

FIRST CAPITAL INC  
Form 10-Q  
August 12, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2010

OR

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

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

Commission File No. 0-25023

**First Capital, Inc.**

(Exact name of registrant as specified in its charter)

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

**35-2056949**  
(I.R.S. Employer  
Identification Number)

**220 Federal Drive NW, Corydon, Indiana**  
(Address of principal executive offices)

**47112**  
(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 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

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: 2,787,309 shares of common stock were outstanding as of July 30, 2010.

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

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	<i>(In thousands)</i>	
<b>ASSETS</b>		
Cash and due from banks	\$ 10,683	\$ 10,430
Interest bearing deposits with banks	2,164	5,427
Total cash and cash equivalents	12,847	15,857
Securities available for sale, at fair value	104,083	93,729
Securities-held to maturity	45	62
Loans, net	306,157	311,092
Loans held for sale	2,476	1,463
Federal Home Loan Bank stock, at cost	3,551	3,551
Foreclosed real estate	850	877
Premises and equipment	11,218	11,591
Accrued interest receivable	2,027	2,054
Cash value of life insurance	5,683	5,572
Goodwill	5,386	5,386
Core deposit intangibles	135	171
Other assets	3,515	4,129
<b>Total Assets</b>	<b>\$ 457,973</b>	<b>\$ 455,534</b>
<b>LIABILITIES</b>		
Deposits:		
Noninterest-bearing	\$ 39,562	\$ 40,473
Interest-bearing	331,221	334,003
Total Deposits	370,783	374,476
Retail repurchase agreements	8,403	7,949
Advances from Federal Home Loan Bank	29,001	24,776
Accrued interest payable	711	980
Accrued expenses and other liabilities	1,198	1,297
Total Liabilities	410,096	409,478
<b>EQUITY</b>		
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 (3,136,207 shares in 2009)	32	31
Additional paid-in capital	24,313	24,025
Retained earnings-substantially restricted	29,625	28,640

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Accumulated other comprehensive income	1,079	490
Less treasury stock, at cost - 376,636 shares (374,292 shares in 2009)	(7,277)	(7,242)
Total First Capital, Inc. stockholders' equity	47,772	45,944
Noncontrolling interest in subsidiary	105	112
Total Equity	47,877	46,056
<b>Total Liabilities and Equity</b>	<b>\$ 457,973</b>	<b>\$ 455,534</b>

See accompanying notes to consolidated financial statements.

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<i>(In thousands, except per share data)</i>			
<b>INTEREST INCOME</b>				
Loans, including fees	\$ 4,726	\$ 4,840	\$ 9,372	\$ 9,906
Securities:				
Taxable	569	578	1,120	1,182
Tax-exempt	263	243	523	482
Federal Home Loan Bank dividends	17	5	35	33
Fed funds sold and interest bearing deposits with banks	8	6	12	12
Total interest income	5,583	5,672	11,062	11,615
<b>INTEREST EXPENSE</b>				
Deposits	1,155	1,513	2,386	3,184
Retail repurchase agreements	17	11	34	22
Advances from Federal Home Loan Bank	261	530	522	1,072
Total interest expense	1,433	2,054	2,942	4,278
Net interest income	4,150	3,618	8,120	7,337
Provision for loan losses	420	1,959	880	2,384
Net interest income after provision for loan losses	3,730	1,659	7,240	4,953
<b>NON-INTEREST INCOME</b>				
Service charges on deposit accounts	726	606	1,314	1,172
Commission income	38	30	76	58
Gain on sale of mortgage loans	162	185	279	318
Increase in cash surrender value of life insurance	54	54	110	110
Other income	23	19	47	42
Total non-interest income	1,003	894	1,826	1,700
<b>NON-INTEREST EXPENSE</b>				
Compensation and benefits	1,744	1,672	3,510	3,308
Occupancy and equipment	347	329	685	668
Data processing	278	249	244	471
Professional fees	184	160	390	315
Advertising	52	71	91	129
Other operating expenses	790	957	1,365	1,578
Total non-interest expense	3,395	3,438	6,285	6,469
Income (loss) before income taxes	1,338	(885)	2,781	184
Income tax expense (benefit)	346	(484)	785	(220)
<b>Net Income (Loss)</b>	<b>\$ 992</b>	<b>\$ (401)</b>	<b>\$ 1,996</b>	<b>\$ 404</b>

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Less: net income attributable to noncontrolling interest in subsidiary	4	4	7	6
<b>Net Income (Loss) Attributable to First Capital, Inc.</b>	<b>\$ 988</b>	<b>\$ (405)</b>	<b>\$ 1,989</b>	<b>\$ 398</b>
Other comprehensive income, net of tax				
Unrealized gain on securities:				
Unrealized holding gains arising during the period	309	58	589	38
Less: reclassification adjustment				
Other comprehensive income	309	58	589	38
<b>Comprehensive Income (Loss)</b>	<b>\$ 1,297</b>	<b>\$ (347)</b>	<b>\$ 2,578</b>	<b>\$ 436</b>
Earnings (loss) per common share attributable to First Capital, Inc.				
Basic	\$ 0.35	\$ (0.15)	\$ 0.71	\$ 0.14
Diluted	\$ 0.35	\$ (0.15)	\$ 0.71	\$ 0.14
Dividends per share	\$ 0.18	\$ 0.18	\$ 0.36	\$ 0.36

See accompanying notes to consolidated financial statements.

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

	<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
	<i>(In thousands)</i>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 1,996	\$ 404
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	432	251
Depreciation and amortization expense	465	470
Deferred income taxes	185	(647)
Increase in cash value of life insurance	(110)	(110)
Provision for loan losses	880	2,384
Proceeds from sales of mortgage loans	16,562	26,550
Mortgage loans originated for sale	(17,296)	(28,911)
Net gain on sale of mortgage loans	(279)	(318)
Decrease in accrued interest receivable	27	314
Decrease in accrued interest payable	(269)	(279)
Net change in other assets/liabilities	5	74
<b>Net Cash Provided By Operating Activities</b>	<b>2,598</b>	<b>182</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of securities available for sale	(35,011)	(15,072)
Proceeds from maturities of securities available for sale	18,396	6,635
Proceeds from maturities of securities held to maturity	10	10
Principal collected on mortgage-backed obligations	6,754	7,771
Net decrease in loans receivable	3,332	2,643
Proceeds from sale of foreclosed real estate	750	556
Purchase of premises and equipment	(56)	(912)
<b>Net Cash Provided By (Used In) Investing Activities</b>	<b>(5,825)</b>	<b>1,631</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net decrease in deposits	(3,693)	(2,702)
Net increase (decrease) in advances from Federal Home Loan Bank	4,225	(4,800)
Net increase (decrease) in retail repurchase agreements	454	(730)
Exercise of stock options	282	10
Purchase of treasury stock	(35)	(346)
Issuance of preferred shares to noncontrolling interest		83
Dividends paid	(1,016)	(1,005)
<b>Net Cash Provided By (Used In) Financing Activities</b>	<b>217</b>	<b>(9,490)</b>
<b>Net Decrease in Cash and Cash Equivalents</b>	<b>(3,010)</b>	<b>(7,677)</b>



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Cash and cash equivalents at beginning of period	15,857	22,149
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 12,847</b>	<b>\$ 14,472</b>

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 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 June 30, 2010, 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 June 30, 2010, and the results of operations for the three and six months ended June 30, 2010 and 2009 and cash flows for the six months ended June 30, 2010 and 2009. 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 U.S 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, 2009 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 and six months ended June 30, 2010 and 2009:

	<b>Three Months Ended June 30, 2010</b>		<b>Six Months Ended June 30, 2010</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	(In thousands)		(In thousands)	
<b>Unrealized gains on securities:</b>				
Unrealized holding gains arising during the period	\$ 511	\$ 96	\$ 975	\$ 63
Income tax expense	(202)	(38)	(386)	(25)
Net of tax amount	309	58	589	38
Less: reclassification adjustment for gains included in net income				
Income tax benefit				
Net of tax amount				
Other comprehensive income	\$ 309	\$ 58	\$ 589	\$ 38

**Table of Contents****FIRST CAPITAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)***3. Supplemental Disclosure for Earnings Per Share**

	Three Months Ended		Six Months Ended	
	June 30, 2010	June 30, 2009	June 30, 2010	June 30, 2009
<i>(Dollars in thousands, except for share and per share data)</i>				
<b>Basic</b>				
Earnings:				
Net income (loss) attributable to First Capital, Inc.	\$ 988	\$ (405)	\$ 1,989	\$ 398
Shares:				
Weighted average common shares outstanding	2,788,404	2,774,901	2,782,965	2,782,052
Net income (loss) attributable to First Capital, Inc. per common share, basic	\$ 0.35	\$ (0.15)	\$ 0.71	\$ 0.14
<b>Diluted</b>				
Earnings:				
Net income (loss) attributable to First Capital, Inc.	\$ 988	\$ (405)	\$ 1,989	\$ 398
Shares:				
Weighted average common shares outstanding	2,788,404	2,774,901	2,782,965	2,782,052
Add: Dilutive effect of outstanding options		14,117	2,085	12,333
Add: Dilutive effect of restricted stock				
Weighted average common shares outstanding, as adjusted	2,788,404	2,789,018	2,785,050	2,794,385
Net income (loss) attributable to First Capital, Inc. per common share, diluted	\$ 0.35	\$ (0.15)	\$ 0.71	\$ 0.14

**4. Stock Option Plan**

For the six month periods ended June 30, 2010 and 2009, 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 June 30, 2010, 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.

**5. Supplemental Disclosures of Cash Flow Information**

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	<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
	<i>(In thousands)</i>	
<b>Cash payments for:</b>		
Interest	\$ 3,211	\$ 4,557
Taxes	853	471
<b>Noncash investing activities:</b>		
Transfers from loans to real estate acquired through foreclosure	1,220	590

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**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(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 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.

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.

**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 June 30, 2010. The Company had no liabilities measured at fair value as of June 30, 2010.

	Level 1	Carrying Value		Total
		Level 2	Level 3	
		<i>(In thousands)</i>		
<b><i>Assets Measured on a Recurring Basis</i></b>				
Securities available for sale	\$ 1,975	\$ 102,108	\$	\$ 104,083
<b><i>Assets Measured on a Nonrecurring Basis</i></b>				
Impaired loans		3,914		3,914
Loans held for sale		2,476		2,476
Foreclosed real estate		850		850

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, net of income tax effect.

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**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(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 is reported at the lower of cost or 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 six months ended June 30, 2010. In addition, there were no transfers into or out of Levels 1 and 2 of the fair value hierarchy during the six months ended June 30, 2010.



**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:

	June 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<i>(In thousands)</i>				
<b>Financial assets:</b>				
Cash and cash equivalents	\$ 12,847	\$ 12,847	\$ 15,857	\$ 15,857
Securities available for sale	104,083	104,083	93,729	93,729
Securities held to maturity	45	46	62	64
Loans held for sale	2,476	2,476	1,463	1,487
Loans, net	306,157	319,241	311,092	319,295
Federal Home Loan Bank stock	3,551	3,551	3,551	3,551
Accrued interest receivable	2,027	2,027	2,054	2,054
<b>Financial liabilities:</b>				
Deposits	370,783	374,107	374,476	377,928
Retail repurchase agreements	8,403	8,403	7,949	7,949
Advances from Federal Home Loan Bank	29,001	30,010	24,776	25,886
Accrued interest payable	711	711	980	980
<b>Off-balance-sheet financial instruments:</b>				
Asset related to commitments to extend credit		7		72

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**

*(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.

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**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(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 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 are 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 was not permitted. The adoption of these statements did not have a material effect on the Company's consolidated financial position or results of operations.

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 will generally be 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. The adoption of this ASU did not have a material effect on the Company's consolidated financial position or results of operations.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited)*

In February 2010, the FASB issued ASU No. 2010-09, *Subsequent Events (Topic 855) Amendments to Certain Recognition and Disclosure Requirements*. The amendments in the ASU remove the requirement for companies that are subject to the periodic reporting requirements of the Exchange Act to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of GAAP. The FASB believes these amendments alleviate potential conflicts with the SEC's requirements. All of the amendments in the ASU were effective upon issuance, except for the use of the issued date for conduit debt obligors, which will be effective for interim or annual periods ending after June 15, 2010. The adoption of this ASU did not have a material effect on the Company's consolidated financial position or results of operations.

In April 2010, the FASB issued ASU No. 2010-18, *Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset (Topic 310)*. Under the amendments, modifications of loans that are accounted for within pools under Subtopic 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change. However, loans within the scope of Subtopic 310-30 that are accounted for individually will continue to be subject to the troubled debt restructuring accounting provisions. The ASU is effective for modifications of loans accounted for within pools under Subtopic 310-30 occurring in the first interim or annual period ending after July 15, 2010. 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 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. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial position or results of operations.

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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 Part II of this Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2009 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 six months ended June 30, 2010, 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, 2009.

**Financial Condition**

Total assets increased from \$455.5 million at December 31, 2009 to \$458.0 million at June 30, 2010, an increase of 0.5%.

Net loans receivable (excluding loans held for sale) decreased \$4.9 million from \$311.1 million at December 31, 2009 to \$306.2 million at June 30, 2010. Residential mortgages and consumer loans decreased \$6.2 million and \$1.2 million, respectively, during the six months ended June 30, 2010. This was partially offset by a \$1.9 million increase in commercial business loans and a \$977,000 decrease in the allowance for loan losses (See Provision for Loan Losses discussion in Results of Operations). The decrease in residential mortgage loans is due to loan payoffs that have not been replaced by new originations as the Bank has continued to sell fixed rate residential mortgage loans in the secondary market.

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Securities available for sale increased \$10.4 million from \$93.7 million at December 31, 2009 to \$104.1 million at June 30, 2010. Purchases of \$35.0 million of securities classified as available for sale were made during the six months ended June 30, 2010 and consisted primarily of U.S. government agency backed debt securities, mortgage-backed securities and municipal securities. Maturities and principal repayments of these securities totaled \$18.4 million and \$6.7 million, respectively, at June 30, 2010. The Company has increased securities available for sale in an effort to minimize excess liquidity and maximize interest income.

Cash and cash equivalents decreased from \$15.9 million at December 31, 2009 to \$12.8 million at June 30, 2010 primarily due to a decline of \$3.3 million in interest bearing deposits with banks.

Total deposits decreased 1.0% from \$374.5 million at December 31, 2009 to \$370.8 million at June 30, 2010. Time deposits decreased \$14.5 million during the period as some customers have opted not to lock in to long-term commitments while rates are at the current low levels. Noninterest-bearing demand deposits increased \$11.7 million during the period primarily due to the Bank's successful efforts at attracting new public fund accounts in its market area.

Federal Home Loan Bank borrowings increased from \$24.8 million at December 31, 2009 to \$29.0 million at June 30, 2010. New advances of \$5.5 million were drawn during the period while principal repayments of \$1.3 million were made.

Retail repurchase agreements, which represent overnight borrowings from deposit customers, including businesses and local municipalities, increased from \$7.9 million at December 31, 2009 to \$8.4 million at June 30, 2010.

Total stockholders' equity attributable to the Company increased from \$45.9 million at December 31, 2009 to \$47.8 million at June 30, 2010. This increase was primarily the result of retained net income of \$980,000 and a net unrealized gain of \$589,000 on securities available for sale during the period.

**Results of Operations**

**Net Income attributable to the Company for the six-month periods ended June 30, 2010 and 2009.** Net income attributable to the Company was \$2.0 million (\$0.71 per share diluted) for the six months ended June 30, 2010 compared to \$398,000 (\$0.14 per share diluted) for the six months ended June 30, 2009. During the 2010 period, the Company experienced increases in net interest income after the provision for loan losses and in noninterest income, and a decrease in noninterest expenses.

**Net Income attributable to the Company for the three-month periods ended June 30, 2010 and 2009.** Net income attributable to the Company was \$988,000 (\$0.35 per share diluted) for the three months ended June 30, 2010 compared to a net loss of \$405,000 (\$0.15 per share diluted) for the same period in 2009. A decrease in the provision for loan losses for the three months ended June 30, 2010 compared to the prior year period was the primary factor in the increase in net income, although the Company also increased net interest income and noninterest income while decreasing noninterest expenses when comparing the periods.

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**Net interest income for the six-month periods ended June 30, 2010 and 2009.** Net interest income increased \$783,000 for the six months ended June 30, 2010 compared to the six months ended June 30, 2009 primarily due to an increase in the tax-equivalent interest rate spread.

Total interest income decreased \$553,000 during the six months ended June 30, 2010 compared to the same period in 2009. During the six months ended June 30, 2010, the average balance of interest-earning assets and their tax-equivalent yield were \$426.7 million and 5.31%, respectively. During the same period in 2009, the average balance of those assets was \$421.2 million and the tax-equivalent yield was 5.64%. 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 \$85.4 million for the six months ended June 30, 2009 to \$103.2 million for the same period in 2010, while the average balance of loans decreased from \$321.6 million for 2009 to \$314.4 million for 2010.

Total interest expense decreased \$1.3 million during the six months ended June 30, 2010 compared to the six months ended June 30, 2009. The average balance of interest-bearing liabilities increased from \$365.3 million in 2009 to \$373.9 million in 2010 while the average rate paid on interest-bearing liabilities decreased from 2.34% in 2009 to 1.57% in 2010. As a result, the tax-equivalent interest rate spread increased from 3.30% during the first six months of 2009 to 3.74% for the same period in 2010.

**Net interest income for the three-month periods ended June 30, 2010 and 2009.** Net interest income increased from \$3.6 million for the three months ended June 30, 2009 to \$4.2 million for the same period in 2010 primarily due to an increase in the tax-equivalent interest rate spread.

Total interest income decreased \$89,000 for the three months ended June 30, 2010 compared to the same period in 2009 primarily due to a decrease in the tax-equivalent yield of interest-earning assets. For the quarter ended June 30, 2009, those assets had a tax-equivalent yield of 5.51%, but the tax-equivalent yield decreased during the same period in 2010 to 5.37%.

Total interest expense decreased \$621,000 for the three months ended June 30, 2010 compared to the same period in 2009. The average cost of interest-bearing liabilities decreased from 2.26% in 2008 to 1.53% in 2010.

As a result of the changes described above, the tax-equivalent interest rate spread increased from 3.25% in the quarter ended June 30, 2009 to 3.84% during the same period in 2010.

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**Provision for loan losses.** The provision for loan losses decreased from \$2.0 million for the three-month period ended June 30, 2009 to \$420,000 for the same period in 2010. Net charge offs amounted to \$1.5 million and \$430,000 for the three-month periods ended June 30, 2010 and 2009, respectively. The provision for loan losses was \$880,000 for the six-month period ended June 30, 2010 as compared to \$2.4 million for the same period in 2009. The decrease in the provision for loan losses for 2010 was primarily due to specific reserves on two commercial credit relationships totaling approximately \$1.6 million that were recorded during the quarter ended June 30, 2009. Management began the recovery process on one of the relationships during the quarter ended June 30, 2010 and that was the primary factor behind the increase in net charge offs for the quarter. Charge-offs totaling \$1.2 million were recorded as a result of this relationship during the quarter ended June 30, 2010 and \$419,000 was transferred from loans to foreclosed real estate.

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 collectability 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 \$4.0 million at June 30, 2010 compared to \$4.9 million at December 31, 2009. Management has deemed these amounts as adequate on those dates based on its best estimate of probable known and inherent loan losses. At June 30, 2010, nonperforming loans amounted to \$6.2 million compared to \$9.5 million at December 31, 2009. Included in nonperforming loans at June 30, 2010 are loans over 90 days past due secured by residential mortgages of \$184,000, commercial mortgages of \$58,000 and consumer loans of \$39,000. These loans are accruing interest as the estimated value of the collateral and collection efforts are deemed sufficient to ensure full recovery. Nonperforming loans also included nonaccrual loans totaling \$6.0 million and \$8.4 million at June 30, 2010 and December 31, 2009, respectively. The decrease in nonperforming loans at June 30, 2010 compared to December 31, 2009 is primarily the result of the collection efforts related to one large commercial relationship as discussed above. Nonperforming loans at December 31, 2009 included \$2.6 million related to this relationship.



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**Noninterest income for the six-month periods ended June 30, 2010 and 2009.** Noninterest income increased to \$1.8 million for the six months ended June 30, 2010 from \$1.7 million for the six months ended June 30, 2009. Service charges on deposit accounts increased \$142,000 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.

**Noninterest income for the three-month periods ended June 30, 2010 and 2009.** Noninterest income for the quarter ended June 30, 2010 increased to \$1.0 million compared to \$894,000 for the quarter ended June 30, 2009. Service charges on deposit accounts increased \$120,000, which was partially offset by a \$23,000 decrease in gains on the sale of mortgage loans when comparing the two periods.

**Noninterest expense for the six-month periods ended June 30, 2010 and 2009.** Noninterest expense decreased to \$6.3 million for the six months ended June 30, 2010 compared to \$6.5 million for the same period in 2009. Data processing expenses decreased \$227,000 when comparing the two periods, primarily due to a \$278,000 refund of disputed ATM charges paid by the Bank in 2009. Other operating expenses decreased \$213,000 when comparing the two periods primarily due to a \$139,000 decrease in FDIC insurance premiums. The premium in 2009 included \$207,000 for the special assessment imposed on all banks by the FDIC effective June 30, 2009 and payable on September 30, 2009. These were partially offset by an increase of \$202,000 in compensation and benefits primarily due to normal salary increases and an increase in the cost of health insurance.

**Noninterest expense for the three-month periods ended June 30, 2010 and 2009.** Noninterest expense for the quarter ended June 30, 2010 decreased \$43,000 when compared to the quarter ended June 30, 2009. Other operating expenses decreased \$167,000 primarily due to the previously mentioned reduction in the FDIC insurance premiums, and compensation and benefits expense increased \$72,000.

**Income tax expense.** The Company recognized income tax expense of \$785,000 for the six-month period ended June 30, 2010, compared to an income tax benefit of \$220,000 for the same period in 2009. The increase in income tax for 2010 is primarily due to an increase in income before taxes for the period. Income tax expense for the three-month period ended June 30, 2010 was \$346,000, compared to an income tax benefit of \$484,000 for the same quarter in 2009. The income tax benefit for 2009 is primarily due to tax exempt income and losses before income taxes for the periods.

**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 June 30, 2010, the Bank had cash and cash equivalents of \$12.8 million and securities available-for-sale with a fair value of \$104.1 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.

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**FIRST CAPITAL, INC.**

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.

The Bank is required to maintain specific amounts of capital pursuant to OTS regulatory requirements. As of June 30, 2010, 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 9.0%, 9.0% and 14.7%, respectively. The regulatory requirements at that date were 1.5%, 3.0% and 8.0%, respectively. At June 30, 2010, 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 \$381,000 at June 30, 2010.

**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 2009 Annual Report on Form 10-K for the year ended December 31, 2009.

For the six months ended June 30, 2010, 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, 2009 and June 30, 2010, 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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Change In Rates	Dollar Amount	At December 31, 2009		Net Portfolio Value as a	
		Net Portfolio Value Dollar Change	Percent Change <i>(Dollars in thousands)</i>	Percent of Present Value of Assets NPV Ratio	Change
300bp	\$51,262	\$ (9,669)	(16)%	11.11%	(169)bp
200bp	55,981	(4,950)	(8)	11.97	(83)bp
100bp	59,274	(1,657)	(3)	12.54	(26)bp
Static	60,931			12.80	bp
(100)bp	61,405	474	1	12.84	4bp

Change In Rates	Dollar Amount	At June 30, 2010		Net Portfolio Value as a	
		Net Portfolio Value Dollar Change	Percent Change <i>(Dollars in thousands)</i>	Percent of Present Value of Assets NPV Ratio	Change
300bp	\$56,690	\$ (5,922)	(9)%	12.14%	(96)bp
200bp	60,204	(2,408)	(4)	12.76	(34)bp
100bp	62,295	(317)	(1)	13.09	(1)bp
Static	62,612			13.10	bp
(100)bp	61,392	(1,220)	(1)	12.84	(26)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 June 30, 2010, approximately 50% of the loan portfolio consisted of fixed-rate loans, compared to approximately 52% at December 31, 2009.

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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**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 June 30, 2010 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, 2009, which could materially affect our business, financial condition or future results. Except as set forth below, 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.

**Recently enacted regulatory reform legislation may have a material impact on our operations.**

On July 21, 2010, the President signed into law The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). The Dodd-Frank Act restructures the regulation of depository institutions. Under the Dodd-Frank Act, the Office of Thrift Supervision will be merged into the Office of the Comptroller of the Currency, which regulates national banks. Savings and loan holding companies will be regulated by the Federal Reserve Board. The Dodd-Frank Act contains various provisions designed to enhance the regulation of depository institutions and prevent the recurrence of a financial crisis such as occurred in 2008 and 2009. Also included is the creation of a new federal agency to administer and enforce consumer and fair lending laws, a function that is now performed by the depository institution regulators. The federal preemption of state laws currently accorded federally chartered depository institutions will be reduced as well. The Dodd-Frank Act also will impose consolidated capital requirements on savings and loan holding companies effective in five years, which will limit our ability to borrow at the holding company and invest the proceeds from such borrowings as capital in the Bank that could be leveraged to support additional growth. The full impact of the Dodd-Frank Act on our business and operations will not be known for years until regulations implementing the statute are written and adopted. The Dodd-Frank Act may have a material impact on our operations, particularly through increased compliance costs resulting from possible future consumer and fair lending regulations.

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**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
April 1 through April 30, 2010		N/A		192,994
May 1 through May 31, 2010		N/A		192,994
June 1 through June 30, 2010	629	\$ 14.75	629	192,365
Total	629	\$ 14.75	629	

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.

**Item 3. Defaults upon Senior Securities**

Not applicable.

**Item 4. (Removed and Reserved)**

**Item 5. Other Information**

None.

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**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** August 11, 2010

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

**Dated** August 11, 2010

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