

NIKE INC  
Form 10-Q  
April 05, 2016  
UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q  
(Mark One)

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

For the Quarterly Period Ended February 29, 2016

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number-001-10635

NIKE, Inc.  
(Exact name of registrant as specified in its charter)

OREGON 93-0584541  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

One Bowerman Drive, 97005-6453  
Beaverton, Oregon (Zip Code)

(Address of principal executive offices)  
Registrant's telephone number, including area code: (503) 671-6453

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller Reporting Company

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

Shares of Common Stock outstanding as of April 1, 2016 were:

Class A 353,251,752  
Class B 1,331,470,017  
1,684,721,769

Table of Contents

NIKE, INC.  
FORM 10-Q  
Table of Contents

<u>PART I - FINANCIAL INFORMATION</u>		Page
ITEM 1.	<u>Financial Statements</u>	<u>3</u>
	<u>Unaudited Condensed Consolidated Balance Sheets</u>	<u>3</u>
	<u>Unaudited Condensed Consolidated Statements of Income</u>	<u>4</u>
	<u>Unaudited Condensed Consolidated Statements of Comprehensive Income</u>	<u>5</u>
	<u>Unaudited Condensed Consolidated Statements of Cash Flows</u>	<u>6</u>
	<u>Notes to the Unaudited Condensed Consolidated Financial Statements</u>	<u>7</u>
ITEM 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>23</u>
ITEM 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>41</u>
ITEM 4.	<u>Controls and Procedures</u>	<u>41</u>
 <u>PART II - OTHER INFORMATION</u>		
ITEM 1.	<u>Legal Proceedings</u>	<u>43</u>
ITEM 1A.	<u>Risk Factors</u>	<u>43</u>
ITEM 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>43</u>
ITEM 6.	<u>Exhibits</u>	<u>43</u>
	<u>Signatures</u>	<u>44</u>

---

Table of Contents

## PART I - FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## NIKE, Inc. Unaudited Condensed Consolidated Balance Sheets

(In millions)	February 29, 2016	May 31, 2015
<b>ASSETS</b>		
Current assets:		
Cash and equivalents (Note 4)	\$3,044	\$3,852
Short-term investments (Note 4)	2,062	2,072
Accounts receivable, net	3,368	3,358
Inventories (Note 2)	4,590	4,337
Deferred income taxes (Note 7)	410	389
Prepaid expenses and other current assets (Notes 4 and 10)	1,782	1,968
Total current assets	15,256	15,976
Property, plant and equipment, net	3,329	3,011
Identifiable intangible assets, net	281	281
Goodwill	131	131
Deferred income taxes and other assets (Notes 4, 7 and 10)	1,990	2,201
<b>TOTAL ASSETS</b>	<b>\$20,987</b>	<b>\$21,600</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Current portion of long-term debt (Note 6)	\$7	\$107
Notes payable (Note 4)	—	74
Accounts payable	1,714	2,131
Accrued liabilities (Notes 3, 4 and 10)	3,224	3,951
Income taxes payable (Note 7)	35	71
Total current liabilities	4,980	6,334
Long-term debt (Note 6)	2,048	1,079
Deferred income taxes and other liabilities (Notes 4, 7 and 10)	1,659	1,480
Commitments and contingencies (Note 13)		
Redeemable preferred stock	—	—
Shareholders' equity:		
Common stock at stated value:		
Class A convertible — 353 and 355 shares outstanding	—	—
Class B — 1,332 and 1,357 shares outstanding	3	3
Capital in excess of stated value	7,539	6,773
Accumulated other comprehensive income (Note 11)	645	1,246
Retained earnings	4,113	4,685
Total shareholders' equity	12,300	12,707
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$20,987</b>	<b>\$21,600</b>

The accompanying Notes to the Unaudited Condensed Consolidated Financial Statements are an integral part of this statement.

Table of Contents

## NIKE, Inc. Unaudited Condensed Consolidated Statements of Income

(In millions, except per share data)	Three Months Ended		Nine Months Ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Revenues	\$8,032	\$7,460	\$24,132	\$22,822
Cost of sales	4,343	4,034	12,947	12,348
Gross profit	3,689	3,426	11,185	10,474
Demand creation expense	804	731	2,405	2,394
Operating overhead expense	1,762	1,648	5,298	4,903
Total selling and administrative expense	2,566	2,379	7,703	7,297
Interest expense (income), net (Notes 4 and 6)	5	6	14	24
Other (income) expense, net (Note 10)	(17	) (5	) (82	) —
Income before income taxes	1,135	1,046	3,550	3,153
Income tax expense (Note 7)	185	255	636	745
NET INCOME	\$950	\$791	\$2,914	\$2,408
Earnings per common share:				
Basic (Note 9)	\$0.56	\$0.46	\$1.71	\$1.39
Diluted (Note 9)	\$0.55	\$0.45	\$1.67	\$1.36
Dividends declared per common share	\$0.16	\$0.14	\$0.46	\$0.40

The accompanying Notes to the Unaudited Condensed Consolidated Financial Statements are an integral part of this statement.

Table of Contents

## NIKE, Inc. Unaudited Condensed Consolidated Statements of Comprehensive Income

(In millions)	Three Months Ended		Nine Months Ended		
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015	
Net income	\$950	\$791	\$2,914	\$2,408	
Other comprehensive income (loss), net of tax:					
Change in net foreign currency translation adjustment	(111	) 15	(221	) (17	)
Change in net gains (losses) on cash flow hedges	(350	) 569	(389	) 1,037	
Change in net gains (losses) on other	(1	) 2	9	6	
Total other comprehensive income (loss), net of tax	(462	) 586	(601	) 1,026	
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>\$488</b>	<b>\$1,377</b>	<b>\$2,313</b>	<b>\$3,434</b>	

The accompanying Notes to the Unaudited Condensed Consolidated Financial Statements are an integral part of this statement.

Table of Contents

## NIKE, Inc. Unaudited Condensed Consolidated Statements of Cash Flows

(In millions)	Nine Months Ended		
	February 29, 2016	February 28, 2015	
Cash provided by operations:			
Net income	\$2,914	\$2,408	
Income charges (credits) not affecting cash:			
Depreciation	481	453	
Deferred income taxes	(6	) 43	
Stock-based compensation (Note 8)	176	140	
Amortization and other	18	28	
Net foreign currency adjustments	192	411	
Changes in certain working capital components and other assets and liabilities:			
(Increase) in accounts receivable	(124	) (109	)
(Increase) in inventories	(359	) (510	)
(Increase) in prepaid expenses and other current assets	(149	) (31	)
(Decrease) increase in accounts payable, accrued liabilities and income taxes payable	(1,231	) 505	
Cash provided by operations	1,912	3,338	
Cash used by investing activities:			
Purchases of short-term investments	(3,759	) (3,754	)
Maturities of short-term investments	2,021	2,624	
Sales of short-term investments	1,939	1,718	
Investments in reverse repurchase agreements	150	(250	)
Additions to property, plant and equipment	(901	) (723	)
Disposals of property, plant and equipment	9	3	
(Increase) in other assets, net of other liabilities	(3	) —	
Cash used by investing activities	(544	) (382	)
Cash used by financing activities:			
Net proceeds from long-term debt issuance (Note 6)	981	—	
Long-term debt payments, including current portion	(104	) (5	)
Decrease in notes payable	(68	) (83	)
Payments on capital lease obligations	(5	) (16	)
Proceeds from exercise of stock options and other stock issuances	370	372	
Excess tax benefits from share-based payment arrangements	231	150	
Repurchase of common stock	(2,698	) (1,855	)
Dividends — common and preferred	(752	) (658	)
Cash used by financing activities	(2,045	) (2,095	)
Effect of exchange rate changes on cash and equivalents	(131	) (66	)
Net (decrease) increase in cash and equivalents	(808	) 795	
Cash and equivalents, beginning of period	3,852	2,220	
<b>CASH AND EQUIVALENTS, END OF PERIOD</b>	<b>\$3,044</b>	<b>\$3,015</b>	
Supplemental disclosure of cash flow information:			
Non-cash additions to property, plant and equipment	\$100	\$95	
Dividends declared and not paid	270	241	

The accompanying Notes to the Unaudited Condensed Consolidated Financial Statements are an integral part of this statement.



Table of Contents

## Notes to the Unaudited Condensed Consolidated Financial Statements

Note 1	<u>Summary of Significant Accounting Policies</u>	<u>8</u>
Note 2	<u>Inventories</u>	<u>8</u>
Note 3	<u>Accrued Liabilities</u>	<u>9</u>
Note 4	<u>Fair Value Measurements</u>	<u>9</u>
Note 5	<u>Short-Term Borrowings and Credit Lines</u>	<u>12</u>
Note 6	<u>Long-Term Debt</u>	<u>13</u>
Note 7	<u>Income Taxes</u>	<u>13</u>
Note 8	<u>Common Stock and Stock-Based Compensation</u>	<u>14</u>
Note 9	<u>Earnings Per Share</u>	<u>15</u>
Note 10	<u>Risk Management and Derivatives</u>	<u>15</u>
Note 11	<u>Accumulated Other Comprehensive Income</u>	<u>19</u>
Note 12	<u>Operating Segments</u>	<u>20</u>
Note 13	<u>Commitments and Contingencies</u>	<u>22</u>



Table of Contents

NOTE 1 — Summary of Significant Accounting Policies

Basis of Presentation

The Unaudited Condensed Consolidated Financial Statements include the accounts of NIKE, Inc. and its subsidiaries (the "Company") and reflect all normal adjustments which are, in the opinion of management, necessary for a fair statement of the results of operations for the interim period. The year-end Condensed Consolidated Balance Sheet data as of May 31, 2015 was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America ("U.S. GAAP"). The interim financial information and notes thereto should be read in conjunction with the Company's latest Annual Report on Form 10-K. The results of operations for the three and nine months ended February 29, 2016 are not necessarily indicative of results to be expected for the entire year.

On November 19, 2015, the Company announced a two-for-one split of both NIKE Class A and Class B Common Stock. The stock split was in the form of a 100 percent stock dividend payable on December 23, 2015, to shareholders of record at the close of business on December 9, 2015. Common stock began trading at the split-adjusted price on December 24, 2015. All share and per share amounts presented reflect the stock split.

Reclassifications

Certain prior year amounts have been reclassified to conform to fiscal 2016 presentation.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standards update that replaces existing revenue recognition guidance. The updated guidance requires companies to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Based on the FASB's decision in July 2015 to defer the effective date and to allow more flexibility with implementation, the Company anticipates the new standard will be effective for the Company beginning June 1, 2018. The new standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. The Company has not yet selected a transition method and is currently evaluating the effect the guidance will have on the Consolidated Financial Statements.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes to simplify the presentation of deferred taxes in the statement of financial position. The updated guidance requires that deferred tax assets and liabilities be classified as noncurrent in a classified balance sheet. The update to the standard is effective for the Company beginning June 1, 2017, with early application permitted as of the beginning of any interim or annual reporting period. This guidance may be applied either prospectively to all deferred tax assets and liabilities or retrospectively to all periods presented. The Company plans to early adopt ASU 2015-17 on a retrospective basis in the fourth quarter of fiscal 2016 and does not expect the adoption to have a material impact on the Consolidated Financial Statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The updated guidance enhances the reporting model for financial instruments, which includes amendments to address aspects of recognition, measurement, presentation and disclosure. The update to the standard is effective for the Company beginning June 1, 2018. The Company does not expect the adoption to have a material impact on the Consolidated Financial Statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) that replaces existing lease guidance. The new standard is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet. The new guidance will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. The standard is effective for the Company beginning June 1, 2019, with early application permitted. The new standard is required to be applied with a modified retrospective approach to each prior reporting period presented with various optional practical expedients. The Company is currently evaluating the effect the guidance will have on the Consolidated Financial Statements.

In March 2016, the FASB Issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The updated guidance changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The update to the standard is effective for the Company beginning June 1, 2017, with early application permitted. The Company is currently evaluating the effect the guidance will have on the Consolidated Financial Statements.

NOTE 2 — Inventories

Inventory balances of \$4,590 million and \$4,337 million at February 29, 2016 and May 31, 2015, respectively, were substantially all finished goods.

Table of Contents

## NOTE 3 — Accrued Liabilities

Accrued liabilities included the following:

(In millions)	As of February 29, 2016	As of May 31, 2015
Compensation and benefits, excluding taxes	\$884	\$997
Collateral received from counterparties to hedging instruments	338	968
Endorsement compensation	311	388
Dividends payable	270	240
Import and logistics costs	195	207
Taxes other than income taxes	172	174
Fair value of derivatives	160	162
Advertising and marketing	137	117
Other <sup>(1)</sup>	757	698
<b>TOTAL ACCRUED LIABILITIES</b>	<b>\$3,224</b>	<b>\$3,951</b>

<sup>(1)</sup> Other consists of various accrued expenses with no individual item accounting for more than 5% of the total accrued liabilities balance at February 29, 2016 and May 31, 2015.

## NOTE 4 — Fair Value Measurements

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including derivatives and available-for-sale securities. Fair value is the price the Company would receive to sell an asset or pay to transfer a liability in an orderly transaction with a market participant at the measurement date. The Company uses the three-level hierarchy established by the FASB that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques (market approach, income approach and cost approach).

The levels of the fair value hierarchy are described below:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets and quoted prices for identical assets or liabilities in markets that are not active.

Level 3: Unobservable inputs for which there is little or no market data available, which require the reporting entity to develop its own assumptions.

The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. Financial assets and liabilities are classified in their entirety based on the most conservative level of input that is significant to the fair value measurement.

Pricing vendors are utilized for certain Level 1 and Level 2 investments. These vendors either provide a quoted market price in an active market or use observable inputs without applying significant adjustments in their pricing.

Observable inputs include broker quotes, interest rates and yield curves observable at commonly quoted intervals, volatilities and credit risks. The fair value of derivative contracts is determined using observable market inputs such as the daily market foreign currency rates, forward pricing curves, currency volatilities, currency correlations and interest rates and considers nonperformance risk of the Company and that of its counterparties.

The Company's fair value processes include controls that are designed to ensure appropriate fair values are recorded. These controls include a comparison of fair values to another independent pricing vendor.

Table of Contents

The following tables present information about the Company's financial assets measured at fair value on a recurring basis as of February 29, 2016 and May 31, 2015, and indicate the level in the fair value hierarchy in which the Company classifies the fair value measurement.

(In millions)	As of February 29, 2016			
	Assets at Fair Value	Cash and Equivalents	Short-term Investments	Other Long-term Assets
Cash	\$ 809	\$ 809	\$—	\$—
Level 1:				
U.S. Treasury securities	1,027	—	1,027	—
Level 2:				
Time deposits	695	695	—	—
U.S. Agency securities	593	50	543	—
Commercial paper and bonds	697	205	492	—
Money market funds	1,285	1,285	—	—
Total Level 2:	3,270	2,235	1,035	—
Level 3:				
Non-marketable preferred stock	20	—	—	20
TOTAL	\$ 5,126	\$ 3,044	\$ 2,062	\$ 20
(In millions)	As of May 31, 2015			
	Assets at Fair Value	Cash and Equivalents	Short-term Investments	Other Long-term Assets
Cash	\$ 615	\$ 615	\$—	\$—
Level 1:				
U.S. Treasury securities	869	225	644	—
Level 2:				
Time deposits	684	684	—	—
U.S. Agency securities	976	110	866	—
Commercial paper and bonds	914	352	562	—
Money market funds	1,866	1,866	—	—
Total Level 2:	4,440	3,012	1,428	—
Level 3:				
Non-marketable preferred stock	8	—	—	8
TOTAL	\$ 5,932	\$ 3,852	\$ 2,072	\$ 8

The Company elects to record the gross assets and liabilities of its derivative financial instruments on the Unaudited Condensed Consolidated Balance Sheets. The Company's derivative financial instruments are subject to master netting arrangements that allow for the offset of assets and liabilities in the event of default or early termination of the contract. Any amounts of cash collateral received related to these instruments associated with the Company's credit-related contingent features are recorded in Cash and equivalents and Accrued liabilities, the latter of which would further offset against the Company's derivative asset balance (refer to Note 10 — Risk Management and Derivatives). Cash collateral received or posted related to the Company's credit-related contingent features is presented in the Cash provided by operations component of the Unaudited Condensed Consolidated Statements of Cash Flows. Any amounts of non-cash collateral received, such as securities, are not recorded on the Unaudited Condensed Consolidated Balance Sheets pursuant to the accounting standards for non-cash collateral received.

Table of Contents

The following tables present information about the Company's derivative assets and liabilities measured at fair value on a recurring basis as of February 29, 2016 and May 31, 2015, and indicate the level in the fair value hierarchy in which the Company classifies the fair value measurement.

(In millions)	As of February 29, 2016					
	Derivative Assets			Derivative Liabilities		
	Assets at Fair Value	Other Current Assets	Other Long-term Assets	Liabilities at Fair Value	Accrued Liabilities	Other Long-term Liabilities
Level 2:						
Foreign exchange forwards and options <sup>(1)</sup>	\$963	\$720	\$243	\$117	\$103	\$14
Embedded derivatives	5	1	4	11	3	8
Interest rate swaps <sup>(2)</sup>	—	—	—	54	54	—
TOTAL	\$968	\$721	\$247	\$182	\$160	\$22

If the foreign exchange derivative instruments had been netted on the Unaudited Condensed Consolidated Balance Sheets, the asset and liability positions each would have been reduced by \$116 million as of February 29, 2016. As of that date, the Company had received \$338 million of cash collateral from various counterparties related to these foreign exchange derivative instruments. No amount of collateral was posted on the Company's derivative liability balance as of February 29, 2016.

<sup>(2)</sup> As of February 29, 2016, no amount of cash collateral had been posted on the derivative liability balance related to the Company's interest rate swaps.

(In millions)	As of May 31, 2015					
	Derivative Assets			Derivative Liabilities		
	Assets at Fair Value	Other Current Assets	Other Long-term Assets	Liabilities at Fair Value	Accrued Liabilities	Other Long-term Liabilities
Level 2:						
Foreign exchange forwards and options <sup>(1)</sup>	\$1,554	\$1,034	\$520	\$164	\$160	\$4
Embedded derivatives	7	2	5	11	2	9
Interest rate swaps <sup>(2)</sup>	78	78	—	—	—	—
TOTAL	\$1,639	\$1,114	\$525	\$175	\$162	\$13

If the foreign exchange derivative instruments had been netted on the Consolidated Balance Sheets, the asset and liability positions each would have been reduced by \$161 million as of May 31, 2015. As of that date, the Company had received \$900 million of cash collateral and \$74 million of securities from various counterparties related to these foreign exchange derivative instruments. No amount of collateral was posted on the Company's derivative liability balance as of May 31, 2015.

<sup>(2)</sup> As of May 31, 2015, the Company had received \$68 million of cash collateral related to its interest rate swaps. Available-for-sale securities comprise investments in U.S. Treasury and Agency securities, money market funds, corporate commercial paper and bonds. These securities are valued using market prices on both active markets (Level 1) and less active markets (Level 2). The gross realized gains and losses on sales of available-for-sale securities were immaterial for the three and nine months ended February 29, 2016 and February 28, 2015. Unrealized gains and losses on available-for-sale securities included in Accumulated other comprehensive income were immaterial as of February 29, 2016 and May 31, 2015.

The Company regularly reviews its available-for-sale securities for other-than-temporary impairment. For the nine months ended February 29, 2016 the Company did not consider any of its securities to be other-than-temporarily impaired and, accordingly, did not recognize any impairment losses.

As of February 29, 2016, the Company held \$1,830 million of available-for-sale securities with maturity dates within one year and \$232 million with maturity dates over one year and less than five years within Short-term investments on the Unaudited Condensed Consolidated Balance Sheets.

Included in Interest expense (income), net for the three months ended February 29, 2016 and February 28, 2015 was interest income related to the Company's available-for-sale securities of \$4 million and \$1 million, respectively, and \$8 million and \$4 million for the nine months ended February 29, 2016 and February 28, 2015, respectively.

The Company's Level 3 assets comprise investments in certain non-marketable preferred stock. These Level 3 investments are an immaterial portion of the Company's portfolio. Changes in Level 3 investment assets were immaterial during the nine months ended February 29, 2016 and the fiscal year ended May 31, 2015.

Derivative financial instruments include foreign exchange forwards and options, embedded derivatives and interest rate swaps. Refer to Note 10 — Risk Management and Derivatives for additional detail.

No transfers among the levels within the fair value hierarchy occurred during the nine months ended February 29, 2016.

As of February 29, 2016 and May 31, 2015, assets or liabilities that were required to be measured at fair value on a non-recurring basis were immaterial.

#### Financial Assets and Liabilities Not Recorded at Fair Value

For fair value information regarding Long-term debt, refer to Note 6 — Long-Term Debt.

The carrying amounts reflected on the Unaudited Condensed Consolidated Balance Sheets for Notes payable approximate fair value.

Table of Contents

At May 31, 2015, the Company had \$150 million of outstanding receivables related to its investments in reverse repurchase agreements recorded within Prepaid expenses and other current assets on the Unaudited Condensed Consolidated Balance Sheets. The carrying amount of these agreements approximates their fair value based upon observable inputs other than quoted prices (Level 2). The reverse repurchase agreements are fully collateralized. At February 29, 2016, there were no outstanding receivables related to investments in reverse repurchase agreements.

**NOTE 5 — Short-Term Borrowings and Credit Lines**

There have been no significant changes to the short-term borrowings and credit lines reported in the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2015, except for the following:

On August 28, 2015, the Company entered into a committed credit facility agreement with a syndicate of banks which provides for up to \$2 billion of borrowings. The facility matures August 28, 2020, with a one year extension option prior to any anniversary of the closing date, provided that in no event shall it extend beyond August 28, 2022. Based on the Company's current long-term senior unsecured debt ratings of AA- 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 LIBOR plus 0.455%. The facility fee is 0.045% of the total commitment. Under this committed credit facility, the Company must maintain certain financial ratios, among other things, with which the Company was in compliance at February 29, 2016. This facility replaces the prior \$1 billion credit facility agreement entered into on November 1, 2011, which would have matured November 1, 2017. As of, and for the nine month period ended, February 29, 2016, no amounts were outstanding under either committed credit facility.

As of February 29, 2016, the Company had repaid all Notes payable related to our non-U.S. operations as disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 2015.

Table of Contents

## NOTE 6 — Long-Term Debt

Long-term debt, net of unamortized premiums and discounts and swap fair value adjustments, comprises the following:

Scheduled Maturity (Dollars and Yen in millions)	Original Principal	Interest Rate	Interest Payments	Book Value Outstanding as of	
				February 29, 2016	May 31, 2015
Corporate Bond Payables: <sup>(1)</sup>					
October 15, 2015 <sup>(2)</sup>	\$ 100	5.15	% Semi-Annually	\$—	\$ 101
May 1, 2023 <sup>(3)</sup>	\$ 500	2.25	% Semi-Annually	499	499
May 1, 2043 <sup>(3)</sup>	\$ 500	3.63	% Semi-Annually	499	499
November 1, 2045 <sup>(4)</sup>	\$ 1,000	3.88	% Semi-Annually	991	—
Promissory Notes:					
April 1, 2017 <sup>(5)</sup>	\$ 40	6.20	% Monthly	38	39
January 1, 2018 <sup>(5)</sup>	\$ 19	6.79	% Monthly	—	19
Japanese Yen Notes:					
August 20, 2001 through November 20, 2020 <sup>(6)</sup>	¥9,000	2.60	% Quarterly	19	20
August 20, 2001 through November 20, 2020 <sup>(6)</sup>	¥4,000	2.00	% Quarterly	9	9
Total				2,055	1,186
Less current maturities				7	107
<b>TOTAL LONG-TERM DEBT</b>				<b>\$2,048</b>	<b>\$1,079</b>

(1) These senior unsecured obligations rank equally with the Company's other unsecured and unsubordinated indebtedness.

The Company had entered into interest rate swap agreements whereby the Company received fixed interest payments at the same rate as the note and paid variable interest payments based on the six-month LIBOR plus a spread. The swaps had the same notional amount and maturity date as the corresponding note. On October 15, 2015, the Company repaid the long-term debt which had previously been hedged with these interest rate swaps. Accordingly, as of February 29, 2016, the Company had no interest rate swaps designated as fair value hedges.

(2) The bonds are redeemable at the Company's option prior to February 1, 2023 and November 1, 2042, respectively, at a price equal to the greater of (i) 100% of the aggregate principal amount of the notes to be redeemed or (ii) the sum of the present values of the remaining scheduled payments, plus in each case, accrued and unpaid interest. Subsequent to February 1, 2023 and November 1, 2042, respectively, the bonds also feature a par call provision, which allows for the bonds to be redeemed at a price equal to 100% of the aggregate principal amount of the notes being redeemed, plus accrued and unpaid interest.

(3) The bonds are redeemable at the Company's option prior to May 1, 2045, at a price equal to the greater of (i) 100% of the aggregate principal amount of the notes to be redeemed or (ii) the sum of the present values of the remaining scheduled payments, plus in each case, accrued and unpaid interest. Subsequent to May 1, 2045, the bonds also feature a par call provision, which allows for the bonds to be redeemed at a price equal to 100% of the aggregate principal amount of the notes being redeemed, plus accrued and unpaid interest.

The Company assumed a total of \$59 million in bonds payable as part of its agreement to purchase certain Corporate properties; this was treated as a non-cash financing transaction. The property serves as collateral for the debt. The purchase of these properties was accounted for as a business combination where the total consideration of \$85 million was allocated to the land and buildings acquired; no other tangible or intangible assets or liabilities resulted from the purchase. The bonds mature in 2017 and 2018 and the Company does not have the ability to re-negotiate the terms of the debt agreements and would incur significant financial penalties if the notes were paid-off prior to maturity. During the three months ended February 29, 2016, the notes due January 1, 2018 were legally defeased and an insignificant loss on defeasance was recognized.

(4) NIKE Logistics YK assumed a total of ¥13 billion in loans as part of its agreement to purchase a distribution center in Japan, which serves as collateral for the loans. These loans mature in equal quarterly installments during the



period August 20, 2001 through November 20, 2020.

The scheduled maturity of Long-term debt in each of the twelve month periods ending February 28, 2017 through 2021 are \$7 million, \$44 million, \$6 million, \$6 million and \$5 million, respectively, at face value.

The Company's Long-term debt is recorded at adjusted cost, net of unamortized premiums and discounts and interest rate swap fair value adjustments. The fair value of Long-term debt is estimated based upon quoted prices for similar instruments or quoted prices for identical instruments in inactive markets (Level 2). The fair value of the Company's Long-term debt, including the current portion, was approximately \$2,075 million at February 29, 2016 and \$1,160 million at May 31, 2015.

NOTE 7 — Income Taxes

The effective tax rate was 17.9% and 23.6% for the nine month periods ended February 29, 2016 and February 28, 2015, respectively. The decrease in the Company's effective tax rate was primarily due to an increase in the proportion of earnings from operations outside of the United States, which are generally subject to a lower tax rate, increased recognition of foreign tax credits, and adjustments to tax expense on intercompany transactions in the prior year.

These factors were partially offset by benefits from the resolution of tax audits across several jurisdictions in the prior year period.

Table of Contents

As of February 29, 2016, total gross unrecognized tax benefits, excluding related interest and penalties, were \$505 million, \$285 million of which would affect the Company's effective tax rate if recognized in future periods. As of May 31, 2015, total gross unrecognized tax benefits, excluding related interest and penalties, were \$438 million. The liability for payment of interest and penalties increased \$32 million during the nine months ended February 29, 2016. As of February 29, 2016 and May 31, 2015, accrued interest and penalties related to uncertain tax positions were \$196 million and \$164 million, respectively (excluding federal benefit).

The Company incurs tax liabilities primarily in the United States, China and the Netherlands, as well as various state and other foreign jurisdictions. The Company is currently under audit by the U.S. Internal Revenue Service (IRS) for fiscal years 2013 through 2015. The Company has closed all U.S. federal income tax matters through fiscal 2012, with the exception of the validation of foreign tax credits utilized. As previously disclosed, the Company received a statutory notice of deficiency for fiscal 2011 proposing an increase in tax of \$31 million, subject to interest, related to the foreign tax credit matter. This notice also reported a decrease in foreign tax credit carryovers for fiscal 2010 and 2011. The Company has contested this deficiency notice by filing a petition with the U.S. Tax Court in April 2015. The Company does not expect the outcome of this matter to have a material impact on the financial statements. No payments on the assessment would be required until the dispute is definitively resolved. Based on the information currently available, the Company does not anticipate a significant increase or decrease to its unrecognized tax benefits for this matter within the next 12 months.

The Company's major foreign jurisdictions, China and the Netherlands, have concluded substantially all income tax matters through calendar 2005 and fiscal 2010, respectively. Although the timing of resolution of audits is not certain, the Company evaluates all domestic and foreign audit issues in the aggregate, along with the expiration of applicable statutes of limitations, and estimates that it is reasonably possible the total gross unrecognized tax benefits could decrease by up to \$97 million within the next 12 months.

**NOTE 8 — Common Stock and Stock-Based Compensation**

The authorized number of shares of Class A Common Stock, no par value, and Class B Common Stock, no par value, are 400 million and 2,400 million, respectively. Each share of Class A Common Stock is convertible into one share of Class B Common Stock. Voting rights of Class B Common Stock are limited in certain circumstances with respect to the election of directors. There are no differences in the dividend and liquidation preferences or participation rights of the Class A and Class B common shareholders.

The NIKE, Inc. Stock Incentive Plan (the "Stock Incentive Plan") provides for the issuance of up to 718 million previously unissued shares of Class B Common Stock in connection with stock options and other awards granted under the Stock Incentive Plan. The Stock Incentive Plan authorizes the grant of non-statutory stock options, incentive stock options, stock appreciation rights, restricted stock, restricted stock units and performance-based awards. The exercise price for stock options and stock appreciation rights may not be less than the fair market value of the underlying shares on the date of grant. A committee of the Board of Directors administers the Stock Incentive Plan. The committee has the authority to determine the employees to whom awards will be made, the amount of the awards and the other terms and conditions of the awards. Substantially all stock option grants outstanding under the Stock Incentive Plan are granted in the first quarter of each fiscal year, vest ratably over four years and expire 10 years from the date of grant.

In addition to the Stock Incentive Plan, the Company gives employees the right to purchase shares at a discount to the market price under employee stock purchase plans ("ESPPs"). Employees are eligible to participate through payroll deductions of up to 10% of their compensation. At the end of each six-month offering period, shares are purchased by the participants at 85% of the lower of the fair market value at the beginning or the end of the offering period.

The Company accounts for stock-based compensation by estimating the fair value of options granted under the Stock Incentive Plan and employees' purchase rights under the ESPPs using the Black-Scholes option pricing model. The Company recognizes this fair value as Operating overhead expense over the vesting period using the straight-line method.

The following table summarizes the Company's total stock-based compensation expense recognized in Operating overhead expense:

Three Months Ended

Nine Months Ended

Edgar Filing: NIKE INC - Form 10-Q

(In millions)	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Stock options <sup>(1)</sup>	\$44	\$35	\$128	\$100
ESPPs	7	5	22	17
Restricted stock	9	8	26	23
<b>TOTAL STOCK-BASED COMPENSATION EXPENSE</b>	<b>\$60</b>	<b>\$48</b>	<b>\$176</b>	<b>\$140</b>

Expense for stock options includes the expense associated with stock appreciation rights. Accelerated stock option expense is recorded for employees eligible for accelerated stock option vesting upon retirement. Accelerated stock (1) option expense was \$8 million and \$5 million for the three month periods ended February 29, 2016 and February 28, 2015, respectively, and \$22 million and \$14 million for the nine month periods ended February 29, 2016 and February 28, 2015, respectively.

As of February 29, 2016, the Company had \$289 million of unrecognized compensation costs from stock options, net of estimated forfeitures, to be recognized in Operating overhead expense over a weighted average remaining period of 2.3 years.

Table of Contents

The weighted average fair value per share of the options granted during the nine month periods ended February 29, 2016 and February 28, 2015, computed as of the grant date using the Black-Scholes pricing model, was \$12.67 and \$8.47, respectively. The weighted average assumptions used to estimate these fair values are as follows:

	Nine Months Ended			
	February 29, 2016	February 28, 2015		
Dividend yield	1.0	% 1.2	%	
Expected volatility	23.6	% 23.6	%	
Weighted average expected life (in years)	5.8	5.8		
Risk-free interest rate	1.7	% 1.7	%	

The Company estimates the expected volatility based on the implied volatility in market traded options on the Company's common stock with a term greater than one year, along with other factors. The weighted average expected life of options is based on an analysis of historical and expected future exercise patterns. The interest rate is based on the U.S. Treasury (constant maturity) risk-free rate in effect at the date of grant for periods corresponding with the expected term of the options.

**NOTE 9 — Earnings Per Share**

The following is a reconciliation from basic earnings per common share to diluted earnings per common share. The computations of diluted earnings per common share excluded options, including shares under employee stock purchase plans ("ESPPs"), to purchase an additional 20.1 million and 0.2 million shares of common stock outstanding for the three month periods ended February 29, 2016 and February 28, 2015, respectively, and 1.1 million and 1.3 million shares of common stock outstanding for the nine month periods ended February 29, 2016 and February 28, 2015, respectively, because the options were anti-dilutive.

(In millions, except per share data)	Three Months Ended		Nine Months Ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Determination of shares:				
Weighted average common shares outstanding	1,693.8	1,722.9	1,703.2	1,726.3
Assumed conversion of dilutive stock options and awards	43.5	44.8	45.3	44.7
<b>DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING</b>	<b>1,737.3</b>	<b>1,767.7</b>	<b>1,748.5</b>	<b>1,771.0</b>
Earnings per common share:				
Basic	\$0.56	\$0.46	\$1.71	\$1.39
Diluted	\$0.55	\$0.45	\$1.67	\$1.36

**NOTE 10 — Risk Management and Derivatives**

The Company is exposed to global market risks, including the effect of changes in foreign currency exchange rates and interest rates, and uses derivatives to manage financial exposures that occur in the normal course of business. The Company does not hold or issue derivatives for trading or speculative purposes.

The Company may elect to designate certain derivatives as hedging instruments under the accounting standards for derivatives and hedging. The Company formally documents all relationships between designated hedging instruments and hedged items as well as its risk management objectives and strategies for undertaking hedge transactions. This process includes linking all derivatives designated as hedges to either recognized assets or liabilities or forecasted transactions.

The majority of derivatives outstanding as of February 29, 2016 are designated as foreign currency cash flow hedges, primarily for Euro/U.S. Dollar, Japanese Yen/U.S. Dollar and British Pound/Euro currency pairs. All derivatives are recognized on the Unaudited Condensed Consolidated Balance Sheets at fair value and classified based on the instrument's maturity date.



Table of Contents

The following table presents the fair values of derivative instruments included within the Unaudited Condensed Consolidated Balance Sheets as of February 29, 2016 and May 31, 2015:

(In millions)	Derivative Assets			Derivative Liabilities		
	Balance Sheet Location	February 29, 2016	May 31, 2015	Balance Sheet Location	February 29, 2016	May 31, 2015
Derivatives formally designated as hedging instruments:						
Foreign exchange forwards and options	Prepaid expenses and other current assets	\$657	\$825	Accrued liabilities	\$26	\$140
Interest rate swaps	Prepaid expenses and other current assets	—	78	Accrued liabilities	54	—
Foreign exchange forwards and options	Deferred income taxes and other assets	227	520	Deferred income taxes and other liabilities	14	4
Total derivatives formally designated as hedging instruments		884	1,423		94	144
Derivatives not designated as hedging instruments:						
Foreign exchange forwards and options	Prepaid expenses and other current assets	63	209	Accrued liabilities	77	20
Embedded derivatives	Prepaid expenses and other current assets	1	2	Accrued liabilities	3	2
Foreign exchange forwards and options	Deferred income taxes and other assets	16	—	Deferred income taxes and other liabilities	—	—
Embedded derivatives	Deferred income taxes and other assets	4	5	Deferred income taxes and other liabilities	8	9
Total derivatives not designated as hedging instruments		84	216		88	31
<b>TOTAL DERIVATIVES</b>		<b>\$968</b>	<b>\$1,639</b>		<b>\$182</b>	<b>\$175</b>

The following tables present the amounts affecting the Unaudited Condensed Consolidated Statements of Income for the three and nine months ended February 29, 2016 and February 28, 2015:

	Amount of Gain (Loss) Recognized in Other	Amount of Gain (Loss) Reclassified From Accumulated Other Comprehensive Income into Income <sup>(1)</sup>
--	---	---

(In millions)

Comprehensive Income on Derivatives <sup>(1)</sup>		Location of Gain (Loss)		Three Months Ended	
Three Months Ended		Reclassified From Accumulated		Three Months Ended	
February 29, 2016	February 28, 2015	Other Comprehensive Income into Income		February 29, 2016	February 28, 2015
Derivatives designated as cash flow hedges:					
Foreign exchange forwards and options	\$ 107	\$ (146 )	Revenues	\$(24 )	\$ (17 )
Foreign exchange forwards and options	(142 )	547	Cost of sales	153	74
Foreign exchange forwards and options	(91 )	277	Other (income) expense, net	73	42
Interest rate swaps	(49 )	44	Interest expense (income), net	—	—
Total designated cash flow hedges	\$(175 )	\$ 722		\$202	\$ 99

For the three months ended February 29, 2016 and February 28, 2015, the amounts recorded in Other (income) (1)expense, net as a result of hedge ineffectiveness and the discontinuance of cash flow hedges because the forecasted transactions were no longer probable of occurring were immaterial.

Table of Contents

(In millions)	Amount of Gain (Loss) Recognized in Other Comprehensive Income on Derivatives <sup>(1)</sup>		Location of Gain (Loss) Reclassified From Accumulated Other Comprehensive Income into Income	Amount of Gain (Loss) Reclassified From Accumulated Other Comprehensive Income into Income <sup>(1)</sup>	
	Nine Months Ended			Nine Months Ended	
	February 29, 2016	February 28, 2015		February 29, 2016	February 28, 2015
Derivatives designated as cash flow hedges:					
Foreign exchange forwards and options	\$ 97	\$ (188 )	Revenues	\$ (99 )	\$ (53 )
Foreign exchange forwards and options	63	946	Cost of sales	451	87
Foreign exchange forwards and options	—	—	Total selling and administrative expense	—	—
Foreign exchange forwards and options	31	417	Other (income) expense, net	173	60
Interest rate swaps	(99 )	44	Interest expense (income), net	—	—
Total designated cash flow hedges	\$ 92	\$ 1,219		\$ 525	\$ 94

For the nine months ended February 29, 2016 and February 28, 2015, the amounts recorded in Other (income) (1) expense, net as a result of hedge ineffectiveness and the discontinuance of cash flow hedges because the forecasted transactions were no longer probable of occurring were immaterial.

(In millions)	Amount of Gain (Loss) Recognized in Income on Derivatives				Location of Gain (Loss) Recognized in Income on Derivatives
	Three Months Ended		Nine Months Ended		
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015	
Derivatives designated as fair value hedges:					
Interest rate swaps <sup>(1)</sup>	\$—	\$ 1	\$ 2	\$ 3	Interest expense (income), net
Derivatives not designated as hedging instruments:					
Foreign exchange forwards and options	(30 )	278	4	556	Other (income) expense, net
Embedded derivatives	(3 )	2	(3 )	3	Other (income) expense, net

All interest rate swaps designated as fair value hedges meet the shortcut method requirements under the accounting standards for derivatives and hedging. Accordingly, changes in the fair values of the interest rate swaps are (1) considered to exactly offset changes in the fair value of the underlying long-term debt. Refer to “Fair Value Hedges” in this note for additional detail.

Refer to Note 3 — Accrued Liabilities for derivative instruments recorded in Accrued liabilities, Note 4 — Fair Value Measurements for a description of how the above financial instruments are valued and Note 11 — Accumulated Other Comprehensive Income for additional information on changes in Accumulated other comprehensive income for the three and nine months ended February 29, 2016 and February 28, 2015.

## Cash Flow Hedges



The purpose of the Company's foreign exchange risk management program is to lessen both the positive and negative effects of currency fluctuations on the Company's consolidated results of operations, financial position and cash flows. Foreign currency exposures that the Company may elect to hedge in this manner include product cost exposures, non-functional currency denominated external and intercompany revenues, selling and administrative expenses, investments in U.S. Dollar-denominated available-for-sale debt securities and certain other intercompany transactions. Product cost exposures are primarily generated through non-functional currency denominated product purchases and the foreign currency adjustment program described below. NIKE entities primarily purchase product in two ways: (1) Certain NIKE entities purchase product from the NIKE Trading Company ("NTC"), a wholly-owned sourcing hub that buys NIKE branded product from third party factories, predominantly in U.S. Dollars. The NTC, whose functional currency is the U.S. Dollar, then sells the product to NIKE entities in their respective functional currencies. When the NTC sells to a NIKE entity with a different functional currency, the result is a foreign currency exposure for the NTC. (2) Other NIKE entities purchase product directly from third party factories in U.S. Dollars. These purchases generate a foreign currency exposure for those NIKE entities with a functional currency other than the U.S. Dollar.

The Company operates a foreign currency adjustment program with certain factories. The program is designed to more effectively manage foreign currency risk by assuming certain of the factories' foreign currency exposures, some of which are natural offsets to the Company's existing foreign currency exposures. Under this program, the Company's payments to these factories are adjusted for rate fluctuations in the basket of currencies ("factory currency exposure index") in which the labor, materials and overhead costs incurred by the factories in the production of NIKE branded products ("factory input costs") are denominated. For the portion of the indices denominated in the local or functional currency of the factory, the Company may elect to place formally designated cash flow hedges. For all currencies within the indices, excluding the U.S. Dollar and the local or functional currency of the factory, an embedded derivative contract is created upon the factory's acceptance of NIKE's purchase order. Embedded derivative contracts are separated from the related purchase order, as further described within the "Embedded Derivatives" section below. The Company's policy permits the utilization of derivatives to reduce its foreign currency exposures where internal netting or other strategies cannot be effectively employed. Typically, the Company may enter into hedge contracts starting up to 12 to 24 months in advance of the forecasted transaction and may place incremental hedges up to 100% of the exposure by the time the forecasted transaction occurs. The total notional amount of outstanding foreign currency derivatives designated as cash flow hedges was \$11.8 billion as of February 29, 2016.

Table of Contents

As of February 29, 2016, the Company had a series of forward-starting interest rate swap agreements with a total outstanding notional amount of \$1.5 billion. These instruments were designated as cash flow hedges of the variability in the expected cash outflows of interest payments on future debt due to changes in benchmark interest rates. During the second quarter of fiscal 2016, the Company terminated certain forward-starting interest rate swaps with a total notional amount of \$1.0 billion in connection with the October 29, 2015 debt issuance (refer to Note 6 — Long-Term Debt). Upon termination of these forward-starting swaps, the Company received a cash payment from the related counterparties of \$34 million, which was recorded in Accumulated other comprehensive income and will be released through Interest expense (income), net as interest payments are made over the term of the issued debt.

All changes in fair value of derivatives designated as cash flow hedges, excluding any ineffective portion, are recorded in Accumulated other comprehensive income until Net income is affected by the variability of cash flows of the hedged transaction. In most cases, amounts recorded in Accumulated other comprehensive income will be released to Net income in periods following the maturity of the related derivative, rather than at maturity. Effective hedge results are classified within the Unaudited Condensed Consolidated Statements of Income in the same manner as the underlying exposure. The results of hedges of non-functional currency denominated revenues and product cost exposures, excluding embedded derivatives, are recorded in Revenues or Cost of sales when the underlying hedged transaction affects consolidated Net income. Results of hedges of selling and administrative expense are recorded together with those costs when the related expense is recorded. Amounts recorded in Accumulated other comprehensive income related to forward-starting interest rate swaps will be released through Interest expense (income), net as interest payments are made over the term of the issued debt. Results of hedges of anticipated purchases and sales of U.S. Dollar-denominated available-for-sale securities are recorded in Other (income) expense, net when the securities are sold. Results of hedges of certain anticipated intercompany transactions are recorded in Other (income) expense, net when the transaction occurs. The Company classifies the cash flows at settlement from these designated cash flow hedge derivatives in the same category as the cash flows from the related hedged items, primarily within the Cash provided by operations component of the Unaudited Condensed Consolidated Statements of Cash Flows.

Premiums paid on options are initially recorded as deferred charges. The Company assesses the effectiveness of options based on the total cash flows method and records total changes in the options' fair value to Accumulated other comprehensive income to the degree they are effective.

The Company formally assesses, both at a hedge's inception and on an ongoing basis, whether the derivatives that are used in the hedging transaction have been highly effective in offsetting changes in the cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods. Effectiveness for cash flow hedges is assessed based on changes in forward rates. Ineffectiveness was immaterial for the three and nine month periods ended February 29, 2016 and February 28, 2015.

The Company discontinues hedge accounting prospectively when: (1) it determines that the derivative is no longer highly effective in offsetting changes in the cash flows of a hedged item (including hedged items such as firm commitments or forecasted transactions); (2) the derivative expires or is sold, terminated or exercised; (3) it is no longer probable that the forecasted transaction will occur; or (4) management determines that designating the derivative as a hedging instrument is no longer appropriate.

When the Company discontinues hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, but is expected to occur within an additional two-month period of time thereafter, the gain or loss on the derivative remains in Accumulated other comprehensive income and is reclassified to Net income when the forecasted transaction affects consolidated Net income. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period of time thereafter, the gains and losses that were in Accumulated other comprehensive income will be recognized immediately in Other (income) expense, net. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Company will carry the derivative at its fair value on the Unaudited Condensed Consolidated Balance Sheets, recognizing future changes in the fair value in Other (income) expense, net. For the three and nine months ended February 29, 2016 and February 28, 2015, the amounts recorded in Other (income) expense, net as a result of the discontinuance of cash flow hedging because the forecasted transactions were

no longer probable of occurring were immaterial.

As of February 29, 2016, \$693 million of deferred net gains (net of tax) on both outstanding and matured derivatives in Accumulated other comprehensive income were expected to be reclassified to Net income during the next 12 months concurrent with the underlying hedged transactions also being recorded in Net income. Actual amounts ultimately reclassified to Net income are dependent on the exchange rates in effect when derivative contracts that are currently outstanding mature. As of February 29, 2016, the maximum term over which the Company was hedging exposures to the variability of cash flows for its forecasted transactions was 27 months.

#### Fair Value Hedges

The Company is also exposed to the risk of changes in the fair value of certain fixed-rate debt attributable to changes in interest rates. Derivatives used by the Company to hedge this risk are receive-fixed, pay-variable interest rate swaps. All interest rate swaps designated as fair value hedges of the related long-term debt meet the shortcut method requirements under the accounting standards for derivatives and hedging. Accordingly, changes in the fair values of the interest rate swaps are considered to exactly offset changes in the fair value of the underlying long-term debt. The cash flows associated with the Company's fair value hedges are periodic interest payments while the swaps are outstanding, which are reflected within the Cash provided by operations component of the Unaudited Condensed Consolidated Statements of Cash Flows. The Company recorded no ineffectiveness from its interest rate swaps designated as fair value hedges for the three and nine months ended February 29, 2016 or February 28, 2015. On October 15, 2015, the Company repaid the long-term debt which had previously been hedged with these interest rate swaps. Accordingly, as of February 29, 2016, the Company had no interest rate swaps designated as fair value hedges.

#### Net Investment Hedges

The Company has, in the past, hedged and may, in the future, hedge the risk of variability in foreign-currency-denominated net investments in wholly-owned international operations. All changes in fair value of the derivatives designated as net investment hedges, except ineffective portions, are reported in Accumulated other comprehensive income along with the foreign currency translation adjustments on those investments. The Company classifies the cash flows at settlement of its net investment hedges within the Cash used by investing activities component of the Unaudited Condensed Consolidated Statements of Cash Flows. The Company assesses hedge effectiveness based on changes in forward rates. The Company recorded no ineffectiveness from its net investment hedges for the three and nine months ended February 29, 2016 or February 28, 2015. The Company had no outstanding net investment hedges as of February 29, 2016.

Table of Contents

## Undesignated Derivative Instruments

The Company may elect to enter into foreign exchange forwards to mitigate the change in fair value of specific assets and liabilities on the Unaudited Condensed Consolidated Balance Sheets and/or embedded derivative contracts. These forwards are not designated as hedging instruments under the accounting standards for derivatives and hedging. Accordingly, these undesignated instruments are recorded at fair value as a derivative asset or liability on the Unaudited Condensed Consolidated Balance Sheets with their corresponding change in fair value recognized in Other (income) expense, net, together with the re-measurement gain or loss from the hedged balance sheet position or embedded derivative contract. The Company classifies the cash flows at settlement from undesignated instruments in the same category as the cash flows from the related hedged items, generally within the Cash provided by operations component of the Unaudited Condensed Consolidated Statements of Cash Flows. The total notional amount of outstanding undesignated derivative instruments was \$5.7 billion as of February 29, 2016.

## Embedded Derivatives

As part of the foreign currency adjustment program described above, an embedded derivative contract is created upon the factory's acceptance of NIKE's purchase order for currencies within the factory currency exposure indices that are neither the U.S. Dollar nor the local or functional currency of the factory. Embedded derivative contracts are treated as foreign currency forward contracts that are bifurcated from the related purchase order and recorded at fair value as a derivative asset or liability on the Unaudited Condensed Consolidated Balance Sheets with their corresponding change in fair value recognized in Other (income) expense, net from the date a purchase order is accepted by a factory through the date the purchase price is no longer subject to foreign currency fluctuations.

In addition, the Company has entered into certain other contractual agreements which have payments that are indexed to currencies that are not the functional currency of either substantial party to the contracts. These payment terms expose NIKE to variability in foreign exchange rates and create embedded derivative contracts that must be bifurcated from the related contract and recorded at fair value as derivative assets or liabilities on the Unaudited Condensed Consolidated Balance Sheets with their corresponding changes in fair value recognized in Other (income) expense, net until each payment is settled.

At February 29, 2016, the total notional amount of embedded derivatives outstanding was approximately \$237 million.

## Credit Risk

The Company is exposed to credit-related losses in the event of nonperformance by counterparties to hedging instruments. The counterparties to all derivative transactions are major financial institutions with investment grade credit ratings. However, this does not eliminate the Company's exposure to credit risk with these institutions. This credit risk is limited to the unrealized gains in such contracts should any of these counterparties fail to perform as contracted. To manage this risk, the Company has established strict counterparty credit guidelines that are continually monitored.

The Company's derivative contracts contain credit risk related contingent features designed to protect against significant deterioration in counterparties' creditworthiness and their ultimate ability to settle outstanding derivative contracts in the normal course of business. The Company's bilateral credit-related contingent features generally require the owing entity, either the Company or the derivative counterparty, to post collateral for the portion of the fair value in excess of \$50 million should the fair value of outstanding derivatives per counterparty be greater than \$50 million. Additionally, a certain level of decline in credit rating of either the Company or the counterparty could also trigger collateral requirements. As of February 29, 2016, the Company was in compliance with all credit risk-related contingent features and derivative instruments with credit risk-related contingent features in a net liability position were insignificant. Accordingly, the Company was not required to post any collateral as a result of these contingent features. Further, as of February 29, 2016, the Company had received \$338 million of cash collateral from various counterparties to its derivative contracts (refer to Note 4 — Fair Value Measurements). Given the considerations described above, the Company considers the impact of the risk of counterparty default to be immaterial.

## NOTE 11 — Accumulated Other Comprehensive Income

The changes in Accumulated other comprehensive income, net of tax, for the three and nine months ended February 29, 2016 were as follows:

Edgar Filing: NIKE INC - Form 10-Q

(In millions)	Foreign Currency Translation Adjustment <sup>(1)</sup>	Cash Flow Hedges	Net Investment Hedges <sup>(1)</sup>	Other	Total
Balance at November 30, 2015	\$(141 )	\$1,181	\$115	\$(48 )	\$1,107
Other comprehensive gains (losses) before reclassifications <sup>(2)</sup>	(113 )	(151 )	—	3	(261 )
Reclassifications to net income of previously deferred (gains) losses <sup>(3)</sup>	2	(199 )	—	(4 )	(201 )
Other comprehensive income (loss)	(111 )	(350 )	—	(1 )	(462 )
Balance at February 29, 2016	\$(252 )	\$831	\$115	\$(49 )	\$645

The accumulated foreign currency translation adjustment and net investment hedge gains/losses related to an (1) investment in a foreign subsidiary are reclassified to Net income upon sale or upon complete or substantially complete liquidation of the respective entity.

(2) Net of tax benefit (expense) of \$0 million, \$24 million, \$0 million, \$(1) million and \$23 million, respectively.

(3) Net of tax (benefit) expense of \$0 million, \$3 million, \$0 million, \$0 million and \$3 million, respectively.

(In millions)	Foreign Currency Translation Adjustment <sup>(1)(2)</sup>	Cash Flow Hedges	Net Investment Hedges <sup>(1)(2)</sup>	Other	Total
Balance at May 31, 2015	\$(31 )	\$1,220	\$115	\$(58 )	\$1,246
Other comprehensive gains (losses) before reclassifications <sup>(3)</sup>	(223 )	132	—	14	(77 )
Reclassifications to net income of previously deferred (gains) losses <sup>(4)</sup>	2	(521 )	—	(5 )	(524 )
Other comprehensive income (loss)	(221 )	(389 )	—	9	(601 )
Balance at February 29, 2016	\$(252 )	\$831	\$115	\$(49 )	\$645

The accumulated foreign currency translation adjustment and net investment hedge gains/losses related to an (1) investment in a foreign subsidiary are reclassified to Net income upon sale or upon complete or substantially complete liquidation of the respective entity.

(2) Beginning balances have been updated to reflect the proper classification of \$20 million of deferred tax balances between Foreign Currency Translation Adjustment and Net Investment Hedges.

(3) Net of tax benefit (expense) of \$0 million, \$40 million, \$0 million, \$(3) million and \$37 million, respectively.

(4) Net of tax (benefit) expense of \$0 million, \$4 million, \$0 million, \$0 million and \$4 million, respectively.

The changes in Accumulated other comprehensive income, net of tax, for the three and nine months ended February 28, 2015 were as follows:

(In millions)	Foreign Currency Translation Adjustment <sup>(1)(2)</sup>	Cash Flow Hedges	Net Investment Hedges <sup>(1)(2)</sup>	Other	Total
Balance at November 30, 2014	\$(43 )	\$500	\$115	\$(47 )	\$525
Other comprehensive gains (losses) before reclassifications <sup>(3)</sup>	15	661	—	15	691
Reclassifications to net income of previously deferred (gains) losses <sup>(4)</sup>	—	(92 )	—	(13 )	(105 )
Other comprehensive income (loss)	15	569	—	2	586
Balance at February 28, 2015	\$(28 )	\$1,069	\$115	\$(45 )	\$1,111

The accumulated foreign currency translation adjustment and net investment hedge gains/losses related to an (1) investment in a foreign subsidiary are reclassified to Net income upon sale or upon complete or substantially complete liquidation of the respective entity.

(2)

Beginning and ending balances have been updated to reflect the proper classification of \$20 million of deferred tax balances between Foreign Currency Translation Adjustment and Net Investment Hedges.

(3) Net of tax benefit (expense) of \$(3) million, \$(61) million, \$0 million, \$(5) million and \$(69) million, respectively.

(4) Net of tax (benefit) expense of \$0 million, \$7 million, \$0 million, \$4 million and \$11 million, respectively.

(In millions)	Foreign Currency Translation Adjustment <sup>(1)(2)</sup>	Cash Flow Hedges	Net Investment Hedges <sup>(1)(2)</sup>	Other	Total
Balance at May 31, 2014	\$ (11 )	\$32	\$115	\$(51 )	\$85
Other comprehensive gains (losses) before reclassifications <sup>(3)</sup>	(17 )	1,131	—	29	1,143
Reclassifications to net income of previously deferred (gains) losses <sup>(4)</sup>	—	(94 )	—	(23 )	(117 )
Other comprehensive income (loss)	(17 )	1,037	—	6	1,026
Balance at February 28, 2015	\$ (28 )	\$1,069	\$115	\$(45 )	\$1,111

The accumulated foreign currency translation adjustment and net investment hedge gains/losses related to an

(1) investment in a foreign subsidiary are reclassified to Net income upon sale or upon complete or substantially complete liquidation of the respective entity.

(2) Beginning and ending balances have been updated to reflect the proper classification of \$20 million of deferred tax balances between Foreign Currency Translation Adjustment and Net Investment Hedges.

(3) Net of tax benefit (expense) of \$(3) million, \$(88) million, \$0 million, \$(8) million and \$(99) million, respectively.

(4) Net of tax (benefit) expense of \$0 million, \$0 million, \$0 million, \$7 million and \$7 million, respectively.

Table of Contents

The following table summarizes the reclassifications from Accumulated other comprehensive income to the Unaudited Condensed Consolidated Statements of Income:

(In millions)	Amount of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income				Location of Gain (Loss) Reclassified from Accumulated Other Comprehensive Income into Income
	Three Months Ended		Nine Months Ended		
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015	
Gains (losses) on foreign currency translation adjustment	\$(2 )	\$ —	\$(2 )	\$ —	Other (income) expense, net
Total before tax	(2 )	—	(2 )	—	
Tax (expense) benefit	—	—	—	—	
Gain (loss) net of tax	(2 )	—	(2 )	—	
Gains (losses) on cash flow hedges:					
Foreign exchange forwards and options	\$(24 )	\$ (17 )	\$(99 )	\$ (53 )	Revenues
Foreign exchange forwards and options	153	74	451	87	Cost of sales
Foreign exchange forwards and options	73	42	173	60	Other (income) expense, net
Total before tax	202	99	525	94	
Tax (expense) benefit	(3 )	(7 )	(4 )	—	
Gain (loss) net of tax	199	92	521	94	
Gains (losses) on other	4	17	5	30	Other (income) expense, net
Total before tax	4	17	5	30	
Tax (expense) benefit	—	(4 )	—	(7 )	
Gain (loss) net of tax	4	13	5	23	
Total net gain (loss) reclassified for the period	\$201	\$ 105	\$524	\$ 117	

## Note 12 — Operating Segments

The Company's operating segments are evidence of the structure of the Company's internal organization. The NIKE Brand segments are defined by geographic regions for operations participating in NIKE Brand sales activity. Each NIKE Brand geographic segment operates predominantly in one industry: the design, development, marketing and selling of athletic footwear, apparel and equipment. The Company's reportable operating segments for the NIKE Brand are: North America, Western Europe, Central & Eastern Europe, Greater China, Japan and Emerging Markets, and include results for the NIKE, Jordan and Hurley brands. The Company's NIKE Brand Direct to Consumer operations are managed within each geographic operating segment. Converse is also a reportable segment for the Company and operates in one industry: the design, marketing, licensing and selling of casual sneakers, apparel and accessories.

Global Brand Divisions is included within the NIKE Brand for presentation purposes to align with the way management views the Company. Global Brand Divisions primarily represent NIKE Brand licensing businesses that are not part of a geographic operating segment and demand creation, operating overhead and product creation and design expenses that are centrally managed for the NIKE Brand.

Corporate consists largely of unallocated general and administrative expenses, including expenses associated with centrally managed departments; depreciation and amortization related to the Company's headquarters; unallocated insurance, benefit and compensation programs, including stock-based compensation; and certain foreign currency gains and losses, including certain hedge gains and losses.

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 (income), net and Income tax expense in the Unaudited Condensed Consolidated Statements of Income. Reconciling items for EBIT represent corporate expense items that are not allocated to the operating segments for management reporting.

As part of the Company's centrally managed foreign exchange risk management program, standard foreign currency rates are assigned twice per year to each NIKE Brand entity in the Company's geographic operating segments and Converse. These rates are set approximately nine months in advance of the future selling season based on average market spot rates in the calendar month preceding the date they are established. Inventories and Cost of sales for geographic operating segments and Converse reflect use of these standard rates to record non-functional currency product purchases in the entity's functional currency. Differences between assigned standard foreign currency rates and actual market rates are included in Corporate, together with foreign currency hedge gains and losses generated from the Company's centrally managed foreign exchange risk management program and other conversion gains and losses. Accounts receivable, net, Inventories and Property, plant and equipment, net for operating segments are regularly reviewed by management and are therefore provided below.

Certain prior year amounts have been reclassified to conform to fiscal 2016 presentation.



Table of Contents

(In millions)	Three Months Ended		Nine Months Ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
<b>REVENUES</b>				
North America	\$3,683	\$3,254	\$11,029	\$10,008
Western Europe	1,442	1,413	4,382	4,438
Central & Eastern Europe	359	321	1,086	1,061
Greater China	982	801	2,806	2,238
Japan	205	166	589	525
Emerging Markets	879	955	2,829	2,964
Global Brand Divisions	17	29	61	85
Total NIKE Brand	7,567	6,939	22,782	21,319
Converse	489	538	1,442	1,547
Corporate	(24	) (17	) (92	) (44
<b>TOTAL NIKE CONSOLIDATED REVENUES</b>	<b>\$8,032</b>	<b>\$7,460</b>	<b>\$24,132</b>	<b>\$22,822</b>
<b>EARNINGS BEFORE INTEREST AND TAXES</b>				
North America	\$903	\$830	\$2,827	\$2,585
Western Europe	334	333	1,126	998
Central & Eastern Europe	69	52	243	178
Greater China	358	251	1,015	727
Japan	36	22	119	62
Emerging Markets	202	234	701	626
Global Brand Divisions	(625	) (552	) (1,874	) (1,640
Total NIKE Brand	1,277	1,170	4,157	3,536
Converse	127	163	359	437
Corporate	(264	) (281	) (952	) (796
Total NIKE Consolidated Earnings Before Interest and Taxes	1,140	1,052	3,564	3,177
Interest expense (income), net	5	6	14	24
<b>TOTAL NIKE CONSOLIDATED INCOME BEFORE INCOME TAXES</b>	<b>\$1,135</b>	<b>\$1,046</b>	<b>\$3,550</b>	<b>\$3,153</b>

Table of Contents

(In millions)	As of February 29, 2016	As of May 31, 2015
ACCOUNTS RECEIVABLE, NET		
North America	\$1,717	\$1,737
Western Europe	402	344
Central & Eastern Europe	234	242
Greater China	104	84
Japan	93	134
Emerging Markets	436	461
Global Brand Divisions	77	88
Total NIKE Brand	3,063	3,090
Converse	291	258
Corporate	14	10
TOTAL ACCOUNTS RECEIVABLE, NET	\$3,368	\$3,358
INVENTORIES		
North America	\$2,308	\$2,207
Western Europe	831	699
Central & Eastern Europe	179	169
Greater China	345	249
Japan	151	94
Emerging Markets	434	528
Global Brand Divisions	31	32
Total NIKE Brand	4,279	3,978
Converse	282	237
Corporate	29	122
TOTAL INVENTORIES	\$4,590	\$4,337
PROPERTY, PLANT AND EQUIPMENT, NET		
North America	\$705	\$632
Western Europe	532	451
Central & Eastern Europe	45	47
Greater China	226	254
Japan	221	205
Emerging Markets	100	103
Global Brand Divisions	505	484
Total NIKE Brand	2,334	2,176
Converse	123	122
Corporate	872	713
TOTAL PROPERTY, PLANT AND EQUIPMENT, NET	\$3,329	\$3,011

## NOTE 13 — Commitments and Contingencies

At February 29, 2016, the Company had letters of credit outstanding totaling \$150 million. These letters of credit were issued primarily for the purchase of inventory and guarantees of the Company's performance under certain self-insurance and other programs.

During the fiscal year ended May 31, 2013, the Company divested of Cole Haan. Preexisting guarantees of certain Cole Haan lease payments remained in place after the sale; the maximum exposure under the guarantees was \$19 million at February 29, 2016. The fair value of the guarantees is not material.

There have been no other significant subsequent developments relating to the commitments and contingencies reported on the Company's latest Annual Report on Form 10-K.



Table of Contents

## ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

On November 19, 2015, we announced a two-for-one split of both NIKE Class A and Class B Common Stock. The stock split was in the form of a 100 percent stock dividend payable on December 23, 2015, to shareholders of record at the close of business on December 9, 2015. Common stock began trading at the split-adjusted price on December 24, 2015. All share and per share amounts presented reflect the stock split.

For the third quarter of fiscal 2016, NIKE, Inc. Revenues increased 8% to \$8.0 billion. Excluding the impact of foreign currency exchange rates, Revenues increased 14%. For the third quarter of fiscal 2016, Net income was \$950 million and diluted earnings per common share was \$0.55, 20% and 22% higher, respectively, than the third quarter of fiscal 2015.

Income before income taxes increased 9% compared to the third quarter of fiscal 2015 primarily due to revenue growth as gross margin was flat and selling and administrative expense grew at the same rate as revenues. The NIKE Brand, which represents over 90% of NIKE, Inc. Revenues, delivered constant currency revenue growth of 15%, reflecting higher revenues across all geographies, footwear and apparel, and nearly all key categories. Constant currency revenues for Converse decreased 5%, primarily due to unfavorable comparisons to higher sales in the third quarter of fiscal 2015 in advance of a major systems go-live.

Our third quarter effective tax rate decreased 810 basis points compared to the third quarter of fiscal 2015 primarily due to an increase in the proportion of earnings from operations outside the United States, which are generally taxed at a lower rate, increased recognition of foreign tax credits, adjustments to tax expense on intercompany transactions in the prior year, and the retroactive and permanent reinstatement of the U.S. research and development tax credit.

Diluted earnings per common share also benefited from a 2% decline in the diluted weighted average common shares outstanding, driven by our share repurchase program.

## Results of Operations

(Dollars in millions, except per share data)	Three Months Ended			Nine Months Ended			
	February 29, 2016	February 28, 2015	% Change	February 29, 2016	February 28, 2015	% Change	
Revenues	\$8,032	\$7,460	8	\$24,132	\$22,822	6	%
Cost of sales	4,343	4,034	8	12,947	12,348	5	%
Gross profit	3,689	3,426	8	11,185	10,474	7	%
Gross margin %	45.9	% 45.9	%	46.3	% 45.9	%	
Demand creation expense	804	731	10	2,405	2,394	0	%
Operating overhead expense	1,762	1,648	7	5,298	4,903	8	%
Total selling and administrative expense	2,566	2,379	8	7,703	7,297	6	%
% of Revenues	31.9	% 31.9	%	31.9	% 32.0	%	
Interest expense (income), net	5	6	—	14	24	—	
Other (income) expense, net	(17)	(5)	—	(82)	—	—	
Income before income taxes	1,135	1,046	9	3,550	3,153	13	%
Income tax expense	185	255	-27	636	745	-15	%
Effective tax rate	16.3	% 24.4	%	17.9	% 23.6	%	
Net income	\$950	\$791	20	\$2,914	\$2,408	21	%
Diluted earnings per common share	\$0.55	\$0.45	22	\$1.67	\$1.36	23	%

Table of Contents

## Consolidated Operating Results

## Revenues

(Dollars in millions)	Three Months Ended				Nine Months Ended				
	February 29, 2016	February 28, 2015 <sup>(1)</sup>	% Change	% Change Excluding Currency Changes <sup>(2)</sup>	February 29, 2016	February 28, 2015 <sup>(1)</sup>	% Change	% Change Excluding Currency Changes <sup>(2)</sup>	
NIKE, Inc. Revenues:									
NIKE Brand Revenues by:									
Footwear	\$5,074	\$4,569	11	% 18	% \$14,789	\$13,537	9	% 17	%
Apparel	2,124	1,960	8	% 14	% 6,827	6,481	5	% 12	%
Equipment	352	381	-8	% -2	% 1,105	1,216	-9	% -2	%
Global Brand Divisions <sup>(3)</sup>	17	29	-41	% -35	% 61	85	-28	% -19	%
Total NIKE Brand Revenues	7,567	6,939	9	% 15	% 22,782	21,319	7	% 14	%
Converse Corporate <sup>(4)</sup>	489	538	-9	% -5	% 1,442	1,547	-7	% -2	%
	(24 )	(17 )	—	—	(92 )	(44 )	—	—	—
TOTAL NIKE, INC. REVENUES	\$8,032	\$7,460	8	% 14	% \$24,132	\$22,822	6	% 14	%
Supplemental NIKE Brand Revenues Details:									
NIKE Brand Revenues by:									
Sales to Wholesale Customers	\$5,493	\$5,226	5	% 11	% \$16,991	\$16,367	4	% 11	%
Sales Direct to Consumer	2,057	1,684	22	% 29	% 5,730	4,867	18	% 25	%
Global Brand Divisions <sup>(3)</sup>	17	29	-41	% -35	% 61	85	-28	% -19	%
TOTAL NIKE BRAND REVENUES	\$7,567	\$6,939	9	% 15	% \$22,782	\$21,319	7	% 14	%

(1) Certain prior year amounts have been reclassified to conform to fiscal 2016 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

Results have been restated using actual exchange rates in use during the comparative prior year period to enhance (2) the visibility of the underlying business trends by excluding the impact of translation arising from foreign currency exchange rate fluctuations.

(3) Global Brand Divisions revenues are primarily attributable to NIKE Brand licensing businesses that are not part of a geographic operating segment.

Corporate revenues primarily consist of foreign currency hedge gains and losses related to revenues generated by (4) entities within the NIKE Brand geographic operating segments and Converse but managed through our central foreign exchange risk management program.

On a currency-neutral basis, NIKE, Inc. Revenues grew 14% for both the third quarter and first nine months of fiscal 2016, driven by higher revenues for the NIKE Brand. Excluding the effects of changes in currency exchange rates, every NIKE Brand geography delivered higher revenues for the third quarter and first nine months of fiscal 2016, as our category offense continued to deliver innovative products, deep brand connections and compelling retail experiences to consumers online and at NIKE-owned and retail partner stores, driving strong demand for NIKE Brand products. For the third quarter of fiscal 2016, North America contributed approximately 6 percentage points of the increase in NIKE, Inc. Revenues, while Greater China contributed approximately 3 percentage points, Western Europe contributed approximately 2 percentage points, and Central & Eastern Europe, Japan and Emerging Markets each contributed approximately 1 percentage point. For the first nine months of fiscal 2016, North America contributed

approximately 5 percentage points of the increase in NIKE, Inc. Revenues, while Greater China contributed approximately 3 percentage points, Western Europe and Emerging Markets each contributed approximately 2 percentage points, and Central & Eastern Europe and Japan each contributed approximately 1 percentage point. The constant currency increase in NIKE Brand footwear revenues for the third quarter and first nine months of fiscal 2016 was attributable to growth in most key categories, led by Sportswear, the Jordan Brand and Running. Unit sales of footwear increased approximately 12% and 11% for the third quarter and first nine months of fiscal 2016, respectively, while increases in average selling price per pair contributed approximately 6 percentage points of footwear revenue growth for each period. The increase in average selling price per pair for the third quarter was due to an increase in the proportion of revenues from our higher-priced Direct to Consumer ("DTC") business and shifts in mix to higher-priced products, partially offset by unfavorable off-price mix. For the first nine months of fiscal 2016, the increase in average selling price per pair was primarily due to growth in our DTC business and shifts in mix to higher-priced products.

Excluding the effects of changes in currency exchange rates, the increase in NIKE Brand apparel revenues was driven by growth in every key category for the third quarter of fiscal 2016 and by most key categories for the first nine months of fiscal 2016. Growth was led by Sportswear, Men's Training, Women's Training and Running for both periods, while Football (Soccer) declined for the year-to-date period due to comparisons to higher World Cup-related sales in the first quarter of fiscal 2015 and the expiration of certain club endorsement agreements in Western Europe. Unit sales of apparel for the third quarter increased approximately 12%, while increases in average selling price per unit contributed approximately 2 percentage points of apparel revenue growth, as increases in the proportion of revenues from our higher-priced DTC business were partially offset by unfavorable off-price mix. For the first nine months of fiscal 2016, unit sales of apparel increased approximately 10% and increases in average selling price per unit contributed approximately 2 percentage points of apparel revenue growth, primarily due to an increase in the proportion of revenues from our higher-priced DTC business.

Table of Contents

While wholesale revenues remain the largest component of overall NIKE Brand revenues, we continue to expand our NIKE Brand DTC distribution in each of our geographies. Our NIKE Brand DTC operations include NIKE-owned in-line and factory stores, as well as online sales through NIKE-owned websites. For the third quarter and first nine months of fiscal 2016, DTC revenues represented approximately 27% and 25%, respectively, of our total NIKE Brand revenues compared to 24% and 23% for the third quarter and first nine months of fiscal 2015, respectively. On a currency neutral basis, DTC revenues grew 29% and 25% for the third quarter and first nine months of fiscal 2016, respectively, driven by strong online sales growth, comparable store sales growth of 10% and the addition of new stores in both periods. Comparable store sales include revenues from NIKE-owned in-line and factory stores for which all three of the following requirements have been met: (1) the store has been open at least one year, (2) square footage has not changed by more than 15% within the past year, and (3) the store has not been permanently repositioned within the past year. Online sales through NIKE-owned websites, which are not included in comparable store sales, grew 56% and 51% for the third quarter and first nine months of fiscal 2016, respectively. Online sales represented approximately 27% and 22% of our total NIKE Brand DTC revenues for the third quarter and first nine months of fiscal 2016, respectively, compared to 21% and 18% for the third quarter and first nine months of fiscal 2015, respectively.

**Futures Orders**

Futures orders for NIKE Brand footwear and apparel scheduled for delivery from March 2016 through July 2016 totaled \$12.6 billion and were 12% higher than the orders reported for the comparable prior year period. Consistent with prior periods, NIKE Brand reported futures include (1) orders from external wholesale customers and (2) internal orders from our DTC in-line stores and e-commerce operations which are reflected at prices that are comparable to prices charged to external wholesale customers. The U.S. Dollar futures orders amount is calculated based upon our internal forecast of the currency exchange rates under which our revenues will be translated during this period. Excluding the impact of currency changes, futures orders increased 17%, with unit orders increasing 10% and average selling price per unit contributing approximately 7 percentage points of growth.

By geography, futures orders growth was as follows:

	Reported Futures Orders	Futures Orders Excluding Currency Changes <sup>(1)</sup>	
North America	10	% 10	%
Western Europe	16	% 23	%
Central & Eastern Europe	5	% 14	%
Greater China	28	% 36	%
Japan	23	% 24	%
Emerging Markets	-3	% 14	%
<b>TOTAL NIKE BRAND FUTURES ORDERS</b>	<b>12</b>	<b>% 17</b>	<b>%</b>

(1) Reported futures have been restated using prior year exchange rates for the comparative period to enhance the visibility of the underlying business trends, excluding the impact of foreign currency exchange rate fluctuations. The reported futures orders growth is not necessarily indicative of our expectation of revenue growth during this period. This is due to year-over-year changes in shipment timing, changes in the mix of orders between futures and at-once orders, and because the fulfillment of certain orders may fall outside of the schedule noted above. In addition, exchange rate fluctuations as well as differing levels of order cancellations, discounts and returns can cause differences in the comparisons between futures orders and actual revenues. Moreover, a portion of our revenue is not derived from futures orders, including sales of at-once and closeout NIKE Brand footwear and apparel, all sales of NIKE Brand equipment, the difference between retail sales and internal orders from our DTC in-line stores and e-commerce operations, and sales from Converse, NIKE Golf and Hurley.

Table of Contents

## Gross Margin

(Dollars in millions)	Three Months Ended			Nine Months Ended		
	February 29, 2016	February 28, 2015	% Change	February 29, 2016	February 28, 2015	% Change
Gross profit	\$3,689	\$3,426	8 %	\$11,185	\$10,474	7 %
Gross margin %	45.9	% 45.9	% —	46.3	% 45.9	% 40 bps

Our consolidated gross margin was flat for the third quarter of fiscal 2016, but increased 40 basis points for the first nine months of fiscal 2016 compared to the respective prior year periods, primarily driven by the following factors: Higher NIKE Brand average net selling prices (increasing gross margin approximately 120 basis points for the third quarter and 180 basis points for the first nine months) primarily due to shifts in mix to higher-priced products and, to a lesser extent, price increases, in part reflecting inflationary conditions in certain territories;

Growth in our NIKE Brand DTC business (increasing gross margin approximately 70 basis points for the third quarter and 30 basis points for the first nine months) as the favorable impact of increases in the proportion of revenues from our higher-margin DTC business more than offset lower margins due to increased liquidation efforts, primarily in North America;

NIKE Brand product costs were lower for the third quarter (increasing gross margin approximately 20 basis points) as labor input cost inflation was more than offset by shifts in mix to lower-cost products; for the first nine months, product costs were higher (decreasing gross margin approximately 60 basis points) due to labor input cost inflation and shifts in mix to higher-cost products;

Unfavorable changes in foreign currency exchange rates, net of hedges (decreasing gross margin approximately 80 basis points for the third quarter and 40 basis points for the first nine months);

Higher other costs (decreasing gross margin approximately 80 basis points for the third quarter and 50 basis points for the first nine months) primarily driven by higher warehousing, off-price mix and obsolescence costs in North America, as well as higher product design and development costs; and

Lower gross margin from Converse (decreasing gross margin approximately 30 basis points for the third quarter and 20 basis points for the first nine months) resulting from shifts in mix to lower-margin products.

## Total Selling and Administrative Expense

(Dollars in millions)	Three Months Ended			Nine Months Ended		
	February 29, 2016	February 28, 2015	% Change	February 29, 2016	February 28, 2015	% Change
Demand creation expense <sup>(1)</sup>	\$804	\$731	10 %	\$2,405	\$2,394	0 %
Operating overhead expense	1,762	1,648	7 %	5,298	4,903	8 %
Total selling and administrative expense	\$2,566	\$2,379	8 %	\$7,703	\$7,297	6 %
% of Revenues	31.9	% 31.9	% —	31.9	% 32.0	% (10) bps

(1) Demand creation expense consists of advertising and promotion costs, including costs of endorsement contracts, television, digital and print advertising, brand events and retail brand presentation.

Demand creation expense increased 10% for the third quarter of fiscal 2016 due to higher advertising, marketing and digital brand marketing costs, primarily to support key sporting and brand events, including Super Bowl 50, and other initiatives, as well as increased investments in DTC marketing. For the third quarter, changes in foreign currency exchange rates reduced growth in Demand creation expense by approximately 6 percentage points. For the first nine months of fiscal 2016, Demand creation expense was mostly flat as investments in DTC and higher marketing costs to support key sporting and brand events were offset by lower advertising and other demand creation expenses, as well as changes in foreign currency exchange rates, which reduced growth by 7 percentage points.

Operating overhead expense increased 7% and 8% for the third quarter and first nine months of fiscal 2016, respectively. The increases for both periods were driven by continued growth in our DTC business, as well as ongoing investments in operational infrastructure and consumer-focused digital capabilities. These increases were partially offset for both periods by lower performance-based compensation. Changes in foreign currency exchange rates reduced the growth in Operating overhead expense by approximately 4 and 5 percentage points for the third quarter



and first nine months of fiscal 2016, respectively.

Other (Income) Expense, Net

(In millions)	Three Months Ended		Nine Months Ended	
	February 29, 2016	February 28, 2015	February 29, 2016	February 28, 2015
Other (income) expense, net	\$(17	) \$(5	) \$(82	) \$—

Other (income) expense, net comprises foreign currency conversion gains and losses from the re-measurement of monetary assets and liabilities denominated in non-functional currencies and the impact of certain foreign currency derivative instruments, as well as unusual or non-operating transactions that are outside the normal course of business.

Table of Contents

For the third quarter of fiscal 2016, Other (income) expense, net increased from \$5 million of other income, net in the prior year to \$17 million of other income, net in the current year, primarily due to a \$7 million net change in foreign currency conversion gains and losses and other non-operating items.

For the first nine months of fiscal 2016, Other (income) expense, net increased to \$82 million of other income, net, primarily due to a \$49 million net change in foreign currency conversion gains and losses, a favorable settlement of a legal judgment related to a bankruptcy case in Western Europe, and other non-operating items.

We estimate the combination of the translation of foreign currency-denominated profits from our international businesses and the year-over-year change in foreign currency related gains and losses included in Other (income) expense, net had unfavorable impacts of approximately \$97 million and \$358 million on our Income before income taxes for the third quarter and first nine months of fiscal 2016, respectively.

## Income Taxes

	Three Months Ended			Nine Months Ended		
	February 29, 2016	February 28, 2015	% Change	February 29, 2016	February 28, 2015	% Change
Effective tax rate	16.3	% 24.4	% (810) bps	17.9	% 23.6	% (570) bps

Our effective tax rate for the third quarter of fiscal 2016 was 810 basis points lower than the prior year period primarily due to an increase in the proportion of earnings from operations outside the United States, which are generally subject to a lower tax rate, increased recognition of foreign tax credits, adjustments to tax expense on intercompany transactions in the prior year, and the retroactive and permanent reinstatement of the U.S. research and development tax credit.

Our effective tax rate for the first nine months of fiscal 2016 was 570 basis points lower than the prior year period primarily due to an increase in the proportion of earnings from operations outside the United States, which are generally subject to a lower tax rate, increased recognition of foreign tax credits, and adjustments to tax expense on intercompany transactions in the prior year period. These factors were partially offset by benefits from the resolution of tax audits across several jurisdictions in the prior year period.

We anticipate the effective tax rate for the full fiscal year will be approximately 19%.

Table of Contents

## Operating Segments

Our operating segments are evidence of the structure of the Company's internal organization. The NIKE Brand segments are defined by geographic regions for operations participating in NIKE Brand sales activity.

Each NIKE Brand geographic segment operates predominantly in one industry: the design, development, marketing and selling of athletic footwear, apparel and equipment. The Company's reportable operating segments for the NIKE Brand are: North America, Western Europe, Central & Eastern Europe, Greater China, Japan and Emerging Markets, and include results for the NIKE, Jordan and Hurley brands. The Company's NIKE Brand DTC operations are managed within each geographic operating segment. Converse is also a reportable segment for the Company and operates in one industry: the design, marketing, licensing and selling of casual sneakers, apparel and accessories. As part of our centrally managed foreign exchange risk management program, standard foreign currency rates are assigned twice per year to each NIKE Brand entity in our geographic operating segments and Converse. These rates are set approximately nine months in advance of the future selling season based on average market spot rates in the calendar month preceding the date they are established. Inventories and Cost of sales for geographic operating segments and Converse reflect use of these standard rates to record non-functional currency product purchases into the entity's functional currency. Differences between assigned standard foreign currency rates and actual market rates are included in Corporate together with foreign currency hedge gains and losses generated from our centrally managed foreign exchange risk management program and other conversion gains and losses.

The breakdown of revenues is as follows:

(Dollars in millions)	Three Months Ended				Nine Months Ended					
	February 29, 2016	February 28, 2015 <sup>(1)</sup>	% Change	% Change Excluding Currency Changes <sup>(2)</sup>	February 29, 2016	February 28, 2015 <sup>(1)</sup>	% Change	% Change Excluding Currency Changes <sup>(2)</sup>		
North America	\$3,683	\$3,254	13	% 14	% \$11,029	\$10,008	10	% 11	%	%
Western Europe	1,442	1,413	2	% 12	% 4,382	4,438	-1	% 13	%	%
Central & Eastern Europe	359	321	12	% 29	% 1,086	1,061	2	% 23	%	%
Greater China	982	801	23	% 27	% 2,806	2,238	25	% 29	%	%
Japan	205	166	23	% 27	% 589	525	12	% 26	%	%
Emerging Markets	879	955	-8	% 11	% 2,829	2,964	-5	% 14	%	%
Global Brand Divisions <sup>(3)</sup>	17	29	-41	% -35	% 61	85	-28	% -19	%	%
Total NIKE Brand Revenues	7,567	6,939	9	% 15	% 22,782	21,319	7	% 14	%	%
Converse Corporate <sup>(4)</sup>	489	538	-9	% -5	% 1,442	1,547	-7	% -2	%	%
	(24 )	(17 )	—	—	(92 )	(44 )	—	—		
TOTAL NIKE, INC. REVENUES	\$8,032	\$7,460	8	% 14	% \$24,132	\$22,822	6	% 14	%	%

(1) Certain prior year amounts have been reclassified to conform to fiscal 2016 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

Results have been restated using actual exchange rates in use during the comparative prior year period to enhance (2) the visibility of the underlying business trends by excluding the impact of translation arising from foreign currency exchange rate fluctuations.

(3) Global Brand Divisions revenues are primarily attributable to NIKE Brand licensing businesses that are not part of a geographic operating segment.

Corporate revenues primarily consist of foreign currency hedge gains and losses related to revenues generated by (4) entities within the NIKE Brand geographic operating segments and Converse, but managed through our central foreign exchange risk management program.



Table of Contents

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 (income), net and Income tax expense in the Unaudited Condensed Consolidated Statements of Income. As discussed in Note 12 — Operating Segments in the accompanying Notes to the Unaudited Condensed Consolidated Financial Statements, certain corporate costs are not included in EBIT of our operating segments.

The breakdown of earnings before interest and taxes is as follows:

(Dollars in millions)	Three Months Ended			Nine Months Ended			
	February 29, 2016	February 28, 2015 <sup>(1)</sup>	% Change	February 29, 2016	February 28, 2015 <sup>(1)</sup>	% Change	
North America	\$903	\$830	9 %	\$2,827	\$2,585	9 %	
Western Europe	334	333	0 %	1,126	998	13 %	
Central & Eastern Europe	69	52	33 %	243	178	37 %	
Greater China	358	251	43 %	1,015	727	40 %	
Japan	36	22	64 %	119	62	92 %	
Emerging Markets	202	234	-14 %	701	626	12 %	
Global Brand Divisions	(625)	(552)	-13 %	(1,874)	(1,640)	-14 %	
Total NIKE Brand	1,277	1,170	9 %	4,157	3,536	18 %	
Converse	127	163	-22 %	359	437	-18 %	
Corporate	(264)	(281)	6 %	(952)	(796)	-20 %	
<b>TOTAL CONSOLIDATED EARNINGS BEFORE INTEREST AND TAXES</b>	<b>1,140</b>	<b>1,052</b>	<b>8 %</b>	<b>3,564</b>	<b>3,177</b>	<b>12 %</b>	
Interest expense (income), net	5	6	—	14	24	—	
<b>TOTAL CONSOLIDATED INCOME BEFORE INCOME TAXES</b>	<b>\$1,135</b>	<b>\$1,046</b>	<b>9 %</b>	<b>\$3,550</b>	<b>\$3,153</b>	<b>13 %</b>	

(1) Certain prior year amounts have been reclassified to conform to fiscal 2016 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

North America

(Dollars in millions)	Three Months Ended				Nine Months Ended			
	February 29, 2016	February 28, 2015	% Change	% Change Excluding Currency Changes	February 29, 2016	February 28, 2015	% Change	% Change Excluding Currency Changes
Revenues by:								
Footwear	\$2,404	\$2,081	16 %	16 %	\$6,932	\$6,189	12 %	13 %
Apparel	1,115	988	13 %	14 %	3,583	3,223	11 %	12 %
Equipment	164	185	-11 %	-11 %	514	596	-14 %	-13 %
<b>TOTAL REVENUES</b>	<b>\$3,683</b>	<b>\$3,254</b>	<b>13 %</b>	<b>14 %</b>	<b>\$11,029</b>	<b>\$10,008</b>	<b>10 %</b>	<b>11 %</b>
Revenues by:								
Sales to Wholesale Customers	\$2,597	\$2,378	9 %	10 %	\$8,024	\$7,427	8 %	9 %
Sales Direct to Consumer	1,086	876	24 %	25 %	3,005	2,581	16 %	17 %
<b>TOTAL REVENUES</b>	<b>\$3,683</b>	<b>\$3,254</b>	<b>13 %</b>	<b>14 %</b>	<b>\$11,029</b>	<b>\$10,008</b>	<b>10 %</b>	<b>11 %</b>
<b>EARNINGS BEFORE INTEREST AND TAXES</b>	<b>\$903</b>	<b>\$830</b>	<b>9 %</b>		<b>\$2,827</b>	<b>\$2,585</b>	<b>9 %</b>	

Excluding changes in currency exchange rates, North America revenues for the third quarter and first nine months of fiscal 2016 increased 14% and 11%, respectively, due to strong demand for NIKE Brand products across nearly all key categories, led by Sportswear, the Jordan Brand, Running and Men's Training. For the third quarter of fiscal 2016, DTC revenues grew 25%, driven by strong online sales growth, comparable store sales growth of 9% and the addition

of new stores. DTC revenues increased 17% for the first nine months of fiscal 2016, fueled by online sales growth, the addition of new stores and comparable store sales growth of 5%.

Footwear revenue growth for both the third quarter and first nine months of fiscal 2016 was driven by higher revenues in most key categories, led by the Jordan Brand, Sportswear and Running, partially offset by declines in NIKE Basketball. Third quarter unit sales of footwear increased approximately 17%, while decreases in average selling price per pair reduced footwear revenue growth by approximately 1 percentage point as increases in the proportion of revenues from our higher-priced DTC business were offset by unfavorable off-price mix and shifts in mix to lower-priced products. For the first nine months of fiscal 2016, unit sales of footwear increased approximately 11% and increases in average selling price per pair contributed approximately 2 percentage points of footwear revenue growth. The increase in average selling price per pair for the first nine months of fiscal 2016 was attributable to growth in our higher-priced DTC business and shifts in mix to higher-priced products, partially offset by unfavorable off-price mix.

Table of Contents

The increases in apparel revenues for the third quarter and first nine months of fiscal 2016 were fueled by growth in most key categories, led by Sportswear, Men's Training and Women's Training. Unit sales of apparel for the third quarter of fiscal 2016 increased approximately 17%, while decreases in average selling price per unit reduced apparel revenue growth by approximately 3 percentage points. The decrease in average selling price per unit was due to unfavorable off-price mix, partially offset by growth in our higher-priced DTC business. For the first nine months of fiscal 2016, unit sales of apparel increased approximately 12%, while average selling price per unit was flat.

EBIT grew 9% for the third quarter of fiscal 2016, as revenue growth was offset by lower gross margin and higher selling and administrative expenses. Gross margin decreased 70 basis points primarily driven by lower average selling prices, higher inventory obsolescence and unfavorable off-price mix as we work to clear excess inventories, as well as higher warehousing costs. Selling and administrative expense increased as a percent of revenue due to higher demand creation resulting from higher advertising and marketing costs, primarily to support key sporting and brand events, as well as higher sports marketing costs. Operating overhead declined as a percent of revenue, but grew due to increased support for our growing DTC business and higher bad debt expense relating to the bankruptcy of a customer, partially offset by lower performance-based compensation.

EBIT for the first nine months of fiscal 2016 increased 9% as higher revenues and selling and administrative expense leverage were offset by lower gross margin. Gross margin decreased 40 basis points for the first nine months of fiscal 2016 as higher warehousing costs, inventory obsolescence, unfavorable off-price mix and higher product input costs more than offset higher average selling prices. Selling and administrative expense decreased as a percent of revenue despite higher demand creation costs, primarily for sports marketing. Operating overhead remained flat as a percent of revenue, as increased investments to support DTC growth and higher bad debt expense were offset by lower performance-based compensation.

Inventories in North America remain somewhat elevated as of the third quarter due to supply chain challenges we have experienced dating back to the congestion at the ports on the West Coast of the United States in the prior year and continuing through our expansion of capacity and implementation of new capabilities in our distribution centers in Memphis, Tennessee. However, our supply chain challenges are improving and product flow is normalizing.

## Western Europe

(Dollars in millions)	Three Months Ended				Nine Months Ended				
	February 29, 2016	February 28, 2015	% Change	% Change Excluding Currency Changes	February 29, 2016	February 28, 2015	% Change	% Change Excluding Currency Changes	
Revenues by:									
Footwear	\$985	\$ 985	0	% 10	\$2,958	\$ 2,976	-1	% 14	%
Apparel	392	361	9	% 19	1,217	1,242	-2	% 12	%
Equipment	65	67	-3	% 7	207	220	-6	% 7	%
<b>TOTAL REVENUES</b>	<b>\$1,442</b>	<b>\$ 1,413</b>	<b>2</b>	<b>% 12</b>	<b>\$4,382</b>	<b>\$ 4,438</b>	<b>-1</b>	<b>% 13</b>	<b>%</b>
Revenues by:									
Sales to Wholesale Customers	\$1,078	\$ 1,098	-2	% 8	\$3,335	\$ 3,511	-5	% 9	%
Sales Direct to Consumer	364	315	16	% 27	1,047	927	13	% 28	%
<b>TOTAL REVENUES</b>	<b>\$1,442</b>	<b>\$ 1,413</b>	<b>2</b>	<b>% 12</b>	<b>\$4,382</b>	<b>\$ 4,438</b>	<b>-1</b>	<b>% 13</b>	<b>%</b>
<b>EARNINGS BEFORE INTEREST AND TAXES</b>									
	\$334	\$ 333	0	%	\$1,126	\$ 998	13	%	

On a currency-neutral basis, Western Europe revenues for the third quarter and first nine months of fiscal 2016 increased 12% and 13%, respectively, due to higher revenues in every territory. Revenue growth for the third quarter was led by our largest territory, the UK & Ireland, which grew 14%, and France, AGS (Austria, Germany and Switzerland) and Southern Europe (which includes Italy, Spain and Portugal), which grew 20%, 10% and 12%,

respectively. For the first nine months of fiscal 2016, revenue growth was also broad-based, with increases in AGS, UK & Ireland and Southern Europe of 15%, 11% and 13%, respectively. On a category basis, revenues grew in nearly all key categories for the third quarter and first nine months of fiscal 2016 led by Sportswear and the Jordan Brand. DTC revenues grew 27% for the third quarter of fiscal 2016, driven by strong online sales growth, comparable store sales growth of 10% and the addition of new stores. DTC revenues grew 28% for the first nine months of fiscal 2016, fueled by comparable store sales growth of 13%, online sales growth and the addition of new stores.

Constant currency footwear revenue growth for the third quarter and first nine months of fiscal 2016 reflects increases in most key categories, led by Sportswear and the Jordan Brand. For the third quarter and first nine months of fiscal 2016, unit sales of footwear increased approximately 6% and 9%, respectively, and increases in average selling price per pair contributed approximately 4 and 5 percentage points of footwear revenue growth for the respective periods. The increase in average selling price per pair for the third quarter was attributable to increases in the proportion of revenues from our higher-priced DTC business and shifts in mix to higher-priced products, partially offset by unfavorable off-price mix. The increase in average selling price per pair for the first nine months of fiscal 2016 was due to shifts in mix to higher-priced products and growth in DTC.

The constant currency apparel revenue growth for the third quarter and first nine months of fiscal 2016 was due to higher revenues in nearly every key category, most notably Sportswear, while Football (Soccer) declined for the year-to-date period due to the expiration of certain club endorsement agreements and comparisons to higher World Cup-related revenues in the first quarter of fiscal 2015. Unit sales of apparel for the third quarter and first nine months of fiscal 2016 increased approximately 13% and 10%, respectively, and average selling price per unit contributed approximately 6 and 2 percentage points of apparel revenue growth for the respective periods. The increase in average selling price per unit for the third quarter was primarily due to the favorable impact of increases in the proportion of revenues from our higher-priced DTC business and shifts in mix to higher-priced products, partially offset by unfavorable off-price mix. For the first nine months of fiscal 2016, the increase in average selling price per unit was due to the favorable impact of increases in the proportion of revenues from our higher-priced DTC business.



Table of Contents

On a reported basis, EBIT was flat for the third quarter of fiscal 2016, primarily due to the negative translation impact from changes in foreign currency exchange rates, most notably the Euro. Reported revenue growth of 2% and selling and administrative expense leverage was offset by lower gross margin. Gross margin declined 190 basis points for the third quarter of fiscal 2016 primarily driven by the significant effects of unfavorable standard foreign currency exchange rates, which more than offset shifts in mix to lower-cost products, the favorable impact of growth in our higher-margin DTC business and higher average selling prices. Selling and administrative expense was lower as a percent of revenues despite higher operating overhead, primarily reflecting increased investments in our growing DTC business. Demand creation decreased due to lower sports marketing costs and a shift in the timing of expenses related to digital brand marketing and advertising which was more heavily weighted in the first-half of fiscal 2016 compared to the prior year, partially offset by increased spending to support our DTC business.

Reported EBIT grew 13% for the first nine months of fiscal 2016, despite the weaker Euro. Lower reported revenues, which declined 1%, were more than offset by gross margin expansion, selling and administrative expense leverage and the favorable settlement of a legal judgment related to a bankruptcy case reflected in Other (income) expense, net in the second quarter. Gross margin expanded 130 basis points for the first nine months of fiscal 2016 due to shifts in mix to lower-cost products, higher average selling prices and lower third party royalties. These increases were partially offset by the impact of unfavorable standard foreign currency exchange rates and higher off-price mix. Selling and administrative expense was lower as a percent of revenues despite higher operating overhead, primarily to support DTC expansion. Demand creation increased slightly as growth in DTC and other demand creation costs were largely offset by lower sports marketing expense.

## Central &amp; Eastern Europe

(Dollars in millions)	Three Months Ended				Nine Months Ended					
	February 2016	February 2015	% Change	% Change Excluding Currency Changes	February 2016	February 2015	% Change	% Change Excluding Currency Changes		
Revenues by:										
Footwear	\$237	\$ 187	27	% 46	% \$658	\$ 590	12	% 34	%	
Apparel	102	113	-10	% 5	% 361	397	-9	% 11	%	
Equipment	20	21	-5	% 4	% 67	74	-9	% 9	%	
TOTAL REVENUES	\$359	\$ 321	12	% 29	% \$1,086	\$ 1,061	2	% 23	%	
Revenues by:										
Sales to Wholesale Customers	\$311	\$ 280	11	% 28	% \$938	\$ 933	1	% 20	%	
Sales Direct to Consumer	48	41	17	% 38	% 148	128	16	% 47	%	
TOTAL REVENUES	\$359	\$ 321	12	% 29	% \$1,086	\$ 1,061	2	% 23	%	
EARNINGS BEFORE INTEREST AND TAXES	\$69	\$ 52	33	%	\$243	\$ 178	37	%		

Excluding changes in currency exchange rates, Central & Eastern Europe revenues increased 29% and 23% for the third quarter and first nine months of fiscal 2016, respectively, with double-digit growth in nearly every territory. Revenues in two of our largest territories, Turkey and Russia, grew 99% and 29%, respectively, for the third quarter of fiscal 2016, and 52% and 23%, respectively, for the first nine months of fiscal 2016. The significant growth in Turkey was primarily due to a favorable comparison to the prior year, when import delays resulted in product planned for sale in the third quarter actually being sold in the fourth quarter. Our distributors business also grew 21% and 22% for the third quarter and first nine months of fiscal 2016, respectively. On a category basis, revenues for the third quarter and first nine months of fiscal 2016 increased in nearly every key category, led by Sportswear, Running and Football (Soccer). For the third quarter and first nine months of fiscal 2016, DTC revenues increased 38% and 47%, respectively, fueled by strong comparable store sales growth of 21% and 26%, respectively, as well as the addition of new stores.

The constant currency increase in footwear revenues for the third quarter and first nine months of fiscal 2016 was attributable to growth in nearly every key category. Growth in both periods was led by Sportswear and Running, with Football (Soccer) also contributing significantly to growth for the third quarter. Unit sales of footwear for the third quarter and first nine months of fiscal 2016 increased approximately 20% and 13%, respectively, while increases in average selling price per pair contributed approximately 26 and 21 percentage points, respectively, of footwear revenue growth. The increases in average selling price per pair for both periods were primarily attributable to price increases reflecting inflationary conditions in certain territories.

Constant currency apparel revenue growth for the third quarter of fiscal 2016 was attributable to growth in most key categories, most notably Football (Soccer), Running and Women's Training, partially offset by a decline in Sportswear. For the first nine months of fiscal 2016, nearly all key categories grew, most notably Running, Football (Soccer) and Women's Training. Unit sales of apparel for the third quarter and first nine months of fiscal 2016 declined approximately 10% and 1%, respectively, while increases in average selling price per unit contributed approximately 15 and 12 percentage points of growth for the respective periods. The increases in average selling price per unit for both periods were primarily attributable to price increases reflecting inflationary conditions in certain territories.

On a reported basis, EBIT for the third quarter of fiscal 2016 increased 33% despite the negative impact of changes in foreign currency exchange rates, primarily the Russian Ruble and Turkish Lira. EBIT growth was driven by reported revenue growth of 12%, gross margin expansion and selling and administrative expense leverage. Gross margin increased 90 basis points as significantly higher average selling prices and growth in our higher-margin DTC business more than offset unfavorable standard foreign currency exchange rates and shifts in mix to higher-cost products. Selling and administrative expense decreased as a percent of revenues despite higher operating overhead and demand creation costs. Operating overhead increased largely due to ongoing investments in our growing DTC business, while demand creation increased slightly due to higher brand marketing costs.

Table of Contents

Despite the negative impact of translation, reported EBIT for the first nine months of fiscal 2016 increased 37%. Reported revenue grew 2%, while gross margin expanded significantly and selling and administrative expense declined as a percent of revenue. Gross margin increased 320 basis points as significantly higher average selling prices more than offset unfavorable standard foreign currency exchange rates and shifts in mix to higher-cost products. Selling and administrative expense was leveraged despite higher operating overhead costs to support our growing DTC business, and higher demand creation expense due to increased sports marketing costs and spending to support brand events.

Greater China

(Dollars in millions)	Three Months Ended				Nine Months Ended				% Change Excluding Currency Changes	% Change Excluding Currency Changes
	February 2016	February 2015	% Change	% Change Excluding Currency Changes	February 2016	February 2015	% Change	% Change Excluding Currency Changes		
Revenues by:										
Footwear	\$719	\$ 562	28	% 33	% \$1,918	\$ 1,465	31	% 34	%	%
Apparel	235	212	11	% 15	% 787	680	16	% 19	%	%
Equipment	28	27	4	% 4	% 101	93	9	% 9	%	%
TOTAL REVENUES	\$982	\$ 801	23	% 27	% \$2,806	\$ 2,238	25	% 29	%	%
Revenues by:										
Sales to Wholesale Customers	\$672	\$ 579	16	% 21	% \$1,963	\$ 1,651	19	% 22	%	%
Sales Direct to Consumer	310	222	40	% 45	% 843	587	44	% 47	%	%
TOTAL REVENUES	\$982	\$ 801	23	% 27	% \$2,806	\$ 2,238	25	% 29	%	%
EARNINGS BEFORE INTEREST AND TAXES	\$358	\$ 251	43	%	\$1,015	\$ 727	40	%		

Excluding changes in currency exchange rates, Greater China revenues grew 27% and 29% for the third quarter and first nine months of fiscal 2016, respectively. Nearly all key categories grew for both periods, led by Sportswear, Running, NIKE Basketball and the Jordan Brand, with the Jordan Brand having a greater impact than NIKE Basketball for the third quarter. DTC revenue growth of 45% for the third quarter of fiscal 2016 was attributable to an increase in online sales, comparable store sales growth of 19% and the addition of new stores. For the first nine months of fiscal 2016, DTC revenues increased 47%, driven by comparable store sales growth of 22%, online sales growth and the addition of new stores.

The constant currency increase in footwear revenue growth for the third quarter and first nine months of fiscal 2016 was attributable to increases in nearly all key categories, led by Sportswear, Running, NIKE Basketball and the Jordan Brand, with the Jordan Brand having a greater impact than NIKE Basketball for the third quarter. Unit sales of footwear for the third quarter and first nine months of fiscal 2016 increased approximately 27% and 28%, respectively, while increases in average selling price per pair contributed approximately 6 percentage points of footwear revenue growth for each period. The increases in average selling price per pair for both periods were due primarily to increases in the proportion of revenues from our higher-priced DTC business and shifts in mix to higher-priced products.

Constant currency apparel revenue growth for the third quarter and first nine months of fiscal 2016 was due to higher revenues in nearly all key categories, most notably Sportswear and Running, with Running having a greater impact than Sportswear for the third quarter. Unit sales of apparel in the third quarter of fiscal 2016 increased approximately 17%, while lower average selling price per unit reduced apparel revenue growth by approximately 2 percentage points as increases in the proportion of revenues from our higher-priced DTC business were more than offset by higher off-price mix. For the first nine months of fiscal 2016, unit sales of apparel increased approximately 19%, while average selling price per unit was flat.

On a reported basis, EBIT increased 43% for the third quarter of fiscal 2016, driven by higher reported revenues, gross margin expansion and strong selling and administrative expense leverage. Gross margin increased 90 basis points primarily attributable to higher average selling prices and growth in our higher-margin DTC business, which more than offset shifts in mix to higher-cost products and unfavorable standard foreign currency exchange rates. Selling and administrative expense decreased as a percent of revenues despite higher operating overhead primarily due to increased investments in our growing DTC business. Demand creation expense also increased as lower sports marketing costs were more than offset by higher retail presentation costs to re-profile category and consumer-focused retail stores.

On a reported basis, EBIT increased 40% for the first nine months of fiscal 2016, reflecting higher revenues, gross margin expansion and selling and administrative expense leverage. Gross margin expanded 100 basis points due to higher average selling prices and the favorable impact of growth in our higher-margin DTC business, partially offset by shifts in mix to higher-cost products and unfavorable standard foreign currency exchange rates. Selling and administrative expense decreased as a percent of revenues despite higher operating overhead to support our growing DTC business. Demand creation expense also increased due to spending for retail presentation and brand events.

Table of Contents

## Japan

(Dollars in millions)	Three Months Ended				Nine Months Ended					
	February 2016	February 2015	% Change	% Change Excluding Currency Changes	February 2016	February 2015	% Change	% Change Excluding Currency Changes		
Revenues by:										
Footwear	\$133	\$ 99	34	% 37	% \$383	\$ 307	25	% 40	%	
Apparel	52	46	13	% 16	% 158	167	-5	% 6	%	
Equipment	20	21	-5	% 0	% 48	51	-6	% 5	%	
TOTAL REVENUES	\$205	\$ 166	23	% 27	% \$589	\$ 525	12	% 26	%	
Revenues by:										
Sales to Wholesale Customers	\$133	\$ 112	19	% 22	% \$391	\$ 371	5	% 18	%	
Sales Direct to Consumer	72	54	33	% 36	% 198	154	29	% 44	%	
TOTAL REVENUES	\$205	\$ 166	23	% 27	% \$589	\$ 525	12	% 26	%	
EARNINGS BEFORE INTEREST AND TAXES	\$36	\$ 22	64	%	\$119	\$ 62	92	%		

On a constant currency basis, revenues for Japan increased 27% and 26% for the third quarter and first nine months of fiscal 2016, respectively, driven by growth in most key categories, led by Sportswear, Running and the Jordan Brand. DTC revenues grew 36% for the third quarter of fiscal 2016 due to an increase in online sales, comparable store sales growth of 16% and the addition of new stores. DTC revenue growth of 44% for the first nine months of fiscal 2016 was attributable to comparable store sales growth of 22%, online sales growth and the addition of new stores. On a reported basis, EBIT increased 64% and 92% for the third quarter and first nine months of fiscal 2016, respectively, despite the weaker Yen. EBIT growth in both periods was driven by higher reported revenues, gross margin expansion and selling and administrative expense leverage. Gross margin increased 20 basis points for the third quarter primarily due to lower product input costs, higher average selling prices, largely reflecting lower discounts, and growth in our higher-margin DTC business, which together more than offset the impact of unfavorable standard foreign currency exchange rates. For the first nine months of fiscal 2016, gross margin expanded 320 basis points primarily due to higher average selling prices, including lower discounts, and DTC growth, partially offset by unfavorable standard foreign currency exchange rates. For the third quarter and first nine months of fiscal 2016, selling and administrative expense declined as a percent of revenues despite increased operating overhead and demand creation expense, primarily to support our growing DTC business.

## Emerging Markets

(Dollars in millions)	Three Months Ended				Nine Months Ended					
	February 2016	February 2015	% Change	% Change Excluding Currency Changes	February 2016	February 2015	% Change	% Change Excluding Currency Changes		
Revenues by:										
Footwear	\$596	\$ 655	-9	% 9	% \$1,940	\$ 2,010	-3	% 15	%	
Apparel	228	240	-5	% 14	% 721	772	-7	% 11	%	
Equipment	55	60	-8	% 10	% 168	182	-8	% 12	%	
TOTAL REVENUES	\$879	\$ 955	-8	% 11	% \$2,829	\$ 2,964	-5	% 14	%	
Revenues by:										
Sales to Wholesale Customers	\$702	\$ 779	-10	% 7	% \$2,340	\$ 2,474	-5	% 12	%	
Sales Direct to Consumer	177	176	1	% 25	% 489	490	0	% 24	%	

Edgar Filing: NIKE INC - Form 10-Q

TOTAL REVENUES	\$879	\$ 955	-8	% 11	% \$2,829	\$ 2,964	-5	% 14	%
EARNINGS BEFORE INTEREST AND TAXES	\$202	\$ 234	-14	%	\$701	\$ 626	12	%	

On a currency-neutral basis, Emerging Markets revenues for the third quarter and first nine months of fiscal 2016 increased 11% and 14%, respectively. Growth for the third quarter was attributable to higher revenues in most territories, led by SOCO (which includes Argentina, Uruguay and Chile) and Pacific (which includes Australia and New Zealand), which grew 31% and 18%, respectively. For the first nine months of fiscal 2016, most territories grew, led by SOCO, Mexico and Pacific, which grew 27%, 38% and 28%, respectively. Revenues in one of our largest territories, Brazil, declined 2% for the first nine months of fiscal 2016, reflecting on-going macroeconomic challenges and comparisons to strong sales related to the World Cup in the first quarter of fiscal 2015, but increased 2% for the third quarter, as improved retail concepts developed with wholesale partners are helping to drive increased demand. Revenues were higher for all key categories for the third quarter and first nine months of fiscal 2016, led by Sportswear, Running and Action Sports, with Football (Soccer) and Women's Training also contributing to growth in the third quarter. DTC revenues increased 25% for the third quarter, driven by the addition of new stores, online sales growth and comparable store sales growth of 5%. DTC revenues grew 24% for the first nine months of fiscal 2016, attributable to the addition of new stores, comparable store sales growth of 9% and online sales growth.

Table of Contents

Constant currency footwear revenue growth for the third quarter and first nine months of fiscal 2016 was driven by higher revenues in nearly all key categories, most notably Sportswear and Running. For the third quarter of fiscal 2016, unit sales of footwear decreased 6%, while increases in average selling price per pair contributed approximately 15 percentage points of footwear revenue growth. For the first nine months of fiscal 2016, unit sales of footwear increased 3%, with average selling price per pair contributing approximately 12 percentage points of footwear revenue growth. The increases in average selling price per pair for both the third quarter and first nine months of fiscal 2016 were primarily due to price increases reflecting inflationary conditions in certain territories, as well the favorable impact of increases in the proportion of revenues from our higher-priced DTC business.

The constant currency apparel revenue growth for the third quarter of fiscal 2016 was driven by increases in most key categories, led by Sportswear, Football (Soccer) and Running. For the first nine months of fiscal 2016, the growth was led by Sportswear, Running and Women's Training. Unit sales of apparel increased approximately 6% and 2% for the third quarter and first nine months of fiscal 2016, respectively, while increases in average selling price per unit contributed approximately 8 and 9 percentage points, respectively, of apparel revenue growth. The increases in average selling price per unit for both the third quarter and first nine months of fiscal 2016 were primarily attributable to price increases reflecting inflationary conditions in certain territories, as well as growth in our higher-priced DTC business.

Reported EBIT decreased 14% for the third quarter of fiscal 2016, in part reflecting the negative impact of changes in foreign currency exchange rates, primarily the Argentine Peso, Mexican Peso, Korean Won and Brazilian Real. On a reported basis, revenues declined 8% and selling and administrative expense increased as a percent of revenues, while gross margin expanded 220 basis points. Gross margin expanded due to higher average selling prices, the favorable impact of our higher-margin DTC business and favorable off-price margins, which more than offset unfavorable standard foreign currency exchange rates and shifts in mix to higher-cost products. Selling and administrative expense grew due to higher demand creation expense primarily due to higher advertising and digital brand marketing. Operating overhead also grew, reflecting increased investments in DTC and operating infrastructure, as well as higher performance-based compensation.

For the first nine months of fiscal 2016, reported EBIT increased 12%, despite the negative impact of foreign currency translation. On a reported basis, revenues declined 5%, while gross margin expanded and selling and administrative expense was flat as a percent of revenues. Gross margin expanded 360 basis points due to higher average selling prices, favorable off-price margins, lower obsolescence and warehousing costs and the favorable impact of our higher-margin DTC business. These benefits were partially offset by shifts in mix to higher-cost products and unfavorable standard foreign currency exchange rates. Selling and administrative expense on a reported basis declined, but was flat as a percent of revenues as higher operating overhead due to additional investments in DTC and higher performance-based compensation were more than offset by changes in foreign currency exchange rates. Demand creation expense also increased driven by higher sports marketing and digital brand marketing costs, offset by the impact of foreign currency exchange rates.

## Global Brand Divisions

(Dollars in millions)	Three Months Ended				Nine Months Ended			
	February 2016	February 28, 2015	% Change	% Change Excluding Currency Changes	February 2016	February 28, 2015	% Change	% Change Excluding Currency Changes
Revenues	\$17	\$ 29	-41	% -35	\$61	\$ 85	-28	% -19
(Loss) Before Interest and Taxes	\$(625)	\$(552)	13	%	\$(1,874)	\$(1,640)	14	%

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

Global Brand Divisions' loss before interest and taxes increased for the third quarter and first nine months of fiscal 2016 due to higher operating overhead and demand creation expense. The increases in operating overhead for both

periods were primarily due to investments in operational infrastructure, consumer-focused digital capabilities and product creation and design initiatives, partially offset by lower performance-based compensation costs. Demand creation expense increased for the third quarter of fiscal 2016 due to higher advertising expense and digital brand marketing, largely in support of key sporting and brand events during the quarter, including Super Bowl 50 and other key brand initiatives. For the first nine months of fiscal 2016, demand creation expense increased as higher sports marketing and advertising costs were only partially offset by lower other demand creation costs.

Converse

(Dollars in millions)	Three Months Ended				Nine Months Ended				
	February 2016	February 28, 2015	% Change	% Change Excluding Currency Changes	February 2016	February 28, 2015	% Change	% Change Excluding Currency Changes	%
Revenues	\$489	\$ 538	-9	% -5	% \$1,442	\$ 1,547	-7	% -2	%
Earnings Before Interest and Taxes	\$127	\$ 163	-22	%	\$359	\$ 437	-18	%	

In territories we define as "direct distribution markets," Converse designs, markets and sells products directly to distributors, wholesale customers and consumers through DTC operations. The largest direct distribution markets are the United States, the United Kingdom and China. We do not own the Converse trademarks in Japan. Territories other than direct distribution markets and Japan are serviced by third-party licensees who pay royalty revenues to Converse for the use of its registered trademarks and other intellectual property rights.



Table of Contents

Excluding changes in currency exchange rates, revenues for Converse decreased 5% and 2% for the third quarter and first nine months of fiscal 2016, respectively. Comparable direct distribution markets (i.e., markets served under a direct distribution model for comparable periods in the current and prior fiscal years), declined 6% for the third quarter of fiscal 2016, reducing total Converse revenue by approximately 5 percentage points. For the first nine months of fiscal 2016, comparable direct distribution markets declined 1%, reducing total Converse revenue by approximately 1 percentage point. Comparable direct distribution market unit sales decreased approximately 14% and 8% for the third quarter and first nine months of fiscal 2016, respectively, while increases in average selling price per unit contributed approximately 8 and 7 percentage points of direct distribution markets revenue growth, respectively. The decline in revenues for the third quarter of fiscal 2016 was primarily due to comparisons to higher revenues in the third quarter of fiscal 2015 in advance of a major systems go-live in the fourth quarter of fiscal 2015. On a territory basis, the decline in revenues for the third quarter of fiscal 2016 was led by lower revenues in certain European markets, most notably the United Kingdom, as well as the United States, partially offset by increases in Asia Pacific. For the first nine months of fiscal 2016, growth in the United States and Asia Pacific was partially offset by declines in Europe, primarily the United Kingdom. Conversion of markets from licensed to direct distribution increased total Converse revenues by approximately 1 percentage point for the third quarter, but had an insignificant impact on total Converse revenues for the first nine months of fiscal 2016. Revenues from comparable licensed markets decreased 5% and 14% for the third quarter and first nine months of fiscal 2016, respectively, reducing total Converse revenues by approximately 1 percentage point for both periods. The decrease in comparable licensed markets revenues was primarily due to poor macroeconomic conditions in Latin America.

Reported EBIT for Converse decreased 22% and 18% for the third quarter and first nine months of fiscal 2016, respectively, driven for both periods by lower reported revenues, lower gross margin and higher selling and administrative expense as a percent of revenues. Gross margin decreased 280 and 180 basis points for the third quarter and first nine months of fiscal 2016, respectively, driven for both periods by unfavorable standard foreign currency exchange rates, as well as shifts in mix to lower-margin products and territories. Selling and administrative expense was higher as a percent of revenues, but decreased for the third quarter of fiscal 2016 due to both lower demand creation and lower operating overhead costs. For the first nine months of fiscal 2016, selling and administrative expense was mostly flat compared to the first nine months of fiscal 2015 as lower demand creation spending was offset by higher operating overhead costs, primarily driven by investments in infrastructure to support growth initiatives and higher intellectual property enforcement costs.

## Corporate

(Dollars in millions)	Three Months Ended			Nine Months Ended		
	February 29, 2016	February 28, 2015	% Change	February 29, 2016	February 28, 2015	% Change
Revenues	\$(24 )	\$(17 )	—	\$(92 )	\$(44 )	—
(Loss) Before Interest and Taxes	\$(264 )	\$(281 )	-6 %	\$(952 )	\$(796 )	20 %

Corporate revenues primarily consist of foreign currency hedge gains and losses related to revenues generated by entities within the NIKE Brand geographic operating segments and Converse, but managed through our central foreign exchange risk management program.

The Corporate loss before interest and taxes consists largely of unallocated general and administrative expenses, including expenses associated with centrally managed departments; depreciation and amortization related to our corporate headquarters; unallocated insurance, benefit and compensation programs, including stock-based compensation; and certain foreign currency gains and losses.

In addition to the foreign currency gains and losses recognized in Corporate revenues, foreign currency results in Corporate include gains and losses resulting from the difference between actual foreign currency rates and standard rates used to record non-functional currency denominated product purchases within the NIKE Brand geographic operating segments and Converse; related foreign currency hedge results; conversion gains and losses arising from re-measurement of monetary assets and liabilities in non-functional currencies; and certain other foreign currency derivative instruments.

Corporate's loss before interest and taxes decreased \$17 million for the third quarter of fiscal 2016 and increased \$156 million for the first nine months of fiscal 2016. The changes are primarily due to the following:

a beneficial change of \$57 million for the third quarter of fiscal 2016 from net foreign currency losses to net foreign currency gains, and a detrimental change of \$44 million for the first nine months of fiscal 2016 from net foreign currency gains to net foreign currency losses related to the difference between actual foreign currency exchange rates and standard foreign currency exchange rates assigned to the NIKE Brand geographic operating segments and Converse, net of hedge gains and losses; these results are reported as a component of consolidated gross margin; an increase of \$54 million and \$168 million for the third quarter and first nine months of fiscal 2016, respectively, primarily driven by higher operating overhead to support corporate growth initiatives; and an increase in net foreign currency gains of \$14 million for the third quarter and a beneficial change of \$56 million for the first nine months of fiscal 2016 from net foreign currency losses to net foreign currency gains related to the re-measurement of monetary assets and liabilities denominated in non-functional currencies and the impact of certain foreign currency derivative instruments, reported as a component of consolidated Other (income) expense, net.

#### Foreign Currency Exposures and Hedging Practices

##### Overview

As a global company with significant operations outside the United States, in the normal course of business we are exposed to risk arising from changes in currency exchange rates. Our primary foreign currency exposures arise from the recording of transactions denominated in non-functional currencies and the translation of foreign currency denominated results of operations, financial position and cash flows into U.S. Dollars.

Table of Contents

Our foreign exchange risk management program is intended to lessen both the positive and negative effects of currency fluctuations on our consolidated results of operations, financial position and cash flows. We manage global foreign exchange risk centrally on a portfolio basis to address those risks that are material to NIKE, Inc. We manage these exposures by taking advantage of natural offsets and currency correlations that exist within the portfolio and, where practical and material, by hedging a portion of the remaining exposures using derivative instruments such as forward contracts and options. As described below, the implementation of the NIKE Trading Company ("NTC") and our foreign currency adjustment program enhanced our ability to manage our foreign exchange risk by increasing the natural offsets and currency correlation benefits that exist within our portfolio of foreign exchange exposures. Our hedging policy is designed to partially or entirely offset the impact of exchange rate changes on the underlying net exposures being hedged. Where exposures are hedged, our program has the effect of delaying the impact of exchange rate movements on our Unaudited Condensed Consolidated Financial Statements; the length of the delay is dependent upon hedge horizons. We do not hold or issue derivative instruments for trading or speculative purposes.

**Transactional Exposures**

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

- **Product Costs** — NIKE's product costs are exposed to fluctuations in foreign currencies in the following ways:
  1. **Product purchases denominated in currencies other than the functional currency of the transacting entity:**

Certain NIKE entities, including those supporting our North America, Greater China, Japan and European geographies, purchase product from the NTC, a wholly-owned sourcing hub that buys NIKE branded products from a third-party factories, predominantly in U.S. Dollars. The NTC, whose functional currency is the U.S. Dollar, then sells the products to NIKE entities in their respective functional currencies. When the NTC sells to a NIKE entity with a different functional currency, the result is a foreign currency exposure for the NTC.

b. Other NIKE entities purchase product directly from third-party factories in U.S. Dollars. These purchases generate a foreign currency exposure for those NIKE entities with a functional currency other than the U.S. Dollar.

In both purchasing scenarios, a weaker U.S. Dollar reduces the inventory cost incurred by NIKE whereas a stronger U.S. Dollar increases its cost.

2. **Factory input costs:** NIKE operates a foreign currency adjustment program with certain factories. The program is designed to more effectively manage foreign currency risk by assuming certain of the factories' foreign currency exposures, some of which are natural offsets to our existing foreign currency exposures. Under this program, our payments to these factories are adjusted for rate fluctuations in the basket of currencies ("factory currency exposure index") in which the labor, materials and overhead costs incurred by the factories in the production of NIKE branded products ("factory input costs") are denominated.

For the currency within the factory currency exposure indices that is the local or functional currency of the factory, the currency rate fluctuation affecting the product cost is recorded within Inventories and is recognized in Cost of sales when the related product is sold to a third party. All currencies within the indices, excluding the U.S. Dollar and the local or functional currency of the factory, are recognized as embedded derivative contracts and are recorded at fair value through Other (income) expense, net. Refer to Note 10 — Risk Management and Derivatives in the accompanying Notes to the Unaudited Condensed Consolidated Financial Statements for additional detail.

As an offset to the impacts of the fluctuating U.S. Dollar on our non-functional currency denominated product purchases described above, a strengthening U.S. Dollar against the foreign currencies within the factory currency exposure indices decreases NIKE's U.S. Dollar inventory cost. Conversely, a weakening U.S. Dollar against the indexed foreign currencies increases our inventory cost.

**Non-Functional Currency Denominated External Sales** — A portion of our Western Europe and Central & Eastern Europe geography revenues, as well as a portion of our Converse European operations revenues, are earned in currencies other than the Euro (e.g. the British Pound) but are recognized at a subsidiary that uses the Euro as its functional currency. These sales generate a foreign currency exposure.

**Other Costs** — Non-functional currency denominated costs, such as endorsement contracts, also generate foreign currency risk, though to a lesser extent. In certain cases, the Company has also entered into other contractual

agreements, which have payments that are indexed to foreign currencies and create embedded derivative contracts that are recorded at fair value through Other (income) expense, net. Refer to Note 10 — Risk Management and Derivatives in the accompanying Notes to the Unaudited Condensed Consolidated Financial Statements for additional detail.

**Non-Functional Currency Denominated Monetary Assets and Liabilities** — Our global subsidiaries have various assets and liabilities, primarily receivables and payables, including intercompany receivables and payables, denominated in currencies other than their functional currencies. These balance sheet items are subject to re-measurement which may create fluctuations in Other (income) 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. We manage these exposures by taking advantage of natural offsets and currency correlations that exist within the portfolio and may also elect to use currency forward and option contracts to hedge the remaining effect of exchange rate fluctuations on probable forecasted future cash flows, including certain product cost exposures, non-functional currency denominated external sales and other costs described above. Generally, these are accounted for as cash flow hedges in accordance with the accounting standards for derivatives and hedging, except for hedges of the embedded derivatives components of the product cost exposures and other contractual agreements as discussed above.

Table of Contents

Certain currency forward contracts used to manage the foreign exchange exposure of non-functional currency denominated monetary assets and liabilities subject to re-measurement and embedded derivative contracts are not formally designated as hedging instruments under the accounting standards for derivatives and hedging. Accordingly, changes in fair value of these instruments are immediately recognized in Other (income) expense, net and are intended to offset the foreign currency impact of the re-measurement of the related non-functional currency denominated asset or liability or the embedded derivative contract being hedged.

Refer to Note 4 — Fair Value Measurements and Note 10 — Risk Management and Derivatives in the accompanying Notes to the Unaudited Condensed Consolidated Financial Statements for additional description of how the above financial instruments are valued and recorded as well as the fair value of outstanding derivatives at each reported period end.

**Translational Exposures**

Many 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, operational results and cash flows of these subsidiaries into U.S. Dollars for consolidated reporting. The translation of foreign subsidiaries' non-U.S. Dollar denominated balance sheets into U.S. Dollars for consolidated reporting results in a cumulative translation adjustment to Accumulated other comprehensive income within Shareholders' equity. In the translation of our Unaudited Condensed Consolidated Statements of Income, 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 was a detriment of approximately \$493 million and \$375 million for the three months ended February 29, 2016 and February 28, 2015, respectively, and a detriment of approximately \$1,780 million and \$560 million for the nine months ended February 29, 2016 and February 28, 2015, respectively. The impact of foreign exchange rate fluctuations on the translation of our Income before income taxes was a detriment of approximately \$104 million and \$73 million for the three months ended February 29, 2016 and February 28, 2015, respectively, and a detriment of approximately \$407 million and \$101 million for the nine months ended February 29, 2016 and February 28, 2015, respectively.

**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 investments 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/or options to mitigate the variability of the forecasted future purchases and sales of these U.S. Dollar investments. The combination of the purchase and sale of the U.S. Dollar investment and the hedging instrument 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. Refer to Note 4 — Fair Value Measurements and Note 10 — Risk Management and Derivatives in the accompanying Notes to the Unaudited Condensed Consolidated Financial Statements for additional description of how the above financial instruments are valued and recorded as well as the fair value of outstanding derivatives at period end.

We estimate the combination of translation of foreign currency-denominated profits from our international businesses and the year-over-year change in foreign currency related gains and losses included in Other (income) expense, net had an unfavorable impact of approximately \$97 million and \$358 million on our Income before income taxes for the three and nine month periods ended February 29, 2016, respectively.

**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 have, in the past, hedged and may, in the future, hedge net investment positions in certain foreign subsidiaries to mitigate the effects of foreign exchange fluctuations on these net investments. These hedges are accounted for in accordance with the accounting standards for

net investment hedges. There were no outstanding net investment hedges as of February 29, 2016 and February 28, 2015. There were no cash flows from net investment hedge settlements for the three or nine month periods ended February 29, 2016 and February 28, 2015.

#### Liquidity and Capital Resources

##### Cash Flow Activity

Cash provided by operations was \$1,912 million for the first nine months of fiscal 2016 compared to \$3,338 million for the first nine months of fiscal 2015. Our primary source of operating cash flows for the first nine months of fiscal 2016 was Net income of \$2,914 million compared to \$2,408 million for the first nine months of fiscal 2015. Changes in working capital for the first nine months of fiscal 2016 resulted in a cash outflow of \$1,863 million compared to an outflow of \$145 million for the first nine months of fiscal 2015. The change in working capital was primarily due to a net decrease in the amount of cash collateral received from derivative counterparties as a result of hedging activities during the comparative periods (refer to the Credit Risk section of Note 10 — Risk Management and Derivatives for additional detail). For the first nine months of fiscal 2016, cash collateral received from counterparties declined \$630 million compared to an increase in collateral received from counterparties of \$769 million during the first nine months of fiscal 2015. Working capital also decreased from lower accounts payable resulting from the timing of payments made during the period.

Cash used by investing activities was \$544 million for the first nine months of fiscal 2016 compared to \$382 million for the first nine months of fiscal 2015. The primary driver of the increased use of cash was a reduction in the net sales/maturities (including sales, maturities and purchases) of short-term investments to \$201 million for the first nine months of fiscal 2016 from \$588 million of net sales/maturities for the first nine months of fiscal 2015, as well as higher additions to property plant and equipment for the first nine months of fiscal 2016.

Table of Contents

Cash used by financing activities was \$2,045 million for the first nine months of fiscal 2016 compared to \$2,095 million for the same period of fiscal 2015. Cash used by financing activities was nearly flat as net proceeds of \$981 million from the issuance of long-term debt in October 2015 were mostly offset by increased common stock repurchases and dividends paid during the first nine months of fiscal 2016 compared to the first nine months of fiscal 2015.

During the first nine months of fiscal 2016, we purchased 46.4 million shares of NIKE's Class B Common Stock for \$2,698 million (an average price of \$58.15 per share). During the third quarter, we concluded the Company's four-year, \$8 billion share repurchase program approved by our Board of Directors in September 2012. Under this program the Company purchased a total of 197.1 million shares at a cost of \$8.0 billion (an average price of \$40.58 per share). Immediately following the completion of this program, the Company began repurchases under a four-year, \$12 billion program approved by our Board of Directors in November 2015. Of the total 46.4 million shares repurchased during the first nine months of fiscal 2016, 11.1 million shares were purchased under this new program at a cost of approximately \$649 million (an average price of \$58.66 per share). We continue to expect funding of share repurchases will come from operating cash flows, excess cash and/or debt. The timing and the amount of shares purchased will be dictated by our capital needs and stock market conditions.

Capital Resources

On April 23, 2013, we filed a shelf registration statement (the "Shelf") with the SEC which permits us to issue an unlimited amount of debt securities. The Shelf expires on April 23, 2016, which we plan to renew in calendar year 2016. On April 26, 2013, we issued \$1.0 billion of senior notes with tranches maturing in 2023 and 2043. The 2023 senior notes were issued in an initial aggregate principal amount of \$500 million at a 2.25% fixed, annual interest rate and will mature on May 1, 2023. The 2043 senior notes were issued in an initial aggregate principal amount of \$500 million at a 3.625% fixed, annual interest rate and will mature on May 1, 2043. Interest on the senior notes is payable semi-annually on May 1 and November 1 of each year. The issuance resulted in proceeds before expenses of \$998 million.

On October 29, 2015, we issued an additional \$1.0 billion of senior notes at a 3.875% fixed, annual interest rate that will mature on November 1, 2045. Interest on the senior notes is payable semi-annually on May 1 and November 1 of each year. The issuance resulted in proceeds before expenses of \$991 million.

On August 28, 2015, we entered into a committed credit facility agreement with a syndicate of banks, which provides for up to \$2 billion of borrowings. The facility matures August 28, 2020, with a one year extension option prior to any anniversary of the closing date, provided that in no event shall it extend beyond August 28, 2022. This facility replaces the prior \$1 billion credit facility agreement entered into on November 1, 2011, which would have matured November 1, 2017. As of and for the nine month period ended February 29, 2016, we had no amounts outstanding under either committed credit facility.

We currently have long-term debt ratings of AA- and A1 from Standard and Poor's Corporation and Moody's Investor Services, respectively. 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 revolving 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 limitations on the indebtedness we can incur relative to our net worth. In the event we were to have any borrowings outstanding under this facility and failed to meet any covenant, and were unable to obtain a waiver from a majority of the banks in the syndicate, any borrowings would become immediately due and payable. As of February 29, 2016, 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 \$2 billion commercial paper program, which increased \$1 billion during the second quarter of fiscal 2016. During the nine months ended February 29, 2016, we did not issue commercial paper, and as of February 29, 2016, there were no outstanding borrowings under this program. We may issue commercial paper or other debt securities during fiscal 2016 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.

As of February 29, 2016, we had cash, cash equivalents and short-term investments totaling \$5.1 billion, of which \$4.0 billion was held by our foreign subsidiaries. Included in Cash and equivalents as of February 29, 2016 was \$338 million of cash collateral received from counterparties as a result of hedging activity. Cash equivalents and short-term investments consist primarily of deposits held at major banks, money market funds, commercial paper, corporate notes, U.S. Treasury obligations, U.S. government sponsored enterprise obligations and other investment grade fixed-income securities. Our fixed-income investments are exposed to both credit and interest rate risk. All of our investments are investment grade to minimize our credit risk. While individual securities have varying durations, as of February 29, 2016, the average duration of our cash equivalents and short-term investments portfolio was 89 days. 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 existing cash, cash equivalents, short-term investments and cash generated by operations, together with access to external sources of funds as described above, will be sufficient to meet our domestic and foreign capital needs in the foreseeable future.

We utilize a variety of tax planning and financing strategies to manage our worldwide cash and deploy funds to locations where they are needed. We routinely repatriate a portion of our foreign earnings for which U.S. taxes have previously been provided. We also indefinitely reinvest a significant portion of our foreign earnings, and our current plans do not demonstrate a need to repatriate these earnings. Should we require additional capital in the United States, we may elect to repatriate indefinitely reinvested foreign funds or raise capital in the United States through debt. If we were to repatriate indefinitely reinvested foreign funds, we would be required to accrue and pay additional U.S. taxes less applicable foreign tax credits. If we elect to raise capital in the United States through debt, we would incur additional interest expense.

#### Contractual Obligations

As a result of renewals of, and additions to, outstanding endorsement contracts, cash payments due under these contracts have increased significantly from what was reported in our Annual Report on Form 10-K for the fiscal year ended May 31, 2015.



Table of Contents

Obligations under endorsement contracts as of February 29, 2016, including significant endorsement contracts entered into through the date of this report, are as follows:

Description of Commitment (In millions)	Cash Payments Due During the Year Ending May 31,						Total
	Remainder of 2016	2017	2018	2019	2020	Thereafter	
Endorsement Contracts <sup>(1)</sup>	\$272	\$1,093	\$1,036	\$800	\$647	\$3,555	\$7,403

The amounts listed for endorsement contracts represent approximate amounts of base compensation and minimum guaranteed royalty fees we are obligated to pay athlete, sport team and league endorsers of our products. Actual payments under some contracts may be higher than the amounts listed as these contracts provide for bonuses to be paid to the endorsers based upon athletic achievements and/or royalties on product sales in future periods. Actual payments under some contracts may also be lower as these contracts include provisions for reduced payments if athletic performance declines in future periods.

In addition to the cash payments, we are obligated to furnish our endorsers with NIKE product for their use. It is not possible to determine how much we will spend on this product on an annual basis as the contracts generally do not stipulate a specific amount of cash to be spent on the product. The amount of product provided to the endorsers will depend on many factors, including general playing conditions, the number of sporting events in which they participate and our own decisions regarding product and marketing initiatives. In addition, the costs to design, develop, source and purchase the products furnished to the endorsers are incurred over a period of time and are not necessarily tracked separately from similar costs incurred for products sold to customers.

Other than the changes reported above, 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, 2015.

**Off-Balance Sheet Arrangements**

As of February 29, 2016, we did not have any off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

**Recently Issued Accounting Standards**

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standards update that replaces existing revenue recognition guidance. The updated guidance requires companies to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires that reporting companies disclose the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Based on the FASB's decision in July 2015 to defer the effective date and to allow more flexibility with implementation, we anticipate the new standard will be effective for us beginning June 1, 2018. The new standard is required to be applied retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application. We have not yet selected a transition method and are currently evaluating the effect the guidance will have on the Consolidated Financial Statements.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes to simplify the presentation of deferred taxes in the statement of financial position. The updated guidance requires that deferred tax assets and liabilities be classified as noncurrent in a classified balance sheet. The update to the standard is effective for us beginning June 1, 2017, with early application permitted as of the beginning of any interim or annual reporting period. This guidance may be applied either prospectively to all deferred tax assets and liabilities or retrospectively to all periods presented. We plan to early adopt ASU 2015-17 on a retrospective basis in the fourth quarter of fiscal 2016 and do not expect the adoption to have a material impact on the Consolidated Financial Statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The updated guidance enhances the reporting model for financial instruments, which includes amendments to address aspects of recognition, measurement, presentation,

and disclosure. The update to the standard is effective for us beginning June 1, 2018. We do not expect the adoption to have a material impact on the Consolidated Financial Statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) that replaces existing lease guidance. The new standard is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet. The new guidance will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. The standard is effective for us beginning June 1, 2019, with early application permitted. The new standard is required to be applied with a modified retrospective approach to each prior reporting period presented with various optional practical expedients. We are currently evaluating the effect the guidance will have on the Consolidated Financial Statements.

In March 2016, the FASB Issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The updated guidance changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The update to the standard is effective for us beginning June 1, 2017, with early application permitted. We are currently evaluating the effect the guidance will have on the Consolidated Financial Statements.

Table of Contents

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our Unaudited Condensed 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.

40

---

Table of Contents

## ITEM 3. Quantitative and Qualitative Disclosures about Market Risk

Other than the items noted below, there have been no material changes from the information previously reported under Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended May 31, 2015.

Changes regarding interest rate risk from the information previously reported under Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended May 31, 2015 are as follows:

(Dollars in millions)	Expected Maturity Date						Total	Fair Value
	Remainder of 2016	2017	2018	2019	2020	Thereafter		
Interest Rate Risk								
Long-term U.S. Dollar debt — Fixed rate								
Principal payments	\$—	\$38	\$—	\$—	\$—	\$2,000	\$2,038	\$2,045
Average interest rate	6.2	% 6.2	% 0.0	% 0.0	% 0.0	% 3.4	% 3.5	%
Anticipated long-term U.S. Dollar debt issuance — Floating rate swapped to fixed rate								
Notional <sup>(1)</sup>	\$—	\$1,500	\$—	\$—	\$—	\$—	\$1,500	\$54
Weighted-average fixed rate	0.0	% 2.2	% 0.0	% 0.0	% 0.0	% 0.0	% 2.2	%
Weighted-average floating rate	0.0	% 0.6	% 0.0	% 0.0	% 0.0	% 0.0	% 0.6	%

(1) Forward-starting interest rate swaps have been included in the maturities category based on when the related forecasted debt issuance and corresponding swap terminations are expected to occur.

## ITEM 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Securities 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 ongoing 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 February 29, 2016.

We have commenced several transformation initiatives to centralize and simplify our business processes and systems. These are long-term initiatives, which we believe will enhance our internal control over financial reporting due to increased automation and further integration of related processes. We will continue to monitor our internal control over financial reporting for effectiveness throughout the transformation.

There have not been any other changes in our internal control over financial reporting during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

## 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 Securities Exchange Act of 1934, as amended. 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," "will be," "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 reports filed on 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 information technology systems; consumer data security; 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, the changing mix of futures and at-once orders and discounts, order cancellations and returns; 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, labor and energy used to manufacture products, new product development and introduction; the ability to secure and protect trademarks, patents and other intellectual property; product performance and quality; 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 NIKE's 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; natural disasters; liability and other claims asserted against NIKE; the ability to attract and retain qualified personnel; the effects of our decision to invest in or divest of businesses; 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 risks emerge from time to time and it is not possible for management to predict all such risks, nor can it assess the impact of all such risks on NIKE's business or the extent to which any risk, or combination of risks, 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.

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.



Table of Contents

## 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, 2015.

## ITEM 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended May 31, 2015.

## ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the third quarter of fiscal 2016, the Company concluded the previous four-year, \$8 billion share repurchase program approved by the Board of Directors in September 2012. During this program the Company purchased a total of 197.1 million shares at an average price of \$40.58 per share. Following the completion of this program, the Company began repurchases under the new four-year, \$12 billion program approved by the Board of Directors in November 2015. As of the end of the third quarter of fiscal 2016, the Company had repurchased 11.1 million shares at an average price of \$58.66 per share for a total approximate cost of \$0.6 billion under the new program. We intend to use excess cash, future cash from operations, and/or proceeds from debt to fund repurchases under the share repurchase program.

The following table presents a summary of share repurchases made by NIKE under these programs during the quarter ended February 29, 2016:

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 Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (In millions)
December 1 — December 31, 2015	3,653,910	\$64.48	3,653,910	\$574
January 1 — January 31, 2016	10,993,006	\$60.09	10,993,006	\$11,913
February 1 — February 29, 2016	9,638,474	\$58.32	9,638,474	\$11,351
	24,285,390	\$60.04	24,285,390	

## ITEM 6. Exhibits

## (a) EXHIBITS:

3.1	Restated Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2015).
3.2	Third Restated Bylaws, as amended (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed June 21, 2013).
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.

† Furnished herewith

43

---



Table of Contents

Signatures

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

NIKE, Inc.  
an Oregon Corporation

/S/ ANDREW CAMPION  
Andrew Campion  
Chief Financial Officer and  
Authorized Officer

DATED: April 5, 2016

Table of Contents

EXHIBIT INDEX

3.1	Restated Articles of Incorporation, as amended (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended November 30, 2015).
3.2	Third Restated Bylaws, as amended (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed June 21, 2013).
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.
†	Furnished herewith