FIRST CAPITAL INC
Form 10-Q
November 13, 2009
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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 September 30, 2009

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	**(I.R.S. Employer**
incorporation or organization)	**Identification Number)**

220 Federal Drive NW, Corydon, Indiana 47112

(Address of principal executive offices) (Zip Code)

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

Not applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 smaller reporting company. See the definitions of large accelerated filer, 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: 2,757,160 shares of common stock were outstanding as of October 31, 2009.

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FIRST CAPITAL, INC.

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PART I - FINANCIAL INFORMATION

FIRST CAPITAL, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2009	December 31, 2008
	(In thousands)	
ASSETS		
Cash and due from banks	$ 8,293	$ 14,210
Interest bearing deposits with banks	8,647	7,044
Federal funds sold		895
Total cash and cash equivalents	16,940	22,149
Securities available for sale, at fair value	88,666	82,733
Securities-held to maturity	63	86
Loans, net	319,083	322,385
Loans held for sale	1,081	1,244
Federal Home Loan Bank stock, at cost	3,551	3,551
Foreclosed real estate	845	881
Premises and equipment	11,798	11,361
Accrued interest receivable	2,092	2,330
Cash value of life insurance	5,517	5,351
Goodwill	5,386	5,386
Core deposit intangibles	189	244
Other assets	1,415	924
Total Assets	$ 456,626	$ 458,625
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 36,685	$ 36,768
Interest-bearing	331,943	319,123
Total Deposits	368,628	355,891
Retail repurchase agreements	5,826	4,552
Advances from Federal Home Loan Bank	32,776	47,830
Accrued interest payable	1,158	1,415
Accrued expenses and other liabilities	1,506	1,415
Total Liabilities	409,894	411,103
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 3,129,354 shares (3,128,502 shares in 2008)	31	31
Additional paid-in capital	23,957	23,969
Retained earnings-substantially restricted	28,780	29,868
Accumulated other comprehensive income	1,056	270

Less treasury stock, at cost - 371,637 shares (333,972 shares in 2008)	(7,200)	(6,616)
Total First Capital, Inc. stockholders equity	46,624	47,522
Noncontrolling interest in subsidiary	108	
Total Equity	46,732	47,522
Total Liabilities and Equity	$ 456,626	$ 458,625

See accompanying notes to consolidated financial statements.

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PART I - FINANCIAL INFORMATION

FIRST CAPITAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
	(In thousands, except per share data)			
INTEREST INCOME				
Loans, including fees	$ 4,868	$ 5,555	$ 14,774	$ 16,802
Securities:				
Taxable	542	550	1,724	1,670
Tax-exempt	255	234	737	692
Federal Home Loan Bank dividends	37	46	70	138
Fed funds sold and interest bearing deposits with banks	6	21	18	225
Total interest income	5,708	6,406	17,323	19,527
INTEREST EXPENSE				
Deposits	1,489	1,851	4,673	6,111
Retail repurchase agreements	12	42	34	233
Advances from Federal Home Loan Bank	484	613	1,556	1,978
Total interest expense	1,985	2,506	6,263	8,322
Net interest income	3,723	3,900	11,060	11,205
Provision for loan losses	980	602	3,364	1,340
Net interest income after provision for loan losses	2,743	3,298	7,696	9,865
NON-INTEREST INCOME				
Service charges on deposit accounts	620	689	1,792	1,998
Commission income	37	46	93	123
Gain on sale of mortgage loans	121	124	439	368
Mortgage brokerage fees	1	1	3	11
Increase in cash surrender value of life insurance	56	55	166	170
Other income	27	13	69	59
Total non-interest income	862	928	2,562	2,729
NON-INTEREST EXPENSE				
Compensation and benefits	1,691	1,704	4,999	4,999
Occupancy and equipment	345	302	1,013	899
Data processing	690	215	1,161	647
Professional fees	232	163	547	446
Advertising	72	64	201	161
Other operating expenses	893	621	2,471	1,700
Total non-interest expense	3,923	3,069	10,392	8,852
Income (loss) before income taxes	(318)	1,157	(134)	3,742
Income tax expense (benefit)	(331)	354	(551)	1,151

Net Income	$ 13	$ 803	$ 417	$ 2,591
Less: net income attributable to noncontrolling interest in subsidiary	3		9	
Net Income Attributable to First Capital, Inc.	$ 10	$ 803	$ 408	$ 2,591
Other comprehensive income (loss), net of tax				
Unrealized gain (loss) on securities:				
Unrealized holding gains (losses) arising during the period	748	(154)	786	(365)
Less: reclassification adjustment				
Other comprehensive income (loss)	748	(154)	786	(365)
Comprehensive Income	$ 758	$ 649	$ 1,194	$ 2,226
Earnings per common share attributable to First Capital, Inc.				
Basic	$	$ 0.29	$ 0.15	$ 0.92
Diluted	$	$ 0.29	$ 0.15	$ 0.92
Dividends per share	$ 0.18	$ 0.18	$ 0.54	$ 0.53

See accompanying notes to consolidated financial statements.

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PART I - FINANCIAL INFORMATION

FIRST CAPITAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 408	$ 2,591
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premiums and accretion of discounts	414	59
Depreciation and amortization expense	720	646
Deferred income taxes	(723)	(167)
ESOP and stock compensation expense		167
Increase in cash value of life insurance	(166)	(170)
Provision for loan losses	3,364	1,340
Proceeds from sales of mortgage loans	36,458	25,283
Mortgage loans originated for sale	(35,856)	(25,114)
Net gain on sale of mortgage loans	(439)	(368)
Net gain on sale of land		(13)
Decrease in accrued interest receivable	238	377
Decrease in accrued interest payable	(257)	(531)
Net change in other assets/liabilities	(118)	539
Net Cash Provided By Operating Activities	4,043	4,639
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities available for sale	(29,912)	(19,621)
Proceeds from maturities of securities available for sale	13,525	16,975
Proceeds from maturities of securities held to maturity	20	953
Principal collected on mortgage-backed securities	11,273	4,792
Net (increase) decrease in loans receivable	(954)	5,983
Proceeds from sale of foreclosed real estate	928	614
Proceeds from sale of land		284
Purchase of premises and equipment	(1,101)	(1,307)
Net Cash Provided By (Used in) Investing Activities	(6,221)	8,673
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	12,737	6,521
Net decrease in advances from Federal Home Loan Bank	(15,054)	(6,864)
Net increase (decrease) in retail repurchase agreements	1,274	(8,077)
Exercise of stock options	10	21
Purchase of treasury stock	(584)	(273)
Net proceeds from subsidiary preferred stock issuance	83	
Dividends paid	(1,497)	(1,484)
Net Cash Used In Financing Activities	(3,031)	(10,156)

Net Increase (Decrease) in Cash and Cash Equivalents	(5,209)	3,156
Cash and cash equivalents at beginning of period	22,149	15,055
Cash and Cash Equivalents at End of Period	$ 16,940	$ 18,211

See accompanying notes to consolidated financial statements.

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FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Presentation of Interim Information

First Capital, Inc. (Company) is the holding company for First Harrison Bank (Bank). The information presented in this report relates primarily to the Bank s operations. The Bank has three wholly-owned subsidiaries that manage a portion of its investment securities portfolio. First Harrison Investments, Inc. and First Harrison Holdings, Inc. are Nevada corporations that jointly own First Harrison, LLC, a Nevada limited liability corporation that holds and manages an investment portfolio. First Harrison REIT, Inc. (REIT) was incorporated on July 3, 2008 to hold a portion of the Bank s real estate mortgage loan portfolio. During 2008, the REIT was a wholly-owned subsidiary of First Harrison Holdings, Inc. 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 September 30, 2009, this noncontrolling interest represented 0.2% ownership of the REIT.

In the opinion of management, the unaudited consolidated financial statements include all adjustments considered necessary to present fairly the financial position as of September 30, 2009, and the results of operations for the three and nine months ended September 30, 2009 and 2008 and cash flows for the nine months ended September 30, 2009 and 2008. All of these adjustments are of a normal, recurring nature. Such adjustments are the only adjustments included in the unaudited consolidated financial statements. Interim results are not necessarily indicative of results for a full year.

The accompanying unaudited consolidated financial statements and notes have been prepared in accordance with generally accepted accounting principles for interim financial statements and are presented as permitted by the instructions to Form 10-Q. Accordingly, they do not contain certain information included in the Company s annual audited consolidated financial statements and related footnotes for the year ended December 31, 2008 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.

FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(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 and nine months ended September 30, 2009 and 2008:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In thousands)		(In thousands)	
Unrealized gains (losses) on securities:				
Unrealized holding gains (losses) arising during the period	$ 1,239	$ (255)	$ 1,302	$ (605)
Income tax benefit (expense)	(491)	101	(516)	240
Net of tax amount	748	(154)	786	(365)
Less: reclassification adjustment for gains included in net income				
Income tax benefit				
Net of tax amount				
Other comprehensive gain (loss)	$ 748	$ (154)	$ 786	$ (365)

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FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

3. Supplemental Disclosure for Earnings Per Share

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
	(Dollars in thousands, except for share and per share data)			
Basic				
Earnings:				
Net income	$ 10	$ 803	$ 408	$ 2,591
Shares:				
Weighted average common shares outstanding	2,761,357	2,800,598	2,775,076	2,803,220
Net income per common share, basic	$ 0.00	$ 0.29	$ 0.15	$ 0.92
Diluted				
Earnings:				
Net income	$ 10	$ 803	$ 408	$ 2,591
Shares:				
Weighted average common shares outstanding	2,761,357	2,800,598	2,775,076	2,803,220
Add: Dilutive effect of outstanding options	15,530	13,297	13,500	14,184
Add: Dilutive effect of restricted stock				
Weighted average common shares outstanding, as adjusted	2,776,887	2,813,895	2,788,576	2,817,404
Net income per common share, diluted	$ 0.00	$ 0.29	$ 0.15	$ 0.92

4. Stock Option Plan

For the nine month period ended September 30, 2009, the Company did not recognize any compensation expense related to its stock option plans. The Company recognized compensation expense of $46,000 for the nine month period ended September 30, 2008 related to its stock option plans. Compensation expense is recognized ratably over the requisite service period of the award which is the five-year vesting term of the options. At September 30, 2009, there was no unrecognized compensation expense related to nonvested stock options to be recognized over the remaining requisite service period. The Black-Scholes option pricing model was used to determine the grant date fair value of the options granted in prior periods.

5. Supplemental Disclosures of Cash Flow Information

	Nine Months Ended September 30,	
	2009	2008
	(In thousands)	
Cash payments for:		
Interest	$ 6,520	$ 8,853
Taxes	471	1,112
Noncash investing activities:		
Transfers from loans to real estate acquired through foreclosure	1,033	1,289

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FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

6. Fair Value Measurements and Disclosures about Fair Value of Financial Instruments

Effective January 1, 2008, the Company adopted the provisions of Accounting Standards Codification (ASC) Topic 820 (formerly Statement of Financial Accounting Standards (SFAS) No. 157), *Fair Value Measurements,* for financial assets and financial liabilities. This statement is definitional and disclosure oriented and addresses how companies should approach measuring fair value when required by generally accepted accounting principles (GAAP); it does not create or modify any current GAAP requirements to apply fair value accounting. ASC Topic 820 prescribes various disclosures about financial statement categories and amounts which are measured at fair value, if such disclosures are not already specified elsewhere in GAAP. The adoption of the standard did not have a material effect on the Company s consolidated financial statements. In February 2008, the Financial Accounting Standards Board (FASB) issued a statement delaying the effective date of the standard for nonfinancial assets and nonfinancial liabilities except those that are recognized or disclosed at fair value on a recurring basis. Accordingly, the Company began applying the standard to foreclosed real estate and goodwill in 2009.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard establishes a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

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.

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FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(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 basis and assets measured at fair value on a nonrecurring basis as of September 30, 2009. The Company had no liabilities measured at fair value as of September 30, 2009.

	Carrying Value			
	Level 1	Level 2	Level 3	Total
		(In thousands)		
Assets Measured on a Recurring Basis				
Securities available for sale	$	$ 88,666	$	$ 88,666
Assets Measured on a Nonrecurring Basis				
Impaired loans		7,019		7,019
Loans held for sale		1,081		1,081
Foreclosed real estate		845		845
Goodwill		5,386		5,386

In general, 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.

FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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, which is carried at the lower of cost or fair value, is periodically assessed for impairment based on fair value at the reporting date. Fair value is determined from external appraisals using judgments and estimates of external professionals. Many of these inputs are not observable and, accordingly, these measurements are classified as Level 2.

Goodwill. Goodwill is carried at its implied fair value and is evaluated for possible impairment at least annually or more frequently upon the occurrence of an event or change in circumstances that would more likely than not reduce the fair value of the reporting unit below its carrying amount. If the carrying amount of the goodwill exceeds its implied fair value, an impairment loss is recognized in earnings equal to that excess amount. Annual evaluations have resulted in no charges for impairment. Fair value is based on observable inputs such as the market price of the Company s stock and an analysis of data from sales of comparable financial institutions and these measurements are classified as Level 2.

On January 1, 2008, the Company also adopted SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115,* which permits entities to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis. The fair value option permits all entities to choose to measure eligible items at fair value at specified election dates. An entity will be required to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The Company did not elect to measure any financial instruments at fair value under SFAS No. 159 upon adoption.

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FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(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:

	September 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial assets:				
Cash and cash equivalents	$ 16,940	$ 16,940	$ 22,149	$ 22,149
Securities available for sale	88,666	88,666	82,733	82,733
Securities held to maturity	63	64	86	89
Loans held for sale	1,081	1,081	1,244	1,275
Loans, net	319,083	330,061	322,385	332,018
Federal Home Loan Bank stock	3,551	3,551	3,551	3,551
Accrued interest receivable	2,092	2,092	2,330	2,330
Financial liabilities:				
Deposits	368,628	373,102	355,891	361,356
Retail repurchase agreements	5,826	5,826	4,552	4,552
Advances from Federal Home Loan Bank	32,776	34,465	47,830	50,375
Accrued interest payable	1,158	1,158	1,415	1,415
Off-balance-sheet financial instruments:				
Asset related to commitments to extend credit		167		12

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.

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FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(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.

FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

7. Recent Accounting Pronouncements

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

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51*, (ASC Topic 810). This statement applies to all entities that prepare consolidated financial statements, except not-for-profit organizations, but will affect only those entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. This statement amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. The Company adopted this statement on January 1, 2009. The adoption of this statement did not have a material effect on the Company s financial position or results of operations.

On April 9, 2009, the FASB issued *FASB Staff Position (FSP) FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments*, (ASC Topic 320). This FSP amends the other-than-temporary impairment guidance in U.S. generally accepted accounting principles for debt securities. Consistent with current requirements for recording other-than-temporary impairments, this FSP states that the amount of impairment loss recorded in earnings for a debt security will be the entire difference between the security s cost and its fair value if the company intends to sell the debt security prior to recovery or it is more-likely-than not that the company will have to sell the debt security prior to recovery. If, however, the company does not intend to sell the debt security or it concludes that it is more-likely-than-not that it will not have to sell the debt security prior to recovery, this FSP requires a company to recognize the credit loss component of an other-than-temporary impairment of a debt security in earnings and the remaining portion of the impairment loss in other comprehensive income. The credit loss component of an other-than-temporary impairment must be determined based on a company s best estimate of cash flows expected to be collected. This FSP, which is effective for interim and annual periods ending after June 15, 2009, allows early adoption for periods ending after March 15, 2009, provided FSP FAS 157-4 (see below) is adopted at the same time. The Company adopted this FSP for the period ending June 30, 2009, and the adoption did not have a material effect on the Company s consolidated financial position or results of operations.

Also on April 9, 2009, the FASB issued *FASB Staff Position FAS 157-4 (FSP FAS 157-4), Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (ASC Topic 820). This FSP provides additional guidance for estimating fair value in accordance with SFAS No. 157 when the volume and level of activity for an asset or liability have significantly decreased. It also provides guidance on identifying circumstances that indicate a transaction is not orderly. Determination of whether a transaction is orderly or not orderly in instances when there has been a significant decrease in the volume and level of activity for an asset or liability depends on an evaluation of facts and circumstances and requires the use of significant judgment. This FSP requires a company to disclose the inputs and valuation techniques used to measure fair value and to discuss changes in such inputs and valuation techniques, if any, that occurred during the reporting period. This FSP, which is effective for interim and annual periods ending after June 15, 2009, requires early adoption for periods ending after March 15, 2009 if a company elects to adopt early FSP FAS 115-1 and FAS 124-2 (see above). The Company adopted this FSP for the period ending June 30, 2009, and the adoption did not have a material effect on the Company s consolidated financial position or results of operations.

FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

On April 9, 2009, the FASB issued FSP FAS 107-1 and APB 28-1, (ASC Topic 825). This FSP requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP, which is effective for interim reporting periods ending after June 15, 2009, allows early adoption for periods ending after March 15, 2009, only if a company also elects to early adopt FSP FAS 157-4 and FSP FAS 115-2 and FAS 124-2. The Company adopted this FSP for the period ending June 30, 2009, and the adoption did not have a material effect on the Company s consolidated financial position or results of operations.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, (ASC Topic 855). This statement establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, the statement provides: (a) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (b) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (c) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. This statement is effective for interim or annual financial periods ending after June 15, 2009, and shall be applied prospectively. The adoption of this statement did not have a material effect on the Company s consolidated financial position or results of operations.

In June 2009, the FASB issued two standards which change the way entities account for securitizations and special-purpose entities: SFAS No. 166, *Accounting for Transfers of Financial Assets* (ASC Topic 860) and SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (ASC Topic 810). SFAS No. 166 is a revision to SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* and requires more information about transfers of financial assets, including securitization transactions, and where entities have continuing exposure to the risks related to transferred financial assets. This statement eliminates the concept of a qualifying special-purpose entity, changes the requirements for derecognizing financial assets, and requires additional disclosures. SFAS No. 167 is a revision to FASB Interpretation No. 46 (Revised December 2003), *Consolidation of Variable Interest Entities,* and changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity s purpose and design and the reporting entity s ability to direct the activities of the other entity that most significantly impact the other entity s economic performance. These new standards require a number of new disclosures. SFAS No. 167 requires a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity will be required to disclose how its involvement with a variable interest entity affects the reporting entity s financial statements. SFAS No. 166 enhances information reported to users of financial statements by providing greater transparency about transfers of financial assets and an entity s continuing involvement in transferred financial assets. These statements will be effective at the start of a reporting entity s first fiscal year beginning after November 15, 2009, or January 1, 2010, for a calendar year-end entity. Early application is not permitted. The adoption of these statements is not expected to have a material effect on the Company s consolidated financial position or results of operations.

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FIRST CAPITAL, INC.

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(Unaudited)

In June 2009, the FASB has issued Accounting Standards Update (ASU) No. 2009-01 (formerly SFAS No. 168), *Topic 105 The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles.* This statement establishes the *FASB Accounting Standards Codification™*(Codification) as the single source of authoritative U.S. generally accepted accounting principles (U.S. GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. This statement and the Codification are effective for financial statements issued for interim and annual periods ending after September 15, 2009. When effective, the Codification will supersede all existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. Following this statement, the FASB will not issue new standards in the form of statements, FASB Staff Positions, or Emerging Issues Task Force Abstracts. Instead, the FASB will issue Accounting Standards Updates, which will serve only to: (*a*) update the Codification; (*b*) provide background information about the guidance; and (*c*) provide the bases for conclusions on the change(s) in the Codification. The adoption of this statement did not have a material effect on the Company s consolidated financial statements.

In August 2009, the FASB issued ASU No. 2009-05, *Fair Value Measurements and Disclosures (Topic 820) Measuring Liabilities at Fair Value* . This ASU provides amendments for fair value measurements of liabilities. It provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using one or more techniques. ASU 2009-05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. ASU 2009-05 is effective for the first reporting period (including interim periods) beginning after issuance or fourth quarter 2009. The adoption of ASU 2009-05 is not expected to have a material effect on the Company s consolidated financial position or results of operations.

8. Subsequent Events

The Company has evaluated whether any subsequent events that require recognition or disclosure in the accompanying consolidated financial statements and related notes thereto have taken place through the date these consolidated financial statements were issued (November 13, 2009). The Company has determined that there are no such subsequent events.

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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 our Annual Report on Form 10-K for the year ended December 31, 2008 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 nine months ended September 30, 2009, 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, 2008.

Financial Condition

Total assets decreased from $458.6 million at December 31, 2008 to $456.6 million at September 30, 2009, a decrease of 0.4%.

Net loans receivable (excluding loans held for sale) decreased $3.3 million from $322.4 million at December 31, 2008 to $319.1 million at September 30, 2009. Commercial mortgages and residential mortgages decreased $3.2 million and $2.8 million, respectively, during the nine months ended September 30, 2009 while commercial business loans increased $4.0 million during the period. The remainder of the change during the period was due to the $1.5 million change in the allowance for loan losses (See Provision for Loan Losses discussion in Results of Operations).

Securities available for sale increased $5.9 million from $82.7 million at December 31, 2008 to $88.7 million at September 30, 2009. Maturities and principal repayments of these securities totaled $13.5 million and $11.3 million, respectively, between September 30, 2009 and December 31, 2008. Purchases of $29.9 million of securities classified as available for sale were made during the period and consisted primarily of U.S. government agency backed debt securities, mortgage-backed securities and securities of various municipal governments.

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Investment securities held-to-maturity decreased $23,000 due primarily to maturities of $20,000 during the nine months ended September 30, 2009.

Cash and cash equivalents decreased from $22.1 million at December 31, 2008 to $16.9 million at September 30, 2009. Cash and due from banks decreased $5.9 million during the period which was partially offset by an increase in interest bearing deposits with banks of $1.6 million.

Total deposits increased 3.6% from $355.9 million at December 31, 2008 to $368.6 million at September 30, 2009. Interest-bearing demand deposits increased $10.1 million during the period primarily due to the Bank s successful efforts at attracting new public fund accounts in its immediate market area. Time deposits decreased $1.5 million during the period as some customers have not opted to lock in to long-term commitments while rates are at the current low levels.

Federal Home Loan Bank borrowings decreased from $47.8 million at December 31, 2008 to $32.8 million at September 30, 2009 as excess cash was used to pay maturing borrowings. Principal repayments of $15.1 million were made during the period and no new advances were drawn.

Retail repurchase agreements, which represent overnight borrowings from deposit customers, including businesses and local municipalities, increased from $4.6 million at December 31, 2008 to $5.8 million at September 30, 2009.

Total stockholders equity attributable to the Company decreased from $47.5 million at December 31, 2008 to $46.6 million at September 30, 2009. This decrease was primarily the result of net income of $408,000 and a net unrealized gain of $786,000 on securities available for sale, offset by dividends paid of $1.5 million and repurchases of treasury stock of $584,000. During the period, there was also an increase in the noncontrolling interest of the REIT of $108,000, representing the aggregate liquidation value of a preferred stock issuance and accrued earnings attributable to the noncontrolling interest.

Results of Operations

Net Income for the nine-month periods ended September 30, 2009 and 2008. Net income was $408,000 ($0.15 per share diluted) for the nine months ended September 30, 2009 compared to $2.6 million ($0.92 per share diluted) for the nine months ended September 30, 2008. During the 2009 period, the Company experienced decreases in net interest income after the provision for loan losses and in noninterest income, and an increase in noninterest expenses.

Net Income for the three-month periods ended September 30, 2009 and 2008. Net income was $10,000 ($0.00 per share diluted) for the three months ended September 30, 2009 compared to net income of $803,000 ($0.29 per share diluted) for the same period in 2008. A significant increase in noninterest expenses was the primary factor in the change.

Net interest income for the nine-month periods ended September 30, 2009 and 2008. Net interest income decreased $145,000 for the nine months September 30, 2009 compared the nine months ended September 30, 2008 primarily due to a change in the asset mix.

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Total interest income decreased $2.2 million during the nine months ended September 30, 2009 compared to the same period in 2008. During the nine months ended September 30, 2009, the average balance of loans represented 76.4% of the average balance of all interest-earning assets. During the same period in 2008, the average balance of loans represented 78.8% of all interest-earning assets. The average tax-equivalent yield on the interest-earning assets was 6.33% during the nine months ended September 30, 2008, compared to 5.60% in the same period of 2009. This decrease in yield is due primarily to the Federal Reserve s Open Market Committee lowering the federal funds rate by 275 basis points from January 2008 to December 2008.

Total interest expense decreased $2.1 million during the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008. The average balance of interest-bearing liabilities increased from $365.7 million in 2008 to $366.2 million in 2009 while the average rate paid on these liabilities decreased from 3.03% in 2008 to 2.28% in 2009.

As a result of the changes described above, the tax-equivalent interest rate spread increased from 3.30% during the first nine months of 2008 to 3.32% for the same period in 2009.

Net interest income for the three-month periods ended September 30, 2009 and 2008. Net interest income decreased from $3.9 million for the three months ended September 30, 2008 to $3.7 million for the same period in 2009 primarily due to a decrease in the tax-equivalent interest rate spread.

Total interest income decreased $698,000 for the three months ended September 30, 2009 compared to the same period in 2008 primarily due to a decrease in the tax-equivalent yield of interest-earning assets. For the quarter ended September 30, 2008, those assets had a tax-equivalent yield of 6.36%, but the tax-equivalent yield decreased during the same period in 2009 to 5.54%, primarily due to the decrease in market interest rate previously described.

Total interest expense decreased $521,000 for the three months ended September 30, 2009 compared to the same period in 2008. The average cost of interest-bearing liabilities decreased from 2.81% in 2008 to 2.16% in 2009.

As a result of the changes described above, the tax-equivalent interest rate spread decreased from 3.55% in the quarter ended September 30, 2008 to 3.38% during the same period in 2009.

Provision for loan losses. The provision for loan losses increased from $602,000 for the three-month period ended September 30, 2008 to $980,000 for the same period in 2009. Net charge offs amounted to $1.2 million and $195,000 for the three-month periods ended September 30, 2009 and 2008, respectively. Of the $1.2 million charged off in the period ended September 30, 2009, $919,000 was due to a single commercial relationship. The provision for loan losses was $3.4 million for the nine-month period ended September 30, 2009 as compared to $1.3 million for the same period in 2008. During the nine-month period ended September 30, 2009, gross loans receivable decreased $1.8 million. As stated earlier in this report, commercial mortgages and residential mortgages decreased $3.2 million and $2.8 million, respectively, while commercial business loans increased $4.0 million during the nine months ended September 30, 2009. The increase in the provision was primarily to allocate specific reserves of $1.6 million on two commercial loan relationships totaling $4.6 million, which are secured by commercial real estate and equipment, as well as to adjust for weakened general economic conditions such as depreciating collateral values, job losses and continued pressures on household budgets in the Bank s market area. The Bank has also established specific reserves of $550,000 on impaired residential mortgage loans, which totaled $1.9 million at September 30, 2009, in recognition of declining home values in its market area.

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FIRST CAPITAL, INC.

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

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

The allowance for loan losses was $4.2 million at September 30, 2009 compared to $2.7 million at December 31, 2008. Management has deemed these amounts as adequate on those dates based on its best estimate of probable known and inherent loan losses. At September 30, 2009, nonperforming loans amounted to $9.3 million compared to $5.5 million at December 31, 2008. Included in nonperforming loans are loans over 90 days past due secured by residential mortgages of $885,000, commercial mortgages of $226,000, commercial business loans of $32,000 and consumer loans of $14,000. These loans are accruing interest as the estimated value of the collateral and collection efforts are deemed sufficient to ensure full recovery. At September 30, 2009 and December 31, 2008, nonaccrual loans amounted to $8.0 million and $4.4 million, respectively.

Noninterest income for the nine-month periods ended September 30, 2009 and 2008. Noninterest income decreased to $2.6 million for the nine months ended September 30, 2009 from $2.7 million for the nine months ended September 30, 2008. Service charges on deposit accounts decreased $206,000 when comparing the two periods. This was partially offset by an increase of $71,000 in gains on the sale of mortgage loans during the 2009 period as the Bank originated and sold $36.5 million of mortgage loans into the secondary market during the first nine months of 2009 compared to $25.3 million during the same period in 2008.

Noninterest income for the three-month periods ended September 30, 2009 and 2008. Noninterest income for the quarter ended September 30, 2009 decreased to $862,000 compared to $928,000 for the quarter ended September 30, 2008. Service charges on deposit accounts decreased $69,000 when comparing the two periods.

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Noninterest expense for the nine-month periods ended September 30, 2009 and 2008. Noninterest expense increased to $10.4 million for the nine months ended September 30, 2009 compared to $8.9 million for the same period in 2008. Other operating expenses increased $771,000 when comparing the two periods, primarily due to a $600,000 increase in FDIC deposit insurance premiums. This included $207,000 which was accrued for the special assessment imposed on all banks by the FDIC effective June 30, 2009 and payable on September 30, 2009. Data processing expenses increased $514,000 when comparing the two periods. This increase was primarily due to an increase of $444,000 in ATM processing fees. A substantial portion of this increase includes disputed fees for which the Bank is seeking a possible partial refund.

Noninterest expense for the three-month periods ended September 30, 2009 and 2008. Noninterest expense for the quarter ended September 30, 2009 increased $854,000 when compared to the quarter ended September 30, 2008. This increase was primarily due to a $475,000 increase in data processing expenses. The previously mentioned ATM processing fees increased $438,000 when comparing the two periods. Other operating expenses increased $272,000 when comparing the three months ended September 30, 2009 to the same period in 2008. This was primarily due to and increase of $155,000 in FDIC deposit insurance premiums and $89,000 related to the maintenance and sale of foreclosed real estate properties.

Income tax expense. The Company recognized an income tax benefit of $551,000 for the nine-month period ended September 30, 2009, compared to an expense of $1.2 million for the same period in 2008. The income tax benefit for 2009 is primarily due to tax exempt income and a decrease in income before taxes for the period. An income tax benefit for the three-month period ended September 30, 2009 of $331,000 was recognized, compared to an expense of $354,000 for the same quarter in 2008.

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, 2009, the Bank had cash and cash equivalents of $16.9 million and securities available-for-sale with a fair value of $88.7 million. If the Bank requires funds beyond its ability to generate them internally, it has additional borrowing capacity with the FHLB of Indianapolis and additional collateral eligible for repurchase agreements.

The Bank s primary investing activities are the origination of one-to-four family mortgage loans, 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.

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The Bank is required to maintain specific amounts of capital pursuant to OTS regulatory requirements. As of September 30, 2009, 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 8.6%, 8.6% and 13.6%, respectively. The regulatory requirements at that date were 1.5%, 3.0% and 8.0%, respectively. At September 30, 2009, 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 $1.5 million at September 30, 2009.

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 2008 Annual Report to Stockholders, filed as an exhibit to the Form 10-K for the year ended December 31, 2008.

For the nine months ended September 30, 2009, 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.

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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, 2008 and September 30, 2009, 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.

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ABOUT MARKET RISK

FIRST CAPITAL, INC.

		At December 31, 2008			
		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	$ 47,365	$ (6,200)	(12)%	10.24%	(103)bp
200bp	50,580	(2,985)	(6)	10.81	(46)bp
100bp	52,754	(811)	(2)	11.17	(20)bp
Static	53,565			11.27	bp
(100)bp	52,462	(1,103)	(2)	11.01	(26)bp

		At September 30, 2009			
		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	$ 52,469	$ (6,515)	(11)%	11.29%	(108)bp
200bp	56,300	(2,684)	(5)	11.97	(40)bp
100bp	58,432	(552)	(1)	12.33	(4)bp
Static	58,984			12.37	bp
(100)bp	57,920	(1,064)	(2)	12.13	(24)bp

The preceding tables indicate that the Bank s NPV would be expected to decrease in the event of a sudden and sustained increase or decrease 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 September 30, 2009, approximately 54% of the loan portfolio consisted of fixed-rate loans.

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.

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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 September 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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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, 2008, 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
July 1 through July 31, 2009	(1)	12,261	$ 18.18	12,261	198,275
August 1 through August 31, 2009	(1)	52	$ 16.50	52	198,223
September 1 through September 30, 2009	(1)	859	$ 16.17	859	197,364
Total		13,172	$ 18.05	13,172	

(1) 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.

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PART II

OTHER INFORMATION

FIRST CAPITAL, INC.

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

None.

PART II

OTHER INFORMATION

FIRST CAPITAL, INC.

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.

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SIGNATURES

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

FIRST CAPITAL, INC.
(Registrant)

Dated November 13, 2009 **BY:** /s/ William W. Harrod
William W. Harrod
President and CEO

Dated November 13, 2009 **BY:** /s/ Michael C. Frederick
Michael C. Frederick
Senior Vice President, CFO and Treasurer

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