7,388 | $ 288 | $ 7,676 | $ 7,548 | $ 379 | $ 7,927 |

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

| | 30-59 Days Past Due | 60-89 Days Past Due | Over 90 Days Past Due | Total Past Due | Current | Total Loans |
|---|---|---|---|---|---|---|
| | *(In thousands)* | | | | | |
| Residential | $ 4,635 | $ 728 | $ 1,478 | $ 6,841 | $ 119,818 | $ 126,659 |
| Land | 75 | | 6 | 81 | 9,332 | 9,413 |
| Construction | 181 | | | 181 | 4,521 | 4,702 |
| Commercial real estate | 360 | 53 | 713 | 1,126 | 58,103 | 59,229 |
| Commercial business | 73 | 211 | 81 | 365 | 21,942 | 22,307 |
| HE/2nd mortgage | 385 | 43 | 278 | 706 | 40,574 | 41,280 |
| Other consumer | 330 | 35 | 16 | 381 | 28,719 | 29,100 |
| Total | $ 6,039 | $ 1,070 | $ 2,572 | $ 9,681 | $ 283,009 | $ 292,690 |

Table of Contents

**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited)*

(4 continued)

The following table presents the aging of the recorded investment in loans by class of loans at December 31, 2010:

| | 30-59 Days Past Due | 60-89 Days Past Due | Over 90 Days Past Due | Total Past Due | Current | Total Loans |
|---|---|---|---|---|---|---|
| | | | *(In thousands)* | | | |
| Residential | $ 5,652 | $ 581 | $ 1,590 | $ 7,823 | $ 122,891 | $ 130,714 |
| Land | 143 | 6 | | 149 | 9,440 | 9,589 |
| Construction | 135 | | 279 | 414 | 4,634 | 5,048 |
| Commercial real estate | 788 | 337 | 678 | 1,803 | 58,282 | 60,085 |
| Commercial business | 143 | | 2,001 | 2,144 | 19,835 | 21,979 |
| HE/2nd mortgage | 596 | 352 | 298 | 1,246 | 42,091 | 43,337 |
| Other consumer | 362 | 93 | 17 | 472 | 28,961 | 29,433 |
| Total | $ 7,819 | $ 1,369 | $ 4,863 | $ 14,051 | $ 286,134 | $ 300,185 |

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)*

(4 continued)

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

| | Residential Real Estate | Land | Construction | Commercial Real Estate | Commercial Business | Home Equity & 2nd Mtg | Other Consumer | Total |
|---|---|---|---|---|---|---|---|---|
| | | | | *(In thousands)* | | | | |
| **March 31, 2011** | | | | | | | | |
| Pass | $ 117,670 | $ 8,855 | $ 4,125 | $ 51,667 | $ 18,518 | $ 39,854 | $ 28,885 | $ 269,574 |
| Special Mention | 2,349 | 308 | | 3,410 | 1,096 | 619 | 149 | 7,931 |
| Substandard | 3,743 | 244 | 181 | 2,664 | 550 | 286 | 42 | 7,710 |
| Doubtful | 2,897 | 6 | 396 | 1,488 | 2,143 | 521 | 24 | 7,475 |
| Loss | | | | | | | | |
| Ending balance | $ 126,659 | $ 9,413 | $ 4,702 | $ 59,229 | $ 22,307 | $ 41,280 | $ 29,100 | $ 292,690 |
| **December 31, 2010** | | | | | | | | |
| Pass | $ 121,604 | $ 9,172 | $ 4,588 | $ 50,742 | $ 18,568 | $ 42,014 | $ 29,275 | $ 275,963 |
| Special Mention | 2,691 | 308 | | 4,937 | 765 | 695 | 158 | 9,554 |
| Substandard | 3,468 | 109 | 181 | 2,626 | 498 | 238 | | 7,120 |
| Doubtful | 2,951 | | 279 | 1,780 | 2,148 | 390 | | 7,548 |
| Loss | | | | | | | | |
| Ending balance | $ 130,714 | $ 9,589 | $ 5,048 | $ 60,085 | $ 21,979 | $ 43,337 | $ 29,433 | $ 300,185 |

The Company does not have any classes of loans that are considered to be subprime.

-18-

Table of Contents

**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited)*

## 5. Supplemental Disclosure for Earnings Per Share

| *(Dollars in thousands, exept per share data)* | Three Months Ended March 31, 2011 | 2010 |
|---|---|---|
| **Basic** | | |
| Earnings: | | |
| Net income attributable to First Capital, Inc. | $ 896 | $ 1,001 |
| Shares: | | |
| Weighted average common shares outstanding | 2,787,272 | 2,777,467 |
| Net income attributable to First Capital, Inc. per common share, basic | $ 0.32 | $ 0.36 |
| **Diluted** | | |
| Earnings: | | |
| Net income attributable to First Capital, Inc. | $ 896 | $ 1,001 |
| Shares: | | |
| Weighted average common shares outstanding | 2,787,272 | 2,777,467 |
| Add: Dilutive effect of outstanding options | | 3,839 |
| Add: Dilutive effect of restricted stock | | |
| Weighted average common shares outstanding, as adjusted | 2,787,272 | 2,781,306 |
| Net income attributable to First Capital, Inc. per common share, diluted | $ 0.32 | $ 0.36 |

## 6. Stock Option Plan

For the three month periods ended March 31, 2011 and 2010, 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, 2011, 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.

## 7. Supplemental Disclosures of Cash Flow Information

| | Three Months Ended March 31, 2011 | 2010 |
|---|---|---|
| | (In thousands) | |
| Cash payments for: | | |
| Interest | $ 1,152 | $ 1,704 |
| Taxes | | 2 |
| Noncash investing activities: | | |
| Transfers from loans to real estate acquired through foreclosure | 315 | 373 |

**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited)*

**8. 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, 2011 and December 31, 2010. The Company had no liabilities measured at fair value as of March 31, 2011 or December 31, 2010.

| | | Carrying Value | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | | *(In thousands)* | | |
| **March 31, 2011** | | | | |
| ***Assets Measured on a Recurring Basis*** | | | | |
| Securities available for sale: | | | | |
| Agency mortgage-backed securities | $ | $ 11,272 | $ | $ 11,272 |
| Agency CMO | | 12,177 | | 12,177 |
| Privately-issued CMO | | 1,344 | | 1,344 |
| Agency notes and bonds | | 44,157 | | 44,157 |
| Municipal obligations | | 29,452 | | 29,452 |
| Mutual Funds | 3,892 | | | 3,892 |
| Total securities available for sale | $ 3,892 | $ 98,402 | $ | $ 102,294 |
| ***Assets Measured on a Nonrecurring Basis*** | | | | |
| Impaired loans | $ | $ 5,315 | $ | $ 5,315 |
| Loans held for sale | | 732 | | 732 |
| Foreclosed real estate | | 803 | | 803 |
| **December 31, 2010** | | | | |
| ***Assets Measured on a Recurring Basis*** | | | | |
| Securities available for sale: | | | | |
| Agency mortgage-backed securities | $ | $ 12,681 | $ | $ 12,681 |
| Agency CMO | | 11,968 | | 11,968 |
| Privately-issued CMO | | 1,652 | | 1,652 |
| Agency notes and bonds | | 42,380 | | 42,380 |
| Municipal obligations | | 29,456 | | 29,456 |
| Mutual Funds | 2,714 | | | 2,714 |
| Total securities available for sale | $ 2,714 | $ 98,137 | $ | $ 100,851 |
| ***Assets Measured on a Nonrecurring Basis*** | | | | |
| Impaired loans | $ | $ 5,435 | $ | $ 5,435 |
| Loans held for sale | | 4,375 | | 4,375 |
| Foreclosed real estate | | 591 | | 591 |

**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 and is classified as Level 2 in the fair value hierarchy. 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. 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.

***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 is reported at the fair value less estimated costs to dispose of the property using Level 2 inputs. The fair values are determined by real estate appraisals using valuation techniques consistent with the market approach using recent sales of comparable properties. In cases where such inputs are unobservable, the balance is reflected within the Level 3 hierarchy.

There were no transfers into or out of the Company s Level 3 financial assets for the three months ended March 31, 2011. 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, 2011.

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, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | *(In thousands)* | | | |
| Financial assets: | | | | |
| Cash and cash equivalents | $ 28,027 | $ 28,027 | $ 21,575 | $ 21,575 |
| Securities available for sale | 102,294 | 102,294 | 100,851 | 100,851 |
| Securities held to maturity | 18 | 18 | 32 | 32 |
| Loans held for sale | 732 | 732 | 4,375 | 4,453 |
| Loans, net | 287,092 | 294,626 | 294,550 | 307,083 |
| Federal Home Loan Bank stock | 3,194 | 3,194 | 3,194 | 3,194 |
| Accrued interest receivable | 1,901 | 1,901 | 1,894 | 1,894 |
| Financial liabilities: | | | | |
| Deposits | 374,633 | 376,914 | 378,003 | 380,713 |
| Retail repurchase agreements | 8,698 | 8,698 | 8,669 | 8,669 |
| Advances from Federal Home Loan Bank | 15,529 | 16,267 | 15,729 | 16,483 |
| Accrued interest payable | 549 | 549 | 649 | 649 |
| Off-balance-sheet financial instruments: | | | | |
| Asset related to commitments to extend credit | | 20 | | 49 |

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.

**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)*

**9. Recent Accounting Pronouncements**

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

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements*. This ASU provides amendments to ASC Topic 820 to provide users of financial statements with additional information regarding fair value. New disclosures required by the ASU include: (a) disclosure of significant transfers between Level 1 and Level 2 and the reasons for such transfers, (b) disclosure of the reasons for transfers in or out of Level 3 and the reconciliation of the changes in Level 3 fair value measurements should present separately information about purchases, sales, and settlements on a gross basis rather than as a net amount, (c) disclosure of significant transfers into Level 3 separately from significant transfers out of Level 3, and (d) disclosure of the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for Level 2 and Level 3 and the reason for any changes in valuation methods. This ASU was generally effective for interim and annual periods beginning after December 15, 2009. However, disclosures of purchases, sales, issuances, and settlements in the roll forward activity in Level 3 fair value measurements will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. As this ASU applies only to disclosures, the adoption of this ASU had no impact on the Company s consolidated financial position or results of operations.

In July 2010, the FASB issued ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The guidance requires additional disclosure to facilitate financial statement users evaluation of the following: (1) the nature of credit risk inherent in the entity s loan portfolio, (2) how that risk is analyzed and assessed in arriving at the allowance for loan losses, and (3) the changes and reasons for those changes in the allowance for loan losses. For public companies, increased disclosures as of the end of a reporting period are effective for periods ending on or after December 15, 2010. Increased disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. ASU No. 2011-01 issued in January 2011 delayed the effective date of the disclosures about troubled debt restructurings (TDRs) required by ASU No. 2010-20 for public companies, so that the new disclosures about TDRs could be coordinated with additional guidance for determining what constitutes a TDR issued in 2011. As this ASU applies only to disclosures, the adoption of this ASU had no impact on the Company s consolidated financial position or results of operations.

In December 2010, the FASB issued ASU No. 2010-28, *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero Carrying Amounts,* which amended ASC Topic 350, *Intangibles-Goodwill and Other.* The guidance modifies the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. For public companies, this amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2010. The adoption of this ASU had no impact on the Company s consolidated financial position or results of operations.

**Table of Contents**

**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited)*

In December 2010, the FASB issued ASU No. 2010-29, *Business Combinations (Topic 805), Disclosure of Supplementary Pro Forma Information for Business Combinations.* The guidance specifies that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The guidance also expands the supplemental pro forma disclosures under Topic 805 to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. This amendment is effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. As this ASU applies only to disclosures, the adoption of this ASU did not have any impact on the Company s consolidated financial position or results of operations.

In April 2011, the FASB issued ASU No. 2011-02, *A Creditor s Determination of Whether a Restructuring Is a Troubled Debt Restructuring*. The new guidance is intended to assist creditors in determining when a loan modification or restructuring is considered a TDR, in order to address current diversity in practice and lead to more consistent application of accounting principles. In evaluating whether a restructuring constitutes a TDR, a creditor must separately conclude that the restructuring constitutes a concession and the debtor is experiencing financial difficulties. The amendments in the update are effective for the first interim period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. The adoption of this ASU is not expected to have a material impact on the Company s consolidated financial position or results of operations.

In April 2011, the FASB issued ASU No. 2011-03, *Reconsideration of Effective Control for Repurchase Agreements*. The update removes from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control are not changed by the amendments in the update. The guidance in the update is effective for the first interim or annual period beginning on or after December 15, 2011, and should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The adoption of this ASU is not expected to have a material impact on the Company s consolidated financial position or results of operations

**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, 2010 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, 2011, 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, 2010.

**Financial Condition**

Total assets decreased from $452.4 million at December 31, 2010 to $449.2 million at March 31, 2011, a decrease of 0.7%.

Net loans receivable (excluding loans held for sale) decreased $7.5 million from $294.6 million at December 31, 2010 to $287.1 million at March 31, 2011. Residential mortgage loans decreased $4.0 million during the three months ended March 31, 2011 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 have also declined by $2.0 million during the period.

Securities available for sale increased $1.4 million from $100.9 million at December 31, 2010 to $102.3 million at March 31, 2011. Purchases of $5.8 million of securities classified as available for sale were made during the three months ended March 31, 2011 and consisted primarily of U.S. government agency notes and bonds and CMOs. Principal repayments and maturities of available for sale securities totaled $3.0 million and $1.1 million, respectively, during the three months ended March 31, 2011.

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 $21.6 million at December 31, 2010 to $28.0 million at March 31, 2011, primarily due to an increase of $5.2 million in federal funds sold.

Total deposits decreased 0.9% from $378.0 million at December 31, 2010 to $374.6 million at March 31, 2011. Interest-bearing checking and savings deposits decreased $8.6 million during the period, primarily due to normal payouts from public fund accounts. 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 $15.7 million at December 31, 2010 to $15.5 million at March 31, 2011.

Retail repurchase agreements, which represent overnight borrowings from deposit customers, including businesses and local municipalities, totaled $8.7 million at both December 31, 2010 and March 31, 2011.

Total stockholders equity attributable to the Company increased from $47.9 million at December 31, 2010 to $48.2 million at March 31, 2011 primarily due to retained net income of $367,000.

**Results of Operations**

**Net Income for the three-month periods ended March 31, 2011 and 2010**. Net income attributable to the Company was $896,000 ($0.32 per share diluted) for the three months ended March 31, 2011 compared to $1.0 million ($0.36 per share diluted) for the same period in 2010. The decrease is primarily due to an increase in noninterest expenses partially offset by an increase in noninterest income. The Company received a pre-tax refund of $278,000 during the quarter ended March 31, 2010 due to disputed ATM charges paid in 2009. If this refund, net of tax, is excluded from earnings for the quarter ended March 31, 2010, net income for the period would have been $833,000 ($0.30 per share diluted).

**Net interest income for the three-month periods ended March 31, 2011 and 2010**. Net interest income increased $77,000 for the three months ended March 31, 2011 compared to the same period in 2010 primarily due to an increase in the tax-equivalent interest rate spread.

Total interest income decreased $380,000 for the three months ended March 31, 2011 compared to the same period in 2010. For the quarter ended March 31, 2011, the average balance of interest-earning assets and their tax-equivalent yield were $410.2 million and 5.11%, respectively. During the same period in 2010, the average balance of those assets was $427.6 million and the tax-equivalent yield was 5.25%. The decrease in the tax-equivalent yield was due to a decrease in yields across all asset types as the Federal Open Market Committee (FOMC) kept interest rates near historic low levels. The change in asset mix also contributed to the lower yields as the average balance of investment securities, which generally have lower yields than loans, increased from $98.8 million for the quarter ended March 31, 2010 to $103.7 million for the same period in 2011, while the average balance of loans decreased from $314.4 million for 2010 to $296.7 million for 2011.

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 $457,000 for the three months ended March 31, 2011 compared to the same period in 2010. The average balance of interest-bearing liabilities decreased from $373.2 million for 2010 to $349.2 million for 2011. The average rate paid on those liabilities decreased from 1.62% for the quarter ended March 31, 2010 to 1.20% for the same period in 2011 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 3.63% for the three-month period ended March 31, 2010 to 3.91% for the same period in 2011.

**Provision for loan losses**. The provision for loan losses increased from $460,000 for the three-month period ended March 31, 2010 to $500,000 for the same period in 2011. Net charge offs amounted to $396,000 and $347,000 for the three-month periods ended March 31, 2011 and 2010, respectively. During the three-month period ended March 31, 2011, gross loans receivable decreased $7.4 million. As stated earlier in this report, residential mortgage loans and home equity loans and second mortgages decreased $4.0 million and $2.0 million, respectively, during the three months ended March 31, 2011. Commercial real estate loans also decreased $833,000 when comparing the periods. The increase in the provision reflects 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 $4.6 million at March 31, 2011 compared to $4.5 million at December 31, 2010. Management has deemed these amounts as adequate on those dates based on its best estimate of probable known and inherent loan losses. At March 31, 2011, nonperforming loans amounted to $7.7 million compared to $7.9 million at December 31, 2010. Included in nonperforming loans are loans over 90 days past due secured by residential mortgages of $243,000, home equity loans and second mortgages of $19,000, consumer loans of $16,000 and commercial loans of $10,000. These loans are accruing interest as the estimated value of the collateral and collection efforts are deemed sufficient to ensure full recovery. At March 31, 2011 and December 31, 2010, nonaccrual loans amounted to $7.4 million and $7.5 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, 2011 and 2010**. Noninterest income for the quarter ended March 31, 2011 increased to $923,000 compared to $823,000 for the quarter ended March 31, 2010. Service charges on deposits increased $86,000 when comparing the two periods, primarily due to an increase in fees for debit card transactions as customers continue to increase their use of debit cards instead of paper checks.

**Noninterest expense for the three-month periods ended March 31, 2011 and 2010**. Noninterest expense for the quarter ended March 31, 2011 increased $362,000 to $3.3 million compared to $2.9 million for the quarter ended March 31, 2010. This increase was primarily due to a $373,000 increase in other operating expenses. During the quarter ended March 31, 2010, the Bank received a $278,000 refund of disputed ATM charges paid in 2009. Compensation and benefits expenses also increased $64,000 when comparing the two periods, primarily due to normal salary increases.

**Income tax expense**. Income tax expense for the three-month period ended March 31, 2011 was $319,000, compared to $439,000 for the same period in 2010. The effective tax rate decreased from 30.4% in 2010 to 26.2% in 2011. The decrease in the effective tax rate for 2011 compared to 2010 was primarily the result of an increase in tax-exempt income as a percent of total income of the Bank.

**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, 2011, the Bank had cash and cash equivalents of $28.0 million and securities available-for-sale with a fair value of $102.3 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 OTS regulatory requirements. As of March 31, 2011, 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 9.5%, 9.5% and 16.2%, respectively. The regulatory requirements at that date were 1.5%, 3.0% and 8.0%, respectively. At March 31, 2011, 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 Thrift Supervision ( OTS ) but with prior notice to the OTS, 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 $385,000 at March 31, 2011.

**Off-Balance Sheet Arrangements**

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with generally accepted accounting principles, 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 2010 Annual Report on Form 10-K for the year ended December 31, 2010.

For the three months ended March 31, 2011, 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.**

**Qualitative Aspects of Market Risk**. The Bank s principal financial objective is to achieve long-term profitability while reducing its exposure to fluctuating market interest rates. The Bank has sought to reduce the exposure of its earnings to changes in market interest rates by attempting to manage the mismatch between asset and liability maturities and interest rates. In order to reduce the exposure to interest rate fluctuations, the Bank has developed strategies to manage its liquidity, shorten its effective maturities of certain interest-earning assets and decrease the interest rate sensitivity of its asset base. Management has sought to decrease the average maturity of its assets by emphasizing the origination of short-term commercial and consumer loans, all of which are retained by the Bank for its portfolio. The Bank relies on retail deposits as its primary source of funds. Management believes retail deposits, compared to brokered deposits, reduce the effects of interest rate fluctuations because they generally represent a more stable source of funds.

**Quantitative Aspects of Market Risk**. The Bank does not maintain a trading account for any class of financial instrument nor does the Bank engage in hedging activities or purchase high-risk derivative instruments. Furthermore, the Bank is not subject to foreign currency exchange rate risk or commodity price risk.

The Bank uses interest rate sensitivity analysis to measure its interest rate risk by computing changes in net portfolio value ( NPV ) of its cash flows from assets, liabilities and off-balance sheet items in the event of a range of assumed changes in market interest rates. NPV represents the market value of portfolio equity and is equal to the market value of assets minus the market value of liabilities, with adjustments made for off-balance sheet items. This analysis assesses the risk of loss in market risk sensitive instruments in the event of a sudden and sustained 100 to 300 basis point increase or a sudden and sustained 100 basis point decrease in market interest rates with no effect given to any steps that management might take to counter the effect of that interest rate movement. Using data compiled by the OTS, the Bank receives a report that measures interest rate risk by modeling the change in NPV over a variety of interest rate scenarios.

The following tables are provided by the OTS and set forth the change in the Bank s NPV at December 31, 2010 and March 31, 2011, based on OTS assumptions that would occur in the event of an immediate change in interest rates, with no effect given to any steps that management might take to counteract that change.

-32-

PART I ITEM 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES

ABOUT MARKET RISK

FIRST CAPITAL, INC.

| | At December 31, 2010 | | | | |
|---|---|---|---|---|---|
| | Net Portfolio Value | | | Net Portfolio Value as a Percent of Present Value of Assets | |
| Change In Rates | Dollar Amount | Dollar Change | Percent Change | NPV Ratio | Change |
| | *(Dollars in thousands)* | | | | |
| 300bp | $ 54,193 | $ (8,639) | (14)% | 11.82% | (151)bp |
| 200bp | 58,622 | (4,210) | (7) | 12.63 | (70)bp |
| 100bp | 61,429 | (1,403) | (2) | 13.12 | (21)bp |
| Static | 62,832 | | | 13.33 | bp |
| (100)bp | 63,835 | 1,003 | 2 | 13.48 | 15 bp |

| | At March 31, 2011 | | | | |
|---|---|---|---|---|---|
| | Net Portfolio Value | | | Net Portfolio Value as a Percent of Present Value of Assets | |
| Change In Rates | Dollar Amount | Dollar Change | Percent Change | NPV Ratio | Change |
| | *(Dollars in thousands)* | | | | |
| 300bp | $ 54,515 | $ (8,729) | (14)% | 11.99% | (153)bp |
| 200bp | 59,040 | (4,204) | (7) | 12.82 | (70)bp |
| 100bp | 61,962 | (1,282) | (2) | 13.33 | (19)bp |
| Static | 63,244 | | | 13.52 | bp |
| (100)bp | 64,145 | 901 | 1 | 13.65 | 13 bp |

The preceding tables indicate that the Bank s NPV would be expected to increase in the event of a sudden and sustained decrease in prevailing interest rates of 100 basis points, but would be expected to decrease in the event of a sudden and sustained increase of 100, 200 or 300 basis points in prevailing interest rates. The expected decrease in the Bank s NPV given an increase in rates is primarily attributable to the relatively high percentage of fixed-rate loans in the Bank s loan portfolio. At March 31, 2011, approximately 49% of the loan portfolio consisted of fixed-rate loans, compared to approximately 50% at December 31, 2010.

Certain assumptions utilized by the OTS in assessing the interest rate risk of savings associations within its region were utilized in preparing the preceding tables. These assumptions relate to interest rates, loan prepayment rates, deposit decay rates and the market values of certain assets under differing interest rate scenarios, among others.

As with any method of measuring interest rate risk, certain shortcomings are inherent in the method of analysis presented in the foregoing tables. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate mortgage loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a change in interest rates, expected rates of prepayments on loans and early withdrawals from certificates of deposit could deviate significantly from those assumed in calculating the tables.

Table of Contents

**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, 2011 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, 2010, 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**

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid Per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| January 1 through January 31, 2011 | 30 | $ 16.64 | 30 | 191,852 |
| February 1 through February 28, 2011 | | N/A | | 191,852 |
| March 1 through March 31, 2011 | | N/A | | 191,852 |
| Total | 30 | $ 16.64 | 30 | |

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. (Removed and Reserved)**

**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 | *Employment Agreement with Joel E. Voyles (4) |
| 10.4 | *Employee Severance Compensation Plan (3) |
| 10.5 | *First Federal Bank, A Federal Savings Bank 1994 Stock Option Plan (as assumed by First Capital, Inc. effective December 31, 1998) (5) |
| 10.6 | *First Capital, Inc. 1999 Stock-Based Incentive Plan (6) |
| 10.7 | *1998 Officers and Key Employees Stock Option Plan for HCB Bancorp (6) |
| 10.8 | *Employment Agreement with William W. Harrod (4) |
| 10.9 | * First Capital, Inc. 2009 Equity Incentive Plan (7) |
| 11.0 | 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 |

* Management contract or compensatory plan, contract or arrangement.
(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 from the Exhibits filed with the Registration Statement on Form S-8, and any amendments thereto, Registration Statement No. 333-76543.

(6) Incorporated by reference from the Exhibits filed with the Registration Statement on Form S-8, and any amendments thereto, Registration Statement No. 333-95987.

(7) 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.

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.<br>(Registrant) |
| **Dated** May 13, 2011 | **BY**: /s/ William W. Harrod<br>William W. Harrod<br>President and CEO |
| **Dated** May 13, 2011 | **BY**: /s/ Michael C. Frederick<br>Michael C. Frederick<br>Senior Vice President, CFO<br>and Treasurer |