FIRST CAPITAL INC
Form 10-Q
November 10, 2010
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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, 2010

OR

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

For the transition period from ______ to ______

Commission File No. 0-25023

First Capital, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: 2,787,309 shares of common stock were outstanding as of October 29, 2010.

FIRST CAPITAL, INC.

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PART I - FINANCIAL INFORMATION

FIRST CAPITAL, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2010	December 31, 2009
	(In thousands)	
ASSETS		
Cash and due from banks	$ 19,162	$ 10,430
Interest bearing deposits with banks	2,549	5,427
Total cash and cash equivalents	21,711	15,857
Securities available for sale, at fair value	94,620	93,729
Securities-held to maturity	33	62
Loans, net	300,559	311,092
Loans held for sale	3,531	1,463
Federal Home Loan Bank stock, at cost	3,551	3,551
Foreclosed real estate	1,257	877
Premises and equipment	11,158	11,591
Accrued interest receivable	1,954	2,054
Cash value of life insurance	5,736	5,572
Goodwill	5,386	5,386
Core deposit intangibles	116	171
Other assets	2,834	4,129
Total Assets	$ 452,446	$ 455,534
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 44,188	$ 40,473
Interest-bearing	325,585	334,003
Total Deposits	369,773	374,476
Retail repurchase agreements	9,223	7,949
Advances from Federal Home Loan Bank	22,729	24,776
Accrued interest payable	651	980
Accrued expenses and other liabilities	1,444	1,297
Total Liabilities	403,820	409,478
EQUITY		
First Capital, Inc. stockholders equity:		
Preferred stock of $.01 par value per share Authorized 1,000,000 shares; none issued		
	32	31

Common stock of $.01 par value per share Authorized 5,000,000 shares; issued 3,164,420 shares (3,136,207 shares in 2009)		
Additional paid-in capital	24,313	24,025
Retained earnings-substantially restricted	30,006	28,640
Accumulated other comprehensive income	1,452	490
Less treasury stock, at cost - 377,111 shares (374,292 shares in 2009)	(7,285)	(7,242)
Total First Capital, Inc. stockholders equity	48,518	45,944
Noncontrolling interest in subsidiary	108	112
Total Equity	48,626	46,056
Total Liabilities and Equity	$ 452,446	$ 455,534

See accompanying notes to consolidated financial statements.

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PART I - FINANCIAL INFORMATION

FIRST CAPITAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
	(In thousands, except per share data)			
INTEREST INCOME				
Loans, including fees	$ 4,684	$ 4,868	$ 14,056	$ 14,774
Securities:				
Taxable	509	542	1,629	1,724
Tax-exempt	272	255	795	737
Federal Home Loan Bank dividends	9	37	44	70
Fed funds sold and interest bearing deposits with banks	9	6	21	18
Total interest income	5,483	5,708	16,545	17,323
INTEREST EXPENSE				
Deposits	1,048	1,489	3,434	4,673
Retail repurchase agreements	21	12	55	34
Advances from Federal Home Loan Bank	257	484	779	1,556
Total interest expense	1,326	1,985	4,268	6,263
Net interest income	4,157	3,723	12,277	11,060
Provision for loan losses	590	980	1,470	3,364
Net interest income after provision for loan losses	3,567	2,743	10,807	7,696
NON-INTEREST INCOME				
Service charges on deposit accounts	715	620	2,029	1,792
Commission income	33	38	109	96
Gain on sale of mortgage loans	194	121	473	439
Increase in cash surrender value of life insurance	54	56	164	166
Other income	24	27	71	69
Total non-interest income	1,020	862	2,846	2,562
NON-INTEREST EXPENSE				
Compensation and benefits	1,792	1,691	5,302	4,999
Occupancy and equipment	356	345	1,041	1,013
Data processing	285	690	529	1,161
Professional fees	158	232	548	547
Advertising	54	72	145	201
Other operating expenses	670	893	2,035	2,471
Total non-interest expense	3,315	3,923	9,600	10,392
Income (loss) before income taxes	1,272	(318)	4,053	(134)

Income tax expense (benefit)		359		(331)		1,144		(551)
Net Income	$	913	$	13	$	2,909	$	417
Less: net income attributable to noncontrolling interest in subsidiary		3		3		10		9
Net Income Attributable to First Capital, Inc.	$	910	$	10	$	2,899	$	408
Other comprehensive income, net of tax								
Unrealized gain on securities:								
Unrealized holding gains arising during the period		373		748		962		786
Less: reclassification adjustment								
Other comprehensive income		373		748		962		786
Comprehensive Income	$	1,283	$	758	$	3,861	$	1,194
Earnings per common share attributable to First Capital, Inc.								
Basic	$	0.33	$		$	1.04	$	0.15
Diluted	$	0.33	$		$	1.04	$	0.15
Dividends per share	$	0.19	$	0.18	$	0.55	$	0.54

See accompanying notes to consolidated financial statements.

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PART I - FINANCIAL INFORMATION

FIRST CAPITAL, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2010	2009
	(In thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 2,909	$ 417
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Amortization of premiums and accretion of discounts on securities, net	666	414
Depreciation and amortization expense	683	720
Deferred income taxes	108	(723)
Increase in cash value of life insurance	(164)	(166)
Provision for loan losses	1,470	3,364
Proceeds from sales of mortgage loans	26,245	36,458
Mortgage loans originated for sale	(27,840)	(35,856)
Net gain on sale of mortgage loans	(473)	(439)
Decrease in accrued interest receivable	100	238
Decrease in accrued interest payable	(329)	(257)
Net change in other assets/liabilities	794	(122)
Net Cash Provided By Operating Activities	4,169	4,048
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of securities available for sale	(42,006)	(29,912)
Proceeds from maturities of securities available for sale	32,304	13,525
Proceeds from maturities of securities held to maturity	21	20
Principal collected on mortgage-backed obligations	9,661	11,273
Net (increase) decrease in loans receivable	7,885	(954)
Proceeds from sale of foreclosed real estate	798	928
Purchase of premises and equipment	(194)	(1,101)
Net Cash Provided By (Used In) Investing Activities	8,469	(6,221)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in deposits	(4,703)	12,737
Net decrease in advances from Federal Home Loan Bank	(2,047)	(15,054)
Net increase in retail repurchase agreements	1,274	1,274
Exercise of stock options	282	10
Purchase of treasury stock	(43)	(584)
Issuance of preferred shares to noncontrolling interest		83
Dividends paid	(1,547)	(1,502)
Net Cash Used In Financing Activities	(6,784)	(3,036)

Net Increase (Decrease) in Cash and Cash Equivalents	5,854	(5,209)
Cash and cash equivalents at beginning of period	15,857	22,149
Cash and Cash Equivalents at End of Period	$ 21,711	$ 16,940

See accompanying notes to consolidated financial statements.

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FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Presentation of Interim Information

First Capital, Inc. (Company) is the thrift holding company for First Harrison Bank (Bank). The information presented in this report relates primarily to the Bank s operations. First Harrison Investments, Inc. and First Harrison Holdings, Inc. are wholly-owned Nevada corporate subsidiaries of the Bank that jointly own First Harrison, LLC, a Nevada limited liability corporation that holds and manages an investment portfolio. First Harrison REIT, Inc. (REIT) was incorporated as a wholly-owned subsidiary of First Harrison Holdings, Inc. to hold a portion of the Bank s real estate mortgage loan portfolio. On January 21, 2009, the REIT issued 105 shares of 12.5% redeemable cumulative preferred stock with an aggregate liquidation value of $105,000 in a private placement offering in order to satisfy certain ownership requirements to qualify as a real estate investment trust. At September 30, 2010, this noncontrolling interest represented 0.2% ownership of the REIT.

In the opinion of management, the unaudited consolidated financial statements include all normal adjustments considered necessary to present fairly the financial position as of September 30, 2010, and the results of operations for the three and nine months ended September 30, 2010 and 2009 and cash flows for the nine months ended September 30, 2010 and 2009. All of these adjustments are of a normal, recurring nature. Such adjustments are the only adjustments included in the unaudited consolidated financial statements. Interim results are not necessarily indicative of results for a full year.

The accompanying unaudited consolidated financial statements and notes have been prepared in accordance with U.S generally accepted accounting principles (GAAP) for interim financial statements and are presented as permitted by the instructions to Form 10-Q. Accordingly, they do not contain certain information included in the Company s annual audited consolidated financial statements and related footnotes for the year ended December 31, 2009 included in the Form 10-K.

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

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FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

2. Comprehensive Income

Comprehensive income is defined as the change in equity (net assets) of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income for the Company includes net income attributable to the Company and other comprehensive income representing the net unrealized gains and losses on securities available for sale. The following table sets forth the components of other comprehensive income and the allocated tax amounts for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2010	**2009**	**2010**	**2009**
	(In thousands)		(In thousands)	
Unrealized gains on securities:				
Unrealized holding gains arising during the period	$ 617	$ 1,239	$ 1,593	$ 1,302
Income tax expense	(244)	(491)	(631)	(516)
Net of tax amount	373	748	962	786
Less: reclassification adjustment for gains included in net income				
Income tax benefit				
Net of tax amount				
Other comprehensive income	$ 373	$ 748	$ 962	$ 786

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FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

3. Supplemental Disclosure for Earnings Per Share

	Three Months Ended		Nine Months Ended	
	9/30/2010	9/30/2009	9/30/2010	9/30/2009
	(Dollars in thousands, except for share and per share data)			
Basic				
Earnings:				
Net income attributable to First Capital, Inc.	$ 910	$ 10	$ 2,899	$ 408
Shares:				
Weighted average common shares outstanding	2,787,365	2,761,357	2,784,446	2,775,076
Net income attributable to First Capital, Inc. per common share, basic	$ 0.33	$ 0.00	$ 1.04	$ 0.15
Diluted				
Earnings:				
Net income attributable to First Capital, Inc.	$ 910	$ 10	$ 2,899	$ 408
Shares:				
Weighted average common shares outstanding	2,787,365	2,761,357	2,784,446	2,775,076
Add: Dilutive effect of outstanding options		15,530	1,388	13,500
Add: Dilutive effect of restricted stock				
Weighted average common shares outstanding, as adjusted	2,787,365	2,776,887	2,785,834	2,788,576
Net income attributable to First Capital, Inc. per common share, diluted	$ 0.33	$ 0.00	$ 1.04	$ 0.15

4. Stock Option Plan

For the nine month periods ended September 30, 2010 and 2009, the Company did not recognize any compensation expense related to its stock option plans. Expense is recognized ratably over the five-year vesting period of the options. At September 30, 2010, there was no unrecognized compensation expense related to nonvested stock options to be recognized over the remaining vesting period. The Black-Scholes option pricing model was used to determine the fair value of the options granted in prior periods.

5. Supplemental Disclosures of Cash Flow Information

	Nine Months Ended September 30, 2010	2009
	(In thousands)	
Cash payments for:		
Interest	$ 4,596	$ 6,520
Taxes	851	471
Noncash investing activities:		
Transfers from loans to real estate acquired through foreclosure	1,679	1,033

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FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Effective January 1, 2008, the Company adopted the provisions of Accounting Standards Codification (ASC) Topic 820 (formerly Statement of Financial Accounting Standards (SFAS) No. 157)*, Fair Value Measurements,* for financial assets and financial liabilities. This statement is definitional and disclosure oriented and addresses how companies should approach measuring fair value when required by GAAP; it does not create or modify any current GAAP requirements to apply fair value accounting. ASC Topic 820 prescribes various disclosures about financial statement categories and amounts which are measured at fair value, if such disclosures are not already specified elsewhere in GAAP.

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

Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted market price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2: Inputs to the valuation methodology include quoted market prices for similar assets or liabilities in active markets; inputs to the valuation methodology include quoted market prices for identical or similar assets or liabilities in markets that are not active; or inputs to the valuation methodology that are derived principally from or can be corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

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FIRST CAPITAL, INC.

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(Unaudited)

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below. These valuation methodologies were applied to all of the Company s financial and nonfinancial assets carried at fair value or the lower of cost or fair value. The table below presents the balances of assets measured at fair value on a recurring and nonrecurring basis as of September 30, 2010. The Company had no liabilities measured at fair value as of September 30, 2010.

	Carrying Value			
	Level 1	Level 2	Level 3	Total
		(In thousands)		
Assets Measured on a Recurring Basis				
Securities available for sale	$ 3,135	$ 91,485	$	$ 94,620
Assets Measured on a Nonrecurring Basis				
Impaired loans		5,221		5,221
Loans held for sale		3,531		3,531
Foreclosed real estate		1,257		1,257

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

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

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FIRST CAPITAL, INC.

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(Unaudited)

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

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

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

There were no transfers into or out of the Company s Level 3 financial assets for the nine months ended September 30, 2010. In addition, there were no transfers into or out of Levels 1 and 2 of the fair value hierarchy during the nine months ended September 30, 2010.

FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

	September 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)			
Financial assets:				
Cash and cash equivalents	$ 21,711	$ 21,711	$ 15,857	$ 15,857
Securities available for sale	94,620	94,620	93,729	93,729
Securities held to maturity	33	34	62	64
Loans held for sale	3,531	3,531	1,463	1,487
Loans, net	300,559	314,147	311,092	319,295
Federal Home Loan Bank stock	3,551	3,551	3,551	3,551
Accrued interest receivable	1,954	1,954	2,054	2,054
Financial liabilities:				
Deposits	369,773	373,267	374,476	377,928
Retail repurchase agreements	9,223	9,223	7,949	7,949
Advances from Federal Home Loan Bank	22,729	23,719	24,776	25,886
Accrued interest payable	651	651	980	980
Off-balance-sheet financial instruments:				
Asset related to commitments to extend credit				72

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

Cash and Cash Equivalents

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

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FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Debt and Equity Securities

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

Loans

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

Deposits

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

Borrowed Funds

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

Commitments to Extend Credit

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

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FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

7. Recent Accounting Pronouncements

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

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

In January 2010, the FASB issued Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements*. This ASU provides amendments to ASC Topic 820 to provide users of financial statements with additional information regarding fair value. New disclosures required by the ASU include: (a) disclosure of significant transfers between Level 1 and Level 2 and the reasons for such transfers, (b) disclosure of the reasons for transfers in or out of Level 3 and the reconciliation of the changes in Level 3 fair value measurements should present separately information about purchases, sales, and settlements on a gross basis rather than as a net amount, (c) disclosure of significant transfers into Level 3 separately from significant transfers out of Level 3, and (d) disclosure of the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements for Level 2 and Level 3 and the reason for any changes in valuation methods. This ASU will generally be effective for interim and annual periods beginning after December 15, 2009. However, disclosures of purchases, sales, issuances, and settlements in the roll forward activity in Level 3 fair value measurements will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this ASU did not have a material effect on the Company s consolidated financial position or results of operations.

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FIRST CAPITAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

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

In July 2010, the FASB issued ASU No. 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. The guidance requires additional disclosure to facilitate financial statement users evaluation of the following: (1) the nature of credit risk inherent in the entity s loan portfolio, (2) how that risk is analyzed and assessed in arriving at the allowance for loan losses, and (3) the changes and reasons for those changes in the allowance for loan losses. For public companies, increased disclosures as of the end of a reporting period are effective for periods ending on or after December 15, 2010. Increased disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this ASU is not expected to have a material impact on the Company s consolidated financial position or results of operations.

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FIRST CAPITAL, INC.

Safe Harbor Statement for Forward-Looking Statements

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

Forward-looking statements are not guarantees of future performance. Numerous risks and uncertainties could cause or contribute to the Company s actual results, performance and achievements being materially different from those expressed or implied by the forward-looking statements. Factors that may cause or contribute to these differences include, without limitation, general economic conditions, including changes in market interest rates and changes in monetary and fiscal policies of the federal government; legislative and regulatory changes; the quality and composition of the loan and investment securities portfolio; loan demand; deposit flows; competition; and changes in accounting principles and guidelines. Additional factors that may affect our results are discussed in Part II of this Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2009 and Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 under Item 1A. Risk Factors. These factors should be considered in evaluating the forward-looking statements and undue reliance should not be placed on such statements. Except as required by applicable law or regulation, the Company assumes no obligation and disclaims any obligation to update any forward-looking statements.

Critical Accounting Policies

During the nine months ended September 30, 2010, there was no significant change in the Company s critical accounting policies or the application of critical accounting policies as disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Financial Condition

Total assets decreased from $455.5 million at December 31, 2009 to $452.4 million at September 30, 2010, a decrease of 0.7%.

Net loans receivable (excluding loans held for sale) decreased $10.5 million from $311.1 million at December 31, 2009 to $300.6 million at September 30, 2010. Residential mortgages decreased $10.7 million during the nine months ended September 30, 2010. This was partially offset by increases of $870,000 and $847,000 in commercial business loans and commercial mortgage loans, respectively. The decrease in residential mortgage loans is due to loan payoffs that have not been replaced by new originations as the Bank has continued to sell fixed rate residential mortgage loans in the secondary market.

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Securities available for sale increased $891,000 from $93.7 million at December 31, 2009 to $94.6 million at September 30, 2010. Purchases of $42.0 million of securities classified as available for sale were made during the nine months ended September 30, 2010 and consisted primarily of U.S. government agency debt securities, collateralized mortgage obligations and municipal securities. Maturities and principal repayments of these securities totaled $32.3 million and $9.7 million, respectively, for the nine months ended September 30, 2010.

Cash and cash equivalents increased from $15.9 million at December 31, 2009 to $21.7 million at September 30, 2010 due to an increase in cash and due from banks of $8.7 million partially offset by a decrease of $2.9 million in interest bearing deposits with banks.

Total deposits decreased 1.3% from $374.5 million at December 31, 2009 to $369.8 million at September 30, 2010. Time deposits decreased $16.6 million during the period as some customers have opted not to lock in to long-term commitments while rates are at the current low levels. Interest-bearing demand deposits and savings accounts increased $8.2 million during the period primarily due to the Bank s successful efforts at attracting new public fund accounts in its market area. Noninterest-bearing demand deposits also increased $3.7 million primarily due to enhanced marketing efforts aimed at commercial customers in the Bank s market area.

Federal Home Loan Bank borrowings decreased from $24.8 million at December 31, 2009 to $22.7 million at September 30, 2010. New advances of $9.5 million were drawn during the period while principal repayments of $11.5 million were made.

Retail repurchase agreements, which represent overnight borrowings from deposit customers, including businesses and local municipalities, increased from $7.9 million at December 31, 2009 to $9.2 million at September 30, 2010.

Total stockholders equity attributable to the Company increased from $45.9 million at December 31, 2009 to $48.5 million at September 30, 2010. This increase was primarily the result of retained net income of $1.4 million and a net unrealized gain of $962,000 on securities available for sale during the period.

Results of Operations

Net Income attributable to the Company for the nine-month periods ended September 30, 2010 and 2009. Net income attributable to the Company was $2.9 million ($1.04 per share diluted) for the nine months ended September 30, 2010 compared to $408,000 ($0.15 per share diluted) for the nine months ended September 30, 2009. During 2010, the Company experienced increases in net interest income after the provision for loan losses and noninterest income, and a decrease in noninterest expenses.

Net Income attributable to the Company for the three-month periods ended September 30, 2010 and 2009. Net income attributable to the Company was $910,000 ($0.33 per share diluted) for the three months ended September 30, 2010 compared to $10,000 for the same period in 2009. Diluted earnings per share for the 2009 period were negligible. During the three months ended September 30, 2010, the Company experienced increases in net interest income after the provision for loan losses and noninterest income, and a decrease in noninterest expenses.

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Net interest income for the nine-month periods ended September 30, 2010 and 2009. Net interest income increased $1.2 million for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009 primarily due to an increase in the tax-equivalent interest rate spread.

Total interest income decreased $778,000 during the nine months ended September 30, 2010 compared to the same period in 2009. During the nine months ended September 30, 2010, the average balance of interest-earning assets and their tax-equivalent yield were $422.0 million and 5.36%, respectively. During the same period in 2009, the average balance of those assets was $421.7 million and the tax-equivalent yield was 5.60%. The decrease in the tax-equivalent yield was due to a decrease in yields across all asset types as the Federal Open Market Committee (FOMC) kept interest rates near historic low levels. The change in asset mix also contributed to the lower yield as the average balance of investment securities, which generally have lower yields than loans, increased from $86.0 million for the nine months ended September 30, 2009 to $102.3 million for the same period in 2010, while the average balance of loans decreased from $322.3 million for 2009 to $312.9 million for 2010.

Total interest expense decreased $2.0 million for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009. The average balance of interest-bearing liabilities increased from $366.2 million in 2009 to $369.3 million in 2010 while the average rate paid on interest-bearing liabilities decreased from 2.28% in 2009 to 1.54% in 2010. As a result, the tax-equivalent interest rate spread increased from 3.32% during the first nine months of 2009 to 3.82% for the same period in 2010.

Net interest income for the three-month periods ended September 30, 2010 and 2009. Net interest income increased from $3.7 million for the three months ended September 30, 2009 to $4.2 million for the same period in 2010 primarily due to an increase in the tax-equivalent interest rate spread.

Total interest income decreased $225,000 for the three months ended September 30, 2010 compared to the same period in 2009 due to decreases in the average balance of interest-earning assets and their tax-equivalent yields. For the quarter ended September 30, 2009, interest-earning assets had an average balance of $422.7 million and a tax-equivalent yield of 5.54%, compared to $412.6 million and 5.45%, respectively, during the same period in 2010.

Total interest expense decreased $659,000 for the three months ended September 30, 2010 compared to the same period in 2009. The average balance of interest-bearing liabilities decreased from $368.1 million in 2009 to $360.0 million in 2010 while the average cost of interest-bearing liabilities decreased from 2.16% in 2009 to 1.47% in 2010.

As a result of the changes described above, the tax-equivalent interest rate spread increased from 3.38% in the quarter ended September 30, 2009 to 3.98% during the same period in 2010.

Provision for loan losses. The provision for loan losses decreased from $980,000 for the three-month period ended September 30, 2009 to $590,000 for the same period in 2010. The decrease in the provision for loan losses for 2010 compared to 2009 is primarily due to a decrease in net charge offs for the periods. Net charge offs amounted to $354,000 for the three-month period ended September 30, 2010, compared to $1.2 million for the three-month period ended September 30, 2009. Of the $1.2 million charged off in the period ended September 30, 2009, $919,000 was due to a single commercial credit relationship.

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The provision for loan losses was $1.5 million for the nine-month period ended September 30, 2010 compared to $3.4 million for the same period in 2009. The decrease in the provision for loan losses for 2010 was primarily due to specific reserves on two commercial credit relationships totaling approximately $1.6 million that were recorded during 2009. Management began the recovery process on one of the relationships during 2010. Charge offs totaling $1.2 million were recorded as a result of this relationship during 2010 and $419,000 was transferred from loans to foreclosed real estate.

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

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

The allowance for loan losses was $4.2 million at September 30, 2010 compared to $4.9 million at December 31, 2009. Management has deemed these amounts as adequate on those dates based on its best estimate of probable known and inherent loan losses. At September 30, 2010, nonperforming loans amounted to $7.7 million compared to $9.5 million at December 31, 2009. Included in nonperforming loans at September 30, 2010 are loans over 90 days past due secured by residential mortgages of $189,000 and consumer loans of $43,000. These loans are accruing interest as the estimated value of the collateral and collection efforts are deemed sufficient to ensure full recovery. Nonperforming loans also included nonaccrual loans totaling $7.5 million and $8.4 million at September 30, 2010 and December 31, 2009, respectively.

Noninterest income for the nine-month periods ended September 30, 2010 and 2009. Noninterest income increased to $2.8 million for the nine months ended September 30, 2010 from $2.6 million for the nine months ended September 30, 2009. Service charges on deposit accounts increased $237,000 when comparing the two periods, primarily due to an increase in fees for debit card transactions as customers continue to increase their use of debit cards.

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Noninterest income for the three-month periods ended September 30, 2010 and 2009. Noninterest income for the quarter ended September 30, 2010 increased to $1.0 million compared to $862,000 for the quarter ended September 30, 2009. Service charges on deposit accounts and gains on the sale of mortgage loans increased $95,000 and $73,000, respectively, when comparing the two periods.

Noninterest expense for the nine-month periods ended September 30, 2010 and 2009. Noninterest expense decreased to $9.6 million for the nine months ended September 30, 2010 compared to $10.4 million for the same period in 2009. Data processing expenses decreased $632,000 when comparing the two periods, primarily due to a $659,000 decrease in ATM processing fees. This decrease was primarily due to disputed charges paid in 2009 of which the Bank recovered $278,000 in the first quarter of 2010. Other operating expenses decreased $436,000 when comparing the two periods primarily due to a $196,000 decrease in FDIC insurance premiums. The premium in 2009 included $207,000 for the special assessment imposed on all banks by the FDIC effective June 30, 2009 and payable on September 30, 2009. These were partially offset by an increase of $303,000 in compensation and benefits primarily due to normal salary increases and an increase in staff due to the opening of the Bank s Lanesville, Indiana office in June 2009.

Noninterest expense for the three-month periods ended September 30, 2010 and 2009. Noninterest expense for the quarter ended September 30, 2010 decreased $608,000 when compared to the quarter ended September 30, 2009. Data processing expenses decreased $405,000 when comparing the two periods primarily due to the disputed ATM charges and partial recovery discussed above. Other operating expenses decreased $223,000 primarily due to decreases in losses and expenses related to the acquisition and sale of foreclosed real estate and in FDIC deposit insurance premiums.

Income tax expense. The Company recognized income tax expense of $1.1 million for the nine-month period ended September 30, 2010, compared to an income tax benefit of $551,000 for the same period in 2009. The increase in income tax expense for 2010 is primarily due to an increase in income before taxes for the period. Income tax expense for the three-month period ended September 30, 2010 was $359,000, compared to an income tax benefit of $331,000 for the same quarter in 2009. The income tax benefit for 2009 is primarily due to tax exempt income and losses before income taxes for the period. The effective tax rate for both the three months and nine months ended September 30, 2010 was 28.2%.

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, 2010, the Bank had cash and cash equivalents of $21.7 million and securities available-for-sale with a fair value of $94.6 million. If the Bank requires funds beyond its ability to generate them internally, it has additional borrowing capacity with the FHLB of Indianapolis and additional collateral eligible for repurchase agreements.

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

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

The Bank is required to maintain specific amounts of capital pursuant to OTS regulatory requirements. As of September 30, 2010, the Bank was in compliance with all regulatory capital requirements, which were effective as of such date with tangible, core and risk-based capital ratios of 9.2%, 9.2% and 15.1%, respectively. The regulatory requirements at that date were 1.5%, 3.0% and 8.0%, respectively. At September 30, 2010, the Bank was considered well-capitalized under applicable regulatory guidelines.

The Company is a separate legal entity from the Bank and must provide for its own liquidity. In addition to its operating expenses, the Company, on a stand-alone basis, is responsible for paying any dividends declared to its shareholders. The Company also has repurchased shares of its common stock. The Company s primary source of income is dividends received from the Bank. The amount of dividends that the Bank may declare and pay to the Company in any calendar year, without the receipt of prior approval from the Office of Thrift Supervision (OTS) but with prior notice to the OTS, cannot exceed net income for that year to date plus retained net income (as defined) for the preceding two calendar years. On a stand-alone basis, the Company had liquid assets of $371,000 at September 30, 2010.

Off-Balance Sheet Arrangements

In the normal course of operations, the Company engages in a variety of financial transactions that, in accordance with generally accepted accounting principles are not recorded on the Company s financial statements. These transactions involve, to varying degrees, elements of credit, interest rate and liquidity risk. Such transactions are primarily used to manage customers requests for funding and take the form of loan commitments and letters of credit. A further presentation of the Company s off-balance sheet arrangements is presented in the Company s 2009 Annual Report on Form 10-K for the year ended December 31, 2009.

For the nine months ended September 30, 2010, the Company did not engage in any off-balance sheet transactions reasonably likely to have a material effect on the Company s financial condition, results of operations or cash flows.

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PART I - ITEM 3

QUANTITATIVE AND QUALITATIVE DISCLOSURES

ABOUT MARKET RISK

FIRST CAPITAL, INC.

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

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

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

The following tables are provided by the OTS and set forth the change in the Bank s NPV at December 31, 2009 and September 30, 2010, based on OTS assumptions that would occur in the event of an immediate change in interest rates, with no effect given to any steps that management might take to counteract that change.

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QUANTITATIVE AND QUALITATIVE DISCLOSURES

ABOUT MARKET RISK

FIRST CAPITAL, INC.

At December 31, 2009

Change In Rates	Net Portfolio Value Dollar Amount	Dollar Change	Percent Change	Net Portfolio Value as a Percent of Present Value of Assets NPV Ratio	Change
	(Dollars in thousands)				
300bp	$ 51,262	$ (9,669)	(16)%	11.11%	(169)bp
200bp	55,981	(4,950)	(8)	11.97	(83)bp
100bp	59,274	(1,657)	(3)	12.54	(26)bp
Static	60,931			12.80	bp
(100)bp	61,405	474	1	12.84	4bp

At September 30, 2010

Change In Rates	Net Portfolio Value Dollar Amount	Dollar Change	Percent Change	Net Portfolio Value as a Percent of Present Value of Assets NPV Ratio	Change
	(Dollars in thousands)				
300bp	$ 55,724	$ (4,324)	(7)%	12.10%	(69)bp
200bp	59,197	(851)	(1)	12.72	(7)bp
100bp	60,417	369	1	12.90	11bp
Static	60,048			12.79	bp
(100)bp	59,420	(628)	(1)	12.65	(14)bp

The preceding tables indicate that the Bank s NPV would be expected to increase in the event of a sudden and sustained increase in prevailing interest rates of 100 basis points, but would be expected to decrease in the event of a sudden and sustained increase of 200 or 300 basis points or decrease of 100 basis points in prevailing interest rates. The expected decrease in the Bank s NPV given a more significant increase in rates is primarily attributable to the relatively high percentage of fixed-rate loans in the Bank s loan portfolio. At September 30, 2010, approximately 51% of the loan portfolio consisted of fixed-rate loans, compared to approximately 52% at December 31, 2009.

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

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

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CONTROLS AND PROCEDURES

FIRST CAPITAL, INC.

Controls and Procedures

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

There have been no changes in the Company s internal control over financial reporting during the quarter ended September 30, 2010 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, 2009 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, which could materially affect our business, financial condition or future results. There have been no material changes to the risk factors described in our Annual Report on Form 10-K and Quarterly Report on Form 10-Q. 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, 2010	475	$ 15.44	475	191,890
August 1 through August 31, 2010		N/A		191,890
September 1 through September 30, 2010		N/A		191,890
Total	475	$ 15.44	475	

On August 19, 2008, the board of directors authorized the repurchase of up to 240,467 shares of the Company s outstanding common stock. The stock repurchase program will expire upon the purchase of the maximum number of shares authorized under the program, unless the board of directors terminates the program earlier.

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PART II

OTHER INFORMATION

FIRST CAPITAL, INC.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. (Removed and Reserved)

Item 5. Other Information

None.

Item 6. Exhibits

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

* Management contract or compensatory plan, contract or arrangement.

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

(2) Incorporated by reference to the Current Report on Form 8-K filed with the Securities and Exchange Commission on August 22, 2007.

(3) Incorporated by reference to the Quarterly Report on Form 10-QSB for the quarter ended December 31, 1998.

(4) Incorporated by reference to the Annual Report on Form 10-KSB for the year ended December 31, 1999.

(5) Incorporated by reference from the Exhibits filed with the Registration Statement on Form S-8, and any amendments thereto, Registration Statement No. 333-76543.

(6) Incorporated by reference from the Exhibits filed with the Registration Statement on Form S-8, and any amendments thereto, Registration Statement No. 333-95987.

(7) Incorporated by reference to the appendix to the Company s definitive proxy materials on Schedule 14A filed with the Securities and Exchange Commission on April 9, 2009.

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SIGNATURES

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

	FIRST CAPITAL, INC. (Registrant)
Dated November 10, 2010	**BY:** /s/ William W. Harrod William W. Harrod President and CEO
Dated November 10, 2010	**BY:** /s/ Michael C. Frederick Michael C. Frederick Senior Vice President, CFO and Treasurer

tom">

Total NIKE consolidated earnings before interest and taxes

852 754 13%

Interest (income), net

(1)

Total NIKE consolidated income before income taxes

$852 $755 13%

The primary financial measure used by the Company to evaluate performance of individual operating segments is earnings before interest and taxes (commonly referred to as EBIT), which represents net income before interest expense, net and income taxes in the unaudited condensed consolidated statements of income. As discussed in Note 11 Operating Segments in the accompanying notes to unaudited condensed consolidated financial statements, certain corporate costs are not included in EBIT of our operating segments.

North America

	Three Months Ended August 31,			
	2011	**2010**	**% Change**	**% Change Excluding Currency Changes**
		(in millions)		
Revenues				
Footwear	$ 1,443	$ 1,289	12%	12%
Apparel	632	515	23%	22%
Equipment	125	99	26%	25%
Total revenues	$ 2,200	$ 1,903	16%	15%
Earnings before interest and taxes	$ 534	$ 443	21%	

On a currency neutral basis, revenues for North America increased 15% for the first quarter, driven by double-digit percentage growth in both wholesale and Direct to Consumer revenues. Contributing to the wholesale revenue growth were strong product category presentations at our wholesale customers driving additional demand for NIKE Brand products across all categories. North America s Direct to Consumer revenues grew 23%, fueled by 18% growth in comparable store sales.

The increase in North America footwear revenue was driven by growth in all key categories, including double-digit percentage growth in Running, a mid single-digit percentage increase in Sportswear and Basketball; and significant growth in Women s Training, which more than doubled during the quarter.

The year-over-year increase in North America apparel revenues was primarily driven by double-digit percentage growth in most key categories, most notably Men s Training, Sportswear and Basketball.

For the first quarter, the increase in North America s EBIT was primarily the result of revenue growth and leverage on selling and administrative expense, which more than offset a lower gross margin percentage. The decline in gross margin percentage was due primarily to increased product input costs and a higher mix of off-price sales, which more than offset the favorable impact from the growth of our Direct to Consumer business.

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Western Europe

	Three Months Ended August 31, 2011	2010	% Change	% Change Excluding Currency Changes
	(in millions)			
Revenues				
Footwear	$ 731	$ 632	16%	1%
Apparel	407	369	10%	-3%
Equipment	81	65	25%	7%
Total revenues	$ 1,219	$ 1,066	14%	0%
Earnings before interest and taxes	$ 223	$ 283	-21%	

On a currency neutral basis, revenues for Western Europe were flat for the first quarter of fiscal 2012, primarily due to a tough comparison to prior year s World Cup related sales and delays in product deliveries. Revenues for the U.K. & Ireland, the largest market in Western Europe, decreased 14% for the first quarter, while revenues grew in France, Germany and Italy. Western Europe s Direct to Consumer revenues grew 23%, fueled by 12% growth in comparable store sales.

Excluding changes in currency exchange rates, footwear revenue in Western Europe increased 1%, as double-digit percentage growth in Running more than offset revenue declines in our Football (Soccer) and Action Sports categories.

On a currency neutral basis, apparel revenue in Western Europe decreased 3% as the declines in sales of Football (Soccer) and Sportswear products more than offset double-digit revenue growth in Running.

For the first quarter of fiscal 2012, the decrease in Western Europe s EBIT was driven by a lower gross margin percentage and higher selling and administrative expense. The gross margin percentage was negatively affected by unfavorable year-over-year standard currency exchange rates, higher product and air freight costs and increased royalty expenses related to sales of endorsed team products. These factors more than offset the favorable impact of the growth of our Direct to Consumer business and price increases. The increase in selling and administrative expense was primarily driven by increased investments in sports marketing, retail product presentation with wholesale customers and our Direct to Consumer business.

Central & Eastern Europe

	Three Months Ended August 31, 2011	2010	% Change	% Change Excluding Currency Changes
	(in millions)			
Revenues				
Footwear	$ 180	$ 149	21%	11%
Apparel	123	95	29%	20%
Equipment	31	25	24%	14%

Total revenues	$ 334	$ 269	24%	14%
Earnings before interest and taxes	$ 70	$ 70	0%	

Excluding the changes in currency exchange rates, revenues for Central & Eastern Europe increased 14% for the first quarter of fiscal 2012. Most territories within Central & Eastern Europe reported revenue growth, led by Russia and Turkey.

The growth in both of Central & Eastern Europe s footwear and apparel revenues was mainly driven by double-digit percentage growth in Running. Also contributing to the growth of our apparel revenue was a double digit percentage increase in our Football (Soccer) and Sportswear products.

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For the first quarter of fiscal 2012, Central & Eastern Europe s EBIT remained flat as revenue growth and selling and administrative expense leverage were offset by a lower gross margin percentage. The decline in the gross margin percentage was primarily due to higher product input and air freight costs, and unfavorable year-over-year standard currency exchange rates.

Greater China

	Three Months Ended August 31,			
	2011	2010	% Change	% Change Excluding Currency Changes
		(in millions)		
Revenues				
Footwear	$ 314	$ 246	28%	21%
Apparel	177	182	-3%	-8%
Equipment	37	32	16%	8%
Total revenues	$ 528	$ 460	15%	9%
Earnings before interest and taxes	$ 171	$ 164	4%	

Excluding changes in currency exchange rates, Greater China revenues increased 9% for the first quarter of fiscal 2012, driven by expansion in the number of NIKE mono-branded stores owned by our wholesale customers and higher comparable store sales.

For the first quarter of fiscal 2012, Greater China s footwear revenue increased 21%, reflecting strong growth across multiple categories, led by our Running and Sportswear categories. The decrease in apparel revenue was mainly the result of lower sales and higher returns for Sportswear product due to lower than expected sell through by our wholesale customers.

EBIT for Greater China grew at a slower rate than revenue as a result of a lower gross margin percentage and higher selling and administrative expense. The decrease in the gross margin percentage was primarily attributable to higher product input costs, discounts on in-line products and higher inventory obsolescence expense, which more than offset price increases. The increase in selling and administrative expense was primarily driven by increased investments in our Direct to Consumer business and demand creation.

Japan

	Three Months Ended August 31,			
	2011	2010	% Change	% Change Excluding Currency Changes
		(in millions)		
Revenues				
Footwear	$ 103	$ 86	20%	7%
Apparel	70	60	17%	5%
Equipment	18	17	6%	-5%
Total revenues	$ 191	$ 163	17%	5%

Earnings before interest and taxes	$ 34	$ 27	26%

Despite the uncertain macroeconomic environment, revenues for Japan grew 5%, on a currency neutral basis, driven by double-digit percentage growth in Running across both footwear and apparel.

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EBIT for Japan grew at a faster rate than revenue as a result of improved leverage on selling and administrative expense and favorable foreign currency translation, which more than offset a lower gross margin percentage. The decline in gross margin was primarily due to higher product input costs and a higher mix of off-price sales, which more than offset favorable year-over-year standard currency exchange rates.

Emerging Markets

	Three Months Ended August 31,			
	2011	**2010**	**% Change**	**% Change Excluding Currency Changes**
	(in millions)			
Revenues				
Footwear	$ 567	$ 404	40%	29%
Apparel	182	149	22%	12%
Equipment	50	38	32%	21%
Total revenues	$ 799	$ 591	35%	24%
Earnings before interest and taxes	$ 190	$ 124	53%	

Excluding the changes in currency exchange rates, revenues for the Emerging Markets increased 24% for the first quarter of fiscal 2012. Most territories in the geography reported double-digit revenue growth, led by Argentina, Korea and Mexico.

Footwear and apparel revenues both grew double digits, driven by strong demand in nearly all key categories, most notably Running and Sportswear.

EBIT for the Emerging Markets grew at a faster rate than revenue as a result of improved leverage on selling and administrative expense and favorable foreign currency translation, which more than offset a lower gross margin percentage. The decline in gross margin was primarily due to higher product input costs and higher discounts on in-line products, which more than offset favorable year-over-year standard currency exchange rates.

Global Brand Divisions

	Three Months Ended August 31,			
	2011	**2010**	**% Change**	**% Change Excluding Currency Changes**
	(in millions)			
Revenues	$ 42	$ 31	35%	24%
(Loss) before interest and taxes	(261)	(245)	7%	

Global Brand Divisions primarily represent demand creation and operating overhead expenses that are centrally managed for the NIKE Brand. Revenues for the Global Brand Divisions are attributable to NIKE Brand licensing businesses that are not part of a geographic operating segment.

For the first quarter of fiscal 2012, the increase in Global Brand Division expense was primarily due to increased investments in our Direct to Consumer infrastructure along with higher wages and performance based compensation.

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Other Businesses

	Three Months Ended August 31, 2011	2010	% Change	% Change Excluding Currency Changes
	(in millions)			
Revenues	$ 762	$ 694	10%	8%
Earnings before interest and taxes	86	109	-21%	

On a constant currency basis, first quarter revenues for our Other Businesses were 8% higher than the prior year as double-digit revenue growth at Converse and NIKE Golf, and single-digit growth at Cole Haan, more than offset revenue declines at Umbro and Hurley. The revenue growth at Converse was primarily driven by increased revenue in North America and China, as well as increased sales in the U.K. as we transitioned that market to direct distribution in the second half of fiscal 2011. The revenue increase at NIKE Golf was driven by increased sales of golf apparel, footwear and balls. Constant currency revenues for Umbro decreased at a mid-teens rate, primarily due to the comparison to last year s World Cup related sales.

For the first quarter of fiscal 2012, EBIT for our Other Businesses declined 21%, as a lower gross margin percentage and higher selling and administrative expense more than offset the impact of revenue growth. The decrease in gross margin percentage was primarily driven by higher product input costs and a lower mix of licensee revenues, which more than offset the positive impact from fewer discounts on in-line products. Selling and administrative expense was higher in the first quarter primarily due to increased investments in Direct to Consumer operations and demand creation.

Corporate

	Three Months Ended August 31, 2011	2010	% Change
	(in millions)		
Revenues	$ 6	$ (2)	
(Loss) before interest and taxes	(195)	(221)	-12%

Corporate consists largely of unallocated general and administrative expenses, which includes expenses associated with centrally managed departments; depreciation and amortization related to our corporate headquarters; unallocated insurance, benefit and compensation programs, including stock-based compensation; foreign currency gains and losses; corporate eliminations and other items.

Foreign currency gains and losses reported in Corporate include foreign currency hedge results generated by our centrally managed foreign exchange risk management program, conversion gains and losses arising from re-measurement of monetary assets and liabilities in non-functional currencies, and gains and losses resulting from the difference between actual foreign currency rates and standard rates used to record non-functional currency product purchases within the NIKE Brand geographic operating segments and Other Businesses.

For the first quarter of fiscal 2012, the decrease in Corporate expense was primarily driven by a reduction in centrally managed operating overhead expenses.

Foreign Currency Exposures and Hedging Practices

Overview

As a global company with significant operations outside the U.S., in the normal course of business we are exposed to risk arising from changes in currency exchange rates. Foreign currency fluctuations affect the recording of transactions, such as external sales, purchases, and intercompany transactions denominated in non-functional currencies, and the translation of foreign currency denominated results of operations, financial position and cash flows in U.S. dollars. Our foreign currency exposures are due primarily to non-functional currency transactions at wholly-owned NIKE entities, as well as translation of results denominated in currencies other than the U.S. dollar, primarily Euros, British Pounds, Chinese Renminbi and Japanese Yen.

Our foreign exchange risk management program is intended to minimize both the positive and negative effects of currency fluctuations on our reported consolidated results of operations, financial position and cash flows. This also has the effect of delaying the majority of the impact of current market rates on our consolidated financial statements; the length of the delay is dependent upon hedge horizons. We manage global foreign exchange risk centrally on a portfolio basis to address those risks that are material to

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NIKE, Inc. on a consolidated basis. We manage these exposures by taking advantage of natural offsets and currency correlations that exist within the portfolio and where practical, by hedging a portion of certain remaining material exposures, using derivative instruments such as forward contracts and options. Our hedging policy is designed to partially or entirely offset changes in the underlying exposures being hedged. We do not hold or issue derivative instruments for trading purposes.

Transactional exposures

We conduct business in various currencies and have significant transactions which subject us to foreign currency risk. Our most significant transactional foreign currency exposures are:

Product Costs - NIKE entities purchase products in two principal ways:

1. Some NIKE entities purchase from NIKE Trading Company (NTC), an internal centralized sourcing hub that buys NIKE products in U.S. dollars from external factories and sells the products to NIKE entities in their respective functional currencies. The NIKE entities comprising the NTC use the U.S. dollar as their functional currency, which results in a foreign currency exposure when selling to a NIKE entity with a different functional currency. A weaker foreign currency results in a higher cost ultimately incurred by NIKE whereas as a stronger foreign currency reduces this cost.

2. Other NIKE entities purchase product directly from external factories in U.S. dollars. This generates a foreign currency exposure for those NIKE entities with a functional currency other than the U.S. dollar. A weaker U.S. dollar reduces the inventory cost in the purchasing entity s functional currency whereas a stronger U.S. dollar increases the inventory cost.

Non-Functional Currency External Sales - A portion of our Western Europe and Central & Eastern Europe geography revenues are earned in currencies other than the Euro (e.g. British Pound, Polish Zloty), but are recognized at a subsidiary that uses the Euro as its functional currency, generating foreign currency exposure.

Other Costs - Non-functional currency costs, such as endorsement contracts, intercompany royalties and other intercompany charges, generate foreign currency risk to a lesser extent.

Non-Functional Currency Monetary Assets and Liabilities - Our global subsidiaries have various assets and liabilities, primarily receivables and payables denominated in currencies other than their functional currency. These balance sheet items are subject to re-measurement, which may create fluctuations in other expense, net within our consolidated results of operations.

Managing transactional exposures

Transactional exposures are managed on a portfolio basis within our foreign currency risk management program. As of August 31, 2011, we use currency forward contracts with maturities up to 21 months to hedge the effect of exchange rate fluctuations on probable forecasted future cash flows, including non-functional currency external sales, product cost exposures and other costs. These are accounted for as cash flow hedges in accordance with the accounting standards for derivatives and hedging. The fair value of these instruments at August 31, 2011 and May 31, 2011 was $34 million and $28 million in assets and $125 million and $136 million in liabilities, respectively. The effective portion of the changes in fair value of these instruments is reported in other comprehensive income (OCI), a component of shareholders equity, and reclassified into earnings in the same financial statement line item and in the same period or periods during which the related hedged transactions affect earnings. The ineffective portion is immediately recognized in earnings as a component of other expense, net. Ineffectiveness was not material for the three months ended August 31, 2011 or 2010.

Certain currency forward contracts used to manage foreign exchange exposure of non-functional currency monetary assets and liabilities subject to re-measurement are not designated as hedges under the accounting standards for derivatives and hedging. In these cases, the change in value of the instruments is immediately recognized in other expense, net and is intended to offset the foreign currency impact of the re-measurement of the related non-functional currency asset or liability being hedged. The fair value of these instruments at August 31, 2011 and May 31, 2011 was $11 million and $9 million in assets and $31 million and $17 million in liabilities, respectively.

Refer to Note 10 - Risk Management and Derivatives in the accompanying notes to the unaudited condensed consolidated financial statements for additional quantitative detail.

Translational exposures

Substantially all of our foreign subsidiaries operate in functional currencies other than the U.S. dollar. Fluctuations in currency exchange rates create volatility in our reported results as we are required to translate the balance sheets and operational results of these foreign currency denominated subsidiaries into U.S. dollars for consolidated reporting. The translation of foreign subsidiaries non-

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U.S. dollar balance sheets into U.S. dollars for consolidated reporting results in a cumulative translation adjustment to OCI within shareholders equity. In preparing our consolidated statements of income, foreign exchange rate fluctuations impact our operating results as the revenues and expenses of our foreign operations are translated into U.S. dollars. In translation, a weaker U.S. dollar in relation to foreign functional currencies benefits our consolidated earnings whereas a stronger U.S. dollar reduces our consolidated earnings. The impact of foreign exchange rate fluctuations on the translation of our consolidated revenues and income before income taxes was a net translation benefit (detriment) of approximately $318 million and $63 million, respectively, for the three months ended August 31, 2011 and approximately ($95) million and ($32) million, respectively, for the three months ended August 31, 2010.

Managing translational exposures

To minimize the impact of translating foreign currency denominated revenues and expenses into U.S. dollars for consolidated reporting, certain foreign subsidiaries use excess cash to purchase U.S. dollar denominated available-for-sale investments. The variable future cash flows associated with the purchase and subsequent sale of these U.S. dollar denominated securities at non-U.S. dollar functional currency subsidiaries creates a foreign currency exposure that qualifies for hedge accounting under the accounting standards for derivatives and hedging. We utilize forward contracts and options to partially, or entirely, hedge the variability of the forecasted future purchases and sales of these U.S. dollar investments. This has the effect of partially offsetting the year-over-year foreign currency translation impact on net earnings in the period the investments are sold. Hedges of available-for-sale investments are accounted for as cash flow hedges. The fair value of instruments used in this manner at August 31, 2011 was $20 million in liabilities. At May 31, 2011, the fair value was $1 million in assets and $21 million in liabilities. The effective portion of the changes in fair value of these instruments is reported in OCI and reclassified into earnings in other expense, net in the period during which the hedged available-for-sale investment is sold and affects earnings. Any ineffective portion, which was not material for any period presented, is immediately recognized in earnings as a component of other expense, net.

We estimate that the combination of translation of foreign currency-denominated profits from our international businesses and the year-over-year change in foreign currency related net losses included in other expense, net had a net benefit on our income before income taxes of approximately $32 million for the three months ended August 31, 2011.

Refer to Note 10 - Risk Management and Derivatives in the accompanying notes to the unaudited condensed consolidated financial statements for additional quantitative detail.

Net investments in foreign subsidiaries

We are also exposed to the impact of foreign exchange fluctuations on our investments in wholly-owned foreign subsidiaries denominated in a currency other than the U.S. dollar, which could adversely impact the U.S. dollar value of these investments and therefore the value of future repatriated earnings. We hedge certain net investment positions in Euro-functional currency foreign subsidiaries to mitigate the effects of foreign exchange fluctuations on net investments with the effect of preserving the value of future repatriated earnings. In accordance with the accounting standards for derivatives and hedging, the effective portion of the change in fair value of the forward contracts designated as net investment hedges is recorded in the cumulative translation adjustment component of accumulated other comprehensive income. Any ineffective portion, which was not material for any period presented, is immediately recognized in earnings as a component of other expense, net. To minimize credit risk, we have structured these net investment hedges to be generally less than six months in duration. Upon maturity, the hedges are settled based on the current fair value of the forward contracts with the realized gain or loss remaining in OCI; concurrent with settlement, we enter into new forward contracts at the current market rate. The fair value of outstanding net investment hedges at August 31, 2011 was $10 million in liabilities. At May 31, 2011, the fair value was $23 million in liabilities. Cash flows from net investment hedge settlements totaled ($22) million and $22 million for the three month periods ended August 31, 2011 and 2010, respectively.

Liquidity and Capital Resources

Cash Flow Activity

Cash provided by operations was $87 million for the first quarter of fiscal 2012 compared to $212 million for the first quarter of fiscal 2011. Our primary source of operating cash flow for the first quarter of fiscal 2012 was net income of $645 million. Our working capital was a net cash outflow of $698 million for the three month period ended August 31, 2011 as compared to $430 million for the three month period ended August 31, 2010. Our investments in working capital increased primarily due to an increase in inventory levels, driven by the increase in future orders, more timely factory deliveries, pre-builds for longer lead time products as well as higher product costs.

Cash provided by investing activities was $317 million during the first quarter of fiscal 2012, compared to a use of cash of $684 million for the same period in fiscal 2011. The year-over-year increase in cash provided by investing activities was primarily due to net sales and maturities of short-term investments of $484 million (net of purchases) in the first quarter of fiscal 2012, compared to net purchases of short term investments of $614 million during the first quarter of fiscal 2011.

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Cash used by financing activities was $744 million for the quarter of fiscal 2012 compared to $600 million used in the first quarter of fiscal 2011. The increase in cash used by financing activities was primarily attributable to an increase in share repurchases and higher payments on our notes payable, which more than offset an increase of proceeds from exercise of stock options and other stock issuances.

In the first quarter of fiscal 2012, we purchased 7.7 million shares of NIKE s Class B common stock for $649 million. These repurchases were made under the four-year, $5 billion program approved by our Board of Directors that commenced in December 2009 and as of the end of the first quarter of fiscal 2012, we have repurchased 38.0 million shares for approximately $3.0 billion under this program. We continue to expect funding of share repurchases will come from operating cash flow, excess cash, and/or debt. The timing and the amount of shares purchased will be dictated by our capital needs and stock market conditions.

Dividends declared per share of common stock for the first quarter of fiscal 2012 were $0.31, compared to $0.27 in the first quarter of fiscal 2011.

Contractual Obligations

There have been no significant changes to the contractual obligations reported in our Annual Report on Form 10-K for the fiscal year ended May 31, 2011.

The total liability for uncertain tax positions was $220 million, excluding related interest and penalties, at August 31, 2011. We estimate that it is reasonably possible that the total gross unrecognized tax benefits could decrease by up to $62 million within the next 12 months as a result of resolutions of global tax examinations and the expiration of applicable statutes of limitations.

Capital Resources

In December 2008, we filed a shelf registration statement with the Securities and Exchange Commission under which $760 million in debt securities may be issued. As of August 31, 2011, no debt securities had been issued under this shelf registration. We may issue debt securities under the shelf registration in fiscal 2012 depending on general corporate needs.

As of and for the quarter ended August 31, 2011, we had no amounts outstanding under our multi-year, $1 billion revolving credit facility in place with a group of banks. The facility matures in December 2012. Based on our current long-term senior unsecured debt ratings of A+ and A1 from Standard and Poor s Corporation and Moody s Investor Services, respectively, the interest rate charged on any outstanding borrowings would be the prevailing London Interbank Offer Rate (LIBOR) plus 0.15%. The facility fee is 0.05% of the total commitment.

If our long-term debt rating were to decline, the facility fee and interest rate under our committed credit facility would increase. Conversely, if our long-term debt rating were to improve, the facility fee and interest rate would decrease. Changes in our long-term debt rating would not trigger acceleration of maturity of any then outstanding borrowings or any future borrowings under the committed credit facility. Under this committed credit facility, we have agreed to various covenants. These covenants include limits on our disposal of fixed assets and the amount of debt secured by liens we may incur as well as a minimum capitalization ratio. In the event we were to have any borrowings outstanding under this facility, failed to meet any covenant, and were unable to obtain a waiver from a majority of the banks, any borrowings would become immediately due and payable. As of August 31, 2011, we were in full compliance with each of these covenants and believe it is unlikely we will fail to meet any of these covenants in the foreseeable future.

Liquidity is also provided by our $1 billion commercial paper program. As of and for the quarter ended August 31, 2011, no amounts were outstanding under this program. We may issue commercial paper from time to time during fiscal 2012 depending on general corporate needs. We currently have short-term debt ratings of A1 and P1 from Standard and Poor s Corporation and Moody s Investor Services, respectively.

Despite recent uncertainties in the financial markets, to date we have not experienced difficulty accessing the credit markets or incurred higher interest costs. Future volatility in the capital markets, however, may increase costs associated with issuing commercial paper or other debt instruments or affect our ability to access those markets. We believe that current cash and short-term investment balances and cash generated by operations, together with access to external sources of funds as described above, will be sufficient to meet our operating and capital needs in the foreseeable future.

Recently Adopted Accounting Standards:

In January 2010, the Financial Accounting Standards Board (FASB) issued guidance to amend the disclosure requirements related to recurring and nonrecurring fair value measurements. The guidance requires additional disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, the activity in Level 3 fair value measurements, and the transfers between Levels 1, 2, and 3 of the fair value measurement hierarchy. This guidance became effective for us beginning March 1, 2010, except for disclosures relating to purchases, sales, issuances and settlements of Level 3 assets and liabilities, which became effective for us beginning June 1, 2011. As this guidance only requires expanded disclosures, the adoption did not have an impact on our consolidated financial position or results of operations.

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In October 2009, the FASB issued new standards that revised the guidance for revenue recognition with multiple deliverables. These new standards impact the determination of when the individual deliverables included in a multiple-element arrangement may be treated as separate units of accounting. Additionally, these new standards modify the manner in which the transaction consideration is allocated across the separately identified deliverables by no longer permitting the residual method of allocating arrangement consideration. These new standards became effective for us beginning June 1, 2011. The adoption did not have a material impact on our consolidated financial position or results of operations.

Recently Issued Accounting Standards:

In September 2011, the FASB issued updated guidance on the periodic testing of goodwill for impairment. This guidance will allow companies to assess qualitative factors to determine if it is more-likely-than-not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. This new guidance is effective for us beginning June 1, 2012, with early adoption permitted. We are currently evaluating this guidance, but do not expect the adoption will have a material effect on our consolidated financial statements.

In June 2011, the FASB issued new guidance on the presentation of comprehensive income. This new guidance requires the components of net income and other comprehensive income to be either presented in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements. This new guidance eliminates the current option to report other comprehensive income and its components in the statement of shareholders equity. While the new guidance changes the presentation of comprehensive income, there are no changes to the components that are recognized in net income or other comprehensive income under current accounting guidance. This new guidance is effective for us beginning June 1, 2012. As this guidance only amends the presentation of the components of comprehensive income, the adoption will not have an impact on our consolidated financial positions or results of operations.

In April 2011, the FASB issued new guidance to achieve common fair value measurement and disclosure requirements between U.S. GAAP and International Financial Reporting Standards. This new guidance, which is effective for us beginning June 1, 2012, amends current U.S. GAAP fair value measurement and disclosure guidance to include increased transparency around valuation inputs and investment categorization. We do not expect the adoption will have a material impact on our consolidated financial position or results of operations.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities.

We believe that the estimates, assumptions and judgments involved in the accounting policies described in the Management s Discussion and Analysis of Financial Condition and Results of Operations section of our most recent Annual Report on Form 10-K have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies. Actual results could differ from the estimates we use in applying our critical accounting policies. We are not currently aware of any reasonably likely events or circumstances that would result in materially different amounts being reported.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes from the information previously reported under Item 7A of our Annual Report on Form 10-K for the fiscal year ended May 31, 2011.

Item 4. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act of 1934, as amended (the Exchange Act) reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

We carry out a variety of on-going procedures under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, to evaluate the effectiveness of the design and operation of our disclosure controls and procedures. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of August 31, 2011.

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There has been no change in our internal control over financial reporting during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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Special Note Regarding Forward-Looking

Statements and Analyst Reports

Certain written and oral statements, other than purely historical information, including estimates, projections, statements relating to NIKE s business plans, objectives and expected operating results, and the assumptions upon which those statements are based, made or incorporated by reference from time to time by NIKE or its representatives in this report, other reports, filings with the Securities and Exchange Commission, press releases, conferences, or otherwise, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Exchange Act. Forward-looking statements include, without limitation, any statement that may predict, forecast, indicate, or imply future results, performance, or achievements, and may contain the words believe , anticipate , expect , estimate , project , wi will continue , will likely result , or words or phrases of similar meaning. Forward-looking statements involve risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. The risks and uncertainties are detailed from time to time in reports filed by NIKE with the Securities and Exchange Commission, including Forms 8-K, 10-Q, and 10-K, and include, among others, the following: international, national and local general economic and market conditions; the size and growth of the overall athletic footwear, apparel, and equipment markets; intense competition among designers, marketers, distributors and sellers of athletic footwear, apparel, and equipment for consumers and endorsers; demographic changes; changes in consumer preferences; popularity of particular designs, categories of products, and sports; seasonal and geographic demand for NIKE products; difficulties in anticipating or forecasting changes in consumer preferences, consumer demand for NIKE products, and the various market factors described above; difficulties in implementing, operating, and maintaining NIKE s increasingly complex information systems and controls, including, without limitation, the systems related to demand and supply planning, and inventory control; interruptions in data and communications systems; fluctuations and difficulty in forecasting operating results, including, without limitation, the fact that advance futures orders may not be indicative of future revenues due to changes in shipment timing, and the changing mix of futures and at-once orders and order cancellations; the ability of NIKE to sustain, manage or forecast its growth and inventories; the size, timing and mix of purchases of NIKE s products; increases in the cost of materials and energy used to manufacture products, new product development and introduction; the ability to secure and protect trademarks, patents, and other intellectual property; performance and reliability of products; customer service; adverse publicity; the loss of significant customers or suppliers; dependence on distributors and licensees; business disruptions; increased costs of freight and transportation to meet delivery deadlines; increases in borrowing costs due to any decline in our debt ratings; changes in business strategy or development plans; general risks associated with doing business outside the United States, including, without limitation, exchange rate fluctuations, import duties, tariffs, quotas, political and economic instability, and terrorism; changes in government regulations; the impact of, including business and legal developments relating to, climate change; liability and other claims asserted against NIKE; the ability to attract and retain qualified personnel; and other factors referenced or incorporated by reference in this report and other reports.

The risks included here are not exhaustive. Other sections of this report may include additional factors which could adversely affect NIKE s business and financial performance. Moreover, NIKE operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on NIKE s business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. We do not undertake to update our forward-looking statements unless required by law.

Investors should also be aware that while NIKE does, from time to time, communicate with securities analysts, it is against NIKE s policy to disclose to them any material non-public information or other confidential commercial information. Accordingly, shareholders should not assume that NIKE agrees with any statement or report issued by any analyst irrespective of the content of the statement or report. Furthermore, NIKE has a policy against issuing or confirming financial forecasts or projections issued by others. Thus, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of NIKE.

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NIKE, Inc.

Part II - Other Information

Item 1. Legal Proceedings

There have been no material developments with respect to the information previously reported under Part I, Item 3 of our Annual Report on Form 10-K for the fiscal year ended May 31, 2011.

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Part I, Item IA, of our Annual Report on Form 10-K for the fiscal year ended May 31, 2011.

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

The following table presents a summary of share repurchases made by NIKE during the quarter ended August 31, 2011 under the four-year, $5 billion share repurchase program approved by our Board of Directors in September 2008.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions)
June 1 - 30, 2011	2,400,000	$ 82.24	2,400,000	$ 2,477
July 1 - 31, 2011	1,425,000	$ 91.34	1,425,000	$ 2,347
August 1 - 31, 2011	3,859,228	$ 83.36	3,859,228	$ 2,026
Total	7,684,228		7,684,228	

Item 6. Exhibits

(a) EXHIBITS:

3.1 Restated Articles of Incorporation, as amended (incorporated by reference from Exhibit 3.1 to the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended August 31, 2005).

3.2 Third Restated Bylaws, as amended (incorporated by reference from Exhibit 3.2 to the Company s Current Report on Form 8-K filed February 16, 2007).

4.1 Restated Articles of Incorporation, as amended (see Exhibit 3.1).

4.2 Third Restated Bylaws, as amended (see Exhibit 3.2).

31.1	Rule 13(a)-14(a) Certification of Chief Executive Officer.
31.2	Rule 13(a)-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certificate of Chief Executive Officer.
32.2	Section 1350 Certificate of Chief Financial Officer.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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NIKE, Inc.

SIGNATURE

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.

NIKE, Inc.

an Oregon Corporation

/s/ DONALD W. BLAIR
Donald W. Blair
Chief Financial Officer

DATED: October 6, 2011

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