FIRST CAPITAL INC
Form 10QSB
November 14, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-QSB

(Mark One)

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

For the quarterly period ended SEPTEMBER 30, 2002

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

APPLICABLE ONLY TO CORPORATE ISSUERS; Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 2,542,688 shares of common stock were outstanding as of October 31, 2002.

Transitional Small Business Issuer Format: Yes _____ No X

FIRST CAPITAL, INC

INDEX

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

	September 30, 2002	December 3 2001
	(In thousands)	
ASSETS		
Cash and due from banks	$ 7,169	$ 7,184
Interest bearing deposits with banks	3,186	5,199
Securities available for sale, at fair value	67,714	54,891
Securities-held to maturity	1,647	1,836
Loans receivable, net	211,096	201,730
Federal Home Loan Bank stock, at cost	2,482	2,179
Foreclosed real estate	147	212
Premises and equipment	6,774	5,940
Accrued interest receivable:		
Loans	1,026	1,043

Securities	702	798
Cash value of life insurance	1,254	1,214
Other assets	502	597
Total Assets	$ 303,699	$ 282,823
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 20,090	$ 18,629
Interest-bearing	195,835	185,493
Total Deposits	215,925	204,122
Retail repurchase agreements	188	284
Advances from Federal Home Loan Bank	49,320	42,825
Accrued interest payable	1,207	1,253
Accrued expenses and other liabilities	1,269	859
Total Liabilities	267,909	249,343
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 2,551,103 shares (2,545,961 shares in 2001)	26	25
Additional paid-in capital	12,938	12,878
Retained earnings-substantially restricted	22,551	21,127
Unearned ESOP shares	(451)	(482
Unearned stock compensation	(161)	(212
Accumulated other comprehensive income	1,004	231
Less treasury stock, at cost - 8,975 shares (7,146 shares in 2001)	(117)	(87
Total Stockholders' Equity	35,790	33,480
Total Liabilities and Stockholders' Equity	$ 303,699	$ 282,823

See accompanying notes to consolidated financial statements.

-3-

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

	Three Months Ended September 30,		Nine Months En September 30	
	2002	2001	2002	200
INTEREST INCOME	(In thousands, except per share data)			
Loans receivable, including fees	$ 3,899	$ 3,926	$ 11,582	$ 11,
Securities				
Taxable	667	660	2,020	1,
Tax-exempt	113	94	303	

Federal Home Loan Bank dividends	38	33	107	
Interest bearing deposits with banks	51	98	153	
Total interest income	4,768	4,811	14,165	14,
INTEREST EXPENSE				
Deposits	1,536	1,952	4,688	5,
Retail repurchase agreements	1	1	2	
Advances from Federal Home Loan Bank	697	563	1,996	1,
Total interest expense	2,234	2,516	6,686	7,
Net interest income	2,534	2,295	7,479	6,
Provision for loan losses	65	-	155	
Net interest income after provision for loan losses	2,469	2,295	7,324	6,
NON-INTEREST INCOME				
Service charges on deposit accounts	355	309	1,013	
Commission income	79	49	201	
Gain on sale of securities	-	-	-	
Gain on sale of mortgage loans	-	8	-	
Other income	13	20	49	
Total non-interest income	447	386	1,263	1,
NON-INTEREST EXPENSE				
Compensation and benefits	893	798	2,676	2,
Occupancy and equipment	238	228	677	
Other operating expenses	500	457	1,542	1,
Total non-interest expense	1,631	1,483	4,895	4,
Income before income taxes	1,285	1,198	3,692	3,
Income tax expense	456	423	1,296	1,
Net Income	$ 829	$ 775	$ 2,396	$ 2,
OTHER COMPREHENSIVE INCOME, NET OF TAX				
Unrealized gain on securities:				
Unrealized holding gains arising during the period	345	484	773	
Less: reclassification adjustment	-	-	-	
Other comprehensive income	345	484	773	
Comprehensive Income	$ 1,174	$ 1,259	$ 3,169	$ 3,
Net income per common share, basic	$ 0.33	$ 0.31	$ 0.97	$ 0
Net income per common share, diluted	$ 0.33	$ 0.31	$ 0.96	$ 0

See accompanying notes to consolidated financial statements.

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

	Nine Mon Septem 2002
CASH FLOWS FROM OPERATING ACTIVITIES	(In tho
Net income	$ 2,396
Adjustments to reconcile net income to net cash provided by operating activities:	
Amortization of premiums and accretion of discounts	143
Depreciation expense	346
Deferred income taxes	(107)
ESOP compensation expense	49
Stock compensation expense	52
Increase in cash value of life insurance	(40)
Provision for loan losses	155
Net gain on sale of securities held to maturity	-
Proceeds from sales of mortgage loans	-
Mortgage loans originated for sale	-
Net gain on sale of mortgage loans	-
Decrease in accrued interest receivable	113
Increase (decrease) in accrued interest payable	(46)
Net change in other assets/liabilities	107
Net Cash Provided By Operating Activities	3,168
CASH FLOWS FROM INVESTING ACTIVITIES	
Net (increase) decrease in interest bearing deposits with banks	2,013
Purchase of securities available for sale	(23,462)
Proceeds from maturities of securities available for sale	10,577
Proceeds from sale of securities available for sale	235
Purchase of securities held to maturity	(300)
Proceeds from maturities of securities held to maturity	419
Proceeds from sale of maturities held to maturity	-
Principal collected on mortgage-backed securities	1,034
Net increase in loans receivable	(9,698)
Purchase of Federal Home Loan Bank stock	(303)
Proceeds from sale of foreclosed real estate	242
Purchase of premises and equipment	(1,179)
Net Cash Used By Investing Activities	(20,422)
CASH FLOWS FROM FINANCING ACTIVITIES	
Net increase in deposits	11,803
Net increase in advances from Federal Home Loan Bank	6,495
Net increase (decrease) in retail repurchase agreements	(96)
Exercise of stock options	39
Purchase of treasury stock	(30)
Dividends paid	(972)
Net Cash Provided By Financing Activities	17,239
Net Decrease in Cash and Due From Banks	(15)
Cash and due from banks at beginning of period	7,184
Cash and Due From Banks at End of Period	$ 7,169

See accompanying notes to consolidated financial statements.

FIRST CAPITAL, INC. AND SUBSIDIARIES
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.

In the opinion of management, the unaudited consolidated financial statements include all normal adjustments considered necessary to present fairly the financial position as of September 30, 2002, and the results of operations for the three months and nine months ended September 30, 2002 and 2001 and cash flows for the nine months ended September 30, 2002 and 2001. All of these adjustments are of a normal, recurring nature. 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-QSB. 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, 2001 included in the Form 10-KSB.

The consolidated financial statements include the accounts of the Company, the Bank and the Bank's wholly owned subsidiary, First Harrison Financial Services, Inc. All material intercompany balances and transactions have been eliminated in consolidation.

2. Supplemental Disclosures of Cash Flow Information

	Nine Months Ended September 30,	
	2002	2001
	(In thousands)	
Cash payments for:		
Interest	$6,732	$7,424
Taxes	1,543	1,206
Noncash investing activity:		
Amortized cost of securities transferred from held to maturity to available for sale	-	182

3. Pending Merger

On September 25, 2002, the Company and Hometown Bancshares, Inc. (Hometown), the bank holding company for Hometown National Bank in New Albany, Indiana, entered into an Agreement and Plan of Merger whereby each of the issued and outstanding common shares of Hometown will be exchanged for shares of the Company or $46.50 in cash per share. The number of shares of the Company's common stock to be exchanged for each share of Hometown common stock will be based on the average closing price of the Company's common stock over a twenty day trading period shortly before the closing of the merger. Elections to receive stock, cash or a combination of stock and cash by the shareholders of Hometown will be limited by a requirement that 50% of the total number of outstanding shares of Hometown common stock be exchanged for the Company's common stock. The merger is subject to regulatory and stockholder approvals. It is anticipated that the merger will be consummated in March 2003.

FIRST CAPITAL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

4. 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 and nine months ended September 30, 2002 and 2001:

	Three Months Ended September 30,		Nine Months Ende September 30,	
	2002	2001	2002	2001
	(In thousands)			
Unrealized gains on securities:				
Unrealized holding gains arising during the period	$ 571	$ 802	$ 1,208	$ 1,29
Income tax expense	(226)	(318)	(507)	(51
Net of tax amount	345	484	773	78
Less: reclassification adjustment for (gains) losses included in net income	--	--	--	-
Income tax expense (benefit)	--	--	--	-
Other comprehensive income	$ 345	$ 484	$ 773	$ 78

5. Supplemental Disclosure for Earnings Per Share

Three months ended September 30,		Ni
2002	2001	20
(Dollars in thousands, except		

Basic:			
Net income	$ 829	$ 775	$
Shares:			
Weighted average common shares outstanding	2,477,636	2,462,891	2,4
Net income per common share, basic	$ 0.33	$ 0.31	$
Diluted:			
Net income	$ 829	$ 775	$
Shares:			
Weighted average common shares outstanding	2,477,636	2,462,891	2,4
Add: Dilutive effect of outstanding options	30,894	19,162	
Add: Dilutive effect of restricted share awards	5,268	3,921	
Weighted average common shares outstanding, as adjusted	2,513,798	2,485,974	2,5
Net income per common share, diluted	$ 0.33	$ 0.31	$

PART I - ITEM 2

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

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 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 to be 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; and other factors disclosed periodically in the Company's filings with the Securities and Exchange Commission.

Because of the risks and uncertainties inherent in forward-looking statements, readers are cautioned not to place undue reliance on them, whether included in this report or made elsewhere from time to time by the Company or on its behalf. Except as may be required by applicable law or regulation, the Company assumes no obligation to update any forward-looking statements.

Financial Condition

Total assets increased 7.4% from $282.8 million at December 31, 2001 to $303.7 million at September 30, 2002. Investment securities and net loans receivable provided the majority of this growth. The funding was provided by increases in deposits and borrowings from the Federal Home Loan Bank of Indianapolis.

Net loans receivable grew from $201.7 million at December 31, 2001 to $211.1 million at September 30, 2002, a 4.6% increase. Residential mortgages and home equity lines of credit increased $10.3 million and $5.4 million, respectively, during this time period. Commercial and installment loans decreased by $1.8 million and $1.3 million, respectively, to offset some of the loan growth.

Securities available for sale increased $12.8 million from $54.9 million at December 31, 2001 to $67.7 million at September 30, 2002. The increase was primarily due to purchases of $23.5 million offset by maturities of $10.6 million, principal repayments of $965,000 and sales of $235,000.

Investment securities held-to-maturity decreased $189,000 as a result of purchases of $300,000, offset by maturities of $419,000 and principal repayments of $68,000.

Cash and interest bearing deposits with banks decreased from $12.4 million at December 31, 2001 to $10.4 million at September 30, 2002 due to excess liquidity being invested in securities which generate higher yields than overnight funds.

Total deposits grew 5.8%, from $204.1 million at December 31, 2001 to $215.9 million at September 30, 2002. Checking and savings accounts increased $6.6 million while time deposits increased $5.2 million during the period.

Federal Home Loan Bank borrowings increased $6.5 million from $42.8 million at December 31, 2001 to $49.3 million at September 30, 2002. The new advances were drawn primarily to fund loan growth while taking advantage of historically low interest rates at favorable terms.

Total stockholders' equity increased from $33.5 million at December 31, 2001 to $35.8 million at September 30, 2002 primarily as a result of retained net income of $1.4 million and net unrealized gains of $773,000 on securities available for sale.

Results of Operations

Net income for the nine month periods ended September 30, 2002 and 2001. Net income was $2.4 million ($.96 per share diluted) for the nine months ended September 30, 2002 compared to $2.3 million ($.92 per share diluted) for the nine months ended September 30, 2001. Net income increased due to an increase in net interest income partially offset by increases in noninterest expense and the provision for loan losses and a decrease in noninterest income.

Net income for the three month periods ended September 30, 2002 and 2001. Net income was $829,000 ($.33 per share diluted) for the three months ended September 30, 2002 compared to $775,000 ($.31 per share diluted) for the three months ended September 30, 2001. Net income increased for 2002 compared to 2001 due to increases in net interest income and noninterest income offset by increases in noninterest expense and the provision for loan losses.

Net interest income for the nine month periods ended September 30, 2002 and 2001. Net interest income increased 11.9% from $6.7 million in 2001 to $7.5 million in 2002 primarily as a result of a decrease in the average cost of funds partially offset by an increase in interest-earning assets.

Total interest income decreased $25,000 during the nine months ended September 30, 2002 compared to the nine months ended September 30, 2001. The average balance of interest-earning assets was $276.6 million for the nine month period ended September 30, 2002 compared to $246.8 for the same period in 2001. However, the average tax-equivalent yield on interest-earning assets decreased from 7.76% in 2001 to 6.92% in 2002 due to the markedly lower interest rate environment.

Total interest expense decreased $822,000 to $6.7 million for the nine months ended September 30, 2002 compared to $7.5 million for the same period in 2001. Interest on deposits decreased by $1.3 million while the interest on Federal Home Loan Bank advances increased by $465,000 when comparing the first nine months of 2002 against the same period in 2001. The average balance of interest-bearing liabilities increased from $208.2 million in 2001 to $235.7 million in 2002 while the average rate on interest-bearing liabilities decreased from 4.81% in 2001 to 3.78% in 2002. The Bank's tax-equivalent interest rate spread increased from 2.95% to 3.14% when comparing the first nine months results of 2001 with the same period in 2002 primarily due to the Bank's interest-bearing liabilities repricing faster than the interest-earning assets.

PART I - ITEM 2

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

Net interest income for the three month periods ended September 30, 2002 and 2001. Net interest income increased from $2.3 million for the three months ended September 30, 2001 to $2.5 million for the same period in 2002 due primarily to a decrease in the average cost of funds.

Total interest income decreased $43,000 for the three months ended September 30, 2002 compared to the same period in 2001. The decrease was a result of a lower average yield on interest-earning assets which was offset by higher average balances in these interest-earning assets. The average balance of net loans receivable and investment securities increased from $193.2 million and $54.5 million, respectively, for the three months ended September 30, 2001 to $209.3 million and $66.5 million for the three months ended September 30, 2002. The average yield on interest-earning assets decreased from 7.60% for the three months ended September 30, 2001 to 6.84% for the same period in 2002.

Total interest expense decreased $282,000 to $2.2 million for the three months ended September 30, 2002 compared to $2.5 million for the same period in

2001 due to the average cost of interest-bearing liabilities decreasing from 4.65% for the three months ended September 30, 2001 to 3.71% for the same period in 2002.

Provision for loan losses. The provision for loan losses was $155,000 for the nine month period ended September 30, 2002 compared to $36,000 for the same period in 2001. During 2002, net loans receivable increased by $9.4 million primarily due to increases in residential mortgages and home equity lines of credit by $15.7 million. Offsetting these increases were decreases of $3.1 million in commercial and consumer loans. Residential mortgage loans and home equity lines of credit have an inherently lower degree of credit risk than commercial and consumer loans. However, the consistent application of management's allowance methodology resulted in an increase in the provision for loan losses due to net charge-offs during the nine months ended September 30, 2002 of $150,000 compared to $118,000 for the same period in 2001 and the general weakening of economic conditions.

Provisions for loan losses are charges to earnings to maintain the total allowance for loan losses at a level considered reasonable 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 which 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.

PART I - ITEM 2

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

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 effect the loss rates.

The allowance for loan losses was $1.1 million at both September 30, 2002 and December 31, 2001. Management has deemed these amounts as adequate on those dates based on its risk analysis. At September 30, 2002 nonperforming loans totaled $1.4 million, compared to $1.3 million at December 31, 2001. Included in nonperforming loans are loans over 90 days past due secured by one-to-four family residential real estate in the amount of $680,000, nonresidential mortgages amounting to $176,000 and consumer and commercial loans of $171,000. These loans are accruing interest as the estimated value of the collateral and collection efforts are deemed sufficient to ensure full recovery.

Noninterest income for the nine month periods ended September 30, 2002 and 2001. Noninterest income decreased 2.6%, or $34,000, for the nine months ended

September 30, 2002 compared to the same period of 2001. The Bank recognized gains of $134,000 on the sale of loans during the first nine months of 2001. The Bank sold no loans during the same period in 2002 in an effort to better leverage the Bank's capital. Service charges on deposits increased to $1.0 million for the nine months ended September 30, 2002 compared to $888,000 for the nine months ended September 30, 2001. Overdraft charges on the new "Carefree checking" account offered by the Bank is the primary reason for this increase.

Noninterest income for the three month periods ended September 30, 2002 and 2001. Noninterest income increased 15.8% to $447,000 for the three months ended September 30, 2002 compared to $386,000 during the same period in 2001. Service charges on deposits and commission income increased $46,000 and $30,000, respectively, when comparing the three months ended September 30, 2002 to the same period in 2001.

Noninterest expense for the nine month periods ended September 30, 2002 and 2001. Noninterest expense increased 10.8% to $4.9 million for the nine month period ended September 30, 2002, compared to $4.4 million for the same period in 2001 primarily due to increases in compensation and benefits and other operating expenses.

Compensation and benefits increased by $281,000 when comparing the first nine months of 2002 and 2001. This increase is due to normal salary increases, an increase in staff, an increase in the cost of employee health insurance and a reduction in compensation and benefit costs deferred in connection with loan originations. The refinancing wave the Bank experienced during the first nine months of 2001 resulted in a reduction of compensation and benefits of $364,000 during that time period due to the deferral of these costs associated with underwriting loans. During the first nine months of 2002, that figure has decreased by $81,000 as the pace of loan originations has declined.

Other operating expenses increased $185,000 compared to the same period in 2001 primarily due to increases in ATM processing fees, office supplies, correspondent banking expenses and consulting fees.

Noninterest expense for the three month periods ended September 30, 2002 and 2001. Noninterest expense increased 10.0%, or $148,000, for the three month period ended September 30, 2002 compared to the three month period ended September 30, 2001. Compensation and benefits increased $95,000 compared to the same quarter last year. Normal salary increases and an increase in staff were the primary factors in this increase. Other operating expenses increased $43,000 due to increases in postage, ATM processing fees, consulting fees and community donations.

Income tax expense. Income tax expense for the nine month periods ended September 30, 2002 and September 30, 2001 was $1.3 million. The effective tax rate decreased from 35.6% for 2001 to 35.1% for 2002. Income tax expense for the three month period ended September 30, 2002 was $456,000, compared to $423,000 for the same quarter in 2001. The effective tax rate for the three month period in 2002 was 35.5% compared to 35.3% for 2001.

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 September 30, 2002, the Bank had cash and interest-bearing deposits with banks of $10.4 million and securities available-for-sale with a fair value of $67.7 million. If the Bank requires funds beyond its ability to generate them internally, it has additional borrowing capacity with the FHLB of Indianapolis and 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.

The Bank is required to maintain specific amounts of capital pursuant to OTS requirements. As of September 30, 2002, the Bank was in compliance with all regulatory capital requirements, which were effective as of such date with tangible, core and risk-based capital ratios of 10.8%, 10.8% and 19.2%, respectively. The regulatory requirements at that date were 1.5%, 3.0% and 8.0%, respectively.

PART I - ITEM 3

CONTROLS AND PROCEDURES
FIRST CAPITAL, INC. AND SUBSIDIARIES

(a) Evaluation of Disclosure Controls and Procedures: An evaluation of the Company's disclosure controls and procedures (as defined on Section 13(a) - 14(c) of the Securities and Exchange Act of 1934 (the "Act") was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and several other members of the Company's senior management within the 90-day period preceding the filing date of this quarterly report. The Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures as currently in effect are effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

(b) Changes in Internal Controls: In the quarter ended September 30, 2002, the Company did not make any significant changes in, nor take any corrective actions regarding, its internal controls or other factors that could significantly affect these controls.

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 2. Changes in Securities and Use of Proceeds

Not applicable.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable

Item 5. Other Information

Not applicable.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

3.1 Articles of Incorporation of First Capital, Inc. (incorporated by reference to Registration Statement on Form SB-2, and amendments thereto, File Number 333-63515)

3.2 Second Amended and Restated Bylaws of First Capital, Inc. (incorporated by reference to Form 10-KSB filed on April 1, 2002)

99.1 CEO Certifications required under Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 CFO Certifications required under Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

On September 30, 2002, the Company filed a Form 8-K to announce a merger agreement with Hometown Bancshares, Inc. under which Hometown will merge with and into the Company.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST CAPITAL, INC.
(Registrant)

Dated November 13, 2002	BY: /s/ William W. Harrod
	William W. Harrod President and CEO
Dated November 13, 2002	BY: /s/ Michael C. Frederick
	Michael C. Frederick Senior Vice President and Treasurer

CERTIFICATION

I, William W. Harrod, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of First Capital, Inc. and Subsidiaries;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

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

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

DATE: November 13, 2002 BY: /s/ William W. Harrod

William W. Harrod
President and Chief Executive Officer

-16-

CERTIFICATION

I, Michael C. Frederick, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of First Capital, Inc. and Subsidiaries;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

d) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

e) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

f) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

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

c) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

d) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

DATE: November 13, 2002

BY: /s/ Michael C. Frederick

Michael C. Frederick
Senior Vice President and Treasurer