FIRST CAPITAL INC
Form 10-Q
November 14, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

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

For the transition period from ______ to ______

Commission File No. 0-25023

First Capital, Inc.

(Exact name of registrant as specified in its charter)

Indiana	**35-2056949**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

220 Federal Drive NW, Corydon, Indiana 47112

(Address of principal executive offices) (Zip Code)

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

Not applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 2,809,492 shares of common stock were outstanding as of October 31, 2007.

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FIRST CAPITAL, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2007	December 31, 2006
	(In thousands)	
ASSETS		
Cash and due from banks	$ 11,838	$ 14,002
Interest bearing deposits with banks	55	10,155
Federal funds sold	342	311
Total cash and cash equivalents	12,235	24,468
Securities available for sale, at fair value	72,268	71,362
Securities-held to maturity	1,053	1,118
Loans, net	332,654	333,575
Loans held for sale	123	2,275
Federal Home Loan Bank stock, at cost	3,551	3,551
Foreclosed real estate	809	941
Premises and equipment	9,666	9,224
Accrued interest receivable	2,521	2,497
Cash surrender value of life insurance	5,068	1,349
Goodwill	5,386	5,386
Core deposit intangibles	335	390
Other assets	1,120	969
Total Assets	$ 446,789	$ 457,105
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 35,846	$ 36,218
Interest-bearing	288,611	294,925
Total Deposits	324,457	331,143
Retail repurchase agreements	8,566	19,228
Advances from Federal Home Loan Bank	65,494	59,461
Accrued interest payable	1,805	1,863
Accrued expenses and other liabilities	1,349	1,321
Total Liabilities	401,671	413,016
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 3,118,661 shares (3,113,705 shares in 2006)	31	31
Additional paid-in capital	23,763	23,647
Retained earnings-substantially restricted	27,858	26,783

Unearned ESOP shares	(142)	(203)
Accumulated other comprehensive income	(394)	(581)
Less treasury stock, at cost 295,189 shares (271,881 shares in 2006)	(5,998)	(5,588)
Total Stockholders Equity	45,118	44,089
Total Liabilities and Stockholders Equity	$ 446,789	$ 457,105

See accompanying notes to consolidated financial statements.

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FIRST CAPITAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended September 30, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 30, 2007	Nine Months Ended September 30, 2006
	(In thousands, except per share data)			
INTEREST INCOME				
Loans, including fees	$ 5,924	$ 5,837	$ 17,511	$ 16,936
Securities:				
Taxable	597	548	1,779	1,712
Tax-exempt	207	181	604	530
Federal Home Loan Bank dividends	39	41	121	134
Federal funds sold and interest bearing deposits with banks	22	28	285	108
Total interest income	6,789	6,635	20,300	19,420
INTEREST EXPENSE				
Deposits	2,532	2,339	7,559	6,499
Retail repurchase agreements	125	292	548	618
Advances from Federal Home Loan Bank	799	720	2,192	2,120
Total interest expense	3,456	3,351	10,299	9,237
Net interest income	3,333	3,284	10,001	10,183
Provision for loan losses	118	215	378	585
Net interest income after provision for loan losses	3,215	3,069	9,623	9,598
NON-INTEREST INCOME				
Service charges on deposit accounts	662	611	1,870	1,769
Commission income	39	69	131	239
Gain on sale of mortgage loans	106	116	358	229
Mortgage brokerage fees	18	5	96	71
Increase in cash surrender value of life insurance	56	11	93	30
Other income	18	18	73	57
Total non-interest income	899	830	2,621	2,395
NON-INTEREST EXPENSE				
Compensation and benefits	1,600	1,535	4,858	4,600
Occupancy and equipment	330	304	962	881
Data processing	175	172	518	478
Professional fees	112	102	318	301
Advertising	93	73	282	246
Other operating expenses	502	459	1,609	1,418
Total non-interest expense	2,812	2,645	8,547	7,924
Income before income taxes	1,302	1,254	3,697	4,069

Income tax expense	409	402	1,186	1,347
Net Income	$ 893	$ 852	$ 2,511	$ 2,722
OTHER COMPREHENSIVE INCOME, NET OF TAX				
Unrealized gain on securities:				
Unrealized holding gains arising during the period	522	573	187	72
Less: reclassification adjustment				
Other comprehensive income	522	573	187	72
Comprehensive Income	$ 1,415	$ 1,425	$ 2,698	$ 2,794
Net income per common share, basic	$ 0.32	$ 0.30	$ 0.89	$ 0.96
Net income per common share, diluted	$ 0.32	$ 0.30	$ 0.88	$ 0.96

See accompanying notes to consolidated financial statements.

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FIRST CAPITAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2007	2006
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,511	$ 2,722
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premiums and accretion of discounts	12	25
Depreciation and amortization expense	561	546
Deferred income taxes	(73)	(133)
ESOP and stock compensation expense	133	138
Increase in cash value of life insurance	(94)	(30)
Provision for loan losses	378	585
Proceeds from sales of mortgage loans	20,907	13,048
Mortgage loans originated for sale	(18,397)	(13,877)
Net gain on sale of mortgage loans	(358)	(229)
(Increase) decrease in accrued interest receivable	(24)	34
Increase (decrease) in accrued interest payable	(58)	159
Net change in other assets/liabilities	(157)	152
Net Cash Provided By Operating Activities	5,341	3,140
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities available for sale	(11,037)	(4,390)
Proceeds from maturities of securities available for sale	7,208	8,056
Proceeds from maturities of securities held to maturity	48	35
Principal collected on mortgage-backed securities	3,226	3,043
Investment in cash surrender value of life insurance	(3,625)	
Net increase in loans receivable	(5)	(19,559)
Redemption of Federal Home Loan Bank stock		140
Proceeds from sale of foreclosed real estate	680	331
Purchase of premises and equipment	(948)	(206)
Net Cash Used In Investing Activities	(4,453)	(12,550)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	(6,686)	6,364
Net increase (decrease) in advances from Federal Home Loan Bank	6,033	(4,036)
Net increase (decrease) in retail repurchase agreements	(10,662)	9,018
Exercise of stock options	40	19
Purchase of treasury stock	(410)	(44)
Dividends paid	(1,436)	(1,350)
Net Cash Provided By (Used In) Financing Activities	(13,121)	9,971

Net Increase (Decrease) in Cash and Cash Equivalents	(12,233)	561
Cash and cash equivalents at beginning of period	24,468	14,673
Cash and Cash Equivalents at End of Period	$ 12,235	$ 15,234

See accompanying notes to consolidated financial statements.

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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 September 30, 2007, and the results of operations for the three and nine months ended September 30, 2007 and 2006 and cash flows for the nine months ended September 30, 2007 and 2006. 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, 2006 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.

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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 and nine months ended September 30, 2007 and 2006:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(In thousands)		(In thousands)	
Unrealized gains on securities:				
Unrealized holding gains arising during the period	$ 864	$ 949	$ 310	$ 119
Income tax expense	(342)	(376)	(123)	(47)
Net of tax amount	522	573	187	72
Less: reclassification adjustment for gains included in net income				
Income tax benefit				
Net of tax amount				
Other comprehensive income	$ 522	$ 573	$ 187	$ 72

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3. Supplemental Disclosure for Earnings Per Share

	Three Months Ended		Nine Months Ended	
	9/30/2007	9/30/2006	9/30/2007	9/30/2006
	(Dollars in thousands, except for share and per share data)			
Basic				
Earnings:				
Net income	$ 893	$ 852	$ 2,511	$ 2,722
Shares:				
Weighted average common shares outstanding	2,813,043	2,825,249	2,818,922	2,823,034
Net income per common share, basic	$ 0.32	$ 0.30	$ 0.89	$ 0.96
Diluted				
Earnings:				
Net income	$ 893	$ 852	$ 2,511	$ 2,722
Shares:				
Weighted average common shares outstanding	2,813,043	2,825,249	2,818,922	2,823,034
Add: Dilutive effect of outstanding options	20,691	25,149	23,224	24,483
Add: Dilutive effect of restricted stock		55	11	67
Weighted average common shares outstanding, as adjusted	2,833,734	2,850,453	2,842,157	2,847,584
Net income per common share, diluted	$ 0.32	$ 0.30	$ 0.88	$ 0.96

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 nine month periods ended September 30, 2007 and 2006, the Company recognized compensation expense of $24,000 related to its stock option plans as expense is recognized ratably over the five-year vesting period of the options. At September 30, 2007, there was $54,000 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.

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FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

5. Supplemental Disclosures of Cash Flow Information

	Nine Months Ended September 30, 2007	2006
	(In thousands)	
Cash payments for:		
Interest	$ 10,357	$ 9,078
Taxes	1,439	1,596
Noncash investing activities:		
Transfers from loans to real estate acquired through foreclosure	628	761

6. 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 are 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 2004, 2005 and 2006 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 only tax year subject to state examination is 2006. The Company has no unrecognized tax benefits and does not anticipate any increase in unrecognized tax benefits during 2007 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. Therefore, no reserves for uncertain income tax positions have been recorded nor did the Company record a cumulative effect adjustment related to the adoption of Interpretation No. 48.

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In September 2006, FASB issued SFAS No. 157, *Fair Value Measurements*. The statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The statement does not require any new fair value measurements under existing accounting pronouncements. The definition of fair value retains the exchange price notion found in earlier definitions of fair value and clarifies that the exchange price is the price in an orderly transaction between market participants to sell the asset or transfer the liability in the market in which the reporting entity would transact the sale or transfer. The statement further emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, the statement provides that fair value measurement should be determined based on the assumptions that market participants would use in pricing the assets or liability. The statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and will be adopted by the Company beginning with the first quarter of 2008. The application of this statement is not expected to have a material impact on the Company s financial condition or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The statement also establishes presentation and disclosure requirements designed to facilitate comparisons between entities that choose different measurement attributes for similar types of assets and liabilities. This statement is effective as of the beginning of fiscal years beginning after November 15, 2007. Accordingly, the Company will adopt SFAS No. 159 on January 1, 2008. At the effective date, an entity may elect the fair value option for eligible items that exist at that date. The entity shall report the effect of the first remeasurement to fair value as a cumulative effect adjustment to the opening balance of retained earnings. The Company is currently evaluating the potential impact this statement may have on the Company s financial position and results of operations, but does not believe the impact of adoption will be material.

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Safe Harbor Statement for Forward-Looking Statements

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

Forward-looking statements are not guarantees of future performance. Numerous risks and uncertainties could cause or contribute to the Company s actual results, performance and achievements being materially different from those expressed or implied by the forward-looking statements. Factors that may cause or contribute to these differences include, without limitation, general economic conditions, including changes in market interest rates and changes in monetary and fiscal policies of the federal government; legislative and regulatory changes; the quality and composition of the loan and investment securities portfolio; loan demand; deposit flows; competition; and changes in accounting principles and guidelines. Additional factors that may affect our results are discussed in our Annual Report on Form 10-K for the year ended December 31, 2006 under Item 1A. Risk Factors. These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company assumes no obligation and disclaims any obligation to update any forward-looking statements.

Critical Accounting Policies

During the nine months ended September 30, 2007, 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, 2006.

Financial Condition

Total assets decreased from $457.1 million at December 31, 2006 to $446.8 million at September 30, 2007, a decrease of 2.3%.

Net loans receivable (excluding loans held for sale) decreased $921,000 from $333.6 million at December 31, 2006 to $332.7 million at September 30, 2007. Residential mortgages and commercial business loans decreased $10.1 million and $2.0 million, respectively while commercial mortgage loans and installment loans increased $9.2 million and $1.9 million, respectively.

Securities available for sale increased $906,000 from $71.4 million at December 31, 2006 to $72.3 million at September 30, 2007. Maturities and principal repayments of these securities totaled $7.2 million and $3.2 million, respectively. Purchases of $11.0 million of securities classified as available for sale were made during the period.

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The cash surrender value of life insurance increased from $1.3 million at December 31, 2006 to $5.1 million at September 30, 2007 primarily due to the Bank investing $3.6 million in life insurance contracts on key employees during the second quarter of 2007 to offset the cost of existing employee benefits and provide for a tax-equivalent yield comparable to alternative investments.

Cash and cash equivalents decreased from $24.5 million at December 31, 2006 to $12.2 million at September 30, 2007. Interest bearing deposits with banks decreased $10.1 million during the period while cash and due from banks decreased $2.2 million. During the period, excess liquidity was used to purchase life insurance contracts and reduce higher cost time deposits and repurchase agreements.

Total deposits decreased 2.0% from $331.1 million at December 31, 2006 to $324.5 million at September 30, 2007. Interest-bearing checking and savings deposits decreased $4.9 million while time deposits decreased $1.3 million during the period. The decrease in interest-bearing checking and savings deposits was a result of normal transaction account fluctuations. The decrease in time deposits occurred as the Bank chose to let high cost accounts with no other deposit relationships run-off rather that match competitors rates.

Federal Home Loan Bank borrowings increased from $59.5 million at December 31, 2006 to $65.5 million at September 30, 2007 primarily as a result of replacing overnight borrowings in the form of retail repurchase agreements. New advances of $30.5 million were offset by principal repayments of $24.5 million.

Retail repurchase agreements, which represent overnight borrowings from deposit customers, including businesses and local municipalities, decreased from $19.2 million at December 31, 2006 to $8.6 million at September 30, 2007, due primarily to the withdrawal of funds by local municipalities.

Total stockholders equity increased from $44.1 million at December 31, 2006 to $45.1 million at September 30, 2007. This increase was primarily the result of retained net income of $1.1 million and a net unrealized gain of $187,000 on securities available for sale, partially offset by treasury stock repurchases of $410,000.

Results of Operations

Net Income for the nine-month periods ended September 30, 2007 and 2006. Net income was $2.5 million ($0.88 per share diluted) for the nine months ended September 30, 2007 compared to $2.7 million ($0.96 per share diluted) for the nine months ended September 30, 2006. An increase in noninterest expenses was partially offset by increases in net interest income after the provision for loan losses and noninterest income.

Net Income for the three-month periods ended September 30, 2007 and 2006. Net income was $893,000 ($0.32 per share diluted) for the three months ended September 30, 2007 compared to $852,000 ($0.30 per share diluted) for the same period in 2006. 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.

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Net interest income for the nine-month periods ended September 30, 2007 and 2006. Net interest income decreased $182,000 to $10.0 million for the nine months ended September 30, 2007 compared to $10.2 million for the same period in 2006.

Total interest income increased $880,000 during the nine months ended September 30, 2007 compared to the same period in 2006. The average balance of interest-earning assets and their tax-equivalent average yield increased from $415.5 million and 6.34% in 2006 to $419.2 million and 6.57% in 2007. This increase in yield is due primarily to the repricing of adjustable rate loans and new loans originated at rates higher than the current average portfolio rates.

Total interest expense increased $1.1 million during the nine months ended September 30, 2007 compared to the nine months ended September, 2006. The average balance of interest-bearing liabilities increased from $363.8 million in 2006 to $364.1 million in 2007 while the average rate paid on these liabilities increased from 3.39% in 2006 to 3.77% in 2007. The increase in the average cost of interest-bearing liabilities was primarily the result of an increase in the average cost of time deposits which increased from 3.94% for 2006 to 4.51% for 2007. The Bank s tax-equivalent interest rate spread decreased from 2.95% during the first nine months of 2006 to 2.80% for the same period in 2007 primarily as a result of the increase in the cost of deposits.

Net interest income for the three-month periods ended September 30, 2007 and 2006. Net interest income increased $49,000 for the three months ended September 30, 2007 compared to the same period in 2006 primarily due to an increase in the tax-equivalent interest rate spread partially offset by a reduction in the interest-earning assets.

Total interest income increased $154,000 for the three months ended September 30, 2007 compared to the same period in 2006. For the quarter ended September 30, 2006, the average balance of interest-earning assets and their tax-equivalent yield were $419.9 million and 6.44%, respectively. During the same period in 2007, the average balance of those assets was $415.3 million and the tax-equivalent yield was 6.66%. This increase was primarily due to an increase in the yield on the loan portfolio.

Total interest expense increased $105,000 for the three months ended September 30, 2007 compared to the same period in 2006. The average balance of interest-bearing liabilities decreased from $367.6 million in 2006 to $361.4 million in 2007 as a result of the decrease in time deposits and retail repurchase agreements. The average rate paid on those liabilities increased from 3.65% in the quarter ended September 30, 2006 to 3.82% for the same period of 2007 primarily as a result of higher average rates paid for time deposits in 2007. Although the average cost of interest-bearing liabilities increased, the increase in the tax-equivalent yield on earning assets resulted in an increase in the tax-equivalent interest rate spread from 2.79% for the three-month period ended September 30, 2006 to 2.84% during the same period in 2007.

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Provision for loan losses. The provision for loan losses was $118,000 for the three-month period ended September 30, 2007 as compared to $215,000 for the same period in 2006. Net charge offs amounted to $175,000 and $242,000 for the three-month periods ended September 30, 2007 and 2006, respectively. The provision for loan losses was $378,000 for the nine-month period ended September 30, 2007 as compared to $585,000 for the same period in 2006. During the nine-month period ended September 30, 2007, gross loans receivable decreased $966,000 while net charge offs amounted to $423,000. Net charge offs totaled $427,000 for the nine-month period ended September 30, 2006. As stated earlier in this report, residential mortgages and commercial business loans decreased $10.1 million and $2.0 million, respectively while commercial mortgages and installment loans increased $9.2 million and $1.9 million, respectively. The consistent application of management s allowance methodology resulted in a decrease in the provision for loan losses due to the decrease and change in composition of the loan portfolio.

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 September 30, 2007 and December 31, 2006. Management has deemed these amounts as adequate on those dates based on its best estimate of probable known and inherent loan losses. At September 30, 2007, nonperforming loans amounted to $5.5 million compared to $4.4 million at December 31, 2006. Included in nonperforming loans are loans over 90 days past due secured by residential mortgages in the amount of $172,000 and consumer loans of $66,000. These loans are accruing interest as the estimated value of the collateral and collection efforts are deemed sufficient to ensure full recovery. At September 30, 2007 and December 31, 2006, nonaccrual loans amounted to $5.3 million and $3.2 million, respectively.

Noninterest income for the nine-month periods ended September 30, 2007 and 2006. Noninterest income increased to $2.6 million for the nine months ended September 30, 2007 from $2.4 million for the nine months ended September 30, 2006. Gains on sales of mortgage loans and service charges on deposit accounts increased $129,000 and $101,000, respectively, when comparing the two periods. Commission income decreased $108,000 due to the December 2006 sale of the Bank s property and casualty insurance business.

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RESULTS OF OPERATIONS

FIRST CAPITAL, INC.

Noninterest income for the three-month periods ended September 30, 2007 and 2006. Noninterest income for the quarter ended September 30, 2007 increased to $899,000 compared to $830,000 for the quarter ended September 30, 2006. Service charges on deposits increased $51,000 when comparing the two periods.

Noninterest expense for the nine-month periods ended September 30, 2007 and 2006. Noninterest expense increased to $8.5 million for the nine months ended September 30, 2007 compared to $7.9 million for the same period in 2006. Compensation and benefit expenses increased $258,000 when comparing the two periods, primarily due to normal salary and benefit increases. Other operating expenses increased $191,000 for the period ended September 30, 2007 compared to the same period in 2006, primarily due to the costs associated with maintaining and selling foreclosed real estate.

Noninterest expense for the three-month periods ended September 30, 2007 and 2006. Noninterest expense for the quarter ended September 30, 2007 increased to $2.8 million compared to $2.6 million for the quarter ended September 30, 2006. This increase was primarily due to an increase in compensation and benefit expenses due to normal salary and benefit increases.

Income tax expense. Income tax expense for the nine-month period ended September 30, 2007 was $1.2 million, compared to $1.3 million for the same period in 2006. The effective tax rate decreased from 33.1% in 2006 to 32.1% in 2007. Income tax expense for the three-month period ended September 30, 2007 was $409,000, compared to $402,000 for the same period in 2006. The effective tax rate was 32.1% for the third quarter in 2006 compared to 31.4% for the same quarter in 2007. The decrease in the effective tax rates for 2007 compared to 2006 was primarily the result of an increase in tax exempt income due to increases in municipal securities and bank-owned life insurance held in 2007 compared to 2006.

Liquidity and Capital Resources

The Bank s primary sources of funds are customer deposits, proceeds from loan repayments, maturing securities and FHLB advances. While loan repayments and maturities are a predictable source of funds, deposit flows and mortgage prepayments are greatly influenced by market interest rates, general economic conditions and competition. At September 30, 2007, the Bank had cash and cash equivalents of $12.2 million and securities available-for-sale with a fair value of $72.3 million. If the Bank requires funds beyond its ability to generate them internally, it has additional borrowing capacity with the FHLB of Indianapolis and additional collateral eligible for repurchase agreements.

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

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

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PART I ITEM 2

MANAGEMENT S DISCUSSION AND

ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

FIRST CAPITAL, INC.

The Bank is required to maintain specific amounts of capital pursuant to OTS regulatory requirements. As of September 30, 2007, 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 8.8%, 8.8% and 14.0%, respectively. The regulatory requirements at that date were 1.5%, 3.0% and 8.0%, respectively. At September 30, 2007, the Bank was considered well-capitalized under applicable regulatory guidelines.

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 2006 Annual Report to Stockholders, filed as an exhibit to the Form 10-K for the year ended December 31, 2006.

For the nine months ended September 30, 2007, 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.

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 to 200 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, 2006 and June 30, 2007, 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. Given the timing of the release of this information by the OTS, information as of September 30, 2007 is unavailable for inclusion in this report.

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PART I ITEM 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES

ABOUT MARKET RISK

FIRST CAPITAL, INC.

	At December 31, 2006				
	Net Portfolio Value			Net Portfolio Value as a Percent of Present Value of Assets	
Change In Rates	Dollar Amount	Dollar Change	Percent Change	NPV Ratio	Change
	(Dollars in thousands)				
300bp	$ 36,549	$ (15,911)	(30)%	8.22%	(301)bp
200bp	42,490	(9,970)	(19)	9.39	(184)bp
100bp	48,196	(4,264)	(8)	10.47	(76)bp
Static	52,460			11.23	bp
(100)bp	54,725	2,265	4	11.58	35 bp
(200)bp	55,166	2,706	5	11.58	35 bp

	At June 30, 2007				
	Net Portfolio Value			Net Portfolio Value as a Percent of Present Value of Assets	
Change In Rates	Dollar Amount	Dollar Change	Percent Change	NPV Ratio	Change
	(Dollars in thousands)				
300bp	$ 34,075	$ (18,318)	(35)%	7.94%	(361)bp
200bp	40,565	(11,828)	(23)	9.27	(228)bp
100bp	46,915	(5,478)	(10)	10.53	(102)bp
Static	52,393			11.55	bp
(100)bp	56,296	3,903	7	12.24	69 bp
(200)bp	58,302	5,909	11	12.54	99 bp

The preceding tables indicate that the Bank s NPV would be expected to decrease in the event of a sudden and sustained increase in prevailing interest rates, but would be expected to increase in the event of sudden and sustained decrease in rates. The expected decrease in the Bank s NPV given an increase in rates is primarily attributable to the relatively high percentage of fixed-rate loans in the Bank s loan portfolio. At September 30, 2007, approximately 63% of the loan portfolio consisted of fixed-rate loans.

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

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

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PART I ITEM 4

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.

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, 2006, which could materially affect our business, financial condition or future results. There have been no material changes to the risk factors described in our Annual Report on Form 10-K, however these are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 through July 31, 2007	0	N/A	0	56,537
August 1 through August 31, 2007	4,965	$ 16.83	4,965	51,572
September 1 through September 30, 2007	1,742	$ 16.58	1,742	49,830
Total	6,707	$ 16.76	6,707	

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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

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(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 November 14, 2007	**BY:**	/s/ William W. Harrod William W. Harrod President and CEO
Dated November 14, 2007	**BY:**	/s/ Michael C. Frederick Michael C. Frederick Senior Vice President and Treasurer