

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from _____ to _____

Commission File No. 0-25023

First Capital, Inc.

(Exact name of registrant as specified in its charter)

Edgar Filing: FIRST CAPITAL INC - Form 10-Q

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 No

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

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

(Check one): Large Accelerated Filer Accelerated Filer
Non-accelerated Filer Smaller Reporting Company

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

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

Table of Contents

FIRST CAPITAL, INC.

INDEX

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

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

	March 31, 2011	December 31, 2010
	<i>(In thousands)</i>	
ASSETS		
Cash and due from banks	\$ 12,805	\$ 10,463
Interest bearing deposits with banks	1,410	2,496
Federal funds sold	13,812	8,616
Total cash and cash equivalents	28,027	21,575
Securities available for sale, at fair value	102,294	100,851
Securities-held to maturity	18	32
Loans, net	287,092	294,550
Loans held for sale	732	4,375
Federal Home Loan Bank stock, at cost	3,194	3,194
Foreclosed real estate	803	591
Premises and equipment	10,867	10,992
Accrued interest receivable	1,901	1,894
Cash value of life insurance	5,842	5,789
Goodwill	5,386	5,386
Core deposit intangibles	80	98
Other assets	2,992	3,051
Total Assets	\$ 449,228	\$ 452,378
LIABILITIES		
Deposits:		
Noninterest-bearing	\$ 48,140	\$ 40,774
Interest-bearing	326,493	337,229
Total deposits	374,633	378,003
Retail repurchase agreements	8,698	8,669
Advances from Federal Home Loan Bank	15,529	15,729
Accrued interest payable	549	649
Accrued expenses and other liabilities	1,465	1,324
Total liabilities	400,874	404,374
EQUITY		
First Capital, Inc. stockholders' equity:		
Preferred stock of \$.01 par value per share		
Authorized 1,000,000 shares; none issued		
Common stock of \$.01 par value per share		
Authorized 5,000,000 shares; issued 3,164,420 shares	32	32

Edgar Filing: FIRST CAPITAL INC - Form 10-Q

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

See accompanying notes to consolidated financial statements.

Table of Contents

PART I - FINANCIAL INFORMATION

FIRST CAPITAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

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

Edgar Filing: FIRST CAPITAL INC - Form 10-Q

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

See accompanying notes to consolidated financial statements.

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

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

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

See accompanying notes to consolidated financial statements.

Table of Contents

FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Presentation of Interim Information

First Capital, Inc. (Company) is the thrift holding company for First Harrison Bank (Bank). The information presented in this report relates primarily to the Bank s operations. First Harrison Investments, Inc. and First Harrison Holdings, Inc. are wholly-owned Nevada corporate subsidiaries of the Bank that jointly own First Harrison, LLC, a Nevada limited liability corporation that holds and manages an investment portfolio. First Harrison REIT, Inc. (REIT) was incorporated as a wholly-owned subsidiary of First Harrison Holdings, Inc. to hold a portion of the Bank s real estate mortgage loan portfolio. On January 21, 2009, the REIT issued 105 shares of 12.5% redeemable cumulative preferred stock with an aggregate liquidation value of \$105,000 in a private placement offering in order to satisfy certain ownership requirements to qualify as a real estate investment trust. At March 31, 2011, this noncontrolling interest represented 0.2% ownership of the REIT.

In the opinion of management, the unaudited consolidated financial statements include all normal adjustments considered necessary to present fairly the financial position as of March 31, 2011, and the results of operations and cash flows for the three months ended March 31, 2011 and 2010. All of these adjustments are of a normal, recurring nature. Such adjustments are the only adjustments included in the unaudited consolidated financial statements. Interim results are not necessarily indicative of results for a full year.

The accompanying unaudited consolidated financial statements and notes have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial statements and are presented as permitted by the instructions to Form 10-Q. Accordingly, they do not contain certain information included in the Company s annual audited consolidated financial statements and related footnotes for the year ended December 31, 2010 included in the Form 10-K.

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

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

Comprehensive income is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income for the Company includes net income attributable to the Company and other comprehensive income representing the net unrealized gains and losses on securities available for sale. The following table sets forth the components of other comprehensive income and the allocated tax amounts for the three months ended March 31, 2011 and 2010:

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

Table of Contents**FIRST CAPITAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)***3. Investment Securities**

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

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

Edgar Filing: FIRST CAPITAL INC - Form 10-Q

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

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

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

The amortized cost and fair value of debt securities as of March 31, 2011, by contractual maturity, are shown below. Expected maturities of mortgage-backed securities may differ from contractual maturities because the mortgages underlying the obligations may be prepaid without penalty.

	Securities Available for Sale		Securities Held to Maturity	
	Amortized	Fair	Amortized	Fair
	Cost	Value	Cost	Value
<i>(In thousands)</i>				
Due in one year or less	\$ 3,159	\$ 3,207	\$	\$
Due after one year through five years	14,182	14,305		
Due after five years through ten years	13,038	13,133		
Due after ten years	43,173	42,964		
	73,552	73,609		
Mortgage-backed securities and CMO	24,293	24,793	18	18
	\$ 97,845	\$ 98,402	\$ 18	\$ 18

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

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

Edgar Filing: FIRST CAPITAL INC - Form 10-Q

Continuous loss position more than twelve months:

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

-9-

Table of Contents

FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

At March 31, 2011, the 51 U.S. government agency debt securities, including agency notes and bonds, mortgage-backed securities and CMO, and municipal obligations in a loss position had depreciated approximately 2.0% from the amortized cost basis. All of the U.S. government agency securities and municipal obligations are issued by U.S. government agencies, government-sponsored enterprises and municipal governments, or are secured by first mortgage loans and municipal project revenues. These unrealized losses related principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government, its agencies or other governments, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As the Company has the ability to hold the debt securities until maturity, or the foreseeable future if classified as available for sale, no declines are deemed to be other-than-temporary.

At March 31, 2011, the two privately-issued CMO in a loss position had depreciated approximately 4.7% from the amortized cost basis. The Company evaluates the existence of a potential credit loss component related to the decline in fair values of the privately-issued CMO portfolio each quarter using an independent third party analysis. At March 31, 2011, the Company holds one privately-issued CMO with an amortized cost of \$495,000 and a fair value of \$471,000 that was downgraded to a substandard regulatory classification in 2009 due to a downgrade of the security's credit quality by various rating agencies. Based on the independent third party analysis performed in March 2011, the Company expects to collect the contractual principal and interest cash flows for this security, and, as a result, no other-than-temporary impairment has been recognized. While management does not anticipate a credit-related impairment loss at March 31, 2011, additional deterioration in market and economic conditions may have an adverse impact on the credit quality in the future.

Table of Contents**FIRST CAPITAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)***4. Loans and Allowance for Loan Losses**

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

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

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

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

(4 continued)

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

	Residential Real Estate	Land	Construction	Commercial Real Estate	Commercial Business	Home Equity & 2nd Mtg	Other Consumer	Total
<i>(In thousands)</i>								
Allowance for loan losses:								
Beginning balance	\$ 1,024	\$ 55	\$ 21	\$ 1,051	\$ 1,251	\$ 606	\$ 465	\$ 4,473
Provisions for loan losses	232	24	18	197	(42)	87	(16)	500
Charge-offs	(265)					(157)	(64)	(486)
Recoveries	1				2	26	61	90
Ending balance	\$ 992	\$ 79	\$ 39	\$ 1,248	\$ 1,211	\$ 562	\$ 446	\$ 4,577
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	\$ 354	\$	\$	\$ 602	\$ 1,084	\$ 302	\$ 6	\$ 2,348
Collectively evaluated for impairment	638	79	39	646	127	260	440	2,229
Acquired with deteriorated credit quality								
Ending balance	\$ 992	\$ 79	\$ 39	\$ 1,248	\$ 1,211	\$ 562	\$ 446	\$ 4,577
Recorded investment in loans:								
Individually evaluated for impairment	\$ 3,140	\$ 6	\$ 309	\$ 1,488	\$ 2,153	\$ 540	\$ 40	\$ 7,676
Collectively evaluated for impairment	123,519	9,407	4,393	57,741	20,154	40,740	29,060	285,014
Acquired with deteriorated credit quality								
Ending balance	\$ 126,659	\$ 9,413	\$ 4,702	\$ 59,229	\$ 22,307	\$ 41,280	\$ 29,100	\$ 292,690

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

(4 continued)

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

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

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

(4 continued)

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

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

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

(4 continued)

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

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

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

(4 continued)

Nonperforming loans consists of nonaccrual loans and loans over 90 days past due and still accruing interest. The following table presents the recorded investment in nonperforming loans by class of loans at March 31, 2011 and December 31, 2010:

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

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

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

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

(4 continued)

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

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

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

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

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

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

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

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

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

(4 continued)

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

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

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

Table of Contents**FIRST CAPITAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)***5. Supplemental Disclosure for Earnings Per Share**

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

6. Stock Option Plan

For the three month periods ended March 31, 2011 and 2010, the Company did not recognize any compensation expense related to its stock option plans. Expense is recognized ratably over the five-year vesting period of the options. At March 31, 2011, there was no unrecognized compensation expense related to nonvested stock options to be recognized over the remaining vesting period. The Black-Scholes option pricing model was used to determine the fair value of the options granted in prior periods.

7. Supplemental Disclosures of Cash Flow Information

Edgar Filing: FIRST CAPITAL INC - Form 10-Q

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

-19-

Table of Contents

FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

8. Fair Value Measurements

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

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

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

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company's financial and nonfinancial assets carried at fair value or the lower of cost or fair value. The table below presents the balances of assets measured at fair value on a recurring and nonrecurring basis as of March 31, 2011 and December 31, 2010. The Company had no liabilities measured at fair value as of March 31, 2011 or December 31, 2010.

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

Table of Contents

FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

Impaired Loans. Impaired loans are carried at the present value of estimated future cash flows using the loan's existing rate or the fair value of collateral if the loan is collateral dependent. Impaired loans are evaluated and valued at the time the loan is identified as impaired at the lower of cost or market value. For collateral dependent impaired loans, market value is measured based on the value of the collateral securing these loans and is classified as Level 2 in the fair value hierarchy. Collateral may be real estate and/or business assets, including equipment, inventory and/or accounts receivable, and its fair value is generally determined based on real estate appraisals or other independent evaluations by qualified professionals. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

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

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

There were no transfers into or out of the Company's Level 3 financial assets for the three months ended March 31, 2011. In addition, there were no transfers into or out of Levels 1 and 2 of the fair value hierarchy during the three months ended March 31, 2011.

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

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

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

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

Cash and Cash Equivalents

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

Table of Contents

FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Debt and Equity Securities

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

Loans

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

Deposits

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

Borrowed Funds

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

Commitments to Extend Credit

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

Table of Contents

FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

9. Recent Accounting Pronouncements

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

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

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

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

Table of Contents

FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

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

Table of Contents

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

Safe Harbor Statement for Forward-Looking Statements

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

Forward-looking statements are not guarantees of future performance. Numerous risks and uncertainties could cause or contribute to the Company's actual results, performance and achievements being materially different from those expressed or implied by the forward-looking statements. Factors that may cause or contribute to these differences include, without limitation, general economic conditions, including changes in market interest rates and changes in monetary and fiscal policies of the federal government; legislative and regulatory changes; the quality and composition of the loan and investment securities portfolio; loan demand; deposit flows; competition; and changes in accounting principles and guidelines. Additional factors that may affect our results are discussed in Part II of the Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2010 under Item 1A. Risk Factors. These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company assumes no obligation and disclaims any obligation to update any forward-looking statements.

Critical Accounting Policies

During the three months ended March 31, 2011, there was no significant change in the Company's critical accounting policies or the application of critical accounting policies as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Financial Condition

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

Net loans receivable (excluding loans held for sale) decreased \$7.5 million from \$294.6 million at December 31, 2010 to \$287.1 million at March 31, 2011. Residential mortgage loans decreased \$4.0 million during the three months ended March 31, 2011 primarily due to loan payoffs that have not been replaced by new originations for the Bank's portfolio as the Bank has continued to sell fixed rate residential mortgage loans in the secondary market. Home equity loans and second mortgages have also declined by \$2.0 million during the period.

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

Table of Contents

PART I - ITEM 2

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

Cash and cash equivalents increased from \$21.6 million at December 31, 2010 to \$28.0 million at March 31, 2011, primarily due to an increase of \$5.2 million in federal funds sold.

Total deposits decreased 0.9% from \$378.0 million at December 31, 2010 to \$374.6 million at March 31, 2011. Interest-bearing checking and savings deposits decreased \$8.6 million during the period, primarily due to normal payouts from public fund accounts. Noninterest-bearing checking accounts increased by \$7.4 million during the period due to a combination of growth in existing accounts and new accounts.

Federal Home Loan Bank borrowings decreased from \$15.7 million at December 31, 2010 to \$15.5 million at March 31, 2011.

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

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

Results of Operations

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

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

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

Table of Contents

PART I - ITEM 2

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

FIRST CAPITAL, INC.

Total interest expense decreased \$457,000 for the three months ended March 31, 2011 compared to the same period in 2010. The average balance of interest-bearing liabilities decreased from \$373.2 million for 2010 to \$349.2 million for 2011. The average rate paid on those liabilities decreased from 1.62% for the quarter ended March 31, 2010 to 1.20% for the same period in 2011 primarily as a result of the FOMC maintaining the low rate environment previously discussed. As a result, the tax-equivalent interest rate spread increased from 3.63% for the three-month period ended March 31, 2010 to 3.91% for the same period in 2011.

Provision for loan losses. The provision for loan losses increased from \$460,000 for the three-month period ended March 31, 2010 to \$500,000 for the same period in 2011. Net charge offs amounted to \$396,000 and \$347,000 for the three-month periods ended March 31, 2011 and 2010, respectively. During the three-month period ended March 31, 2011, gross loans receivable decreased \$7.4 million. As stated earlier in this report, residential mortgage loans and home equity loans and second mortgages decreased \$4.0 million and \$2.0 million, respectively, during the three months ended March 31, 2011. Commercial real estate loans also decreased \$833,000 when comparing the periods. The increase in the provision reflects continued efforts to offset current period charge-offs and to provide for inherent loss exposure due to weakened general economic conditions such as depreciating collateral values, job losses and continued pressures on household budgets in the Bank's market area.

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

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

The allowance for loan losses was \$4.6 million at March 31, 2011 compared to \$4.5 million at December 31, 2010. Management has deemed these amounts as adequate on those dates based on its best estimate of probable known and inherent loan losses. At March 31, 2011, nonperforming loans amounted to \$7.7 million compared to \$7.9 million at December 31, 2010. Included in nonperforming loans are loans over 90 days past due secured by residential mortgages of \$243,000, home equity loans and second mortgages of \$19,000, consumer loans of \$16,000 and commercial loans of \$10,000. These loans are accruing interest as the estimated value of the collateral and collection efforts are deemed sufficient to ensure full recovery. At March 31, 2011 and December 31, 2010, nonaccrual loans amounted to \$7.4 million and \$7.5 million, respectively.

Table of Contents

PART I - ITEM 2

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

FIRST CAPITAL, INC.

Noninterest income for the three-month periods ended March 31, 2011 and 2010. Noninterest income for the quarter ended March 31, 2011 increased to \$923,000 compared to \$823,000 for the quarter ended March 31, 2010. Service charges on deposits increased \$86,000 when comparing the two periods, primarily due to an increase in fees for debit card transactions as customers continue to increase their use of debit cards instead of paper checks.

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

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

Liquidity and Capital Resources

The Bank's primary sources of funds are customer deposits, proceeds from loan repayments, maturing securities and FHLB advances. While loan repayments and maturities are a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by market interest rates, general economic conditions and competition. At March 31, 2011, the Bank had cash and cash equivalents of \$28.0 million and securities available-for-sale with a fair value of \$102.3 million. If the Bank requires funds beyond its ability to generate them internally, it has additional borrowing capacity with the FHLB of Indianapolis and additional collateral eligible for repurchase agreements.

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

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

Table of Contents

PART I - ITEM 2

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

FIRST CAPITAL, INC.

The Bank is required to maintain specific amounts of capital pursuant to OTS regulatory requirements. As of March 31, 2011, the Bank was in compliance with all regulatory capital requirements that were effective as of such date with tangible, core and risk-based capital ratios of 9.5%, 9.5% and 16.2%, respectively. The regulatory requirements at that date were 1.5%, 3.0% and 8.0%, respectively. At March 31, 2011, the Bank was considered well-capitalized under applicable regulatory guidelines.

The Company is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, the Company, on a stand-alone basis, is responsible for paying any dividends declared to its shareholders. The Company also has repurchased shares of its common stock. The Company's primary source of income is dividends received from the Bank. The amount of dividends that the Bank may declare and pay to the Company in any calendar year, without the receipt of prior approval from the Office of Thrift Supervision (OTS) but with prior notice to the OTS, cannot exceed net income for that year to date plus retained net income (as defined) for the preceding two calendar years. On a stand-alone basis, the Company had liquid assets of \$385,000 at March 31, 2011.

Off-Balance Sheet Arrangements

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with generally accepted accounting principles, are not recorded on the Company's financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are primarily used to manage customers' requests for funding and take the form of loan commitments and letters of credit. A further presentation of the Company's off-balance sheet arrangements is presented in the Company's 2010 Annual Report on Form 10-K for the year ended December 31, 2010.

For the three months ended March 31, 2011, the Company did not engage in any off-balance sheet transactions reasonably likely to have a material effect on the Company's financial condition, results of operations or cash flows.

Table of Contents

PART I ITEM 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES

ABOUT MARKET RISK

FIRST CAPITAL, INC.

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

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

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

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

Table of Contents**PART I ITEM 3****QUANTITATIVE AND QUALITATIVE DISCLOSURES****ABOUT MARKET RISK****FIRST CAPITAL, INC.**

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

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

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

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

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

Table of Contents

PART I - ITEM 4

CONTROLS AND PROCEDURES

FIRST CAPITAL, INC.

Controls and Procedures

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

There have been no changes in the Company's internal control over financial reporting during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

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

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our business, financial condition or future results. There have been no material changes to the risk factors described in our Annual Report on Form 10-K, however these are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

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

Edgar Filing: FIRST CAPITAL INC - Form 10-Q

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.

-35-

Table of Contents

PART II

OTHER INFORMATION

FIRST CAPITAL, INC.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. (Removed and Reserved)

Item 5. Other Information

None.

Item 6. Exhibits

- 3.1 Articles of Incorporation of First Capital, Inc. (1)
- 3.2 Fourth Amended and Restated Bylaws of First Capital, Inc. (2)
- 10.1 *Employment Agreement with Samuel E. Uhl (4)
- 10.2 *Employment Agreement with M. Chris Frederick (4)
- 10.3 *Employment Agreement with Joel E. Voyles (4)
- 10.4 *Employee Severance Compensation Plan (3)
- 10.5 *First Federal Bank, A Federal Savings Bank 1994 Stock Option Plan (as assumed by First Capital, Inc. effective December 31, 1998) (5)
- 10.6 *First Capital, Inc. 1999 Stock-Based Incentive Plan (6)
- 10.7 *1998 Officers and Key Employees Stock Option Plan for HCB Bancorp (6)
- 10.8 *Employment Agreement with William W. Harrod (4)
- 10.9 * First Capital, Inc. 2009 Equity Incentive Plan (7)
- 11.0 Statement Re: Computation of Per Share Earnings (incorporated by reference to Note 3 of the Unaudited Consolidated Financial Statements contained herein)
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
- 32.1 Section 1350 Certification of Chief Executive Officer
- 32.2 Section 1350 Certification of Chief Financial Officer

* Management contract or compensatory plan, contract or arrangement.

(1)

Edgar Filing: FIRST CAPITAL INC - Form 10-Q

Incorporated by reference from the Exhibits filed with the Registration Statement on Form SB-2, and any amendments thereto, Registration No. 333-63515.

- (2) Incorporated by reference to the Current Report on Form 8-K filed with the Securities and Exchange Commission on August 22, 2007.
- (3) Incorporated by reference to the Quarterly Report on Form 10-QSB for the quarter ended December 31, 1998.
- (4) Incorporated by reference to the Annual Report on Form 10-KSB for the year ended December 31, 1999.
- (5) Incorporated by reference from the Exhibits filed with the Registration Statement on Form S-8, and any amendments thereto, Registration Statement No. 333-76543.
- (6) Incorporated by reference from the Exhibits filed with the Registration Statement on Form S-8, and any amendments thereto, Registration Statement No. 333-95987.
- (7) Incorporated by reference to the appendix to the Company's definitive proxy materials on Schedule 14A filed with the Securities and Exchange Commission on April 9, 2009.

Table of Contents

SIGNATURES

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

FIRST CAPITAL, INC.
(Registrant)

Dated May 13, 2011

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

Dated May 13, 2011

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