

FIRST CAPITAL INC  
Form 10-Q  
May 14, 2008  
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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 March 31, 2008

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** **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 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 small reporting company in Rule 12b-2 of the Exchange Act.

(Check one): Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Small 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: 2,807,741 shares of common stock were outstanding as of April 30, 2008.

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

|  | March 31,<br>2008     | December 31,<br>2007 |
|--|-----------------------|----------------------|
|  | <i>(In thousands)</i> |                      |
| <b>ASSETS</b>  |                       |                      |
| Cash and due from banks                              | \$ 9,539              | \$ 10,010            |
| Interest bearing deposits with banks                 | 12,036                | 4,646                |
| Federal funds sold                                   | 3,542                 | 399                  |
| <b>Total cash and cash equivalents</b>               | <b>25,117</b>         | <b>15,055</b>        |
| Securities available for sale, at fair value         | 71,725                | 72,991               |
| Securities-held to maturity                          | 905                   | 1,050                |
| Loans, net   | 326,932               | 334,463              |
| Loans held for sale                                  | 1,778                 | 258                  |
| Federal Home Loan Bank stock, at cost                | 3,551                 | 3,551                |
| Foreclosed real estate                               | 1,125                 | 833                  |
| Premises and equipment                               | 10,796                | 10,612               |
| Accrued interest receivable                          | 2,207                 | 2,549                |
| Cash value of life insurance                         | 5,180                 | 5,124                |
| Goodwill   | 5,386                 | 5,386                |
| Core deposit intangibles                             | 299                   | 317                  |
| Other assets   | 629                   | 990                  |
| <b>Total Assets</b>                                  | <b>\$ 455,630</b>     | <b>\$ 453,179</b>    |
| <b>LIABILITIES</b>                                   |                       |                      |
| Deposits:  |                       |                      |
| Noninterest-bearing                                  | \$ 37,391             | \$ 35,292            |
| Interest-bearing                                     | 294,650               | 292,859              |
| <b>Total Deposits</b>                                | <b>332,041</b>        | <b>328,151</b>       |
| Retail repurchase agreements                         | 17,245                | 15,562               |
| Advances from Federal Home Loan Bank                 | 56,644                | 60,694               |
| Accrued interest payable                             | 1,638                 | 1,902                |
| Accrued expenses and other liabilities               | 1,307                 | 1,134                |
| <b>Total Liabilities</b>                             | <b>408,875</b>        | <b>407,443</b>       |
| <b>STOCKHOLDERS EQUITY</b>                           |                       |                      |
| 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 3,125,563 shares | 31                    | 31                   |
| Additional paid-in capital                           | 23,884                | 23,863               |
| Retained earnings-substantially restricted           | 28,706                | 28,284               |

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|  |                   |                   |
|--|-------------------|-------------------|
| Unearned ESOP shares   | (91)              | (121)             |
| Accumulated other comprehensive income (loss)                          | 507               | (53)              |
| Less treasury stock, at cost - 311,854 shares (310,924 shares in 2006) | (6,282)           | (6,268)           |
| <b>Total Stockholders Equity</b>                                       | <b>46,755</b>     | <b>45,736</b>     |
| <b>Total Liabilities and Stockholders Equity</b>                       | <b>\$ 455,630</b> | <b>\$ 453,179</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</b>                    |             |
|---|--|-------------|
|   | <b>March 31,</b>                             |             |
|   | <b>2008</b>                                  | <b>2007</b> |
|   | <i>(In thousands, except per share data)</i> |             |
| <b>INTEREST INCOME</b>                                      |  |             |
| Loans, including fees                                       | \$ 5,696                                     | \$ 5,761    |
| Securities:   |  |             |
| Taxable   | 564  | 584         |
| Tax-exempt  | 224  | 190         |
| Federal Home Loan Bank dividends                            | 43   | 45          |
| Federal funds sold and interest bearing deposits with banks | 127  | 184         |
| <br>Total interest income                                   | <br>6,654                                    | <br>6,764   |
| <b>INTEREST EXPENSE</b>                                     |  |             |
| Deposits  | 2,277  | 2,514       |
| Retail repurchase agreements                                | 123  | 221         |
| Advances from Federal Home Loan Bank                        | 717  | 710         |
| <br>Total interest expense                                  | <br>3,117                                    | <br>3,445   |
| <br>Net interest income                                     | <br>3,537                                    | <br>3,319   |
| Provision for loan losses                                   | 225  | 225         |
| <br>Net interest income after provision for loan losses     | <br>3,312                                    | <br>3,094   |
| <b>NONINTEREST INCOME</b>                                   |  |             |
| Service charges on deposit accounts                         | 631  | 567         |
| Commission income   | 35   | 48          |
| Gain on sale of mortgage loans                              | 121  | 147         |
| Mortgage brokerage fees                                     | 10   | 16          |
| Increase in cash surrender value of life insurance          | 56   | 11          |
| Other income  | 25   | 25          |
| <br>Total noninterest income                                | <br>878                                      | <br>814     |
| <b>NONINTEREST EXPENSE</b>                                  |  |             |
| Compensation and benefits                                   | 1,657  | 1,636       |
| Occupancy and equipment                                     | 301  | 252         |
| Data processing   | 218  | 222         |
| Professional fees   | 135  | 105         |
| Advertising   | 46   | 75          |
| Other operating expenses                                    | 525  | 512         |
| <br>Total noninterest expense                               | <br>2,882                                    | <br>2,802   |

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|  |                 |                |
|--|-----------------|----------------|
| Income before income taxes                         | 1,308           | 1,106          |
| Income tax expense                                 | 409             | 357            |
| <b>Net Income</b>                                  | <b>899</b>      | <b>749</b>     |
| <b>OTHER COMPREHENSIVE INCOME, NET OF TAX</b>      |                 |                |
| Unrealized gain on securities:                     |                 |                |
| Unrealized holding gains arising during the period | 560             | 87             |
| Less: reclassification adjustment                  |                 |                |
| Other comprehensive income                         | 560             | 87             |
| <b>Comprehensive Income</b>                        | <b>\$ 1,459</b> | <b>\$ 836</b>  |
| <b>Net income per common share, basic</b>          | <b>\$ 0.32</b>  | <b>\$ 0.27</b> |
| <b>Net income per common share, diluted</b>        | <b>\$ 0.32</b>  | <b>\$ 0.26</b> |

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>Three Months Ended<br/>March 31,</b> |                |
|---|---|----------------|
|   | <b>2008</b>                             | <b>2007</b>    |
|   | <i>(In thousands)</i>                   |                |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |   |                |
| Net income  | \$ 899                                  | \$ 749         |
| Adjustments to reconcile net income to net cash provided by operating activities: |   |                |
| Amortization of premiums and accretion of discounts                               | (2)                                     | 4              |
| Depreciation and amortization expense   | 210                                     | 178            |
| Deferred income taxes   | (14)                                    | (103)          |
| ESOP and stock compensation expense   | 50                                      | 45             |
| Increase in cash value of life insurance  | (56)                                    | (11)           |
| Provision for loan losses   | 225                                     | 225            |
| Proceeds from sales of mortgage loans   | 8,425                                   | 8,411          |
| Mortgage loans originated for sale  | (9,824)                                 | (7,248)        |
| Net gain on sale of mortgage loans  | (121)                                   | (147)          |
| Decrease in accrued interest receivable   | 342                                     | 185            |
| Decrease in accrued interest payable  | (264)                                   | (41)           |
| Net change in other assets/liabilities  | 220                                     | (35)           |
| <b>Net Cash Provided By Operating Activities</b>                                  | <b>90</b>                               | <b>2,212</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |   |                |
| Purchase of securities available for sale   | (6,288)                                 | (8,152)        |
| Proceeds from maturities of securities available for sale                         | 6,916                                   | 4,008          |
| Proceeds from maturities of securities held to maturity                           | 143                                     | 8              |
| Principal collected on mortgage-backed obligations                                | 1,531                                   | 1,044          |
| Net decrease in loans receivable  | 6,706                                   | 5,110          |
| Proceeds from sale of foreclosed real estate                                      | 308                                     | 327            |
| Purchase of premises and equipment  | (376)                                   | (235)          |
| <b>Net Cash Provided By Investing Activities</b>                                  | <b>8,940</b>                            | <b>2,110</b>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |   |                |
| Net increase (decrease) in deposits   | 3,890                                   | (1,120)        |
| Net decrease in advances from Federal Home Loan Bank                              | (4,050)                                 | (3,025)        |
| Net increase (decrease) in retail repurchase agreements                           | 1,683                                   | (2,891)        |
| Exercise of stock options   |   | 18             |
| Purchase of treasury stock  | (14)                                    | (96)           |
| Dividends paid  | (477)                                   | (480)          |
| <b>Net Cash Provided By (Used In) Financing Activities</b>                        | <b>1,032</b>                            | <b>(7,594)</b> |
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>                       | <b>10,062</b>                           | <b>(3,272)</b> |
| Cash and cash equivalents at beginning of period                                  | 15,055                                  | 24,468         |



**Cash and Cash Equivalents at End of Period**

\$ 25,117    \$ 21,196

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 holding company for First Harrison Bank ( Bank ). The information presented in this report relates primarily to the Bank's operations. The Bank has three wholly-owned subsidiaries that manage a portion of its investment securities portfolio. First Harrison Investments, Inc. and First Harrison Holdings, Inc. are Nevada corporations that jointly own First Harrison, LLC, a Nevada limited liability corporation that holds and manages an investment portfolio.

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, 2008, and the results of operations and cash flows for the three months ended March 31, 2008 and 2007. All of these adjustments are of a normal, recurring nature. Such adjustments are the only adjustments included in the unaudited consolidated financial statements. Interim results are not necessarily indicative of results for a full year.

The accompanying unaudited consolidated financial statements and notes have been prepared in accordance with generally accepted accounting principles for interim financial statements and are presented as permitted by the instructions to Form 10-Q. Accordingly, they do not contain certain information included in the Company's annual audited consolidated financial statements and related footnotes for the year ended December 31, 2007 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.

**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 and other comprehensive income representing the net unrealized gains and losses on securities available for sale. The following tables set forth the components of other comprehensive income and the allocated tax amounts for the three months ended March 31, 2008 and 2007:

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2008</b>                             | <b>2007</b> |
|  | <b>(In thousands)</b>                   |             |
| Unrealized gains on securities:                                    |   |             |
| Unrealized holding gains arising during the period                 | \$ 927                                  | \$ 144      |
| Income tax expense   | (367)                                   | (57)        |
| Net of tax amount  | 560                                     | 87          |
| Less: reclassification adjustment for gains included in net income |   |             |
| Income tax benefit   |   |             |
| Net of tax amount  |   |             |
| Other comprehensive income   | \$ 560                                  | \$ 87       |



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

|   | Three Months Ended<br>March 31,                      |           |
|---|--|-----------|
|   | 2008   | 2007      |
|   | <i>(Dollars in thousands, except per share data)</i> |           |
| <b>Basic</b>  |  |           |
| Earnings:   |  |           |
| Net income  | \$ 899   | \$ 749    |
| Shares:   |  |           |
| Weighted average common shares outstanding              | 2,807,152  | 2,823,487 |
| Net income per common share, basic                      | \$ 0.32  | \$ 0.27   |
| <b>Diluted</b>  |  |           |
| Earnings:   |  |           |
| Net income  | \$ 899   | \$ 749    |
| Shares:   |  |           |
| Weighted average common shares outstanding              | 2,807,152  | 2,823,487 |
| Add: Dilutive effect of outstanding options             | 17,304   | 24,782    |
| Add: Dilutive effect of restricted stock                |  | 32        |
| Weighted average common shares outstanding, as adjusted | 2,824,456  | 2,848,301 |
| Net income per common share, diluted                    | \$ 0.32  | \$ 0.26   |

**4. Stock Option Plan**

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 123R, a revision of SFAS No. 123, *Accounting for Stock-Based Compensation*. The Company's stock option plan was previously accounted for in accordance with the provisions of APB Opinion No. 25, *Accounting for Stock Issued to Employees*, and, as such, no stock-based employee compensation cost was reflected in net income because all options granted under the stock option plan had an exercise price equal to the market value of the underlying common stock on the date of grant. The Company adopted SFAS No. 123R using the modified prospective method and, as such, results from prior periods have not been restated. Under the statement's transition provisions, compensation cost is recognized on or after the effective date for the portion of outstanding awards, for which the requisite service has not yet been rendered, based on the grant date fair value of those awards calculated under the statement.

For each of the three month periods ended March 31, 2008 and 2007, the Company recognized compensation expense of \$8,000 related to its stock option plans as expense is recognized ratably over the five-year vesting period of the options. At March 31, 2008, there was \$38,000 of unrecognized compensation expense related to nonvested stock options, which will be recognized over the remaining vesting period. The Black-Scholes option pricing model was used to determine the fair value of the options granted.



**Table of Contents****FIRST CAPITAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***(Unaudited)***5. Supplemental Disclosures of Cash Flow Information**

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2008</b>                             | <b>2007</b> |
|  | <i>(In thousands)</i>                   |             |
| Cash payments for:   |   |             |
| Interest   | \$ 3,381                                | \$ 3,487    |
| Taxes  |   | 121         |
| Noncash investing activities:                                    |   |             |
| Transfers from loans to real estate acquired through foreclosure | 618                                     | 162         |

**6. Fair Value Measurements**

Effective January 1, 2008, the Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, for financial assets and financial liabilities. In accordance with Financial Accounting Standards Board Position (FSP) No. 157-2, *Effective Date of FASB Statement No. 157*, the Company will delay application of SFAS No. 157 for nonfinancial assets, such as goodwill and real property held for sale, and nonfinancial liabilities, until January 1, 2009.

SFAS No. 157 defines fair value 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. SFAS No. 157 establishes a fair value hierarchy that prioritizes the use of inputs used in valuation methodologies into the following three levels:

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



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**FIRST CAPITAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

*(Unaudited)*

*Residential Loans Held for Sale.* Residential loans held for sale are reported in the aggregate at the lower of cost or fair value using Level 3 inputs. For these loans, the Company obtains fair value using an internal cash flow model. The fair value measurements consider observable data that may include loan type, spreads for other whole loans and mortgage-backed securities, prepayment speeds, servicing values, and index values. Management considers adjustments to data inputs that we believe other market participants would consider in estimating the fair value of the Company's held for sale residential loan portfolio.

There are no impaired loans reported at fair value on the consolidated balance sheet at March 31, 2008. There were no transfers in or out of the Company's Level 3 financial assets for the three months ended March 31, 2008.

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

**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 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in a Company's financial statements in accordance with SFAS 109, *Accounting for Income Taxes*. The Interpretation prescribes a more-likely-than-not recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The provisions of the Interpretation were effective for fiscal years beginning after December 15, 2006 and the cumulative effect of applying the provisions of this Interpretation are recognized as an adjustment to the beginning balance of retained earnings. The Company adopted the Interpretation on January 1, 2007 as required. The Company and its subsidiaries file a consolidated federal income tax return and the Company and Bank file a combined unitary return in the state of Indiana. The Company's federal income tax returns have not been examined in the past five years and the 2005, 2006 and 2007 tax years are subject to federal examination. The Company's Indiana state income tax returns for the years 2003, 2004 and 2005 were examined, with no changes made. The 2007 and 2006 Indiana state income tax returns are subject to examination. The Company has no unrecognized tax benefits and does not anticipate any increase in unrecognized tax benefits during 2008 relative to any tax positions taken after January 1, 2007. The Company believes that its income tax filing positions and deductions would be sustained upon examination and does not anticipate any adjustments that would result in a material change to its financial position or results of operations. Consequently, no reserves for uncertain income tax positions have been recorded.



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**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 our Annual Report on Form 10-K for the year ended December 31, 2007 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, 2008, there was no significant change in the Company's critical accounting policies or the application of critical accounting policies as presented in the annual report on Form 10-K for the year ended December 31, 2007.

**Financial Condition**

Total assets increased from \$453.2 million at December 31, 2007 to \$455.6 million at March 31, 2008, an increase of 0.5%.

Net loans receivable (excluding loans held for sale) decreased \$7.5 million from \$334.5 million at December 31, 2007 to \$326.9 million at March 31, 2008. Commercial business loans, residential mortgages and commercial mortgages decreased \$2.6 million, \$1.9 million and \$1.5 million, respectively.

Securities available for sale decreased \$1.3 million from \$73.0 million at December 31, 2007 to \$71.7 million at March 31, 2008. Maturities and principal repayments of these securities totaled \$6.9 million and \$1.5 million, respectively. Purchases of \$6.3 million of securities classified as available for sale were made during the period. Due to changing market interest rates, the portfolio experienced an unrealized gain in market value of \$889,000 during the quarter ended March 31, 2008.

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**PART I - ITEM 2**

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

Investment securities held-to-maturity decreased \$145,000 due primarily to maturities of \$143,000 the three months ended March 31, 2008.

Cash and cash equivalents increased from \$15.1 million at December 31, 2007 to \$25.1 million at March 31, 2008. Interest bearing deposits with banks increased \$7.4 million during the period while federal funds sold increased \$3.1 million.

Total deposits increased 1.2% from \$328.2 million at December 31, 2007 to \$332.0 million at March 31, 2008. Interest-bearing checking and savings deposits increased \$5.7 million while time deposits decreased \$3.9 million during the period. These changes can be partially attributed to customers not wanting to lock in to longer-term commitments while rates are at the current low levels. Rather, some have chosen to put those funds in interest-bearing demand accounts. Noninterest-bearing demand deposits also increased \$2.1 million during the period due to growth in personal demand accounts.

Federal Home Loan Bank borrowings decreased from \$60.7 million at December 31, 2007 to \$56.6 million at March 31, 2008 as the Bank has used excess cash to pay maturing borrowings. Principal repayments of \$4.1 million were made during the period and no new advances were drawn.

Retail repurchase agreements, which represent overnight borrowings from deposit customers, including businesses and local municipalities, increased from \$15.6 million at December 31, 2007 to \$17.2 million at March 31, 2008.

Total stockholders' equity increased from \$45.7 million at December 31, 2007 to \$46.8 million at March 31, 2008. This increase was primarily the result of retained net income of \$422,000 and a net unrealized gain of \$560,000 on securities available for sale.

**Results of Operations**

**Net Income for the three-month periods ended March 31, 2008 and 2007.** Net income was \$899,000 (\$0.32 per share diluted) for the three months ended March 31, 2008 compared to \$749,000 (\$0.26 per share diluted) for the same period in 2007. The Company experienced increases in net interest income after the provision for loan losses and in noninterest income partially offset by an increase in noninterest expenses.

**Net interest income for the three-month periods ended March 31, 2008 and 2007.** Net interest income increased \$218,000 for the three months ended March 31, 2008 compared to the same period in 2007 primarily due to an increase in the tax-equivalent interest rate spread.

Total interest income decreased \$110,000 for the three months ended March 31, 2008 compared to the same period in 2007. For the quarter ended March 31, 2008, the average balance of interest-earning assets and their tax-equivalent yield were \$425.9 million and 6.37%, respectively. During the same period in 2007, the average balance of those assets was \$424.1 million and the tax-equivalent yield was 6.48%. This decrease was due to a decrease in the yield on the loan portfolio as the Federal Open Market Committee lowered its target for the federal funds rate by 3.00% from March 2007 to March 2008.

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**PART I - ITEM 2**

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

**FIRST CAPITAL, INC.**

Total interest expense decreased \$328,000 for the three months ended March 31, 2008 compared to the same period in 2007. The average balance of interest-bearing liabilities increased from \$368.9 million in 2007 to \$372.4 million in 2008. The average rate paid on those liabilities decreased from 3.74% in the quarter ended March 31, 2007 to 3.35% for the same period of 2008 primarily as a result the decrease in the rate environment previously discussed. As a result, the tax-equivalent interest rate spread increased from 2.74% for the three-month period ended March 31, 2007 to 3.02% for the same period in 2008.

**Provision for loan losses.** The provision for loan losses was \$225,000 for each of the three-month periods ended March 31, 2008 and March 31, 2007. Net charge offs amounted to \$182,000 and \$76,000 for the three-month periods ended March 31, 2008 and March 31, 2007, respectively. During the three-month period ended March 31, 2008, gross loans receivable decreased \$7.5 million. As stated earlier in this report, commercial business loans, residential mortgages and commercial mortgages decreased \$2.6 million, \$1.9 million and \$1.5 million, respectively. The consistent application of management's allowance methodology resulted in no change in the provision for loan losses due to the decrease in the loan portfolio and the change in overall economic conditions.

Provisions for loan losses are charges to earnings to maintain the total allowance for loan losses at a level considered reasonable by management to provide for probable known and inherent loan losses based on management's evaluation of the collectibility of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specified impaired loans and economic conditions. Although management uses the best information available, future adjustments to the allowance may be necessary due to changes in economic, operating, regulatory and other conditions that may be beyond the Bank's control. While the Bank maintains the allowance for loan losses at a level 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 \$2.3 million at March 31, 2008 compared to \$2.2 million at December 31, 2007. 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, 2008, nonperforming loans amounted to \$5.3 million compared to \$5.7 million at December 31, 2007. Included in nonperforming loans are loans over 90 days past due secured by residential mortgages of \$551,000, consumer loans of \$257,000 and commercial loans of \$106,000. 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, 2008 and December 31, 2007, nonaccrual loans amounted to \$4.4 million and \$4.9 million, respectively.

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**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, 2008 and 2007.** Noninterest income for the quarter ended March 31, 2008 increased to \$878,000 compared to \$814,000 for the quarter ended March 31, 2007. Service charges on deposits and the earnings from bank-owned life insurance increased \$64,000 and \$45,000, respectively, when comparing the two periods. The increase in cash surrender value of bank-owned life insurance was due to the purchase of \$3.6 million of bank-owned life insurance in May 2007.

**Noninterest expense for the three-month periods ended March 31, 2008 and 2007.** Noninterest expense for the quarter ended March 31, 2008 increased \$80,000 to \$2.9 million compared to \$2.8 million for the quarter ended March 31, 2007. This increase was primarily due to an increase in occupancy and equipment expense as a result of the opening of the new office in Salem, Indiana in November 2007 and the installation of a new bank-wide telephone system in March 2007.

**Income tax expense.** Income tax expense for the three-month period ended March 31, 2008 was \$409,000, compared to \$357,000 for the same period in 2007. The effective tax rate decreased from 32.3% in 2007 to 31.3% in 2008. The decrease in the effective tax rates for 2008 compared to 2007 was primarily the result of an increase in tax exempt income due to increases in municipal securities and bank-owned life insurance held in 2008 compared to 2007.

**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, 2008, the Bank had cash and cash equivalents of \$25.1 million and securities available-for-sale with a fair value of \$71.7 million. If the Bank requires funds beyond its ability to generate them internally, it has additional borrowing capacity with the FHLB of Indianapolis and additional collateral eligible for repurchase agreements.

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

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

The Bank is required to maintain specific amounts of capital pursuant to OTS regulatory requirements. As of March 31, 2008, the Bank was in compliance with all regulatory capital requirements, which were effective as of such date with tangible, core and risk-based capital ratios of 8.4%, 8.4% and 13.2%, respectively. The regulatory requirements at that date were 1.5%, 3.0% and 8.0%, respectively. At March 31, 2008, the Bank was considered well-capitalized under applicable regulatory guidelines.

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

**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 2007 Annual Report to Stockholders, filed as an exhibit to the Form 10-K for the year ended December 31, 2007.

For the three months ended March 31, 2008, 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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**PART I - ITEM 3**

**QUANTITATIVE AND QUALITATIVE DISCLOSURES**

**ABOUT MARKET RISK**

**FIRST CAPITAL, INC.**

For a discussion of the Company's asset and liability management policies, as well as the potential impact of interest rate changes upon the market value of the Company's portfolio equity, see "Market Risk Analysis" in the Company's 2007 Annual Report to Stockholders, filed as an exhibit to the Company's Form 10-K for the year ended December 31, 2007. Management reviews periodically the impact of interest rate changes upon net interest income and the market value of the Company's portfolio equity. Based on such reviews, management believes that there have been no material changes in the market risk of the Company's asset and liability position since December 31, 2007.

**PART I - ITEM 4T**

**CONTROLS AND PROCEDURES**

**FIRST CAPITAL, INC.**

**Disclosure 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 Securities and Exchange Commission (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.

**Internal Control Over Financial Reporting**

There have not been any changes in the Company's internal control over financial reporting (as such item is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates 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, 2007, 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**

| <b>Period</b>                        | <b>(a) Total<br/>Number<br/>of Shares<br/>Purchased</b> | <b>(b) Average<br/>Price<br/>Paid<br/>Per Share</b> | <b>(c) Total<br/>Number<br/>of Shares<br/>Purchased<br/>as Part of<br/>Publicly<br/>Announced<br/>Plans or<br/>Programs</b> | <b>(d) Maximum<br/>Number<br/>of Shares<br/>that May<br/>Yet Be<br/>Purchased<br/>Under the<br/>Plans or<br/>Programs</b> |
|--------------------------------------|---|---|---|---|
| January 1 through January 31, 2008   | 0   | N/A   | 0   | 34,101  |
| February 1 through February 29, 2008 | 417   | \$ 15.99  | 417   | 33,684  |
| March 1 through March 31, 2008       | 513   | \$ 15.51  | 513   | 33,171  |
| Total                                | 930   | \$ 15.73  | 930   |   |

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**PART II**

**OTHER INFORMATION**

**FIRST CAPITAL, INC.**

On January 4, 2001, the Company announced a stock repurchase program to purchase up to 101,000 shares of its outstanding common stock. On September 30, 2002, the Board of Directors authorized an increase in the stock repurchase program in connection with the merger of Hometown Bancshares whereby the Company would purchase up to 345,000 shares of its outstanding common stock. The stock repurchase program expires upon the purchase of the maximum number of shares authorized under the program.

**Item 3. Defaults upon Senior Securities**

Not applicable.

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

None.

**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. (6)
- 10.1 Employment Agreement with J. Gordon Pendleton (3)
- 10.2 Employment Agreement with Samuel E. Uhl (2)
- 10.3 Employment Agreement with Michael C. Frederick (2)
- 10.4 Employment Agreement with Joel E. Voyles (2)
- 10.5 Employee Severance Compensation Plan (3)
- 10.6 First Federal Bank, A Federal Savings Bank 1994 Stock Option Plan (as assumed by First Capital, Inc. effective December 31, 1998) (4)
- 10.7 First Capital, Inc. 1999 Stock-Based Incentive Plan (5)
- 10.8 1998 Officers and Key Employees Stock Option Plan for HCB Bancorp (5)
- 10.9 Employment Agreement with William W. Harrod (2)
- 11.0 Statement Regarding Computation of Per Share Earnings (incorporated by reference to Note 4 of the Unaudited Consolidated Financial contained herein)



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**PART II**

**OTHER INFORMATION**

**FIRST CAPITAL, INC.**

**Item 6. Exhibits (continued)**

- 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

- (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 Annual Report on Form 10-KSB for the year ended December 31, 1999.
- (3) Incorporated by reference to the Quarterly Report on Form 10-QSB for the quarter ended December 31, 1998.
- (4) Incorporated by reference from the Exhibits filed with the Registration Statement on Form S-8, and any amendments thereto, Registration Statement No. 333-76543.
- (5) Incorporated by reference from the Exhibits filed with the Registration Statement on Form S-8, and any amendments thereto, Registration Statement No. 333-95987.
- (6) Incorporated by reference to the Current Report on Form 8-K filed on August 22, 2007.

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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** May 12, 2008

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

**Dated** May 12, 2008

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